

COMPETITIVE TECHNOLOGIES INC  
Form 10-K/A  
June 07, 2013  
UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

Amendment no. 1

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF  
THE SECURITIES EXCHANGE ACT OF 1934

Mark One)

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 2012 or

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from to

Commission file number 1-8696

**COMPETITIVE TECHNOLOGIES, INC.**  
(Exact name of registrant as specified in its charter)

Delaware  
(State or other jurisdiction of  
incorporation or organization)

36-2664428  
(I. R. S. Employer  
Identification No.)

1375 Kings Highway East, Suite 400, Fairfield, CT  
(Address of principal executive offices)

06824  
(Zip Code)

Registrant's telephone number, including area code (203) 368-6044

Securities registered pursuant to Section 12(b) of the Act:

| Title of each class             | Name of each exchange on which registered |
|---------------------------------|---|
| Common Stock (\$0.01 par value) | OTCQX                                     |

Securities registered pursuant to Section 12(g) of the Act:

None  
(Title of Class)

(Title of Class)

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes  No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes  No

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§ 229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act.

Large accelerated filer  Accelerated filer   
 Non-accelerated filer  (Do not check if a smaller reporting company) Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in rule 12b-2 of the Exchange Act). Yes  No

State the aggregate market value of the registrant's voting and non-voting common equity held by non-affiliates, based on the closing price of \$0.76 as reported by the OTCQX Market, as of the last business day of the registrant's most recently completed second fiscal quarter (June 30, 2012). \$ 10,115,947

Indicate the number of shares outstanding of each of the registrant's classes of common stock, as of the latest practicable date. 16,354,804 Shares

**DOCUMENTS INCORPORATED BY REFERENCE**

Portions of the registrant's definitive proxy statement to be filed with the Securities and Exchange Commission pursuant to Regulation 14A in connection with the registrant's 2013 Annual Meeting of Stockholders, which will be filed subsequent to the date hereof, are incorporated by reference into Part III of this Form 10-K. Such proxy statement was filed with the Securities and Exchange Commission on May 10, 2013.

#### **EXPLANATORY NOTE**

This Amendment no. 1 is filed solely for the purpose of filing the financial statements in the required interactive data (XBRL) format. There is no other material change to the 10-K for the year ended December 31, 2012.

**Competitive Technologies, Inc.**

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## PART I

### Forward-Looking Statements

Statements about our future expectations are "forward-looking statements" within the meaning of applicable Federal Securities Laws, and are not guarantees of future performance. When used herein, the words "may," "will," "should," "anticipate," "believe," "appear," "intend," "plan," "expect," "estimate," "approximate," and similar expressions are intended to identify such forward-looking statements. These statements involve risks and uncertainties inherent in our business, including those set forth in Item 1A under the caption "Risk Factors," in this Annual Report on Form 10-K for the year ended December 31, 2012, and other filings with the SEC, and are subject to change at any time. Our actual results could differ materially from these forward-looking statements. We undertake no obligation to update publicly any forward-looking statement.

### Item 1. Business

#### Overview:

Competitive Technologies, Inc. ("CTTC") was incorporated in Delaware in 1971, succeeding an Illinois corporation incorporated in 1968. CTTC and its subsidiary (collectively, "we," "our," or "us"), provide distribution, patent and technology transfer, sales and licensing services focusing on the needs of our customers, matching those requirements with commercially viable technology or product solutions. We develop relationships with universities, companies, inventors and patent or intellectual property holders to obtain the rights or a license to their intellectual property (collectively, the "technology" or "technologies"), or to their product. They become our clients, for whom we find markets to sell or further develop or distribute their technology or product. We also develop relationships with those who have a need or use for technologies or products. They become our customers, usually through a license or sublicense, distribution agreement, or sales contract.

We earn revenue in two ways: retained royalties from licensing our clients' and our own technologies to our customer licensees, and sales of finished products. We record revenue when the terms of the sales arrangement are accepted by all parties including a fee that is fixed and determinable, delivery has occurred and our customer has taken title, and collectability is reasonably assured.

Since 2011 the Company has controlled of the sales process for its Calmare<sup>®</sup> medical device. We are the primary obligor, responsible for delivering devices as well as for training our customers in the proper use of the device. We deal directly with customers, setting pricing and providing training; work directly with the inventor of the technology to develop specifications and any changes thereto and to select and contract with manufacturing partners; and retain significant credit risk for amounts billed to customers. Therefore, all product sales are recorded following a gross

revenue methodology.

Our revenue fluctuates due to fluctuations in the medical device market for our Calmare<sup>®</sup> pain therapy device as well as changes in revenue of our customers, upfront license fees, new licenses granted, new distribution agreements, expiration of existing licenses or agreements, and/or the expiration or economic obsolescence of patents underlying licenses or products.

We acquire rights to commercialize a technology or product on an exclusive or non-exclusive basis, worldwide or limited to a specific geographic area. When we license or sublicense those rights to our customers, we may limit rights to a defined field of use. Technologies can be early, mid, or late stage. Products we evaluate must be working prototypes or finished products. We establish channel partners based on forging relationships with mutually aligned goals and matched competencies to deliver solutions that benefit the ultimate end-user.

The Company has incurred operating losses since fiscal 2006. We continue to seek revenue from new technologies or products to mitigate the concentration of revenues, and replace revenues from expiring licenses. At current reduced spending levels, the Company may not have sufficient cash flow to fund operating expenses beyond third quarter 2013. These conditions raise substantial doubt about the Company's ability to continue as a going concern. The Company's continuation as a going concern is dependent upon its developing other recurring revenue streams

sufficient to cover operating costs. If necessary, we will meet anticipated operating cash requirements by further reducing costs, issuing debt or equity, and/or pursuing sales of certain assets and technologies while we pursue licensing and distribution opportunities for our remaining portfolio of technologies. The company does not have any significant individual cash or capital requirements in the budget going forward. Failure to develop a recurring revenue stream sufficient to cover operating expenses would negatively affect the Company's financial position.

On September 3, 2010, the Company's securities began trading on the OTCQB marketplace under the ticker symbol CTTC, having been delisted from the NYSE Amex (the "Exchange"). The delisting followed an 18-month period during which the Company sought to regain compliance with the Exchange's continued listing standards as set forth in Part 10 of the Exchange Company Guide. As noted in Section 1003 of the Exchange Company Guide, companies with stockholders' equity of less than \$2 million, and losses from continuing operations and net losses in two out of its three most recent fiscal years, or with stockholders' equity of less than \$4 million and losses from continuing operations and net losses in three out of its four most recent fiscal years are non-compliant. We were only non-compliant with the stockholders' equity component.

Despite arguments made at an oral hearing at which the Company sought to remain listed, the Exchange Listing Qualifications Panel affirmed the Exchange Staff's determination to delist the Company's securities. After trading on the OTCQB for a month, on October 5, 2010, the Company's securities began trading on the OTC market's top tier, the OTCQX.

### **Product Distribution Services**

Our services are beneficial to the inventor, manufacturer and distributor of the product. We evaluate a working prototype or finished product for marketability. We find opportunities through industry connections and contacts, and trade shows. We select products we will represent, negotiate with potential domestic and international distributors, and sign agreements on a country and/or area exclusive basis. We earn revenue on a per-unit basis through product distribution agreements. We share the revenue with the product inventor, and/or manufacturer. For some products, we will act as the distributor in specific geographic areas, again sharing the revenue with product inventor and/or manufacturer.

### **Technology Commercialization Services**

Our services are beneficial to the provider and user of the technology. The technology client can focus on research and development, rather than selling and marketing, as we effectively become their marketing department. The technology customer can focus on selling and marketing, rather than research and development. We maintain and enforce our clients' and our technology patent rights, by monitoring and addressing infringement. We maximize the value of technologies for the benefit of our clients, customers and shareholders.

We identify and commercialize innovative technologies in life and physical sciences, electronics, and nano science. Life sciences include medical testing, diagnostics, pharmaceuticals, biotechnologies, medical devices and other medical or biological applications. Physical sciences include chemical, display, and environmental applications. Electronics include communications, semiconductors, Internet related, e-commerce and consumer electronics applications. Nanotechnologies are the manipulation of microscopic particles into useful arrangements, and smart or novel materials; a nano particle is one thousand times smaller than the width of a human hair. We have technologies in each area, with a concentration in life sciences.

### **Portfolio Acquisition and Maintenance**

We continue to maintain relationships with universities and inventors, managing the clients, products and technologies we represent, as a premier technology commercialization and product distribution company. The goal is to have a pipeline of technologies and distribution products that will generate a long-term recurring revenue stream.

We evaluate potential technologies based on the strength of the intellectual property, our ability to protect it, its life stage, further development time needed, compatibility with existing technology in our portfolio, marketability, market size, and potential profitability.

We evaluate potential products for distribution based on their capability to fulfill an unmet market need and/or social responsibility. We focus on products that improve quality-of-life. The goal is to acquire products for distribution that have a competitive advantage, proprietary know-how and/or regulatory approval. We seek exclusive rights to manufacture, market and distribute the products. Both products and technologies have the potential to produce different levels of revenue throughout the life of the agreement. We regularly review the revenue potential of our product and technology portfolio to generate a long-term recurring revenue stream.

A non-disclosure agreement signed with a prospective client allows us access to confidential information about the product or technology. We require similar non-disclosure agreements from prospective customers when we commercialize the product or technology. We include mutual non-disclosure provisions about the product or technology in agreements granted to protect value, for CTTC, our clients and our customers. As a result of these obligations, as well as federal regulations for disclosure of confidential information, we may only be able to disclose limited information about licenses and sublicenses granted for products or technologies we evaluate, as is necessary for an understanding of our financial results.

