

CALMARE THERAPEUTICS Inc
Form DEF 14A
September 23, 2015

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

SCHEDULE 14A

Proxy Statement Pursuant to Section 14(a) of the Securities Exchange Act of 1934

Filed by the Registrant

Filed by a Party other than the Registrant

Check the appropriate box:

Preliminary Proxy Statement

Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))

Definitive Proxy Statement

Definitive Additional Materials

Soliciting Material under Rule 14a-12

Calmare Therapeutics Incorporated

(Name of Registrant as Specified In Its Charter)

N/A

(Name of Person(s) Filing Proxy Statement, if other than the Registrant) Payment of Filing Fee (Check the appropriate box):

No fee required.

Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.

1. Title of each class of securities to which transaction applies:

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3. Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (Set forth the amount on which the filing fee is calculated and state how it was determined):

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1. Amount Previously Paid:

2. Form, Schedule or Registration Statement No.:

3. Filing Party:

4. Date Filed:

September 22, 2015

Dear Stockholder:

You are cordially invited to attend an annual meeting of our stockholders on October 15, 2015, at 10:00 a.m. EDT, at the Princeton Club, NY, NY. Matters on which action will be taken at the meeting are explained in detail in the attached Notice and Proxy Statement.

Our Annual Report for the year ended December 31, 2014 on Form 10-K is available through our website at <http://www.calmaretherapeutics.com> under the heading "Investors." Additionally, a form of proxy card and information on how to vote by mail, through the Internet, or by phone is included herein.

We sincerely hope that you will be able to attend the meeting in person and we look forward to seeing you. **Whether or not you expect to be present at the meeting, please promptly vote as your vote is important.** Instructions regarding the various methods of voting are contained on the proxy card, including voting by mail, through the Internet, or by phone. If you attend the annual meeting, you may revoke your proxy and vote your own shares.

I personally look forward to seeing you at the annual meeting and sharing with you the progress we have made during 2015 and our plans for 2016.

Sincerely,

Calmare Therapeutics Incorporated

/s/ Conrad Mir
Conrad Mir
President and
Chief Executive Officer

NOTICE OF ANNUAL MEETING OF STOCKHOLDERS

TO BE HELD ON October 15, 2015

To the stockholders of Calmare Therapeutics Incorporated (“CTP” or the “Company”),

You are cordially invited to attend an annual meeting of our stockholders on October 15, 2015, at 10:00 a.m. EDT, at the Princeton Club, NY, NY. Matters on which action will be taken at the meeting are explained in detail in the attached Notice and Proxy Statement.

At the annual meeting you will be asked to vote on the following matters:

Proposal 1: To elect our Board to hold office until our 2016 annual meeting of stockholders or until their respective successors have been duly elected and qualified;

Proposal 2: To ratify the appointment of Mayer Hoffman McCann, CPAs as our independent registered public accounting firm for the fiscal year ending December 31, 2015;

Proposal 3: To amend the Certificate of Incorporation to increase the number of authorized shares of Common Stock from 40 million to 100 million.

To consider and act upon any other business as may properly come before the annual meeting or any adjournments thereof.

The Board recommends that you vote at the annual meeting “FOR” Proposals 1, 2 and 3. These items of business are more fully described in the proxy statement that is attached to this Notice. The Board has fixed the close of business on September 16, 2015 as the “Record Date” for determining the stockholders that are entitled to notice of and to vote at the annual meeting and any adjournments thereof. A list of stockholders entitled to vote at the meeting will be available for examination for a period of ten days before the meeting in person at our corporate offices in Fairfield, Connecticut, and also at the meeting. Stockholders may examine the list for purposes related to the meeting.

It is important that your shares are represented and voted at the meeting. You can vote your shares by completing, signing, dating, and returning your completed proxy card or vote by mail, over the Internet, or by phone by following the instructions included in the proxy statement. You can revoke a proxy at any time prior

to its exercise at the meeting by following the instructions in the proxy statement.

You may attend the annual meeting and vote in person even if you have previously voted by proxy in one of the ways listed above. Your proxy is revocable in accordance with the procedures set forth in the proxy statement.

By Order of the Board of Directors

/s/ Conrad Mir

President and Chief Executive Officer

September 22, 2015

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Stockholders Should Read the Entire Proxy Statement Carefully Prior to Returning Their Proxies

PROXY STATEMENT

FOR

THE ANNUAL MEETING OF STOCKHOLDERS

General

The enclosed proxy is solicited on behalf of the Board of Directors of Calmare Therapeutics Incorporated for use at our annual meeting of stockholders to be held at the Princeton Club, NY, NY, on October 15, 2015 at 10:00 a.m. EDT. Voting materials, including this proxy statement, and the proxy card are being delivered to all or our stockholders on or about September 22, 2015.

Questions and Answers

Following are some commonly asked questions raised by our stockholders and answers to each of those questions.

What may I vote on at the annual meeting?

At the annual meeting, stockholders will consider and vote upon the following matters:

· **Proposal 1:** To elect our Board;

· **Proposal 2:** To ratify the appointment of Mayer Hoffman McCann, CPAs as our independent registered public accounting firm for the fiscal year ending December 31, 2015;

· **Proposal 3:** To amend the Certificate of Incorporation to increase the number of authorized shares of Common Stock.

To consider and act upon any other business as may properly come before the annual meeting or any adjournments thereof.

How does the Board recommend that I vote on the proposals?

The Board recommends a vote “**FOR**” the election of each of the nominees identified below to our Board, “**FOR**” the proposal ratifying the appointment of Mayer Hoffman McCann, CPAs, and “**FOR**” the amendment to the Certification of Incorporation to increase the number of authorized shares of Common Stock.

How do I vote?

You can vote either in person at the annual meeting or by proxy, by mail, by phone or over the Internet whether or not you attend the annual meeting. To obtain directions to attend the annual meeting, please call (203) 368-6044. If your shares are registered directly in your name with our transfer agent, American Stock Transfer & Trust Company, you are considered the stockholder of record with respect to those shares and we are sending a Notice directly to you. As the stockholder of record, you have the right to vote in person at the annual meeting. If you choose to do so, you may vote at the annual meeting using the ballot provided at the meeting. **Even if you plan to attend the annual meeting in person, we recommend that you vote your shares in advance as described below so that your vote will be counted if you later decide not to attend the annual meeting in person.**

Most of our stockholders hold their shares in street name through a stockbroker, bank or other nominee rather than directly in their own name. In that case, you are considered the beneficial owner of shares held in street name and the Notice is being forwarded to you. As the beneficial owner, you are also invited to attend the annual meeting. Because a beneficial owner is not the stockholder of record, you may not vote these shares in person at the annual meeting unless you obtain a “legal proxy” from the stockbroker, trustee or nominee that holds your shares, giving you the right to vote the shares at the meeting. You will need to contact your stockbroker, trustee or nominee to obtain a legal proxy, and you will need to bring it to the annual meeting in order to vote in person.

You can vote by proxy in three ways:

· By mail – If you received your proxy materials by mail, you can vote by mail by using the enclosed proxy card;

· By Internet – You can vote by Internet by following the instructions on the Notice to access the proxy materials or on your proxy card if you received your materials by mail; or

· By phone – You can vote by phone by following the instructions on the Notice to access the proxy materials or on your proxy card if you received your materials by mail.

If you vote by proxy, your shares will be voted at the annual meeting in the manner you indicate.

The Internet and phone voting system for stockholders of record will close at 11:59 p.m. EDT on October 14, 2015. Please refer to the proxy card for details on all methods of voting.

What happens if I do not give specific voting instructions?

If you hold shares in your name and you sign and return a proxy card without giving specific voting instructions, your shares will be voted as recommended by our Board on all matters. If you hold your shares through a stockbroker, bank or other nominee and you do not provide instructions on how to vote, your stockbroker or other nominee may exercise their discretionary voting power with respect to certain proposals that are considered as “routine” matters. For example, Proposal 2 - ratification of the appointment of Mayer Hoffman McCann, CPAs as our independent registered public accounting firm is commonly considered as a routine matter, and thus your stockbroker, bank or other nominee may exercise their discretionary voting power with respect to Proposal 2. **If the organization that holds your shares does not receive instructions from you on how to vote your shares on a non-routine matter, the organization that holds your shares will inform us that it does not have the authority to vote on these matters with respect to your**

shares. This is generally referred to as a “broker non-vote.” When the vote is tabulated for any particular matter, broker non-votes will be counted for purposes of determining whether a quorum is present, but will not otherwise be counted. In the absence of specific instructions from you, your broker does not have discretionary authority to vote your shares with respect to Proposal 1 - the election of our Board or with respect to Proposal 3 - Approval of Amendment to Articles of Incorporation to Increase Authorized Shares. **We encourage you to provide voting instructions to the organization that holds your shares by carefully following the instructions provided in the notice.**

What is the quorum requirement for the annual meeting?

The Company’s bylaws provide that the holders of a majority of the stock issued and outstanding and entitled to vote generally in the election of directors, present in person or represented by proxy, shall constitute a quorum for the transaction of business at the Annual Meeting. Abstentions and broker non-votes will be counted as present for the purpose of determining the presence of a quorum. On September 16, 2015, the Record Date for determining which stockholders are entitled to vote, there were 28,395,880 shares of our common stock outstanding, 2,427 shares of 5% preferred stock, issued and outstanding, and 375 shares of Series C convertible preferred stock, issued and outstanding. Each share of common stock and Series A preferred stock entitles the holder to one vote on matters submitted to a vote of our stockholders. Each share of Series C preferred stock entitles the holder to 1,000 votes on matters submitted to a vote of our stockholders. A majority of our outstanding common shares as of the Record Date must be present at the annual meeting, in person or represented by proxy, in order to hold the meeting and conduct business. This is called a quorum. Your shares will be counted for purposes of determining if there is a quorum, even if you wish to abstain from voting on some or all matters introduced at the annual meeting, if you are present and vote in person at the meeting or have properly submitted a proxy card or voted by phone or by using the Internet.

How can I change my vote after I return my proxy card?

You may revoke your proxy and change your vote at any time before the final vote at the annual meeting. You may do this by signing a new proxy card with a later date, by voting on a later date by using the Internet (only your latest Internet proxy submitted prior to the annual meeting will be counted), or by attending the annual meeting and voting in person. However, your attendance at the annual meeting will not automatically revoke your proxy unless you vote at the annual meeting or specifically request in writing that your prior proxy be revoked.

Is my vote confidential?

Proxy instructions, ballots and voting tabulations that identify individual stockholders are handled in a manner that protects your voting privacy. Your vote will not be disclosed either within our company or to third parties, except:

- As necessary to meet applicable legal requirements;
- To allow for the tabulation of votes and certification of the vote; and
- To facilitate a successful proxy solicitation.

Any written comments that a stockholder might include on the proxy card will be forwarded to our management.

Where can I find the voting results of the annual meeting?

The preliminary voting results will be announced at the annual meeting. The final voting results will be tallied by our Inspector of Elections and reported in a Current Report on Form 8-K which we will file with the SEC within four business days of the date of the annual meeting.

How can I obtain a separate set of voting materials?

To reduce the expense of delivering duplicate voting materials to our stockholders who may have more than one Calmare Therapeutics Incorporated stock account, we are delivering only one Notice to certain stockholders who share an address, unless otherwise requested. If you share an address with another stockholder and have received only one Notice, you may write or call us to request to receive a separate Notice. Similarly, if you share an address with another stockholder and have received multiple copies of the Notice, you may write or call us at the address and phone number below to request delivery of a single copy of this Notice. For future annual and/or annual meetings, you may request separate Notices, or request that we send only one Notice to you if you are receiving multiple copies, by writing or calling us at:

Calmare Therapeutics Incorporated

1375 Kings Highway East, Suite 400

Fairfield, Connecticut 06824

Tel: (203) 368-6044

What is the voting requirement to approve the proposals?

The proposal to approve an amendment to the Company's Articles of Incorporation to increase the amount of authorized shares of common stock will be approved if there is a quorum and the votes cast "FOR" the proposal exceeds those cast against the proposal. The proposal to ratify the appointment of Mayer Hoffman McCann, CPAs as our independent registered public accounting firm will be approved if there is a quorum and the votes cast "FOR" the proposal exceeds those cast against the proposal.

The nominees for election to our Board are elected by a plurality of all votes cast by holders of our Common Stock which are issued and outstanding and which are issuable upon conversion of shares of our Preferred Stock, present at the annual meeting, in person or represented by proxy, and entitled to vote on the election of directors. A nominee who receives a plurality means that he has received more votes than any other nominee for the same director's seat. Abstentions and broker non-votes will have no impact on the outcome of the vote on the election of directors.

Abstentions and broker non-votes will be treated as shares that are present, or represented and entitled to vote for purposes of determining the presence of a quorum at the annual meeting. Abstentions will not be counted in determining the number of votes cast in connection with any matter presented at the annual meeting. Broker non-votes will not be counted as a vote cast on any matter presented at the annual meeting.

Do I Have Dissenters' (Appraisal) Rights?

Appraisal rights are not available to our shareholders with any of the proposals described above to be brought before the annual meeting of shareholders.

How can I obtain additional information about the Company?

We are subject to the informational requirements of the Securities Exchange Act of 1934 (the "Exchange Act"), as amended, which requires that we file reports, proxy statements and other information with the SEC. The SEC maintains a website that contains reports, proxy and information statements and other information regarding companies, including Calmare Therapeutics Incorporated that file electronically with the SEC. The SEC's website address is www.sec.gov. In addition, our filings may be inspected and copied at the public reference facilities of the SEC located at 100 F Street, N.E. Washington, DC 20549; and at the SEC's regional offices at 233 Broadway, New York, NY 10279 and Citicorp Center, 500 West Madison Street, Room 1400, Chicago, IL 60661. Copies of the

material may also be obtained upon request and payment of the appropriate fee from the Public Reference Section of the SEC located at 100 F Street, N.E., Washington, DC 20549.

Who Can Help Answer Your Questions?

If you have any questions or need assistance in voting your shares, you may seek answers to your questions by writing, calling, or emailing us at:

Calmare Therapeutics Incorporated

Attention: Ian Rhodes, CFO

1375 Kings Highway East, Suite 400

Fairfield, Connecticut 06824

Tel: (203) 368-6044

Email: ctt@calmaretherapeutics.com

PROPOSAL 1: TO ELECT OUR BOARD TO HOLD OFFICE UNTIL OUR 2016 ANNUAL MEETING OF STOCKHOLDERS OR UNTIL THEIR RESPECTIVE SUCCESSORS HAVE BEEN DULY ELECTED AND QUALIFIED

INFORMATION ABOUT DIRECTOR NOMINEES

At the annual meeting, seven directors are to be elected. Each director is to hold office until the next annual meeting of shareholders or until his successor is elected and qualified. Set forth below are descriptions of the backgrounds of the director nominees of the Company, their principal occupations for the past five years, and the specific experience, qualifications and other attributes and skills that led the Board to determine that such persons should be re-elected to serve on the Board.

Peter Brennan, 60, has been a director of our company since June 2011. Peter Brennan, MBA, CFA is a New York based investor who has worked over 30 years in the investment management business as an analyst and portfolio manager. In 2004 Mr. Brennan founded Damel Investors LLC, a private partnership which invests in small technology companies. Mr. Brennan received his MBA from the University of Chicago in 1979 and his BA from Haverford College in 1977. He is a member and past Chairman of the Corporate Governance Committee of the New York Society of Security Analysts and received the 2001 Volunteer of the Year award from the NYSSA. Mr. Brennan was a member of the US Advocacy Committee of the CFA Institute and was a founding member of the Capital Markets Policy Council of the CFA Institute for Market Integrity, the global advocacy committee of the CFA Institute.

We believe Mr. Brennan's qualifications to serve on our Board of Directors include expertise in working with small medical device companies as well as his experience in the investment community and as an investor in the pharmaceutical, medical device and health care industries.

Rustin R. Howard, 58, has been a director of our company since October 2007. Mr. Howard is the chairman of the Board of Directors Deep Gulf, Inc., which builds underwater pipelines and associated facilities in deep and ultra-deep offshore oil and gas production fields. Additionally, he is a principal of Whitesand Investments LLC, an "Angel investment" organization, and a co-owner and officer of Silver Bullet Technology. Silver Bullet Technology, where he has been primarily responsible for corporate and financial oversight as well as strategic planning, manufactures and sells software for the banking and payment processing industry. In 1990, he founded and served as CEO and Chairman of the Board of Directors of Phyton, Inc., a world leader in the use of proprietary plant cell fermentation technology, including the production of paclitaxel, the active ingredient of Bristol-Myers Squibb's (NYSE:BMJ) multi-billion dollar anticancer drug, Taxol®. Phyton was sold to DFB Pharmaceuticals, Inc. in 2003. Previously, Mr. Howard served as president and CEO of BioWorks Inc., a biotechnology company he founded to develop, produce, and sell products that replace chemical pesticides. Mr. Howard earned his MBA from Cornell University's Johnson Graduate School of Management, where he focused his studies on entrepreneurship, and managing innovation and

technology.

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We believe Mr. Howard's qualifications to serve on our Board of Directors include his expertise in biotechnology and product development as well as his experience in technology and high-growth business development.

Conrad Mir, age 46, has been a director, president and CEO since October 2013, he has over twenty years of investment banking, financial structuring, and corporate reengineering experience. He has served in various executive management roles and on the Board of Directors of several companies in the biotechnology industry. Most recently, Mr. Mir was the chief financial officer of Pressure BioSciences, Inc., (OTCQB: PBIO), a sample preparation company advancing its proprietary pressure cycling technology from December 2012 until September 2013. From June 2011 until October 2012, Mr. Mir was chairman and CEO of Genetic Immunity, Inc., a plasmid, DNA company in the HIV space and was executive director of Advaxis, Inc., (NASDAQ: ADXS), a vaccine biotechnology company from November 2008 until May 2011. Over the last seven years, he was responsible for raising more than \$40 million in growth capital and broadening corporate reach to new investors and current shareholders.

Mr. Mir has worked for several investment banks including Sanford C. Bernstein, First Liberty Investment Group, and Nomura Securities International. He holds a BS/BA in Economics and English with special concentrations in Mathematics and Physics from New York University.

We believe Mr. Mir's qualifications to serve on our Board of Directors include his proven track record in executive management in biotechnology and medical device companies, capital raising, financial instrument structuring and corporate reengineering.

Carl D. O'Connell, 51, has been a director of our Company since January 2013, having served as president and CEO since November 2012. Mr. O'Connell has 30 years of experience in the healthcare field and 20 years as a leader in the medical device arena. Prior to joining Competitive Technologies, Mr. O'Connell held executive positions for top global medical device and Fortune 500 companies. He recently served as president and CEO for the US Healthcare Division MedSurg for ITOCHU, a Japanese conglomerate, vice president of global marketing for Stryker Spine, and president of Carl Zeiss Surgical, the market leader in optical digital solutions for Neurosurgery, Spine, Ophthalmology, ENT and Dentistry.

We believe Mr. O'Connell's qualifications to serve on our Board of Directors include his proven track record in commercializing medical technologies as well as building effective and profitable sales and distribution organizations.

Stanley K. Yarbro, Ph.D., 65, has been a director of our Company since March 2012. Dr. Yarbro has extensive experience in market development of high technology solutions to a worldwide customer base. He recently retired as executive vice president, worldwide field operations, for Varian Semiconductor Equipment Associates, a position he

had held since 2004. Prior to Varian, Dr. Yarbrow served in various executive capacities at KLA-Tencor Corporation, in the semi-conductor industry. He currently serves on the board Carbon Design Innovations and has previously served on the boards of FSI International, Electrogas, Inc. and Molecular Imaging where he worked closely with the organizations to develop and improve sales, product and marketing strategies. Dr. Yarbrow holds a Ph.D. in Analytical Chemistry from Georgia Institute of Technology and a B.S.in Chemistry from Wake Forest University.

We believe Dr. Yarbo's qualifications to serve on our Board of Directors include his expertise in market development of high technology products and his years of experience as a senior executive and director of various technological and pharmaceutical corporations.

LCDR Steven Roehrich, USN, Ret., 65, is President and CEO of Ready Room, a company that owns and operates light manufacturing companies. The Commander currently serves as an adviser to top leaders at Fortune 500 companies, middle market firms, and federal government departments A7 by helping them adapt to changing global market conditions, capitalize on new technologies, and improve growth and operating performance. The Commander worked at Johnson and Johnson (JNJ) as a corporate Vice President for Business Improvement, reporting to JNJ's executive committee. The Commander led enterprise-wide business assessment, operational and financial performance reforms across JNJ, focusing on Tylenol, Johnsons, RoC, Aveeno, Acuvue lenses, Janssen, Ortho-McNeil, DePuy brands along with JNJ's additional consumer, medical device and pharmaceutical sectors' 200 worldwide companies in 175 countries. The Commander served on JNJ Company and global brand franchise management boards in Europe, Asia and the Americas.

The Commander's former board memberships include NCR Corporation's \$2 billion Teradata CIO Informatics Group, Northwestern University Kellogg Graduate School of Business Advisory Council, University of Pennsylvania's Wharton Business School's Industry Council, and multiple early stage bio-med and technology firms. Prior to the private sector, the Commander was a 21 year career United States Naval Aviator (4300 flight hours), a Viet Nam and Gulf War veteran, aerial combat instructor and Mission Commander holding leadership roles in Navy squadrons and air-wings.

The Commander holds a MS in Financial Management from the US Naval Postgraduate School in Monterey, CA, a BA from Concordia College in Moorhead, MN and Advanced Management education from the Wharton School-University of Pennsylvania in Philadelphia, PA. The Commander completed US Naval Aviation Flight Training in Pensacola, Florida.

We believe the Commander's qualifications to serve on our Board of Directors include his expertise in executive management in biotechnology companies and high-growth business development. .

VADM Robert T. Conway, Jr., USN, Ret., 65, is the President of R.T. Conway & Associates, Inc. In this position the Admiral provides strategic advice to senior business executives on Navy Programs, Change Management, Facilities and Infrastructure Management, Renewable Energy, Information Technology, Alternative Energy Solutions and Maritime Operations. Previously, the Admiral served in the United States Navy from 1972 until the Admiral's retirement in 2009 in various leadership positions aboard USS *Vesole* (DD 878), USS *Towers* (DDG 9), USS *Bainbridge* (CGN 25), and USS *Gridley*(CG 21). The Admiral commanded USS *John Young* (DD 73), and also commanded Destroyer Squadron 7 in San Diego; Naval Surface Group Middle Pacific in Hawaii; and Plank Owner of the Navy's first Expeditionary Strike Group: Expeditionary Strike Group One/*Peleliu* Strike Group.