### **Marketing Technologies and Products**

We commercialize technologies and products through contacts in research and development, legal firms, major corporations, seminars and trade shows. We determine the most likely users of the technologies or distributors of products, and contact prospective customers.

### **Technology Protection and Litigation**

Protecting our technologies from unintentional and willful patent infringement, domestically and internationally, is an important part of our business. We sometimes assist in preparation of initial patent applications, and often are responsible for prosecuting and maintaining patents. Unintentional infringement, where the infringer usually does not know that a patent exists, can often be resolved by the granting of a license. In cases of willful infringement, certain infringers will continue to infringe absent legal action, or, companies may successfully find work-arounds to avoid paying proper monies to us and our clients for use of our technologies. We defend our technologies on behalf of ourselves, our clients and licensees, and pursue patent infringement cases through litigation, if necessary. Such cases, even if settled out of court, may take several years to resolve, with expenses borne by our clients, us, or shared.

Proceeds from the case are usually shared in proportion to the costs. As a result, we may incur significant expenses in some years and be reimbursed through proceeds of awards or settlements several years later. In cases of willful infringement, patent law provides for the potential of treble damages at the discretion of the Court.

### **Revenue Generation**

We license technologies to generate revenue based on usage or sales of the technologies, or by sharing in the profits of distribution. When our customers pay us, we share the revenue with our clients.

Revenue for 2012 primarily represented the sale of Calmare medical devices to either international distributors or end users in the United States. It also includes rental income from situations where we rented Calmare medical devices to end-users in the United States

*Product distribution.* We have established a business model for appropriate technologies that allows us to share in the profits of distribution. Distribution terms are set in written agreements for products, and are generally signed for exclusive area parameters.

*Sales of Inventory.* We currently maintain an inventory of our Calmare pain therapy medical device and we recognize revenue from the sale of inventory as devices are shipped to our customers. The Calmare device is a technologically advanced solution for chronic pain management, which has been shown to be highly effective in the treatment of chemotherapy induced peripheral neuropathy (CIPN), drug-resistant cancer pain and chronic neuropathic pain including failed back surgery syndrome (FBSS), sciatic and lumbar pain, phantom limb syndrome, postherpetic neuralgia (PHN), brachial plexus neuropathy, and low back pain (LBP); having long-lasting effects -- an important benefit for both patients and their physicians.

Sales of our Calmare device continue to be the major source of revenue for the Company. The Company initially acquired the exclusive, worldwide rights to the *Scrambler Therapy*<sup>®</sup> technology in 2007. The Company's 2007 agreement with Giuseppe Marineo ("Marineo"), the inventor of *Scrambler Therapy* technology, and Delta Research and Development ("Delta"), authorized CTTC to manufacture and sell worldwide the device developed from the patented *Scrambler Therapy* technology; the territorial rights were modified in the July 2012 amendment discussed below. The *Scrambler Therapy* technology is patented in Italy and in the U.S., effective in February 2013.

Applications for patents have been filed internationally as well and are pending approval. The Calmare device has CE Mark certification from the European Union as well as U.S. FDA 510(k) clearance.

In July 2012, the Company negotiated a five-year extension to the agreement with Marineo and Delta. That agreement had provided an initial five-year term expiring March 30, 2016, which has been extended to March 30, 2021.

The agreement with Marineo and Delta enabled the Company to establish an agreement with GEOMC Co., Ltd. ("GEOMC", formerly Daeyang E & C Co., Ltd.) of Seoul, South Korea, to manufacture the Calmare pain therapy medical device, based on Marineo's *Scrambler Therapy* technology. This original GEOMC agreement is for a period of ten (10) years, through 2017, and outlines each company's specific financial obligations.

In negotiating the extension of its Agreement with Marineo and Delta, which was signed in July 2012, the Company agreed to focus its sales and marketing programs for the Calmare device primarily in the Western Hemisphere including the USA, Canada, Mexico and the countries of Central and South America, as well as Australia and New Zealand. As opportunities arise for Calmare-related sales or distribution activities in countries outside the focus region, CTTC will coordinate with Marineo who will be managing such activities for the mutual benefit of the partners. As agreed, Marineo will assume management responsibility for existing distribution agreements for countries outside the focus region.

In 2010, the Company became its own distributor for the Calmare device in the U.S, contracting with commissioned sales representatives to sell devices. During 2011 and 2012, the Company and its representatives developed plans to increase awareness of the Calmare device among critical medical specialties and began to implement those plans targeting specific customers and locations in 2012. Over the past 30 months, the Company has entered into several sales agreements for the Calmare device, including sales to U.S. government entities within the U.S. Department of Defense and the U.S. Department of Veterans Affairs. Sales to these physicians and medical practices and to others with whom the Company had existing sales agreements continue to generate revenue for the Company.

We record revenue from the sales of inventory when the terms of the sales arrangement are accepted by all parties including a fee that is fixed and determinable, delivery has occurred and our customer has taken title, and collectability is reasonably assured. We are the primary obligor, responsible for delivering devices as well as for training our customers in the proper use of the device. We deal directly with customers, setting pricing and providing training; work directly with the inventor of the technology to develop specifications and any changes thereto and to select and contract with manufacturing partners; and retain significant credit risk for amounts billed to customers. Therefore, all product sales are recorded following a gross revenue methodology.

*Technology royalties* Client and customer agreements are generally for the duration of the technology life, which usually is determined by applicable patent law. When we receive customer reports of sales or payments, whichever occurs first, we record revenue for our portion, and record our obligation to our clients for their portion. For early stage technologies that may not be ready for commercial development without further research, we may receive annual minimum payments and/or milestone payments based on research progress or subsequent sublicense or joint venture proceeds. In certain sublicense or license agreements, we may receive an upfront fee upon execution of the license. Our fees are generally non-refundable, and, except for annual minimums, are usually not creditable against future royalties. In certain cases, the first year or several years' royalties may be waived in consideration for an upfront fee. We may apply the upfront fee or initial fees to reimburse patent prosecution and/or maintenance costs incurred by either party. In these cases, payments are recorded as a reduction of expense, and not as revenue. If the reimbursement belongs solely to our client, we record no revenue or expense. As a result, a new technology may not generate significant revenue in its early years.



Licensing terms are documented in written agreements with customers. We generally enter into single element agreements with customers, under which we have no additional obligations other than patent prosecution and maintenance. We may enter into multiple element agreements under which we have continuing service obligations. All revenue from multiple element agreements is deferred until delivery of all verifiable required elements. In milestone billing agreements we recognize non-refundable, upfront fees ratably over the life of the agreement, and milestone payments as the specified milestone is achieved. We evaluate billing agreements on a case-by-case basis, and record revenue as appropriate. We do not have multiple element or milestone billing agreements at this time, but have had such agreements in the past, and could have in the future.

In 2012, we had a significant concentration of revenue from our Calmare medical device. We actively market other technologies, and seek new technologies to mitigate this concentration of revenue and provide a steady future revenue stream. However, Calmare device was the only technology that produced revenue equal to or exceeding 15% of our total revenue in 2012 and in 2011.

We receive revenue from legal awards that result from successful patent enforcement actions and/or out of court settlements. Such awards or settlements may be significant, are non-recurring and may include punitive damages, attorneys' fees, court costs and interest. No such awards were received in 2012.

Other technologies in our life sciences portfolio, many of which are subject to testing, clinical trials and approvals, include:

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Nano particle bone cement biomaterial with a broad range of potential applications, including dental, spinal and other orthopedic and trauma related applications, available for licensing for all applications;

.

Sunless tanning agent, a skin-pigment enhancer being researched as a skin cancer preventative, and therapeutic for vitiligo, albinism and psoriasis, exclusively licensed to Clinuvel Pharmaceuticals, Ltd. (Australia);

.

Sexual Dysfunction technology, CTTC's joint venture with Xion Corporation announced in September 2009 is conducting an extended research program in support of the commercialization of our patented melanocortin analogues for treating male and female sexual dysfunction and obesity.

Our applied science/electronics portfolio includes:

.

Encryption technology that operates at high speeds with low memory requirements to secure applications used on the Internet, telecommunications, smart cards and e-commerce;

.

Video and audio signal processing technology licensed in the Motion Picture Electronics Group visual patent portfolio pool (MPEG 4 Visual), and used in streaming video products for personal computers and wireless devices, including mobile phones;

Structural Steel Fissure Detection Paint contains a built-in, self-activating, crack-indicating or warning capability effective coincident with application of the paint to the structure, and requiring minimum training for its use.

#### **Revenue from Foreign Sources**

Revenue from foreign sources totaled approximately \$30,000 in 2012; as compared to \$1,645,000 in 2011. Of the foreign sourced revenue received, \$30,000 was from sources in the Middle East, while approximately \$1,159,000 in 2011 was from sources in Europe.

## **Investments**

From time to time we provide other forms of assistance and funding to certain development-stage companies to further develop specific technologies.

## **Employees**

As of April 30, 2013, we employed the full-time equivalent of 5 people. We also had independent consultants under contract to provide financial management services, business development services, and sales management services. In addition to the diverse technical, intellectual property, legal, financial, marketing and business expertise of our professional team, from time to time we rely on advice from outside specialists to fulfill unique technology and other needs.

## **Corporate Governance**

CTTC's Corporate Governance Principles, Corporate Code of Conduct, the Committee Charters for the Audit and Nominating Committees of the Board of Directors, the unofficial restated Certificate of Incorporation and the By-Laws are available on our website at [www.competitivetech.net/investors/governance.html](http://www.competitivetech.net/investors/governance.html).

## **Available Information**

We make available without charge copies of our Annual Report, Annual Report on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K, amendments to those, and other reports filed with the Securities and Exchange Commission ("SEC") on our website, [www.competitivetech.net](http://www.competitivetech.net), as soon as reasonably practicable after they are filed. Our website's content is not intended to be incorporated by reference into this report or any other report we file with the SEC. You may request a paper copy of materials we file with the SEC by calling us at (203) 368-6044.