Ashore, the Admiral served on the Joints Chiefs of Staff, Bureau of Naval Personnel, Operational Test and Evaluation Force Pacific; Officer Candidate School in Newport R.I., and Naval Facility Cape Hatteras in N.C. The Admiral commanded Navy Region Pearl Harbor in Hawaii and Task Force Warrior in Norfolk, Va. In the Admiral's final assignment, the Admiral served as Commander, Navy Installations Command. Mr. Conway received his master's degree from Providence University, Providence, R.I. Also, the Admiral is a graduate of the Industrial College of the Armed Forces at the National Defense University, Washington, D.C.

We believe the Admiral's qualifications to serve on our Board of Directors include his expertise and years of experience in high growth business development.

Vote Required

The affirmative vote of a plurality of the shares our common stock represented in person or by proxy at the Annual Meeting is necessary for the election of the individuals named above. There is no cumulative voting in elections of directors. Unless otherwise specified, proxies will be voted in favor of the seven nominees described above.

Recommendation

Our Board of Directors recommends that shareholders vote **FOR** the election of each of the individuals named above.

CORPORATE GOVERNANCE

CTI's Corporate Governance Principles, Corporate Code of Conduct, the Committee Charters for the Audit Committee and the Nominating and Corporate Governance Committee of the Board of Directors, the unofficial restated Certificate of Incorporation and the By-Laws are all available on our website at www.calmaretherapeutics.com/investors/governance.html.

Board Meetings and Committees

The Board has three committees, with current membership as follows:

Audit Committee	Compensation Committee	Nominating and Corporate Governance Committee
Stanley Yarbro, Chairman	Robert Moussa, Chairman	Rustin Howard, Chairman
Robert Moussa	Stanley Yarbro	Robert Moussa
Rustin Howard	Rustin Howard	Stanley Yarbro

During the fiscal year ended December 31, 2014, the board of directors met four times.

The Audit Committee held four meetings during the fiscal year ended December 31, 2014. The Compensation Committee held one meeting in conjunction with Board Meetings in 2014. The Nominating and Corporate Governance committee each held one meeting during fiscal year ended December 31, 2014. In 2014, all directors attended at least 75% of all meetings of the Board of Directors, and the committees on which they served after becoming a member of the Board or Committee. We expect all directors to attend the next Annual Meeting barring unforeseen circumstances or irresolvable conflicts.

Audit Committee

The function of the Audit Committee is to assist the Board in fulfilling its responsibility to the shareholders relating to our corporate accounting matters, financial reporting practices, and the quality and integrity of our financial reports. The Audit Committee's purpose is to assist the Board with overseeing:

- the reliability and integrity of our financial statements, accounting policies, internal controls and disclosure practices;
- our compliance with legal and regulatory requirements, including our disclosure controls and procedures;
- our independent auditor's qualifications, engagement, compensation, and independence;
- the performance of our independent auditor; and
- the production of an annual report of the Audit Committee for inclusion in our annual proxy statement.

The Audit Committee is to be comprised of not less than three independent directors. The Board has determined that each member of the Audit Committee is an independent director in accordance with applicable legal or regulatory requirements. It has also determined that each member is financially literate. Its members have identified Mr. Howard as an audit committee financial expert, as so defined by the US Securities and Exchange Commission (the "SEC").

Compensation Committee

The purpose of the Compensation Committee is to:

- review and approve corporate goals and objectives relevant to CEO compensation, evaluate the CEO's performance in light of those goals and objectives, and determine and approve the CEO's compensation level based on this evaluation;
- review and approve the compensation of our other officers based on recommendations from the CEO;
-

review, approve and make recommendations to the Board with respect to incentive compensation plans or programs, or other equity-based plans or programs, including but not limited to our Annual Incentive Plan, and our 401(k) Plan; and

produce an annual report of the Compensation Committee on executive compensation for inclusion in our annual proxy statement.

The Compensation Committee is to be comprised of not less than three of our independent directors. The Board has determined that each member of the Compensation Committee is an independent director in accordance with applicable legal or regulatory requirements.

Nominating and Corporate Governance Committee

The purpose of the Nominating Committee is to:

- identify individuals qualified to become members of the Board, consistent with criteria approved by the Board;
- recommend to the Board, candidates for all directorships to be filled by the Board or our shareholders;
- recommend to the Board, and in consultation with the chairman, which member(s) can and may be appointed to committees of the Board and the chairpersons thereof, including filling any vacancies;
- develop and recommend to the Board a set of corporate governance principles applicable to us;
- oversee, evaluate and monitor the Board and its individual members, and our corporate governance principles and procedures; and
- fulfill such other duties and responsibilities as may be set forth in its charter or assigned by the Board from time to time.

The Nominating Committee is to be comprised of not less than three independent directors. The Board has determined that each member of the Nominating Committee is an independent director in accordance with applicable legal or regulatory requirements.

The Nominating Committee will consider nominees recommended by shareholders but have not designated any special procedures shareholders need to follow to submit those recommendations. The Nominating Committee has not designated any such procedures because as discussed below under the heading “Shareholder Communications to the Board,” shareholders are free to send written communications directly to the Board, committees of the Board, and/or individual directors, at our corporate address in care of our Secretary.

Shareholder Communications to the Board

Shareholders may send communications in writing to the Board, committees of the Board, and/or to individual directors, at our corporate address in care of our Secretary. Written communications addressed to the Board are reviewed by the Chairman of the Board for appropriate handling. Written communications addressed to an individual

Board member are forwarded to that person directly.

BENEFICIAL OWNERSHIP OF SHARES

The following information indicates the beneficial ownership of our stock by each director nominee, and by each person known to us to be the beneficial owner of more than 5% of our outstanding stock. The indicated owners, which have sole voting and investment power, have furnished such information to us as of September 16, 2015, except as otherwise indicated in the footnotes.

Names of Beneficial Owners (and address, if ownership is more than 5%)	Amount Beneficially (1) Owned	(2)	Percent (%)
<u>Director nominees</u>			
Peter Brennan	3,788,596	(3)(4)	12.3
Rustin Howard	153,255	(3)(6)	*
Conrad Mir	600,000	(3)(7)	2.1
Carl O'Connell	15,625	(3)(8)	*
Stan Yarbrow	273,480	(3)(5)	1.0
Robert Conway	0		*
Steve Roehrich	0		*
Director nominees total:	4,830,956		17.0
<u>Five percent beneficial owners</u>			
Joseph M Finley (9)			
Suite 2300, 150 South Fifth St., Minneapolis, MN 55402	1,621,153		5.6
Bard Associates, Inc. (10)			
	3,750,025		12.6
135 South LaSalle Street, Suite 3700 Chicago, IL 60603			
William Austin Lewis IV (11)			
500 5 th Avenue, Suite 2240, New York, NY 10110	10,840,493		28.5

* Less than 1%

(1) Designated person or group has sole voting and investment power.

(2) Pursuant to SEC Rule 13d-3, amounts shown include common shares that may be acquired by a person within 60 days of September 16, 2015. Therefore, the column titled "Percent (%)" has been computed based on (a) 28,395,880 common shares actually outstanding as of September 16, 2015; and (b) solely with respect to the person whose Rule 13d-3 Percentage Ownership of common shares is being computed, common shares that may be acquired within 60 days of September 16, 2015 upon exercise of options, warrants and/or convertible debt held only by such person.

(3) Persons listed below have the right to acquire the listed number of shares upon exercise of stock options:

Name	Right to Acquire
Peter Brennan	40,000
Rustin Howard	90,000
Conrad Mir	600,000
Carl O'Connell	12,500
Stan Yarbrow	40,000
Directors nominees total	822,500

(4) Peter Brennan is the beneficial owner of Damel Diversified LP, Damel Partners LP, and Lisl Brennan Family Trust 2005. Peter Brennan beneficially owns 1,408,386 shares (including the 40,000 stock options referenced in footnote 3 above) and has the right to acquire an additional 2,379,981 shares upon conversion of \$2,498,980 of convertible debt.

(5) Stan Yarbrow beneficially owns 178,242 shares (including the 40,000 stock options referenced in footnote 3 above) and has the right to acquire an additional 95,238 shares upon conversion of \$100,000 of convertible debt.

(6) Rustin Howard beneficially owned 63,255 shares and has the right to acquire 90,000 shares upon exercise of stock options referenced in footnote 3 above.

(7) Conrad Mir has the right to acquire 600,000 shares upon exercise of stock options referenced in footnote 3 above.

(8) Carl O'Connell beneficially owns 3,125 shares and has the right to acquire 12,500 shares upon exercise of stock options referenced in footnote 3 above.

(9) Information is based on a Schedule 13GA filed with the SEC on February 6, 2015. Joseph Finley beneficially owns 1,087,613 shares and has the right to acquire an additional 185,714 shares upon the exercise of stock warrants and 347,826 shares upon conversion of \$80,000 of convertible debt.

(10) Information is based on a Schedule 13GA filed with the SEC on March 16, 2015. Bard Associates beneficially own 2,500,025 shares and has the right to acquire an additional 1,250,000 shares upon the exercise of stock warrants.

(11) William Austin Lewis IV beneficially owns 1,177,500 shares and has the right to acquire 5,705,884 shares upon conversion of \$1,192,352 of convertible debt and 3,957,109 shares upon the exercise of stock warrants.

On September 16, 2015, the stock transfer records maintained by us with respect to our Preferred Stock showed that the largest holder of 5% Preferred Stock owned 500 shares; the largest owner of Class C Convertible Preferred Stock owned 375 shares. No directors own Preferred Stock.

BENEFICIAL OWNERSHIP REPORTING COMPLIANCE

Section 16(a) of the Exchange Act requires our directors and officers, and persons who own more than five percent of the Common Stock to file reports of ownership and changes in ownership with the SEC as per that appropriate SEC regulation(s) that require reporting persons to furnish us with copies of all Section 16(a) forms they file.

Based solely on a review of copies of such reports received or written representations from certain reporting persons, we believe all reporting persons complied with all applicable reporting requirements.

DIRECTOR COMPENSATION

Each of our non-employee directors is paid an annual cash retainer of \$10,000, paid quarterly in arrears, for their services to the Company. In addition, directors are issued shares of common stock pursuant to our 1996 Directors Stock Participation Plan, as amended, and are granted stock options to purchase common stock pursuant to our 2011 Employees' Directors' and Consultants' Stock Option Plan, as amended, both as described below. In addition, the Chairman of the Board, if a non-employee, is paid fees for the additional responsibilities and time commitments required of him. These fees are equal to an additional \$5,000 cash retainer, in addition to the amount noted above and an additional \$500 for each Board meeting attended.

Each non-employee director is also paid \$1,000 for each Board meeting attended and \$500 for each committee meeting attended. All directors are reimbursed for out-of-pocket expenses incurred to attend Board and committee meetings.

On the first business day of January, each non-employee director who had been elected by the stockholders and had served at least one full year as a director was issued a number of shares of common stock equal to the lesser of \$15,000 divided by the per share fair market value of such stock on the issuance date, or 2,500 shares. If a non-employee director were to leave the Board after serving at least one full year, but prior to the January issuance date, we will issue shares of common stock to the director on a pro-rata basis up to the termination date.

Non-employee directors were granted 10,000 fully vested, non-qualified stock options to purchase our common stock on the date the individual was first elected as a director, whether by the stockholders or by the Board, and was granted 10,000 options on the first business day of January thereafter, provided the individual was still a director. The stock options granted were at an exercise price not less than 100% of the fair market value of the common stock at the grant date and had a term of five (5) years from date of grant; options granted under earlier, now expired plans had ten year terms. If an individual's directorship terminated because of death or permanent disability, the stock options may be exercised within one year after termination. If the termination was for any other reason, the stock options may be exercised within 180 days after termination. However, the Board had the discretion to amend previously granted stock options to provide that such stock options may continue to be exercisable for specified additional periods following termination. In no event may a stock option be exercised after the expiration of its term.

The following table summarizes the total compensation awarded to, earned by or paid by us for services rendered during fiscal year ended December 31, 2014, to the non-employee Board of Director members:

Name	Fees Earned or Paid in Cash⁽¹⁾	Option Awards (2)	Other Equity Compensation (3)	Total
Peter Brennan ⁽⁴⁾	\$22,500	\$ 1,589	\$ 425	\$ 24,514
Rustin Howard	\$17,000	\$ 1,589	\$ 425	\$ 19,014
Robert G. Moussa	\$16,000	\$ 1,589	\$ 425	\$ 18,014
Carl O'Connell	\$12,000	\$ 1,589	425	\$ 14,014
Stan Yarbro, Ph.D.	\$23,400	\$ 1,589	\$ 425	\$ 25,414

¹⁾ No cash payments were made to Directors for fees during 2014.

²⁾ Each director serving on January 2, 2015 received a stock option for 10,000 shares of common stock, for services rendered during 2014 in January 2015 at \$0.159 per share under the 2011 Directors Stock Option Plan approved by

the Board of Directors in May 2011. We estimated the fair value of stock awards at \$0.159 per share using the Black-Scholes option valuation model with expected life of 5 years, risk free interest rate of 1.61%, volatility of 164.53% and dividend yield of 0.

³⁾ Each director serving on January 2, 2015 received 2,500 shares of common stock, for services rendered during 2014. The fair market value of the stock was \$0.17 per share.

⁴⁾ Mr. Brennan served as Chairman since May of 2012.

Outstanding Equity Awards at January 2, 2015 to Non-Employee Directors

Name	Number of Securities Underlying Unexercised Options	Option Exercise Price	Option Expiration Date
Peter Brennan	10,000	(2) \$ 0.170	1/2/20
	10,000	(2) \$ 0.320	1/2/19
	10,000	(2) \$ 0.501	1/1/18
	10,000	(2) \$ 1.260	1/2/17
Rustin Howard	10,000	(2) \$ 0.170	1/2/20
	10,000	(2) \$ 0.320	1/2/19
	10,000	(2) \$ 0.501	1/1/18
	10,000	(2) \$ 1.260	1/2/17
	10,000	(2) \$ 1.830	5/1/16
	10,000	(1) \$ 2.290	10/5/17
	10,000	(1) \$ 1.510	1/2/18
	10,000	(1) \$ 1.005	1/2/19
	10,000	(1) \$ 1.870	1/4/20
	10,000	(2) \$ 0.170	1/2/20
Robert G. Moussa	10,000	(2) \$ 0.320	1/2/19
	10,000	(2) \$ 0.501	1/1/18
	10,000	(2) \$ 1.240	1/18/17
	10,000	(2) \$ 0.170	1/2/20
Carl O'Connell	2,500	(2) \$ 0.320	1/2/19
	10,000	(2) \$ 0.170	1/2/20
Stan Yarbrow	10,000	(2) \$ 0.170	1/2/20
	10,000	(2) \$ 0.320	1/2/19
	10,000	(2) \$ 0.501	1/1/18
	10,000	(2) \$ 1.130	2/28/17

(1) These stock options were granted pursuant to our 2000 Directors Stock Option Plan. The shares were vested immediately on issuance.

(2) These stock options were granted pursuant to our 2011 Employees' Directors' and Consultants' Stock Option Plan. The shares were vested immediately on issuance.

CERTAIN RELATIONSHIPS, RELATED TRANSACTIONS, DIRECTOR INDEPENDENCE

Our Board of Directors determined that when a director's services are outside the normal duties of a director, we compensate the director at the rate of \$1,000 per day, plus expenses, which is the same amount we pay a director for attending a one-day Board meeting. We classify these amounts as consulting expenses, included in personnel and other direct expenses relating to revenues.

Five of CTI's Board Nominees - Rustin Howard, Carl O'Connell, Stan Yarbrow, Steve Roehrich and Robert Conway - are considered to be independent directors.

REPORT OF THE COMPENSATION COMMITTEE

This report of the Compensation Committee (the "Committee") shall not be deemed incorporated by reference by any general statement incorporating the Proxy Statement by reference into any filing under the Securities Act of 1933 or the Securities Exchange Act of 1934 (collectively the "Acts"), except to the extent that CTI specifically incorporates this information by reference, and shall not otherwise be deemed filed under such Acts.

CTI's compensation program consists of base salary, bonus, stock options, other incentive awards and other benefits, which the Committee generally reviews annually. The Committee's overall philosophy is to align compensation with our business strategy and to support achievement of our long-term goals. In order to attract and retain competent executives, we believe it is essential to maintain an executive compensation program that provides overall compensation competitive with that paid to executives with comparable qualifications and experience.

In May 2011, the Committee presented the 2011 Employees', Directors' and Consultants' Stock Option Plan ("The 2011 Plan") to the Board of Directors, which voted to approve it. The 2011 Plan was filed with the U.S. Securities and Exchange Commission as Exhibit 10.1 of the Registration Statement on Form S-8 filed on May 26, 2011.

The Board of Directors is in the process of reviewing all compensation plans to assure effectiveness and fiduciary responsibility.

Compensation Committee Report:

We have reviewed and discussed with management certain Executive Compensation and Compensation Discussion and Analysis provisions to be included in the Company's Annual Report on Form 10-K, filed pursuant to the Exchange Act, as amended (the "Annual Report"). Based on the reviews and discussions referred to above, we recommend to the Board of Directors that the Executive Compensation and Compensation Discussion and Analysis provisions referred to above be included in the Company's Annual Report.

Submitted by the Compensation Committee of the Board of Directors

Robert G. Moussa (Chairman)

Stan Yarbrow

Rustin Howard

REPORT OF THE AUDIT COMMITTEE

The Audit Committee will review and discuss with management our audited financial statements as of and for the year ended December 31, 2014 as well as our Annual Report on Form 10-K, prior to those reports being filed. The Audit Committee has reviewed and discussed with management our Quarterly Reports on Form 10-Q for the year ended December 31, 2014, before those reports were filed.

The Audit Committee discussed with our independent registered accountants, Mayer Hoffman McCann, CPAs, the matters required to be discussed under the rules adopted by the Public Company Accounting Oversight Board ("PCAOB").

The Audit Committee received the written disclosures from Mayer Hoffman McCann CPAs required by the applicable requirements of the PCAOB concerning independence. The Audit Committee discussed with Mayer Hoffman McCann CPAs their independence from management and from CTI.

The Audit Committee discussed with Mayer Hoffman McCann CPAs the overall scope, plans and budget for its audit. In addition, the Audit Committee meets with Mayer Hoffman McCann CPAs regularly, with or without management present, to discuss the results of Mayer Hoffman McCann CPAs' examination, evaluation of CTI's internal controls, and the overall quality of CTI's financial reporting.

Based on the reviews and discussions referred to above, the Audit Committee recommended to the Board of Directors that the audited financial statements as of and for the years ended December 31, 2014 and 2013, be included in our Annual Report on Form 10-K for the year ended December 31, 2014.

Audit Committee:

Rustin Howard

Robert Moussa

Stan Yarbrow (Chairman)

EXECUTIVE OFFICERS

On September 12, 2013, Mr. Carl O'Connell, the CEO of the Company notified the Company's Board of Directors of his resignation from his position as CEO, effective September 26, 2013. Mr. O'Connell has remained a member of the Board of Directors. On September 30, 2013, the Board of Directors removed Johnnie D. Johnson as consultant and Company CFO. On September 27, 2013, the Board of Directors of the Company appointed Conrad Mir as the Company's new president and CEO, and elected him as a member of the Board of Directors. On September 30, 2013, in connection with Mr. Johnson's removal, Mr. Mir was appointed as the Company's interim-CFO. On May 22, 2014, the Company appointed Mr. Ian Rhodes as executive VP and CFO of the Company.

EXECUTIVE COMPENSATION

Compensation Discussion and Analysis

We have a standing compensation committee on our Board. Our president, or in the absence of a president, our CEO, makes recommendations to the committee as to employee benefit programs and officer and employee compensation.

Annual Base Salary. The base salary for our new president and CEO was set in the employment agreement dated October 1, 2013, and which was filed with the U.S. Securities and Exchange Commission as Exhibit 10.43 of the Form 10-K filed on April 16, 2014.

Incentive Stock Options. Our new president and CEO received 1,000,000 incentive stock options effective October 1, 2013, as set out in the employment agreement dated October 1, 2013, and which was filed with the U.S. Securities and Exchange Commission as Exhibit 10.43 of the Form 10-K filed on April 16, 2014. The stock options vest over a four-year period.

Annual Cash Bonus. In addition to the competitive annual base salary, we intend to reward executive officers each year for the achievement of specific goals, which may be financial, operational or technological. We consider objectively measurable goals, such as obtaining new investment capital, negotiating valuable contracts and achieving research and regulatory milestones, and more subjective goals, such as quality of management performance and consistency of effort. CTI's objectives include operating, strategic and financial goals the board considers critical to CTI's overall goal of building shareholder value. Our recommendations for cash bonuses also take into account CTI's liquidity and capital resources in any given year.

Because CTI did not meet its financial goals for the fiscal year and because of other concerns, the Compensation Committee of the Board of Directors determined not to award cash bonuses to any executive officers or to any employees for the fiscal year ended December 31, 2014.

The following table summarizes the total compensation awarded to, earned by or paid by us for services rendered by the 3 highest paid (\$100,000 or more) employees that served during the years ended December 31, 2014 and December 31, 2013.

Name and Principal Position	Year ended	Salary	Bonus	Option Awards ⁽⁵⁾	All Other Compensation	Total
Conrad F. Mir ⁽²⁾ Director, President and Chief Executive Officer	December 31, 2014	\$270,000				\$270,000
	December 31, 2013	\$70,212		\$63,201		\$133,413
Ian Rhodes ⁽³⁾ Executive Vice President and Chief Financial Officer	December 31, 2014	\$83,077		\$99,600		\$182,677
Carl D. O'Connell ⁽¹⁾ Director, President and Chief Executive Officer	December 31, 2013	\$225,000		\$334,000		\$569,000
Laurie Murphy ⁽⁴⁾ Accounting Manager	December 31, 2013	\$100,400				\$100,400

⁽¹⁾ Mr. O'Connell joined the Company in November 2012 and resigned as President and Chief Executive Officer in September 2013, but continued to serve on the Board.

⁽²⁾ Mr. Mir joined the Company in September 2013.

⁽³⁾ Mr. Rhodes joined the Company in May 2014.

⁽⁴⁾ Ms. Murphy left the Company in January 2014.

⁽⁵⁾ The amounts shown in this column indicate the grant date fair value of option awards granted in the subject year computed in accordance with FASB ASC Topic 718. The assumptions made in the valuation of these options can be found in Note 14 to our financial statements included in our 2014 Form 10-K.