You may read and copy materials we file with the SEC on the SEC's website at [www.sec.gov](http://www.sec.gov), or at the SEC's Public Reference Room at 100 F Street, NE, Washington, DC 20549. You may obtain information on the operation of the Public Reference Room by calling (800) 732-0330.

## **Fiscal Year**

Our fiscal year ends December 31, and our first, second, third and fourth quarters end March 31, June 30, September 30 and December 31, respectively.

## **Item 1A. Risk Factors**

### **Risks Related to our Business and the Market Environment**

The risk factors described below are not all-inclusive. All risk factors should be carefully considered when evaluating our business, results of operations, and financial position. We undertake no obligation to update forward-looking statements or risk factors. There may be other risks and uncertainties not highlighted herein that may affect our financial condition and business operations.

*We derived more than 85% of our total revenue in 2012 from one technology.*

Total revenue consists of revenue from product sales, gain on sales of rental assets, retained royalties, and other income. We derived approximately \$913,000, or 85%, of 2012 revenue from sales of our Calmare pain therapy medical device technology. An additional 5% of revenue derived indirectly from that technology through sales of supplies and training, rental payments and the sale of rental assets. A concentration of revenue makes our operations vulnerable to patent changes or expiration, or to variability in the medical device market, or to the development of new and competing technologies and could have a significant adverse impact on our financial position.

*In the last five fiscal years, we incurred significant net losses and negative cash flows, and our ability to finance future losses is limited, and may significantly affect existing stockholders.*

The Company has incurred operating losses since fiscal 2006. At current reduced spending levels, the Company may not have sufficient cash flow to fund operating expenses beyond third quarter 2013. These conditions raise substantial doubt about the Company's ability to continue as a going concern. The financial statements do not include adjustments to reflect the possible future effect of the recoverability and classification of assets or amounts and classifications of liabilities that may result from the outcome of this uncertainty.

The Company's continuation as a going concern is dependent upon its developing other recurring revenue streams sufficient to cover operating costs. If necessary, we will meet anticipated operating cash requirements by further reducing costs, issuing debt or equity, and/or pursuing sales of certain assets and technologies while we pursue licensing and distribution opportunities for our remaining portfolio of technologies. The company does not have any significant individual capital requirements in the budget going forward. Failure to develop a recurring revenue stream sufficient to cover operating expenses would negatively affect the Company's financial position.

Our current recurring revenue stream is insufficient for us to be profitable with our present cost structure. To return to and sustain profitability, we must increase recurring revenue by successfully licensing technologies with current and long-term revenue streams, and continue to build our portfolio of innovative technologies. We significantly reduced overhead costs with staff reductions across all company departments, reduced extraneous litigations, and obtained new technologies to build revenue. We will continue to monitor our cost structure, and expect to operate within our generated revenue and cash balances.

Future revenue, obtaining rights to new technologies, granting licenses, and enforcing intellectual property rights are subject to many factors beyond our control. These include technological changes, economic cycles, and our licensees' ability to successfully commercialize our technologies. Consequently, we may not be able to generate sufficient revenue to be profitable. Although we cannot be certain that we will be successful in these efforts, we believe the combination of our cash on hand, and revenue from successfully executing our strategy will be sufficient to meet our obligations of current and anticipated operating cash requirements.

***We depend on relationships with inventors to gain access to new technologies and inventions. If we fail to maintain existing relationships or to develop new relationships, we may have fewer technologies and inventions available to generate revenue. Technology can change rapidly and industry standards continually evolve, often making products obsolete, or resulting in short product lifecycles. Our profitability depends on our licensees' ability to adapt to such changes.***

We do not invent new technologies or products. We depend on relationships with universities, corporations, government agencies, research institutions, inventors, and others to provide technology-based opportunities that can develop into profitable licenses, and/or allow us to share in the profits of distribution. Failure to maintain or develop relationships could adversely affect operating results and financial conditions. We are dependent upon our clients' abilities to develop new technologies, introduce new products, and adapt to technology and economic changes.

We cannot be certain that current or new relationships will provide the volume or quality of technologies necessary to sustain our business. In some cases, universities and other technology sources may compete against us as they seek to develop and commercialize technologies. Universities may receive financing for basic research in exchange for the exclusive right to commercialize resulting inventions. These and other strategies may reduce the number of technology sources, potential clients, to whom we can market our services. If we are unable to secure new sources of technology, it could have a material adverse effect on our operating results and financial condition.

***We receive most of our revenue from customers over whom we have no control.***

We rely on our customers for revenue. Development of new products utilizing our technologies involves risk. Many technologies do not become commercially profitable products despite extensive development efforts. Our license agreements do not require customers to advise us of problems they encounter in development of commercial products, and usually treat such information as confidential. Their failure to resolve problems may result in a material adverse effect on our operating results and financial condition.

***Strong competition within our industry may reduce our client base.***

We compete with universities, law firms, venture capital firms and other technology commercialization firms. Many organizations offer some aspect of technology transfer services, and are well established with more financial and human resources than we provide. This market is highly fragmented and participants frequently focus on a specific technology area.

***From time-to-time we are involved in lawsuits that historically have involved significant legal expenses. If the courts or regulatory agencies in these suits or actions decide against us, this could have a material adverse effect on our business, results of operations and financial condition.***

For a complete description of all lawsuits in which we are currently involved, see **Item 3. Legal Proceedings**

*Our revenue growth depends on our ability to understand the technology requirements of our customers in the context of their markets. If we fail to understand their technology needs or markets, we limit our ability to meet those needs and generate revenues.*

By focusing on the technology needs of our customers, we are better positioned to generate revenue by providing technology solutions. The market demands of our customers drive our revenue. The better we understand their markets, the better we are able to identify and obtain effective technology solutions for our customers. We rely on our professional staff and contract business development consultants to understand our customers' technical, commercial, and market requirements and constraints, to identify and obtain effective technology solutions for them.

*Our customers, and we, depend on government approvals to commercially develop certain licensed products.*

Commercial development of some licensed patents may require the approval of foreign or domestic governmental regulatory agencies, especially in the life sciences area, and there is no assurance that those agencies will grant such approvals. In the United States, the principal governmental agency involved is the U.S. Food and

Drug Administration ("FDA"). The FDA's approval process is rigorous, time consuming and costly. Until a licensee obtains approval for a product requiring such approval, the licensee may not sell the product in the U.S., and therefore we will not receive revenue based on U.S. sales.

***Our customers and we depend on government and private insurance reimbursement to develop commercially viable medical products.***

Successful commercialization of medical products demands appropriate reimbursement rates from government and private medical insurance programs. In the US, the Centers for Medicare and Medicaid Services (CMS) sets reimbursement rates for medical procedures. Private insurance companies independently develop reimbursement rates for medical procedures as well. There is no assurance that rates will be set on the schedule or at the rates that we and our customers prefer. A lack of sufficient insurance reimbursement may cause customers to delay purchases of a new medical technology, pending the availability of reimbursement.

***If we, and our clients, are unable to protect the intellectual property underlying our licenses, or to enforce our patents adequately, we may be unable to develop such licensed patents or technologies successfully.***

License revenue is subject to the risk that issued patents may be declared invalid, may not be issued upon application, or that competitors may circumvent or infringe our licensed patents rendering them commercially inadequate. When all patents underlying a license expire, our revenue from that license ceases, and there can be no assurance that we will be able to replace it with revenue from new or existing licenses.

***Patent litigation has increased; it can be expensive, and may delay or prevent our customers' products from entering the market.***

Our clients and/or we may pursue patent infringement litigation or interference proceedings against holders of conflicting patents or sellers of competing products that we believe infringe our patent rights. For a description of proceedings in which we are currently involved, see **Item 3. Legal Proceedings**.

We cannot be certain that our clients and/or we will be successful in any litigation or proceeding. The costs and outcome may materially adversely affect our business, operating results and financial condition.

***Developing new products and creating effective commercialization strategies for technologies are subject to inherent risks that include unanticipated delays, unrecoverable expenses, technical problem, and the possibility that development funds will be insufficient. The occurrence of any one or more of these risks could cause us to***



*abandon or substantially change our technology commercialization strategy.*

Our success depends upon, among other factors, our clients' ability to develop new or improved technologies, and our customers' products meeting targeted cost and performance objectives for large-scale production, adapting technologies to satisfy industry standards and consumer expectations and needs, and bringing the product to market before saturation. They may encounter unanticipated problems that result in increased costs or substantial delays in the product launch. Products may not be reliable or durable under actual operating conditions, or commercially viable and competitive. They may not meet price or other performance objectives when introduced into the marketplace. Any of these events may adversely affect our realization of revenue from new products.

*We have not paid dividends on our common stock.*

We have not paid cash dividends on our common stock since 1981, and, our Board of Directors does not currently have plans to declare or pay cash dividends in the future. The decision to pay dividends is solely at the discretion of our Board of Directors based upon factors that they deem relevant, and may change at any time.

*In developing new products we are affected by patent laws and regulations.*

Patent laws and regulations are continuously reviewed for possible revision. We cannot be certain how we will be affected by revisions.

### **Item 1B. Unresolved Staff Comments**

None.

### **Item 2. Properties**

On November 22, 2010, the Company terminated its operating lease for approximately 11,000 square feet of space in a building in Fairfield, Connecticut, and paid the landlord all existing obligations thereto. The Company then entered into a new, three-year operating lease for new, more appropriately sized office spaces in a different building, also in Fairfield, Connecticut. The obligations are significantly less than the previous lease, averaging \$70,000 per year for the three-year term. Under the previous lease, rent and utility obligations would have been approximately \$300,000 per year for that same period.

In January 2011, the Company entered into a two-year lease effective February 1, 2011 for additional office space for the training staff in Charlotte, NC. Obligations under this lease average \$27,000 per year for the two-year term. In July 2012, the Company closed the North Carolina office and agreed to pay the landlord \$15,000. At December 31, 2012, \$11,000 of that obligation, which included past due rental payments, was outstanding, in accounts payable.

### **Item 3. Legal Proceedings**

***Carolina Liquid Chemistries Corporation, et al. (Case pending)*** On August 29, 2005, we filed a complaint against Carolina Liquid Chemistries Corporation ("Carolina Liquid") in the United States District Court for the District of Colorado, alleging patent infringement of our patent covering homocysteine assays, and seeking monetary damages, punitive damages, attorneys' fees, court costs and other remuneration at the option of the court. As we became aware of other infringers, we amended our complaint to add as defendants Catch, Inc. ("Catch") and the Diazyme Laboratories Division of General Atomics ("Diazyme"). On September 6, 2006, Diazyme filed for declaratory judgment in the Southern District of California for a change in venue and a declaration of non-infringement and invalidity. On September 12, 2006, the District Court in Colorado ruled that both Catch and Diazyme be added as defendants to the Carolina Liquid case.

On October 23, 2006, Diazyme requested the United States Patent and Trademark Office (the "USPTO") to re-evaluate the validity of our patent and this request was granted by the USPTO on December 14, 2006. On July 30, 2009, the U.S. Patent and Trademark Office's Board of Patent Appeals and Interferences ( BPAI ) upheld the homocysteine patent. In September 2008, the examiner had denied the patent, but that denial was overruled by the BPAI. While the examiner had appealed that BPAI decision, delaying further action, that appeal was also denied by the BPAI on December 13, 2010. In June 2011, the examiner once again appealed the BPAI decision, was again denied. In addition to responding to this new appeal, the Company had petitioned the Director of the USPTO to help

expedite further action on the case within the USPTO, which was to have been handled with special dispatch according to USPTO requirements for handling reexamination proceedings of patents involved in litigation.

On March 13, 2012, the USPTO issued the Ex Parte Reexamination Certificate confirming the patentability of claims examined. The company has begun collecting unpaid amounts from various obligated companies.

***Employment matters former employee (case pends)*** In September 2003, a former employee filed a whistleblower complaint with OSHA alleging that the employee had been terminated for engaging in conduct protected under the Sarbanes Oxley Act of 2002 (SOX). In February 2005, OSHA found probable cause to support the employee's complaint and the Secretary of Labor ordered reinstatement and back wages since the date of termination and CTCC requested de novo review and a hearing before an administrative law judge (ALJ). In July 2005, after the close of the hearing on CTTC's appeal, the U.S. district court for Connecticut enforced the Secretary's preliminary order of reinstatement and back pay under threat of contempt and the company rehired the employee with back pay.

On October 5, 2005, the ALJ who conducted the hearing on CTTC's appeal of the OSHA findings ruled in CTTC's favor and recommended dismissal of the employee's complaint. Although the employee abandoned his position upon notice of the ALJ's decision, he nevertheless filed a request for review by the DOL Administrative Review Board ("ARB").

In May 2006, the U.S. Court of Appeals for the Second Circuit vacated the order of the district court enforcing the Secretary's preliminary order of reinstatement and back pay. The employee also filed a new SOX retaliation complaint with OSHA based on alleged black listing action by CTTC following his termination. OSHA dismissed the complaint and the employee filed a request for a hearing by an administrative law judge. Ultimately, the employee voluntarily dismissed the appeal.

In March 2008, the ARB issued an order of remand in the employee's appeal of the October 2005 dismissal of his termination complaint, directing the ALJ to clarify her analysis utilizing the burden-shifting standard articulated by the ARB. In January 2009, the ALJ issued a revised decision again recommending dismissal and once again the employee appealed the ruling to the ARB. On September 30, 2011, the ARB issued a final decision and order affirming the ALJ's decision on remand and dismissing the employee's complaint. The employee has appealed the ARB's decision before the U.S. Court of Appeals for the Second Circuit and filed his opening brief on May 31, 2012. Response briefs by the Solicitor's Office of the U.S. Department of Labor and CTTC were submitted in August 2012. In March 2013, the U.S. Court of Appeals for the Second Circuit upheld the ARB's decision dismissing the former employee's complaint and denied the employee's appeal from that order. In April 2013, the Second Circuit terminated proceedings in that court.

***John B. Nano vs. Competitive Technologies, Inc. - Arbitration (case completed)*** On September 3, 2010, the Board of Directors of CTTC found cause consisting of violation of fiduciary duties to the Corporation and violation of the CTTC Corporate Code of Conduct and removed John B. Nano as an Officer of the Corporation, in all capacities. On September 13, 2010, the Board of Directors also found cause consisting of violation of fiduciary duties to the Corporation and violation of the CTTC Corporate Code of Conduct removed John B. Nano as a Director of the Corporation, in all capacities, for cause, consisting of violation of his fiduciary duties. Details of these actions are outlined in Form 8-K filings with the SEC on September 13, 2010, and September 17, 2010. Mr. Nano was previously the Chairman of the Board of Directors, President and Chief Executive Officer of CTTC.

On September 13, 2010, Mr. Nano brought an arbitration claim to the American Arbitration Association against CTTC. Mr. Nano's employment contract with the Company had called for arbitration, which Mr. Nano had demanded to resolve this conflict. Mr. Nano sought \$750,000 that he claimed was owed under his contract and claimed that he had been terminated without cause.

On September 23, 2010 the Company was served notice that John B. Nano, CTTC's former Chairman, President and CEO had filed a Notice of Application for Prejudgment Remedy/Claim of \$750,000 and an Application for an Order Pendente Lite claiming we had breached Mr. Nano's employment contract with us. The applications were filed in the State of Connecticut Superior Court in Bridgeport, CT. In November 2010, the Company funded \$750,000 as a Prejudgment Remedy held in escrow with the Company's counsel and has included this amount as restricted cash on

the December 31, 2011 and December 31, 2010 balance sheets. The Company did not believe it was liable to the former Chairman, President and CEO, believing he was terminated for cause. The case proceeded through the arbitration process. The initial arbitration hearing began in April 2011; additional hearing dates were held in May and June 2011. In July 2011, each party submitted a summary limited in length stating their positions.

Prior to the conclusion of the arbitration hearings, the Company filed suit in Federal Court against the American Arbitration Association. The Company requested a temporary restraining order to halt the arbitration, which was denied by the court. The Company also requested a hearing before the court to review the arbitration proceedings. In August 2011, the American Arbitration Association's assigned arbitrator gave award to the Company's former Chairman, President and CEO, despite the Company's strongly held belief that the Board of Directors properly exercised its reasonable discretion under the employment agreement in finding that the former executive engaged in willful misconduct and gross negligence and that the executive's actions were cause for employment termination under the employment agreement and governing law. The former executive had requested a payment of \$750,000, which he believed was due under his employment agreement. Following the notification of

award, the former employee filed a motion with the State of Connecticut Superior Court in Bridgeport, CT to have the award confirmed. CTTC followed with a motion to vacate the award. A hearing on those two motions was held before a judge in October 2011.

In January 2012, the judge denied the Company's motion to vacate the arbitration award in favor of its former CEO John B. Nano and granted Mr. Nano's application to confirm the award. Following the decision, CTTC settled all disputes with its former Chairman and CEO John B. Nano. Pursuant to the settlement, CTTC has released to Mr. Nano from escrow the \$750,000 deposited by CTTC following Mr. Nano's application for a prejudgment remedy. CTTC paid an additional \$25,000 as settlement of additional amounts of statutory interest. These amounts (\$775,000) had been accrued at December 31, 2011. The settlement includes mutual general releases of any and all claims either party has or had against the other. The settlement agreement also includes a provision that neither CTTC nor Mr. Nano would disparage the other. Should any such disparagement occur and litigation ensue, they further agreed that the prevailing party would be entitled to recover its costs and expenses, including reasonable attorney's fees. CTTC's payments to Mr. Nano have been completed.

***Unfair Trade Practices; U.S. District Court of Connecticut (case completed)*** In September 2011, the Company filed a complaint against an individual in U.S. District Court of Connecticut for (1) violation of the Connecticut Unfair Trade Practices Act, (2) tortious interference with business and economic expectancy, (3) libel and (4) injunctive relief. The complaint noted that the individual named in the civil action has, for more than a year, engaged in a systematic campaign to destroy the Company's trades and business, interfere with the Company's expectations and contracts and libel the Company by disseminating materially false and libelous statements about the Company on message boards throughout the Internet and otherwise. The Company sought punitive damages from the individual for his alleged unfair trade practices and wrongful interference with the Company's business. The case was concluded in March 2012. By the parties' stipulation settling the matter, the defendant agreed to cease his posting any statements on the Internet or publishing any statements elsewhere, orally or in writing, concerning CTTC, CTTC's officers, directors, and employees, the Calmare device, Marineo (the inventor of the Calmare device), or any other person or entity in connection with their purchase or use of the Calmare device.

***Summary*** We may be a party to other legal actions and proceedings from time to time. We are unable to estimate legal expenses or losses we may incur, if any, or possible damages we may recover, and have not recorded any potential judgment losses or proceeds in our financial statements to date, with the exception of the accrued expenses related to the Nano case, previously disclosed. We record expenses in connection with these suits as incurred.

We believe we carry adequate liability insurance, directors and officers insurance, casualty insurance, for owned or leased tangible assets, and other insurance as needed to cover us against potential and actual claims and lawsuits that occur in the ordinary course of our business. However, an unfavorable resolution of any or all matters, and/or our incurrence of significant legal fees and other costs to defend or prosecute any of these actions and proceedings may, depending on the amount and timing, have a material adverse effect on our consolidated financial position, results of operations or cash flows in a particular period.