Grants of Plan-Based Awards

During the quarter ended March 31, 2013, the Company granted 1,000,000 options to Carl O'Connell. As approved by the Board of Directors, these options granted were expected to vest over a four (4) year period, with 200,000 options vesting upon issuance. Upon his resignation on September 26, 2013, the 800,000 unvested options were forfeited. Additionally, the 200,000 vested options all expired 90 days from his resignation, per the Option Agreement.

During the quarter ended December 31, 2013, the Company granted 1,000,000 options to Conrad Mir. As approved by the Board of Directors, these options vest over a four (4) year period, with 200,000 options vested upon issuance.

During the quarter ended June 30, 2014, the Company granted 300,000 options to Ian Rhodes. These options vest over a four (4) year period, with 60,000 options vested upon issuance.

Outstanding Equity Awards at December 31, 2014

Name	Number of Securities Underlying Unexercised Options Exercisable⁽¹⁾	Number of Securities Underlying Unexercised Options Unexercisable⁽¹⁾	Option Price	Option Expiration Date
Conrad Mir	400,000	600,000	0.08	10/1/18
Ian Rhodes	60,000	240,000	0.41	5/22/19

⁽¹⁾ Option awarded under the 2011 Employees', Directors' and Consultants' Stock Option Plan.

PROPOSAL 2: TO RATIFY THE APPOINTMENT OF MAYER HOFFMAN MCCANN, CPAS AS OUR INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM FOR THE FISCAL YEAR ENDED DECEMBER 31, 2015

REGISTRANT'S CERTIFYING ACCOUNTANT

Mayer Hoffman McCann CPAs (the New York Practice of Mayer Hoffman McCann P.C.) ("MHM") have been the independent registered public accountants for the company.

Fees Billed by Principal Accountants – The following table presents fees for professional services billed by MHM for the years ended December 31, 2014 and December 31, 2013:

	Year Ended December 31, 2014	Year Ended December 31, 2013
Audit Fees	\$ 96,500	\$ 101,500
Tax Fees	—	—
Audit Related Fees⁽¹⁾	—	9,521
All other fees	—	—
Total	\$ 96,500	\$ 111,021

⁽¹⁾ Fees for S-1 and S-8 review.

MHM leases substantially all its personnel, who work under the control of MHM shareholders, from wholly-owned subsidiaries of CBIZ, Inc., in an alternative practice structure.

Audit Committee Pre-Approval of Services of Principal Accountants

The Audit Committee has the sole authority and responsibility to select, evaluate, determine the compensation of, and, where appropriate, replace the independent auditor. After determining that providing the non-audit services is compatible with maintaining the auditor's independence, the Audit Committee pre-approves all audits and permitted non-audit services to be performed by the independent auditor, except for de minimis amounts. If it is not practical for the Audit Committee to meet to approve fees for permitted non-audit services, the Audit Committee has authorized its chairman, currently Mr. Yarbrow, to approve them and to review such pre-approvals with the Audit Committee at its next meeting.

Ratification of Selection of Independent Public Accountants

The persons named in the enclosed proxy will vote to ratify the selection of Mayer Hoffman McCann CPAs as independent public accountants for the year ending December 31, 2015, unless otherwise directed by the shareholders. Shareholder ratification of Mayer Hoffman McCann CPAs as the Company's independent public accountants is not required by the Company's bylaw or otherwise. However, the Company is submitting selection of Mayer Hoffman McCann CPAs to the shareholders for ratification as a matter of good corporate practice. If the shareholders do not ratify the selection of Mayer Hoffman McCann CPAs as the Company's independent public accountants, the Audit Committee will reconsider the selection of such independent public accountants. If the selection is ratified, the Audit Committee may, in its discretion, direct the appointment of different independent public accountants at any time during the year if it determines that such a change would be in the best interest of the Company and its shareholders.

N/A

N/A

5,447,368,326 13,804,700,864

(1) All stock options listed in this column are subject to a four-year step vesting requirement of 25% per year and have a ten-year term. These options were granted at the fair market value of the Common Stock on the date of grant (determined as the closing price on the business day immediately preceding the date the options were granted). If an executive officer retires within the twelve-month period following the grant date, the number of options granted to such officer will be reduced on a pro-rata basis. All options expire at the end of the option holder's employment, except in the case of options held by an employee whose employment ends due to (i) retirement, total disability or death, in

which instance the employee or his estate may exercise options capable of being exercised within five years after the date of retirement, total disability or death (three years for options granted prior to 1997) or until the date of expiration of the options, if earlier; (ii) the occurrence of a corporate event, defined as a material, non-recurring

event (such as a corporate restructuring) which results in the displacement or elimination of a significant number of jobs and which is required to be disclosed as a separate matter in the Company's financial statements, in which case the option holder may exercise options capable of being exercised within ninety days after the corporate event or until the date of expiration of the options, if earlier; or (iii) a change in control, in which event all options become fully exercisable and, for a period of two years following the change in control, the option holder has one year from the date of termination of employment to exercise the options or until the date of expiration of the options, if earlier.

- (2) In 2003, 734 employees were granted a total of 1,472,925 stock options.
- (3) The exercise price may be paid in cash, shares of Common Stock valued at the fair market value on the date of exercise, or pursuant to a cashless exercise procedure under which the stock option holder provides irrevocable instructions to a brokerage firm to sell the purchased shares and to remit to the Company out of the sale proceeds an amount equal to the exercise price plus all applicable withholding taxes.
- (4) The dollar amounts under these columns for all the individuals are the result of annual appreciation rates for the term of the options (ten years) as required by the Securities and Exchange Commission and, therefore, are not intended to forecast possible future appreciation, if any, of the price of the Common Stock.
- (5) For All Stockholders, the potential realizable value on 134,291,691 shares, the number of outstanding shares of Common Stock and Class B Stock on February 3, 2003, is based on a \$64.50 per share price (the exercise price of the February 3, 2003 options). The value of the Common Stock and Class B Stock at \$64.50 per share on February 3, 2003 was \$8,661,814,070. The amounts listed in this line for All Stockholders are the result of calculations at the 5% and 10% annual appreciation rates for a period of ten years from February 3, 2003, through and including February 2, 2013. The amounts are not intended to forecast possible future appreciation, if any, of the price of the Common Stock.

The following table sets forth information with respect to the named executive officers concerning the exercise of stock options during the last fiscal year and unexercised stock options held as of the end of the fiscal year:

**Aggregated Option Exercises in Year-Ended December 31, 2003
and Year-End Option Values**

Name	Shares		Securities Underlying Number of Unexercised Options at 12/31/03 (#) ⁽¹⁾		Value of Unexercised In-The-Money Options at 12/31/03 (\$) ⁽¹⁾	
	Acquired on Exercise (#) ⁽¹⁾	Value Realized (\$)	Exer- cisable	Unexer- cisable	Exer- cisable	Unexer- cisable
R. H. Lenny			268,200	427,000	3,179,636	4,876,609
R. Brace			42,514	32,486	935,435	449,678
F. Cerminara	7,700	400,801	44,388	55,762	1,143,650	713,051
B. H. Snyder	8,000	342,067	31,463	41,987	921,971	549,209
D. J. West			8,125	46,425	113,800	562,105

(1)

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The fair market value of the Common Stock on December 31, 2003, the last trading day of the Company's fiscal year, was \$76.99. Except for 115,350 exercisable and 115,350 unexercisable options granted to R. H. Lenny on March 12, 2001 pursuant to a separate registration statement filed with the Securities and Exchange Commission, all of the stock options were granted under the Incentive Plan.

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Long-Term Incentive Program Performance Stock Units

The following table provides information concerning performance stock unit grants made to the named executive officers during the last fiscal year under the long-term incentive program portion of the Incentive Plan. Payments made under the program for the three-year performance cycle ending December 31, 2003 are reported in the Summary Compensation Table.

Long-Term Incentive Program Performance Stock Unit Awards in Year-Ended December 31, 2003

Name	Number of Shares, Units or Other Rights ⁽¹⁾	Performance or Other Period Until Maturation or Payout	Estimated Future Payouts		
			Threshold (#) ⁽²⁾	Target (#) ⁽³⁾	Maximum (#) ⁽⁴⁾
R. H. Lenny	29,000	6 years	2,900	29,000	72,500
R. Brace	2,550	6 years	255	2,550	6,375
F. Cerminara	6,300	6 years	630	6,300	15,750
B. H. Snyder	4,450	6 years	445	4,450	11,125
D. J. West	3,600	6 years	360	3,600	9,000

- (1) The PSUs reported in this table were granted to all named executive officers on February 3, 2003, for the cycle commencing January 1, 2003 and ending December 31, 2005. PSUs awarded at the end of the three-year performance cycle will not vest until December 31, 2008, three years after the end of the performance cycle, and payment of the award will not be made until early 2009.

For purposes of determining the number of grants, the value of each PSU is based on the average of the daily closing prices of the Common Stock on the New York Stock Exchange as reported in *The Wall Street Journal* for the December preceding the new three-year performance cycle.

The final value of the award is determined based upon three factors. The first factor is the number of PSUs awarded at the commencement of the three-year cycle. The second factor relates to the performance score, determined as the sum of (i) the Company's earnings per share-diluted growth (three-year compound annual growth rate) measured against an internal target and measured against the earnings per share-diluted growth (three-year compound annual growth rate) of a peer group of 16 food, beverage and consumer packaged goods companies, scored on a range from 10% to 125%; and (ii) the cumulative three-year improvement in the Company's economic return on invested capital measured against an internal target, scored on a range from 10% to 125%. The total performance score can range from a minimum of 0% to a maximum of 250%, based upon each of the performance measurements having a 50% weighted value in the formula. The third factor involves the value per unit which is determined at the conclusion of the three-year cycle.

- (2) This column lists the number of shares of Common Stock, the value of which would be payable to the named executive officers at the threshold achievement level of 10%. If the achievement level at the end of the three-year cycle is less than this threshold, no payments are made.
- (3) This column lists the number of shares of Common Stock, the value of which would be payable to the named executive officers at the target, or 100%, achievement level.
- (4)

This column lists the number of shares of Common Stock, the value of which would be payable to the named executive officers at the 250% achievement level.

Performance Graph

The following graph compares the Company's cumulative total stockholder return (Common Stock price appreciation plus dividends, on a reinvested basis) over the last five fiscal years with the Standard and Poor's 500 Index and the Standard and Poor's Packaged Foods Index.

COMPARISON OF FIVE YEAR CUMULATIVE TOTAL RETURN*
HERSHEY FOODS CORPORATION, S&P 500 INDEX AND
S&P PACKAGED FOODS INDEX

	1998	1999	2000	2001	2002	2003
HERSHEY	\$ 100	\$ 78	\$ 108	\$ 115	\$ 117	\$ 136
S&P 500	\$ 100	\$ 121	\$ 110	\$ 97	\$ 76	\$ 97
S&P Packaged Foods	\$ 100	\$ 79	\$ 100	\$ 102	\$ 104	\$ 113

* Hypothetical \$100 invested on 12/31/98 in Hershey Foods Common Stock, S&P 500 Index and S&P Packaged Foods Index, assuming reinvestment of dividends.