**Item 4. Mine Safety Disclosures (Not Applicable)**

Not Applicable.

**PART II****Item 5.****Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities**

Our common stock had been traded on the NYSE Amex under the ticker symbol CTT since April 25, 1984. On September 3, 2010, our stock was delisted from the NYSE Amex and began trading on the OTCQB under the ticker symbol CTTC. On October 5, 2010, our stock began trading on the OTC market's top tier, the OTCQX. The following table sets forth for the periods indicated, the quarterly high and low trading prices for our common stock, as reported the OTCQX.

|                | <b>Year Ended December 31, 2012</b> |               |                | <b>Year Ended December 31, 2011</b> |            |
|----------------|-------------------------------------|---------------|----------------|-------------------------------------|------------|
|                | <u>High</u>                         | <u>Low</u>    |                | <u>High</u>                         | <u>Low</u> |
| First Quarter  | <b>\$1.29</b>                       | <b>\$1.01</b> | First Quarter  | \$1.75                              | \$0.92     |
| Second Quarter | <b>\$1.24</b>                       | <b>\$0.70</b> | Second Quarter | \$1.95                              | \$1.25     |
| Third Quarter  | <b>\$1.04</b>                       | <b>\$0.44</b> | Third Quarter  | \$1.87                              | \$1.02     |
| Fourth Quarter | <b>\$0.77</b>                       | <b>\$0.35</b> | Fourth Quarter | \$2.00                              | \$1.01     |

**Holders of Common Stock.** At April 26, 2013, there were 474 holders of record of our common stock.

**Dividend Policy.** We have not declared or paid cash dividends on our common stock since 1981, and do not anticipate paying any cash dividends in the foreseeable future. We expect to retain available cash to finance ongoing operations and the potential growth of our business. Any future determination to pay dividends on our common stock will be at the discretion of our board of directors and will depend upon, among other factors, our results of operations, financial condition, capital requirements, contractual restrictions, business prospects and other factors our board of directors may deem relevant.

**Equity Compensation Plan Information**

The following table summarizes securities available under our equity compensation plans as of December 31, 2012.

| <b>Weighted</b>    | <b>Shares</b>        | <b>Shares</b>        | <b>Total shares</b> | <b>Number of</b>  |
|--------------------|----------------------|----------------------|---------------------|-------------------|
| <b>average per</b> | <b>issuable upon</b> | <b>issuable upon</b> | <b>Issuable</b>     | <b>Securities</b> |
|                    | <b>exercise of</b>   | <b>vesting of</b>    | <b>Under</b>        | <b>available</b>  |



|   | share<br>exercise<br>price of<br>stock<br>options | outstanding<br>stock options | outstanding<br>restricted<br>stock units | Current<br>Outstanding<br>awards | for future<br>issuance |
|---|---|------------------------------|--|----------------------------------|------------------------|
| <b>Equity compensation plans approved<br/>by security holders:</b>      |   |                              |  |                                  |                        |
| None  |   |                              |  |                                  | -                      |
| <b>Equity compensation plans not<br/>approved by security holders:</b>  |   |                              |  |                                  |                        |
|   | \$  |                              |  |                                  |                        |
| <i>1997 Employee Stock Option Plan</i>                                  | 2.82  | 57,000                       | -  | 57,000                           | -                      |
|   | \$  |                              |  |                                  |                        |
| <i>2000 Directors Stock Option Plan</i>                                 | 1.57  | 150,000                      | -  | 150,000                          | -                      |
|   | \$  |                              |  |                                  |                        |
| <i>2011 Employees , Directors and<br/>Consultants Stock Option Plan</i> | 1.45  | 110,000                      | -  | 110,000                          | 890,000                |

**Issuer Repurchases of Equity Securities**

None.

## COMPETITIVE TECHNOLOGIES, INC.

**Item 6. Selected Financial Data** <sup>(1) (2)</sup>

|   | <b>Year Ended<br/>December 31,<br/>2012</b> | <b>Year Ended December<br/>31, 2011</b> | <b>Five Months<br/>Ended<br/>December 31,<br/>2010</b> | <b>Year Ended<br/>July 31, 2010</b> | <b>Year Ended<br/>July 31, 2009</b> |
|---|---|---|--|-------------------------------------|-------------------------------------|
| <i>Statement of Operations</i>              |   |   |  |                                     |                                     |
| <i>Summary:</i>                             |   |   |  |                                     |                                     |
|   | \$  | \$                                      | \$   | \$                                  | \$                                  |
| Total revenues <sup>(3)</sup>               | <b>1,069,713</b>                            | 3,444,761                               | 187,742  | 2,009,682                           | 348,240                             |
|   | \$  | \$                                      | \$   | \$                                  | \$                                  |
| Net income (loss) <sup>(3) (4)</sup>        | <b>(3,004,097)</b>                          | (3,595,764)                             | (2,407,544)  | (2,708,534)                         | (3,479,824)                         |
| Net income (loss) per share:                |   |   |  |                                     |                                     |
|   | \$  | \$                                      | \$   | \$                                  | \$                                  |
| Basic                                       | <b>(0.20)</b>                               | (0.26)                                  | (0.18)   | (0.25)                              | (0.40)                              |
|   | \$  | \$                                      | \$   | \$                                  | \$                                  |
| Assuming dilution                           | <b>(0.20)</b>                               | (0.26)                                  | (0.18)   | (0.25)                              | (0.40)                              |
| Weighted average number of<br>common shares |   |   |  |                                     |                                     |
| outstanding:                                |   |   |  |                                     |                                     |
| Basic                                       | <b>15,007,852</b>                           | 14,115,651                              | 13,824,944   | 10,832,043                          | 8,740,419                           |
| Assuming dilution                           | <b>15,007,852</b>                           | 14,115,651                              | 13,824,944   | 10,832,043                          | 8,740,419                           |
| <i>Year-end Balance Sheet</i>               |   |   |  |                                     |                                     |
| <i>Summary:</i>                             |   |   |  |                                     |                                     |
|   | <b>At December 31,</b>                      |   |  | <b>At July 31,</b>                  |                                     |
|   | <b>2012</b>                                 | 2011                                    | 2010   | 2010                                | 2009                                |
|   | \$  | \$                                      | \$   | \$                                  | \$                                  |
| Cash and cash equivalents                   | <b>74,322</b>                               | 28,485                                  | 557,018  | 907,484                             | 752,071                             |
| Total assets                                | <b>4,771,387</b>                            | 5,144,824                               | 3,195,543  | 4,949,923                           | 1,401,491                           |
| Total long-term obligations                 | -   | -                                       | -  | 66,369                              | 81,418                              |
| Total shareholders' interest<br>(deficit)   | <b>(4,029,070)</b>                          | (1,626,857)                             | 651,360  | 2,608,502                           | 285,168                             |

(1)

This summary should be read in conjunction with our Consolidated Financial Statements and Notes thereto. All amounts in these notes are rounded to thousands.

(2)

No cash dividends were declared or paid in any year presented.

(3)

Year ended December 31, 2012, year ended December 31, 2011, five months ended December 31, 2010 and year ended July 31, 2010 include \$913,000, \$3,329,000, \$164,000, and \$1,941,000, respectively, from sales of our pain therapy medical device.

(4)

Year ended December 31, 2012, year ended December 31, 2011, five months ended December 31, 2010 and year ended July 31, 2010 includes \$366,000, \$1,464,000, \$28,000 and \$516,000, respectively, of cost of sales for our pain therapy medical device. Year ended December 31, 2011 includes \$775,000 accrued for legal settlement with former CEO. Year ended July 31, 2009 includes \$400,000 insurance recovery in settlement of our legal action against Federal Insurance.

## **Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operation**

### **Forward-Looking Statements**

Statements about our future expectations are "forward-looking statements" within the meaning of applicable Federal Securities Laws, and are not guarantees of future performance. When used herein, the words "may," "will," "should," "anticipate," "believe," "appear," "intend," "plan," "expect," "estimate," "approximate," and similar expressions are intended to identify such forward-looking statements. These statements involve risks and uncertainties inherent in our business, including those set forth in Item 1A under the caption "Risk Factors," in this Annual Report on Form 10-K for the year ended December 31, 2012, and other filings with the SEC, and are subject to change at any time. Our actual results could differ materially from these forward-looking statements. We undertake no obligation to update publicly any forward-looking statement.

### **Overview**

Competitive Technologies, Inc. ("CTTC") was incorporated in Delaware in 1971, succeeding an Illinois corporation which had incorporated in 1968. CTTC and its majority owned subsidiary (collectively, "we", "our", or "us") provide distribution, patent and technology transfer, sales and licensing services focusing on the needs of our customers, matching those requirements with commercially viable technology or product solutions. We develop relationships with universities, companies, inventors and patent or intellectual property holders to obtain the rights or a license to their intellectual property or to their product. They become our clients, for whom we find markets to sell or further develop or distribute their technology or product. We also develop relationships with those who have a need or use for technologies or products. They become our customers, usually through a license or sublicense, distribution agreement or sales contract.

Our revenue fluctuates due to changes in revenue of our customers, upfront license fees, new licenses granted, new distribution agreements, expiration of existing licenses or agreements, and/or the expiration or economic obsolescence of patents underlying licenses or products.

We acquire rights to commercialize a technology or product on an exclusive or non-exclusive basis, worldwide or limited to a specific geographic area. When we license or sublicense those rights to our customers, we may limit rights to a defined field of use. Technologies can be early, mid, or late stage. Products we evaluate must be working prototypes or finished products. We establish channel partners based on forging relationships with mutually aligned goals and matched competencies to deliver solutions that benefit the ultimate end-user.