Employment Contracts and Benefit Protection Arrangements

Under the terms of an employment agreement entered into by the Company and R. H. Lenny on March 12, 2001, Mr. Lenny is entitled to an annual salary during the term of the agreement of not less than \$750,000 and to participate in the Annual and Long-Term Incentive Programs of the Incentive Plan and in the Company's other executive and employee benefit programs. The employment agreement also provides for a one-time sign-on award, in lieu of participation in certain on-going Company incentive programs, of 400,000 stock options (at a price of \$64.65, the closing price of the Common Stock on the trading day preceding the date of the March 12, 2001 grant, in accordance with the Incentive Plan) and an RSU award of 65,542 units to replace compensation forfeited as a result of his resignation from his prior employer. The total compensation awarded to Mr. Lenny for the fiscal year ended December 31, 2003 is set forth in the Executive Compensation section of this Proxy Statement. Mr. Lenny's employment agreement has a continuous term of three years, unless terminated earlier. In the event the Company should terminate Mr. Lenny's employment without cause, he will be entitled to a lump-sum severance benefit equal to his annual salary and AIP bonus for two years, vesting of RSU awards, continued vesting of stock option awards and continuation of certain executive and employee benefits.

The Company provides an Executive Benefits Protection Plan (Benefits Protection Plan) for the named executive officers and other key management personnel. The terms of the Benefits Protection Plan are consistent with the practices followed by other major public corporations in the United

States and generally provide that in the event the executive's employment with the Company terminates within two years after a change in control of the Company, the executive is entitled to certain severance payments and benefits. A change in control is defined to include an event in which the Milton Hershey School Trust no longer holds voting control of the Company and another party acquires 25% or more of the combined voting power of common equity of the Company. Under the Benefits Protection Plan, upon an executive officer's termination after a change in control as described above, and in order to assist the executive in transitioning to new employment, the executive generally would be entitled to receive in a lump sum three times the executive's base salary, AIP bonus and PSU payout. The executive also would be entitled to continuation of health benefits for a period of three years and reimbursement for Federal excise taxes payable (but not for income taxes payable).

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The executive also would become vested in benefits under existing compensation and benefit programs (including those described in the Executive Compensation section) and generally would be paid such benefits at the time of the executive's termination or deferred at the executive's election under the Deferred Compensation Plan. Compensation deferred under the Deferred Compensation Plan and supplemental retirement benefits under the Supplemental Executive Retirement Plan would be provided by a grantor trust to be established and funded at the time of any such change in control. Executive officers are also entitled to receive certain severance payments and benefits if their employment with the Company is terminated in the absence of a change in control, provided that the termination is not for cause as defined in the Benefits Protection Plan. In the event of such termination, the executive would be placed on a two-year leave of absence, during which time the executive would receive his base salary, AIP bonus, previously earned and/or deferred AIP bonus and PSU awards, and benefit programs to which the executive had been entitled while in active employment (excluding disability coverage).

Pension Plans

Executive officers are eligible to receive pension benefits payable under the Company's qualified defined benefit pension plan (Pension Plan), as well as the nonqualified Supplemental Executive Retirement Plan that provides benefits in excess of those provided under the Pension Plan that is subject to limitations under the Internal Revenue Code. The combined benefit paid to a participant pursuant to these plans is equal to 55% of that individual's final average compensation. Final average compensation is determined by adding the participant's three-year average of base salary and five-year average AIP bonus. The combined amounts paid under the two plans are reduced by any applicable Social Security benefits received, by a specified percentage for each month that retirement occurs before age 60, and by a specified percentage for each year that retirement occurs prior to the individual completing 15 years of service with the Company.

The final average compensation and the credited years of service as of December 31, 2003, respectively, for each of the named executive officers were: R. H. Lenny, \$1,988,500, 2.8 years; R. Brace, \$411,286, 36.6 years; F. Cerminara, \$468,419, 31.6 years; B. H. Snyder, \$369,589, 20.5 years; and D. J. West, \$486,406, 2.6 years.

VOTING OF PROXIES

A proxy may be revoked at any time before it is voted at the Annual Meeting by submitting to the Secretary of the Company a written notice revoking it, by a duly-executed proxy bearing a later date, by a telephone or Internet vote cast at a later date, or by voting by ballot at the meeting. Shares held for each participant in the Company's Automatic Dividend Reinvestment Service Plan, the ESSIO or the Company's Puerto Rico Employee Savings Stock Investment and Ownership Plan (PR ESSIO) will be voted by the plan trustees as directed by the participant's proxy. If an Automatic Dividend Reinvestment Service Plan participant does not return a proxy, the participant's shares in the plan will not be voted. If an ESSIO or PR ESSIO participant does not return a proxy, that participant's shares will be voted by the plan trustee in the same proportion as the final aggregate votes of plan participants actually voting on the matter.

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SOLICITATION OF PROXIES

Solicitation of proxies will be made by use of the mail or, if consented to by a stockholder, by electronic transmission over the Internet. The cost of preparing, assembling and distributing this proxy solicitation material and Notice of Annual Meeting of Stockholders will be paid by the Company. Solicitation by mail, telephone, telefax, electronic transmission over the Internet or personal contact may be done by directors, officers and other employees of the Company, for which they will receive no additional compensation. Brokerage houses and other nominees, fiduciaries and custodians nominally holding shares of the Company's stock as of the record date will be requested to forward proxy solicitation material to the beneficial owners of such shares and will be reimbursed by the Company for their reasonable expenses.

The Securities and Exchange Commission has adopted rules that allow the Company to send a single copy of its Proxy Statement and Annual Report to Stockholders to two or more stockholders sharing the same address if those stockholders also share the same name or if the Company reasonably believes that those stockholders are members of the same family. The rules require that each stockholder at the shared address continue to receive a separate proxy card or voting instruction card. Hershey Foods believes this rule is beneficial to both stockholders and the Company because it allows for the elimination of cumbersome duplicate mailings to the same household and results in lower printing and postage costs.

Any stockholder who would prefer to have a separate copy of the Proxy Statement and Annual Report to Stockholders delivered to him or her at the shared address for this and future years may elect to do so by calling, toll free, (800) 542-1061, or by writing to ADP, Householding Department, 51 Mercedes Way, Edgewood, New York 11717. A copy of the materials will be sent promptly to the stockholder following receipt of such notice.

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Stockholders whose shares of Common Stock are held partially in registered name and partially by a broker or other nominee may receive duplicate deliveries of the Proxy Statement and Annual Report to Stockholders. Certain brokers and nominees have procedures in place to discontinue duplicate mailings upon a stockholder's request or upon the stockholder's implied consent not to receive duplicate mailings following notice from the broker. Stockholders desiring to eliminate such duplicate mailings should contact their broker or nominee for more information.

SECTION 16(a) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE

The Company's executive officers, directors and 10% stockholders are required under the Securities Exchange Act of 1934 to file with the Securities and Exchange Commission and the New York Stock Exchange reports of ownership and changes in ownership in their holdings of the Company's stock. Copies of these reports also must be furnished to the Company. Based on an examination of these reports and on written representations provided to the Company, all such reports have been timely filed.

CERTAIN TRANSACTIONS AND RELATIONSHIPS

During 2003, the Company and its subsidiaries had a number of transactions with Milton Hershey School, the Milton Hershey School Trust, and companies owned by the Milton Hershey School Trust involving the purchase or sale of goods and services. These transactions were primarily with Hershey Entertainment & Resorts Company, based in Hershey, Pennsylvania, and wholly-owned by the Milton Hershey School Trust.

The aggregate value of sales made during 2003 by the Company and its subsidiaries to Milton Hershey School, the Milton Hershey School Trust, and companies owned by the Milton Hershey School Trust, amounted to approximately \$900,000. During the same year, the Company purchased goods and services from these entities in the amount of approximately \$2,500,000. These transactions were on terms that the Company believes to be no less favorable to the Company than those which could have been obtained from other purchasers or vendors.

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In December 2002, the Company sold to Hershey Entertainment & Resorts Company a 70,000 square foot manufacturing facility on 9.43 acres of land in Palmyra, Pennsylvania. The purchase price for the property was \$1,450,000, the fair market value as determined by Weinstein Realty Advisors, an independent appraisal firm. The Company received from Hershey Entertainment & Resorts Company, in payment of the purchase price, cash in the amount of \$750,000 and complimentary admission for 13,000 employees of the Company for one day in 2002 and one day in 2003 to *HERSHEYPARK*, a local amusement park owned by Hershey Entertainment & Resorts Company, having a market value, in the aggregate, of \$700,000. The Company believes that this transaction was made on terms consistent with market conditions at the time of the transaction.

The Company's Corporate Governance Principles provide that any transaction not in the ordinary course of business between the Company and Hershey Trust Company, Hershey Entertainment & Resorts Company and/or the Milton Hershey School, or any subsidiary, division or affiliate of any of the foregoing, must be approved in advance by a subcommittee of the Board composed of the independent members of the Executive Committee.

OTHER BUSINESS

As of January 23, 2004, the Company had received no proposal, nomination for director or other business submitted in accordance with its By-Laws for consideration at the Annual Meeting, other than that set forth in the Notice of Annual Meeting of Stockholders and as more specifically described in this Proxy Statement, and, therefore, it is not expected that any other business will be brought before the Annual Meeting. However, if any other business should properly come before the Annual Meeting, it is the intention of the persons named on the enclosed proxy card to vote the signed proxies received by them in accordance with their best judgment on such business and any matters dealing with the conduct of the Annual Meeting.

STOCKHOLDER PROPOSALS AND NOMINATIONS

The 2005 Annual Meeting of Stockholders will be held on April 19, 2005. To be eligible for inclusion in the Company's Proxy Statement for the 2005 Annual Meeting of Stockholders, stockholder proposals must be received by the Company by November 12, 2004.

Stockholders (other than those holding 25% of the outstanding votes entitled to be cast) who do not submit proposals for inclusion in the Proxy Statement but who intend to present a proposal, nomination for director or other business for consideration at any meeting of stockholders, including any annual meeting, are required by the Company's By-Laws to notify the Secretary of the Company of their proposal or nomination and provide other information in advance of such meeting. Stockholders interested in making proposals at the 2005 Annual Meeting must submit

their name and address, their shareholdings, a brief description of the proposal and any financial or other interest they have in such proposal to the Company no earlier than December 29, 2004 and no later than January 28, 2005.

In addition, the Company's By-Laws require that a stockholder wishing to make a nomination for director at the 2005 Annual Meeting must submit the following information to the Company no earlier than December 29, 2004 and no later than January 28, 2005: name and address of the stockholder who intends to make the nomination; a representation that the stockholder is a holder of record and intends to make the nomination in person or by proxy at the meeting; a description of any arrangement between the stockholder and the individual planned to be nominated; the nominee's name, address and biographical information; and the written consent of the nominee to serve as a director if elected.

All notices for stockholder proposals and director nominations should be sent to Hershey Foods Corporation, Attn: Secretary, 100 Crystal A Drive, Hershey, Pennsylvania 17033-0810.

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ANNUAL REPORT ON FORM 10-K

The Company will provide without charge to each beneficial owner of its Common Stock and Class B Stock, upon such stockholder's request, a copy (without exhibits) of the Company's Annual Report on Form 10-K for the year ended December 31, 2003 filed with the Securities and Exchange Commission. Requests for copies should be addressed to Hershey Foods Corporation, Attn: Investor Relations Department, 100 Crystal A Drive, Hershey, Pennsylvania 17033-0810.

OTHER DOCUMENTS NOT A PART OF THIS PROXY STATEMENT

This Proxy Statement is being distributed to stockholders as part of a larger publication containing other documents and information of interest to stockholders concerning the Annual Meeting. Such other documents and information include a letter to stockholders from R. H. Lenny, Chairman of the Board, President and Chief Executive Officer; helpful information about the Annual Meeting; Appendix A, which contains the Annual Report to Stockholders, including Management's Discussion and Analysis and the Consolidated Financial Statements; Appendix B, which contains Other Stockholder Information; Appendix C, which contains certain Policies and Procedures of the Company referred to in this Proxy Statement; and Appendix D, which contains charters of certain committees of the Board, including the Charter of the Audit Committee.