We earn revenue in two ways: retained royalties from licensing our clients' and our own technologies to our customer licensees, and sales of finished products. We record revenue when the terms of the sales arrangement are accepted by

all parties including a fee that is fixed and determinable, delivery has occurred and our customer has taken title, and collectability is reasonably assured.

Since 2011 the Company has controlled the sales process for its Calmare® medical device. We are the primary obligor, responsible for delivering devices as well as training our customer in the proper use of the device. We deal directly with customers, setting pricing and providing training; work directly with the inventor of the technology to develop specifications and any changes thereto and to select and contract with manufacturing partners; and retain significant credit risk for amounts billed to customers. Therefore, all product sales are recorded following a gross revenue methodology. We record in product sales, the total funds earned from customers and record the costs of the device as cost of product sales, with gross profit from product sales being the result.

Sales of our Calmare device continue to be the major source of revenue for the Company. The Company initially acquired the exclusive, worldwide rights to the *Scrambler Therapy*® technology in 2007. The Company's 2007 agreement with Giuseppe Marineo ("Marineo"), the inventor of *Scrambler Therapy* technology, and Delta Research and Development ("Delta"), authorizes CTTC to manufacture and sell worldwide the device developed from the patented *Scrambler Therapy* technology; the territorial rights were modified in the July 2012 amendment discussed below. The *Scrambler Therapy* technology is patented in Italy and in the U.S., effective in February 2013.

Applications for patents

have been filed internationally as well and are pending approval. The Calmare device has CE Mark certification from the European Union as well as U.S. FDA 510(k) clearance.

In July 2012, the Company negotiated a five-year extension to the agreement with Marineo and Delta. That agreement had provided an initial five-year term expiring March 30, 2016, which has been extended to March 30, 2021.

The agreement with Marineo and Delta enabled the Company to establish an agreement with GEOMC Co., Ltd. ("GEOMC", formerly Daeyang E & C Co., Ltd.) of Seoul, South Korea, to manufacture the Calmare pain therapy medical device, based on Marineo's *Scrambler Therapy* technology. This original GEOMC agreement is for a period of ten (10) years, through 2017, and outlines each company's specific financial obligations.

In negotiating the extension of its Agreement with Marineo and Delta, which was signed in July 2012, the Company agreed to focus its sales and marketing programs for the Calmare device primarily in the Western Hemisphere including the USA, Canada, Mexico and the countries of Central and South America, as well as Australia and New Zealand. As opportunities arise for Calmare-related sales or distribution activities in countries outside the focus region, CTTC will coordinate with Marineo who will be managing such activities for the mutual benefit of the partners. As agreed, Marineo will assume management responsibility for existing distribution agreements for countries outside the focus region and the Company will retain a financial interest in those relationships.

In 2010, the Company became its own distributor for the Calmare device in the U.S, contracting with 15 commissioned sales representatives. During 2011 and 2012, the Company and its representatives developed plans to increase awareness of the Calmare device among critical medical specialties and began to implement those plans targeting specific customers and locations in 2012. Over the past 30 months, the Company has entered into several sales agreements for the Calmare device, including sales to U.S. government entities within the U.S. Department of Defense and the U.S. Department of Veterans Affairs. Sales to these physicians and medical practices and to others with whom the Company had existing sales agreements continue to generate revenue for the Company.

*Reliance on one revenue source.* In 2012, we had a significant concentration of revenue from our pain therapy medical device technology. We continue to seek revenue from new and existing technology licenses to mitigate the concentration of revenue, and replace revenue from expiring licenses.

*Presentation.* All amounts in this Item 7 have been rounded to the nearest thousand dollars.

The following discussion and analysis provides information that we believe is relevant to an assessment and understanding of our financial condition and results of operations. This discussion and analysis should be read in conjunction with our Consolidated Financial Statements and Notes thereto.

On September 3, 2010, the Company's securities began trading on the OTCQB marketplace under the ticker symbol CTTC, having been delisted from the NYSE Amex (the "Exchange"). The delisting followed an 18-month period during which the Company sought to regain compliance with the Exchange's continued listing standards as set forth in Part 10 of the Exchange Company Guide. As noted in Section 1003 of the Exchange Company Guide, companies with stockholders' equity of less than \$2 million, and losses from continuing operations and net losses in two out of its three most recent fiscal years, or with stockholders' equity of less than \$4 million and losses from continuing operations and net losses in three out of its four most recent fiscal years are non-compliant. We were only non-compliant with the stockholders' equity component.

Despite arguments made at an oral hearing at which the Company sought to remain listed, the Exchange Listing Qualifications Panel affirmed the Exchange Staff's determination to delist the Company's securities. After trading on the OTCQB for a month, on October 5, 2010, the Company's securities began trading on the OTC market's top tier, the OTCQX.

## Results of Operations - 2012 vs. 2011

### Summary of Results

We incurred a net loss of \$3,004,000 or \$0.20 per share per basic and diluted share for 2012, compared to a net loss of \$3,596,000 or \$0.26 per share per basic and diluted share for 2011. As explained in detail below, the net loss reflects a decrease of \$2,375,000 in gross revenue, a decrease of \$1,318,000 in gross profit from product sales and a decrease in other expenses of \$1,869,000.

### Revenue and Gross Profit from Sales

*Revenue from product sales:* In 2012, we recorded \$913,000 in revenue from the sale and shipment of 12 (1 internationally, 11 domestic) Calmare pain therapy medical devices; with a cost of product sales of \$366,000. We recorded \$3,329,000 in revenue from the sale and shipment of 101 (71 internationally, 30 domestic) Calmare pain therapy medical devices; with a cost of product sales of \$1,464,000 in 2011.

Fifty-three of the 101 medical devices sold in 2011 represent the sale to a new distributor of units the Company had brought back into inventory during the five-month transition period ended December 31, 2010, following the cancellation of an earlier distribution agreement.

### Other Revenue

*Retained royalties* for 2012 were \$106,000 as compared to \$47,000 reported in 2011, an increase of \$59,000 or 126%, due largely to the recording of royalty revenue from one technology.

*Gain on sale of rental assets* for 2011, \$35,000 was recorded for the conversion of a rental contract for one Calmare device into an outright sale of the device. There were no such conversions of rental contracts to device sales in 2012.

*Other income* for 2012 was \$51,000, including payments for training and the sale of supplies such as electrodes and cables for use with our Calmare devices (\$18,000), rental income (\$32,000) from customers who were renting Calmare pain therapy medical devices from us and interest income (\$1,000). In 2011, other income from these sources totaled \$35,000; \$19,000 for training and sales of supplies and \$16,000 for rental income.



**Other expenses**

|  | <b>2012</b>      | 2011      | Increase<br>(Decrease) | % Increase<br>(Decrease) |
|--|------------------|-----------|------------------------|--------------------------|
| Selling Expenses                         | \$               | \$        | \$                     |                          |
|  | <b>391,000</b>   | 518,000   | (127,000)              | (25)                     |
| Personnel and consulting expenses        | <b>1,420,000</b> | 1,605,000 | (185,000)              | (12)                     |
| General and administrative expenses      | <b>1,750,000</b> | 3,409,000 | (1,659,000)            | (49)                     |
| Bad debt expense (recovery)              | <b>10,000</b>    | (7,000)   | 17,000                 | 243                      |
| Interest expense                         | <b>83,000</b>    | 36,000    | 47,000                 | 130                      |
| Unrealized loss on derivative instrument | <b>54,000</b>    | 16,000    | 38,000                 | 238                      |
| <b>Total other expenses</b>              | <b>\$</b>        | <b>\$</b> | <b>\$</b>              |                          |
|  | <b>3,708,000</b> | 5,577,000 | (1,869,000)            | (34)                     |

*Total other expenses* decreased \$1,869,000 in 2012 or 34% over fiscal 2011.

*Selling expenses* decreased a net \$127,000 in 2012 compared to 2011. The decrease was primarily due to a decrease of \$70,000 in commission expenses, reflecting decreased sales of the Calmare device; a decrease of \$74,000 in domestic patent legal expenses due to reduced activity regarding the unresolved homocysteine patent dispute as

well as reduced activity related to the joint venture with XION Corporation to develop melanocortin technologies, offset by an increase of \$50,000 in patent and translation fees related to working with the inventor of the Calmare<sup>®</sup> device. In addition, in 2011 a liability (\$33,000) for the sale of video compression patents at auction was recorded; that liability did not recur in 2012.

*Personnel and consulting expenses* decreased \$185,000 in fiscal 2012, as compared with fiscal 2011. Personnel and related benefit expenses were lower (\$328,000), reflecting a reduction in the staff size from seven (7) at the end of December 31, 2011 to four (4) at May 31, 2012, and five (5) at year end, offset slightly by the November 1, 2012 hire of a new CEO. Consulting expenses were higher in 2012 (\$143,000), due to the use of consultants for international sales management services and consulting services related to insurance reimbursement -- both public and private -- for patient treatments with our Calmare medical device.

*General and administrative expenses* decreased a net \$1,659,000 or 49% in fiscal 2012 as compared to fiscal 2011. This reduction reflected increased corporate litigation expenses (\$89,000) related to increased activity on the OSHA case pursued by a former employee; increased directors' stock option compensation (\$87,000) primarily due to the stock option expense related to the modification of option agreements for former directors; increased financing charges (\$56,000) related to stock listings and factoring agreements; increased taxes and miscellaneous fees (\$14,000); increased directors' travel-related expenses (\$7,000); increased liability insurance for officers and directors (\$4,000) and others (\$12,000); and higher equipment rental expense (\$3,000). The increases were offset by reductions in legal fees for litigation (\$1,469,000), primarily for the case involving the former CEO which was closed in January of 2012; reductions in marketing expenses (\$106,000) since expenses incurred in 2011 for International trade shows, making a promotional video and marketing rebates to customers did not recur in 2012; reduced corporate legal expenses reflecting the 2011 expenses for a case involving false information postings to stock message boards and for legal responses to SEC inquiries which did not recur in 2012 (\$92,000); reduced travel (\$64,000) with fewer employees traveling; reduced audit and tax preparation expense (\$60,000); reduced postage and delivery expenses (\$38,000); reduced supplies and equipment expenses (\$34,000); reduced directors' fees (\$30,000) due to fewer meetings and modifications to the compensation schedule; reduced dues, fees and maintenance expenses (\$20,000); reduced directors' stock compensation expense (\$4,000); reduced investor and public relations expenses (\$4,000), and other miscellaneous reductions (\$10,000).

*Bad debt expense* consisted of \$10,000 related to waiving of repayment of a travel advance for a former employee in 2012. In 2011, \$7,000 of bad debt expense from a prior year was recovered.

*Interest expense* was greater in 2012 (\$83,000) than in 2011 (\$36,000) due to promissory notes that did not exist in fiscal.

*Unrealized loss on derivative instruments* The variable conversion feature related to the Company's Series C Convertible Preferred Stock (Series C) creates an embedded derivative that is required to be recorded at fair value at each reporting period. During the year ended December 31, 2012, the Company recorded a \$54,000 loss related to the embedded derivative's change in fair value as compared to the \$16,000 loss in 2011.

In current and prior years, we generated significant federal and state income and alternative minimum tax ("AMT") losses, and these net operating losses ("NOLs") were carried forward for income tax purposes to be used against future taxable income. In the year ended December 31, 2012 and in the year ended December 31, 2011, we incurred a loss but did not record a benefit since the benefit was fully reserved (see below).

The NOLs are an asset to us if we can use them to offset or reduce future taxable income and therefore reduce the amount of both federal and state income taxes to be paid in future years. Previously, since we were incurring losses and could not be sure that we would have future taxable income to be able to use the benefit of our NOLs, we recorded a valuation allowance against the asset, reducing its book value to zero. In fiscal 2012 and fiscal 2011, the benefit from our net loss was offset completely by a valuation allowance recorded against the asset. We did not show a benefit for income taxes. We will reverse the valuation allowance or portions thereof when we determine it is more likely than not that our NOLs will be utilized. We have substantial federal and state NOLs and to use against future regular taxable income. In addition, we can use our NOLs to reduce our future AMT liability. A significant portion of the remaining NOLs at December 31, 2012, approximately \$4,196,000, was derived from income tax deductions related to the stock

options exercises. The tax effect of these deductions will be credited against capital in excess of par value at the time they are utilized for book purposes, and not credited to income. We will never receive a benefit for these NOLs in our statement of operations.

At December 31, 2012 and December 31, 2011 we had no unrecognized tax benefits.

### **Financial Condition and Liquidity**

Our liquidity requirements arise principally from our working capital needs, including funds needed to find and obtain new technologies or products, to market and sell those new technologies or products, and to protect and enforce our intellectual property rights, if necessary. We fund our liquidity requirements with a combination of cash on hand, debt and equity financing, and cash flows from operations, if any, including royalty legal awards. At December 31, 2012, we had outstanding debt, in the form of promissory notes totaling \$1,535,000.

The Company has incurred operating losses since fiscal 2006. During fiscal 2012, we had a significant concentration of revenues from our pain therapy medical device technology. We continue to seek revenue from new technologies or products to mitigate the concentration of revenues, and replace revenues from expiring licenses. At current reduced spending levels, the Company may not have sufficient cash flow to fund operating expenses beyond third quarter fiscal 2013. These conditions raise substantial doubt about the Company's ability to continue as a going concern. The financial statements do not include adjustments to reflect the possible future effect of the recoverability and classification of assets or amounts and classifications of liabilities that may result from the outcome of this uncertainty.

The Company's continuation as a going concern is dependent upon its developing other recurring revenue streams sufficient to cover operating costs. If necessary, we will meet anticipated operating cash requirements by further reducing costs, issuing debt or equity, and/or pursuing sales of certain assets and technologies while we pursue licensing and distribution opportunities for our remaining portfolio of technologies. The company does not have any significant capital requirements in the budget going forward. Failure to develop a recurring revenue stream sufficient to cover operating expenses would negatively affect the Company's financial position.

During 2011, the Company entered into a Factoring Agreement with Versant Funding, LLC ("Versant") to accelerate receivable collection and better manage cash flow. Under the Factoring Agreement the Company had agreed to sell to Versant certain of the Company's accounts receivables. For those accounts receivable the Company tendered to Versant and Versant chose to purchase, Versant agreed to advance 75% of the face value to the Company, and to submit a percentage of the remainder to the Company upon collection on the account. The percentage is based on the time it takes Versant to collect on the account. As part of the Factoring Agreement, the Company and Versant entered into a Security Agreement whereby the Company granted Versant a security interest in certain of the Company's assets to secure the Company's performance of the representations made with respect to the purchase of the accounts receivable. During the fourth quarter of 2012, the Company ended its Factoring Agreement with Versant and entered

into a new Factoring Agreement with LSQ Funding. The new Factoring Agreement with LSQ Funding provides for an 85% advance of factored accounts, lower fees, a faster payout of both advances and balances due, and the possibility of over-advances. At December 31, 2012, the Company had one factored account and LSQ had over-advanced the Company \$80,000, of which approximately \$77,500, including fees and expenses, remained outstanding at year end.

We believe we will successfully license new technologies, sell finished products from inventory (Calmare medical devices), and collect due, but unpaid, royalties on existing licenses to add revenue. If necessary, we will meet anticipated operating cash requirements by further reducing costs, issuing debt or equity, and/or pursuing sales of certain assets and technologies while we pursue licensing opportunities for our remaining portfolio of technologies.

At December 31, 2012, cash was \$74,000, compared to \$29,000 at December 31, 2011. In addition, at December 31, 2011, \$750,000 in restricted cash was set aside in escrow pending the outcome of the arbitration involving the former CEO. That \$750,000 was paid out in the settlement of the case in January 2012 (See **Item 3. Legal Proceedings.**)

The fiscal 2012 loss of \$3,004,000 contained non-cash charges of \$264,000 and increases in assets and liabilities of \$1,369,000 resulted in cash used in operations of \$1,371,000. Net cash flows from investing activities included \$18,000 used, primarily to purchase rental assets. Net cash flows provided by financing activities include net proceeds of \$1,435,000 primarily from the issuance of notes payable.

We currently have the benefit of using a portion of our accumulated NOLs to eliminate any future regular federal and state income tax liabilities. We will continue to receive this benefit until we have utilized all of our NOLs, federal and state. However, we cannot determine when and if we will be profitable and thus able to utilize the benefit of the remaining NOLs before they expire.

At December 31, 2012, we had aggregate federal net operating loss carryforwards of approximately \$36,573,000, which expire at various times through 2032. A majority of our federal NOLs can be used to reduce taxable income used in calculating our AMT liability. We also have state net operating loss carryforwards of approximately \$35,014,000 that expire through 2032.

A significant portion of the NOLs remaining at December 31, 2012, approximately \$4,196,000, was derived from income tax deductions related to the exercise of stock options.

## **Funding and Capital Requirements**

### **Equity Financing**

At its December 2, 2010 meeting, the CTTC Board of Directors declared a dividend distribution of one right (each, a Right ) for each outstanding share of common stock, par value \$0.01, of the Company (the Common Shares ). The dividend is payable to holders of record as of the close of business on December 2, 2010 (the Record Date ). Issuance of the dividend may be triggered by an investor purchasing more than 20% of the outstanding shares of common stock. This shareholder rights plan and the subsequent authorization of 20,000 shares of Class B Preferred Stock were announced with a Form 8-K filing on December 15, 2010, following CTTC's finalization of the Rights Agreement with CTTC's Rights Agent, American Stock Transfer & Trust Company, LLC. The Rights Agreement was filed with the December 15, 2010, Form 8-K. It is intended to provide the CTTC Board of Directors with time for proper valuation of the Company should other entities attempt to purchase a controlling interest of CTTC shares.

On December 15, 2010 the Company issued a \$400,000 promissory note. The promissory note was scheduled to mature on December 31, 2012 with an annual interest rate of 5%.

On December 15, 2010, the Company's Board of Directors authorized the issuance of 750 shares of Series C Convertible Preferred Stock (\$1,000 par value) with a 5% cumulative dividend to William R. Waters, Ltd. of Canada. On December 30, 2010, 750 shares were issued. The Company converted the above \$400,000 promissory note into 400 shares and received cash of \$350,000 for the remaining 350 shares. These transactions were necessitated to replenish the Company's operating cash which had been drawn down by the \$750,000 cash collateral previously posted by CTTC in a prejudgment remedy action styled John B. Nano v. Competitive Technologies, Inc., Docket No. CV10 5029318 (Superior Court, Bridgeport, CT), see **Item 3. Legal Proceedings** for details.

On June 17, 2011, William R. Waters, Ltd. of Canada, advised the Company of its intent to convert one half of its Series C Convertible Preferred Stock, 375 shares, to common stock, with a conversion date of June 16, 2011. On July 14, 2011, American Stock Transfer & Trust Company was asked to issue the certificate for 315,126 shares of CTTC common stock. In accordance with the conversion rights detailed below, the conversion price for these shares was \$1.19, which is 85% of the mid-point of the last bid price (\$1.35) and the last ask price (\$1.45) on June 16, 2011, the agreed upon conversion date.

The rights of the Series C Convertible Preferred Stock are as follows:

**Dividend rights** The shares of Series C Convertible Preferred Stock accrue a 5% cumulative dividend on a quarterly basis and is payable on the last day of each fiscal quarter when declared by the Company's Board. As of December 31, 2012 dividends declared were \$46,949, of which \$18,750 were declared during the year ended December 31, 2012 and \$28,202 have not been paid and are shown in accrued and other liabilities at December 31, 2012.