By order of the Board of Directors,

Burton H. Snyder
Senior Vice President,
General Counsel and Secretary

March 12, 2004

Stockholders who desire to have their stock voted at the meeting are requested to either (1) follow the Internet or telephone voting instructions on the enclosed proxy card or (2) mark, sign and date the enclosed proxy card and return it promptly in the enclosed, postage-paid envelope. Stockholders may revoke their proxies at any time prior to the meeting, and stockholders who are present at the meeting may revoke their proxies and vote, if they so desire, in person.

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CHARTER OF THE AUDIT COMMITTEE OF THE BOARD OF DIRECTORS

I. COMPOSITION OF THE AUDIT COMMITTEE

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The Audit Committee (the *Committee*) of the Board of Directors (the *Board*) of Hershey Foods Corporation (the *Company*) shall consist of at least three directors, each of whom the Board has determined has no material relationship with the Company and each of whom is otherwise independent under the rules of the New York Stock Exchange, Inc., the Sarbanes-Oxley Act of 2002, as amended, and the rules promulgated thereunder, and the Company's Corporate Governance Principles (*Governance Principles*). The Board shall also determine that each member is financially literate, and that one member of the Committee has accounting or related financial management expertise, as such qualifications are interpreted by the Board in its business judgment and whether any member of the Committee is an audit committee financial expert, as defined by the rules of the Securities and Exchange Commission (the *SEC*). If the Board has determined that a member of the Audit Committee is an audit committee financial expert, it may presume that such member has accounting or related financial management expertise.

No director may serve as a member of the Committee if such director serves on the audit committees of more than two other public companies unless the Board determines that such simultaneous service would not impair the ability of such director to effectively serve on the Committee, and discloses this determination in the Company's annual proxy statement.

Members and the chairperson shall be appointed by the Board as set forth in the Governance Principles.

II. PURPOSES OF THE COMMITTEE

The purposes of the Committee are to:

1. assist Board oversight of (i) the integrity of the Company's financial statements, (ii) the Company's compliance with legal and regulatory requirements, (iii) the independent auditors' qualifications and independence, and (iv) the performance of the independent auditors and the Company's internal audit function; and
2. prepare the report required to be prepared by the Committee pursuant to the rules of the SEC for inclusion in the Company's annual proxy statement.

The function of the Committee is oversight. The management of the Company is responsible for the preparation, presentation and integrity of the Company's financial statements. Management also is responsible for developing, maintaining and documenting appropriate accounting and financial reporting principles and policies and internal controls and procedures that provide for compliance with accounting standards and applicable laws and regulations. The internal audit department is responsible for performing independent, objective assessments of management's system of internal controls and policies and procedures and reporting on their degree of effectiveness. The independent auditors are responsible for planning and carrying out a proper audit of the Company's annual financial statements, reviews of the Company's quarterly financial statements prior to the filing of each quarterly report on Form 10-Q, and other procedures. The independent auditors are also responsible for reading and commenting on the Company's filings on Form 8-K and any press releases it issues regarding the Company's financial performance or accounting practices. In fulfilling their responsibilities hereunder, it is recognized that members of the Committee are not full-time employees of the Company and are not, and do not represent themselves to be, performing the functions of auditors or accountants. As such, it is not the duty or responsibility of the Committee or its members to conduct field work or other types of auditing or accounting reviews or procedures or to set auditor independence standards.

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The independent auditors for the Company are accountable to the Board and the Committee as representatives of the stockholders. The Committee is directly responsible for the appointment, retention, compensation and oversight of the work of the independent auditors (including resolving disagreements between management and the independent auditors regarding financial reporting). The independent auditors shall report directly to the Committee.

The independent auditors shall submit to the Committee annually a formal written statement (the *Auditors' Statement*) describing: the auditors' internal quality-control procedures; any material issues raised by the most recent internal quality-control review or peer review of the auditors, or by any inquiry or investigation by governmental or professional authorities, within the preceding five years, respecting one or more independent audits carried out by the auditors, and any steps taken to deal with any such issues; and (to assess the auditors' independence) all relationships between the independent auditors and the Company including each non-audit service provided to the Company and the matters set forth in Independence Standards Board Standard No. 1.

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The independent auditors shall submit to the Committee annually a formal written statement of the fees billed in each of the last two fiscal years for each of the following categories of services rendered by the independent auditors: (i) the audit of the Company's annual financial statements and the reviews of the financial statements included in the Company's Quarterly Reports on Form 10-Q or services that are normally provided by the independent auditors in connection with statutory and regulatory filings or engagements; (ii) assurance and related services not included in clause (i) that are reasonably related to the performance of the audit or review of the Company's financial statements, in the aggregate and by each service; (iii) tax compliance, tax advice and tax planning services, in the aggregate and by each service; and (iv) all other products and services rendered by the independent auditors, in the aggregate and by each service.

III. MEETINGS OF THE COMMITTEE

The Committee shall meet once every fiscal quarter, or more frequently if circumstances dictate, to discuss with management the annual audited financial statements and quarterly financial statements, as applicable. The Committee should meet separately at least quarterly or more frequently at the discretion of the Committee Chair, with management, the head of the internal audit function and the independent auditors to discuss any matters that the Committee or any of these persons or firms believe should be discussed privately. The Committee may request any officer or employee of the Company or the Company's outside counsel or independent auditors to attend a meeting of the Committee or to meet with any members of, or consultants to, the Committee. Members of the Committee may participate in a meeting of the Committee by means of conference call or similar communications equipment by means of which all persons participating in the meeting can speak to and hear each other.

IV. DUTIES AND POWERS OF THE COMMITTEE

To carry out its purposes, the Committee shall have the following duties and powers:

1. with respect to the independent auditors,
 - a. to directly appoint, retain, compensate, evaluate and terminate (i) the independent auditors including sole authority to approve all audit engagement fees and terms and (ii) any other registered public accounting firm engaged for the purpose of preparing or issuing an audit report, review or attestation services;
 - b. to pre-approve, or to adopt appropriate procedures to pre-approve, all audit and non-audit services to be provided by the independent auditors. The Committee has adopted a guideline that under ordinary circumstances non-audit fees shall not exceed 25% of audit fees;

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- c. to ensure that the independent auditors prepare and deliver annually an Auditors' Statement (it being understood that the independent auditors are responsible for the accuracy and completeness of this Statement), and to discuss with the independent auditors any relationships or services disclosed in this Statement that may impact the quality of audit services or the objectivity and independence of the Company's independent auditors;
- d. to obtain from the independent auditors in connection with any audit a timely report relating to the Company's annual audited financial statements describing all critical accounting policies and practices used, all alternative treatments within generally accepted accounting principles (GAAP) of policies and practices related to material items that have been discussed with management, ramifications of the use of such alternative disclosures and treatments, and the treatment preferred by the independent auditors, and any material written communications between the independent auditors and management, such as any management letter or schedule of unadjusted differences;
- e. to review and evaluate the qualifications, performance and independence of the lead partner of the independent auditors;
- f. to discuss with management the timing and process for implementing the rotation of the lead audit partner, the concurring partner and any other active audit engagement team partner;
- g.

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to take into account the opinions of management and the Company's internal audit department in assessing the independent auditors' qualifications, performance and independence; and

- h. to instruct the independent auditors that the independent auditors are ultimately accountable to the Board and the Committee, as representatives of the stockholders;
2. with respect to the internal audit department,
- a. to approve the overall charter of the internal audit department;
 - b. to approve the appointment and replacement of the head of the internal audit function;
 - c. to review the annual compensation and salary adjustment of the head of the internal audit function and make recommendations to the Compensation and Executive Organization Committee;
 - d. to review and approve the annual internal audit plan and monitor adherence to the plan;
 - e. to advise the head of the internal audit function that he or she is expected to provide to the Committee summaries of and, as appropriate, the significant reports to management prepared by the internal audit department and management's responses thereto; and
 - f. to make appropriate inquiries of management and the head of the internal audit function to determine whether there are scope or budgetary limitations that impede the ability of the internal audit department to execute its responsibilities;
3. with respect to financial reporting and accounting principles and policies and internal audit controls and procedures,
- a. to advise management, the internal audit department and the independent auditors that they are expected to provide to the Committee a timely analysis of significant financial reporting issues and practices;

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- b. to consider any reports or communications (and management's and/or the internal audit department's responses thereto) submitted to the Committee by the independent auditors required by or referred to in Statement on Auditing Standards No. 61, "Communication with Audit Committees," as it may be modified or supplemented;
- c. to meet with management, the independent auditors and the head of the internal audit function:
 - to discuss the scope of the annual audit;
 - to discuss the annual audited financial statements and quarterly financial statements, including the Company's disclosures under Management's Discussion and Analysis of Financial Condition and Results of Operations ;
 - to discuss any significant matters arising from any audit, including any audit problems or difficulties, whether raised by management, the internal audit department or the independent auditors, relating to the Company's financial statements;
 - to discuss any difficulties the independent auditors encountered in the course of the audit, including any restrictions on their activities or access to requested information and any significant disagreements with management;
 - to discuss any management or internal control letter issued, or proposed to be issued, by the independent auditors to the Company;
 - to review the form of opinion the independent auditors propose to render to the Board and stockholders;

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to discuss, as appropriate: (a) any major issues regarding accounting principles and financial statement presentations, including any significant changes in the Company's selection or application of accounting principles, and major issues as to the adequacy of the Company's internal controls and any special audit steps adopted in light of material control deficiencies; (b) analyses prepared by management and/or the independent auditors setting forth significant financial reporting issues and judgments made in connection with the preparation of the financial statements, including analyses of the effects of alternative GAAP methods on the financial statements; and (c) the effect of regulatory and accounting initiatives, as well as off-balance sheet structures, on the financial statements of the Company;

- d. to inquire of the Company's chief executive officer and chief financial officer as to the existence of any significant deficiencies in the design or operation of internal controls that could adversely affect the Company's ability to record, process, summarize and report financial data, any material weaknesses in internal controls, and any fraud, whether or not material, that involves management or other employees who have a significant role in the Company's internal controls;
- e. to discuss guidelines and policies governing the process by which senior management of the Company and the relevant departments of the Company assess and manage the Company's exposure to risk, and to discuss the Company's major financial risk exposures and the steps management has taken to monitor and control such exposures;
- f. to obtain from the independent auditors assurance that the audit was conducted in a manner consistent with Section 10A of the Securities Exchange Act of 1934, as amended, which sets forth certain procedures to be followed in any audit of financial statements required under the Securities Exchange Act of 1934;
- g. to discuss and review the type and presentation of information to be included in earnings press releases;

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- h. to discuss the types of financial information and earnings guidance provided, and the types of presentations made, to analysts and rating agencies;
 - i. to establish procedures for the receipt, retention and treatment of complaints received by the Company regarding accounting, internal accounting controls or auditing matters, and for the confidential, anonymous submission by Company employees of concerns regarding questionable accounting or auditing matters;
 - j. to establish hiring policies for employees or former employees of the independent auditors;
 - k. to discuss with the Company's general counsel any significant legal, compliance or regulatory matters that may have a material effect on the financial statements or the Company's business, financial statements or compliance policies, including material notices to or inquiries received from governmental agencies; and
 - l. to discuss with the Company's chief executive officer, chief financial officer and general counsel the communication and monitoring of, and compliance with, the Company's Code of Ethical Business Conduct; and
4. with respect to reporting and recommendations,
- a. to prepare any report or other disclosures, including any recommendation of the Committee, required by the rules of the SEC to be included in the Company's annual proxy statement;
 - b. to review this Charter at least annually and recommend any changes to the full Board;
 - c. to report its activities to the full Board on a regular basis and to make such recommendations with respect to the above and other matters as the Committee may deem necessary or appropriate; and
 - d. to prepare and review with the Board an annual performance evaluation of the Committee, which evaluation must compare the performance of the Committee with the requirements of this Charter. The performance evaluation by the Committee shall be conducted in such manner as the Committee deems appropriate. The report to the Board may take the form of an oral report by the chairperson of the Committee or any other member of the Committee designated by the Committee to make this report.

V. DELEGATION TO SUBCOMMITTEE

The Committee may, to the extent permitted by law or by the applicable listing standards of the New York Stock Exchange, Inc., delegate all or a portion of its duties and responsibilities to a subcommittee of the Committee. The Committee may, in its discretion, delegate to one or more of its members the authority to pre-approve any audit or non-audit services to be performed by the independent auditors, provided that any such approvals are presented to the Committee at its next scheduled meeting.

VI. RESOURCES AND AUTHORITY OF THE COMMITTEE

The Committee shall have the resources and authority appropriate to discharge its duties and responsibilities, including the authority to select, retain, terminate, and approve the fees and other retention terms of special or independent counsel, accountants or other experts and advisors, as it deems necessary or appropriate, without seeking approval of the Board or management. The Company shall provide for appropriate funding, as determined by the Committee, for payment to such third parties and the independent auditors, and for administrative expenses that are necessary or appropriate for the Committee in carrying out its duties.

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HERSHEY FOODS CORPORATION
C/O MELLON INVESTOR SERVICES
P.O. BOX 3500
SOUTH HACKENSACK, NJ 07606-9200

VOTE BY INTERNET [www.proxyvote.com]

Use the Internet to transmit your voting instructions up until 11:59 P.M. Eastern Time on April 27, 2004. Have your proxy card in hand when you access the website and follow the instructions to obtain your records and to create an electronic voting instruction form.

VOTE BY PHONE 1-800-690-6903

Use any touch-tone telephone to transmit your voting instructions up until 11:59 P.M. Eastern Time on April 27, 2004. Have your proxy card in hand when you call and then follow the instructions the Vote Voice provides you.

VOTE BY MAIL

Mark, sign and date your proxy card and return it in the postage-paid envelope we have provided or return it to Hershey Foods Corporation, c/o ADP, 51 Mercedes Way, Edgewood, NY 11717.

TO VOTE, MARK BLOCKS BELOW IN BLUE OR BLACK INK AS FOLLOWS:

HFCCV1

KEEP THIS PORTION FOR YOUR
 RECORDS
 DETACH AND RETURN THIS PORTION ONLY

THIS PROXY CARD IS VALID ONLY WHEN SIGNED AND DATED.

HERSHEY FOODS CORPORATION

The Board of Directors recommends a vote FOR the following actions (as described in the accompanying Proxy Statement).

Vote On Directors

1. Nominees: 01) J. A. Boscia, 02) R. H. Campbell, 03) R. F. Cavanaugh, 04) G. P. Coughlan, 05) H. Edelman, 06) B. G. Hill, 07) R. H. Lenny, 08) M. J. McDonald, 09) M. J. Toulantis

For All **Withhold All** **For All Except**

o **o** **o**

To withhold authority to vote, mark For All Except and write the nominee's number or nominees numbers on the line below.

Vote On Proposal

		For	Against	Abstain
2.	Approve Appointment of KPMG LLP as Independent Auditors for 2004	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>

The proxies are authorized to vote, in their discretion, for a substitute should any nominee become unavailable for election and upon such other business as may properly come before the meeting.

Please follow the instructions above to vote by Internet or telephone or mark, sign [exactly as name(s) appears above] and date this card and mail promptly in the postage-paid, return envelope provided. Executors, administrators, trustees, attorneys, guardians, etc., should so indicate when signing.

	Yes	No
Please indicate if you plan to attend this meeting	<input type="radio"/>	<input type="radio"/>

HOUSEHOLDING ELECTION - Please indicate if you consent to receive certain future investor communications in a single package per household	<input type="radio"/>	<input type="radio"/>
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Signature [PLEASE SIGN WITHIN BOX]

Date

Signature (Joint Owners)

Date

Admission Ticket

HERSHEY FOODS CORPORATION

2004 Annual Meeting of Stockholders

Wednesday, April 28, 2004
2:00 p.m.

The Hershey Lodge & Convention Center
West Chocolate Avenue and University Drive
Hershey, PA

*Presenting this Admission Ticket at
HERSHEY S CHOCOLATE WORLD visitors center
entitles you to 25% off all confectionery products,
Hershey s gifts and souvenir items from
9:00 a.m. until 6:00 p.m.
on April 28, 2004.*

FOLD AND DETACH HERE

Offer good on April 28, 2004 only.

FOLD AND DETACH HERE

HERSHEY FOODS CORPORATION

STOCKHOLDER S PROXY AND CONFIDENTIAL VOTING INSTRUCTION CARD

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The undersigned hereby appoints R. H. Lenny and B. H. Snyder, and each of them, as Proxies, with full power of substitution, to attend the Annual Meeting of Stockholders to be held at 2:00 p.m., April 28, 2004, at The Hershey Lodge & Convention Center, West Chocolate Avenue and University Drive, Hershey, Pennsylvania, or at any adjournment thereof (Annual Meeting), and to vote all of the undersigned s shares of the Company s Common Stock in the manner directed on the reverse side of this card. The shares represented by this proxy, when executed properly, will be voted in the manner directed. **If no direction is given, this proxy will be voted FOR items 1 and 2, as set forth on the reverse side.**

This proxy also provides voting instructions for shares held by American Express Trust Company*, as Trustee of the Hershey Foods Corporation Employee Savings Stock Investment and Ownership Plan (ESSIOP), or for shares held by Banco Popular de Puerto Rico*, as Trustee of the Hershey Foods Corporation Puerto Rico Employee Savings Stock Investment and Ownership Plan (PR ESSIOP), as applicable, and directs such Trustee to vote at the Annual Meeting all of the shares of Common Stock of Hershey Foods Corporation which are allocated to the undersigned s account in the ESSIOP or PR ESSIOP, as applicable, in the manner directed on the reverse side of this card. If no direction is given or is received after April 26, 2004, the Trustee will vote the undersigned s shares in the ESSIOP or PR ESSIOP, as applicable, in the same proportion, respectively, as the final aggregate vote of the ESSIOP or PR ESSIOP participants actually voting on the matter.

This proxy/voting instruction card is solicited on behalf of the Board of Directors pursuant to a separate Notice of Annual Meeting and Proxy Statement dated March 12, 2004, receipt of which is hereby acknowledged. The shares of Common Stock represented by this proxy shall be entitled to one vote for each such share held. Except with regard to voting separately as a class on the election of Mmes. Edelman and Toulantis, shares of the Common Stock will vote together with shares of the Class B Common Stock without regard to class.

THIS PROXY AND VOTING INSTRUCTION CARD IS CONTINUED ON THE REVERSE SIDE.

*American Express Trust Company and Banco Popular de Puerto Rico have each appointed Automatic Data Processing as agent to tally the vote.

**HERSHEY FOODS CORPORATION
C/O MELLON INVESTOR SERVICES
P.O. BOX 3500
SOUTH HACKENSACK, NJ 07606-9200**

VOTE BY INTERNET [www.proxyvote.com]

Use the Internet to transmit your voting instructions up until 11:59 P.M. Eastern Time on April 27, 2004. Have your proxy card in hand when you access the website and follow the instructions to obtain your records and to create an electronic voting instruction form.

VOTE BY PHONE 1-800-690-6903

Use any touch-tone telephone to transmit your voting instructions up until 11:59 P.M. Eastern Time on April 27, 2004. Have your proxy card in hand when you call and then follow the instructions the Vote Voice provides you.

VOTE BY MAIL

Mark, sign and date your proxy card and return it in the postage-paid envelope we have provided or return it to Hershey Foods Corporation, c/o ADP, 51 Mercedes Way, Edgewood, NY 11717.

TO VOTE, MARK BLOCKS BELOW IN BLUE OR BLACK INK AS FOLLOWS:

HFCCLB

KEEP THIS PORTION FOR YOUR
RECORDS

DETACH AND RETURN THIS PORTION ONLY

THIS PROXY CARD IS VALID ONLY WHEN SIGNED AND DATED.

HERSHEY FOODS CORPORATION

The Board of Directors recommends a vote FOR the following actions (as described in the accompanying Proxy Statement).

Vote On Directors			For All	Withhold All	For All Except	To withhold authority to vote, mark For All Except and write the nominee s number or nominees numbers on the line below.
1.	Nominees: 01) J. A. Boscia, 02) R. H. Campbell, 03) R. F. Cavanaugh, 04) G. P. Coughlan, 05) B. G. Hill, 06) R. H. Lenny, 07) M. J. McDonald,		<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	_____

Vote On Proposal		For	Against	Abstain
2.	Approve Appointment of KPMG LLP as Independent Auditors for 2004	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>

The proxies are authorized to vote, in their discretion, for a substitute should any nominee become unavailable for election and upon such other business as may properly come before the meeting.

Please follow the instructions above to vote by Internet or telephone or mark, sign [exactly as name(s) appears above] and date this card and mail promptly in the postage-paid, return envelope provided. Executors, administrators, trustees, attorneys, guardians, etc., should so indicate when signing.

Yes No

Do you plan to attend the Annual Meeting?

Signature [PLEASE SIGN WITHIN Date BOX]

Signature (Joint Owners)

Date

Admission Ticket

HERSHEY FOODS CORPORATION

2004 Annual Meeting of Stockholders

Wednesday, April 28, 2004
2:00 p.m.

The Hershey Lodge & Convention Center
West Chocolate Avenue and University Drive
Hershey, PA

*Presenting this Admission Ticket at
HERSHEY S CHOCOLATE WORLD visitors center
entitles you to 25% off all confectionery products,
Hershey s gifts and souvenir items from
9:00 a.m. until 6:00 p.m.
on April 28, 2004.*

FOLD AND DETACH HERE

Offer good on April 28, 2004 only.

FOLD AND DETACH HERE

HERSHEY FOODS CORPORATION

CLASS B COMMON STOCK

This Proxy is Solicited on Behalf of the Board of Directors

The undersigned, having received the Notice of Meeting and Proxy Statement dated March 12, 2004, appoints R. H. Lenny and B. H. Snyder, and each of them, as Proxies, with full power of substitution, to represent and vote all of the undersigned's shares of the Company's Class B Common Stock at the Annual Meeting of Stockholders to be held at 2:00 p.m., April 28, 2004, at The Hershey Lodge & Convention Center, West Chocolate Avenue and University Drive, Hershey, Pennsylvania, or at any adjournment thereof.

The shares of Class B Common Stock represented by this proxy will be voted in the manner directed herein by the undersigned stockholder(s), who shall be entitled to ten votes for each such share held. **If no direction is given, this proxy will be voted FOR items 1 and 2, as set forth on the reverse side.**

This proxy is continued on the reverse side.

PLEASE SIGN ON THE REVERSE SIDE AND RETURN PROMPTLY.