**Voting rights** Holders of these shares of Series C Convertible Preferred Stock shall have voting rights equivalent to 1,000 votes per \$1,000 par value Series C Convertible Preferred share voted together with the shares of common stock

**Liquidation rights** Upon any liquidation these Series C Convertible Preferred Stock shares shall be treated as equivalent to shares of Common stock to which they are convertible.

**Redemption rights**

Holder may demand redemption of outstanding Series C Convertible Preferred Stock shares by the Company at a price equal to par plus any accrued but unpaid dividends in the event that the \$750,000 escrow by the Company has been released and returned to the company.

The Company may upon notice to holder redeem all or any portion of outstanding Series C Convertible Preferred Stock shares by the Company at a price equal to par plus any accrued but unpaid dividends in the event that the \$750,000 escrow by the Company has been released and returned to the company. However, the holder may elect to convert (see conversion rights below) the preferred shares upon receipt of such notice.

At December 31, 2011, the \$750,000 was still held in escrow. In January 2012, the \$750,000 held in escrow was released but not returned to the Company, nullifying the redemption rights. However the holder retains the right to convert

**Conversion rights** Holder has right to convert each share of Series C Convertible Preferred Stock at any time into shares of the Company's common stock at a conversion price for each share of common stock equal to 85% of the lower of (1) the closing market price at the date of notice of conversion or (2) the mid-point of the last bid price and the last ask price on the date of the notice of conversion. The variable conversion feature creates an embedded derivative that was bifurcated from the Series C Convertible Preferred Stock on the date of issuance and was recorded at fair value. The derivative liability will be recorded at fair value on each reporting date with any change recorded in the Statement of Operations as an unrealized gain (loss) on derivative instrument.

On the date of conversion of the 375 shares of Series C Convertible Preferred Stock the Company calculated the value of the derivative liability to be \$81,933 and recorded an unrealized loss of \$15,678 for the six months ended June 30, 2011 related to the converted shares. Upon conversion, the \$81,933 derivative liability was reclassified to equity.



The Company recorded a convertible preferred stock derivative liability of \$119,922 and \$66,176, associated with the 375 shares of Series C Convertible Preferred Stock outstanding at December 31, 2012 and 2011, respectively.

The Company has classified the Series C Convertible Preferred Stock as a liability at December 31, 2012 and 2011 because the variable conversion feature may require the Company to settle the conversion in a variable number of its common shares.

On November 22, 2011, the Company entered into a private placement for up to 420,000 shares of restricted common stock, later amended to allow the placement of up to 450,000 shares. As of December 31, 2011, the Company had received \$525,625 for the sale of 389,352 shares of common stock, and several small transactions, totaling approximately 7,000 shares remained incomplete at year end, and were completed during the first quarter of 2012. At December 31, 2011, and at December 31, 2012, an additional 53,500 shares remained available for sale per the Board Resolution. The proceeds of the stock sale went toward funding operations during the quarter, traditionally a slower sales period for medical devices.

At the Company's Annual Meeting held on May 24, 2012, the stockholders voted to increase the number of authorized shares of the Company's common stock by amending Article FOURTH of the Certificate of Incorporation filed with the Office of the Secretary of State of Delaware to read as follows:

The total number of shares of stock of all classes of stock which the Corporation shall have authority to issue is 40,035,920 shares, of which 35,920 shares, with a par value of \$25.00 each, are to be Preferred Stock, and 40,000,000 shares, with a par value of \$.01 each, are to be common stock.

Subsequent to December 31, 2012, the Company entered into an Equity Purchase Agreement with Southridge Partners II, L.P. ( Southridge ). Under the terms of the Purchase Agreement, which was filed with the SEC on February 26, 2013, Southridge will purchase, at the Company's election, up to \$10,000,000 of the Company's registered common stock (the "Shares"). During the two year term of the Purchase Agreement, the Company may at any time in its sole discretion deliver a "put notice" to Southridge thereby requiring Southridge to purchase a certain dollar amount of the Shares. Simultaneous with the delivery of such Shares, Southridge shall deliver payment for the Shares. Subject to certain restrictions, the purchase price for the Shares shall be equal to ninety percent of the lowest closing bid price for the Company's common stock during the ten-day trading period immediately after the Shares specified in the Put Notice are delivered to Southridge.

The number of Shares sold to Southridge shall not exceed the number of such shares that, when aggregated with all other shares of common stock of the Company then beneficially owned by Southridge, would result in Southridge owning more than 9.99% of all of the Company's common stock then outstanding. Additionally, Southridge may not execute any short sales of the Company's common stock.

Subsequent to December 31, 2012, the Company has issued 1,000,000 shares of its common stock into escrow, pending the completion of potential financing with a European investment group.

## **Debt Financing**

In December 2011, the Company issued a 90-day note payable to borrow \$100,000. Additional notes payable were issued in January 2012 (\$100,000); in April 2012 (\$100,000), in May 2012 (\$25,000); in June 2012 (\$20,000); in July 2012 (\$325,000); in August 2012 (\$50,000); in September 2012 (\$15,000); in October 2012 (\$165,000); in November 2012 (\$130,000); and in December 2012 (\$280,000). The proceeds from these notes (\$1,210,000) were used for general corporate purposes. These notes have been extended several times. A conversion feature was added to the Notes when they were extended, which allows for conversion of the eligible principal amounts to common stock at any time after the six month anniversary of the effective date (the date the funds are received) at a rate of \$1.05 per share. The full amount of principal and 6.00% simple interest per annum are now due in the quarter ended September 30, 2013.

In March 2012, the Company issued a 24-month convertible promissory note to borrow \$100,000 for general corporate purposes. Additional 24-month convertible promissory notes were issued in April 2012 (\$25,000) and in June 2012 (\$100,000). Conversion of the eligible principal amounts to common stock is allowed at any time after the six month anniversary of the effective date of each note at a rate of \$1.05 per share. The full amount of principal was outstanding at December 31, 2012; 6.00% simple interest is payable monthly in advance. These notes are classified as

long term, with due dates in March, April and June of 2014.

In March 2011, the Company issued a 90-day note payable to borrow \$50,000. The proceeds were used for general corporate purposes. The full amount of principal and 5.00% simple interest per annum was paid during the quarter ended June 30, 2011.

At December 31, 2012, \$1,410,000 of the outstanding were Notes payable to related parties; \$1,310,000 to the chairman of our Board and \$100,000 to another director. Subsequent to December 31, 2012, an additional \$1,005,000 was borrowed from our chairman. The terms and conditions are the same: 6.00% simple interest per annum and principal are due in the quarter ended September 30, 2013 and the notes are convertible to common stock at any time on or after the effective date of the initial loan amount.

## Capital requirements

The Company incurred operating losses for 2012 and 2011. In 2012 and 2011, we had a significant concentration of revenues from our pain therapy medical device technology. We continue to seek revenue from new technology licenses to mitigate the concentration of revenue, and replace revenue from expiring licenses. We have created a new business model for appropriate technologies that allows us to move beyond our usual royalty arrangement and share in the profits of distribution.

For 2013, we expect our capital expenditures to be less than \$100,000.

## General

Our future cash requirements depend on many factors, including results of our operations and marketing efforts, results and costs of our legal proceedings, and our debt or equity financing. To achieve and sustain profitability, we must increase the number of customers and/or distributors for our products, broaden the base of technologies for distribution, license technologies with sufficient current and long-term revenue streams, and add new licenses.

Obtaining rights to new technologies, granting rights to licensees and distributors, enforcing intellectual property rights, and collecting revenue are subject to many factors, some of which are beyond our control. Should we be unsuccessful in these efforts, the combination of our cash on hand and revenue from executing our strategic plan may need to be supplemented by issuing debt or equity to meet our obligations of current and anticipated operating cash requirements beyond third quarter fiscal 2013.

## Contractual Obligations and Contingencies

At December 31, 2012, our contractual obligations were:

### Contractual Obligations

|   | <b>Total</b> | <b>Within<br/>1 year</b> | <b>1-3<br/>years</b> | <b>3-5<br/>years</b> | <b>More than<br/>5 years</b> |
|---|--------------|--------------------------|----------------------|----------------------|------------------------------|
| Operating lease obligations,<br>principally rent <sup>(1)</sup> | \$ 67,000    | \$ 67,000                | \$ -                 | \$ -                 | \$ -                         |

(1)

The current lease expires November 30, 2013, so the existing obligation is for 11 months in 2013. Renewal of the lease is currently being negotiated.

Any other commitments we may have are contingent upon a future event.

*Contingencies.* Our directors, officers, employees and agents may claim indemnification in certain circumstances. We seek to limit and reduce potential obligations for indemnification by carrying directors and officers liability insurance, subject to deductibles.

We also carry liability insurance, casualty insurance, for owned or leased tangible assets, and other insurance as needed to cover us against potential and actual claims and lawsuits that occur in the ordinary course of business.

Many of our license and service agreements provide that upfront license fees, license fees and/or royalties we receive are applied against amounts that our clients or we have incurred for patent application, prosecution, issuance and maintenance costs. We expense such costs as incurred, and reduce expense if reimbursed from future fees and/or royalties. If the reimbursement belongs to our client, we record no revenue or expense.

We have engaged R.F. Lafferty & Co. to seek an acquisition partner from a limited number of companies for our nano particle bone biomaterial patents, among other assets and/or securities. The Company would pay Lafferty a 10% finder's fee in the event an acquisition partner is found, which Management has deemed to be an immaterial and contingent obligation.

As of December 31, 2012, CTTC and its majority owned subsidiary, Vector Vision, Inc. ("VVI"), have remaining obligations, contingent upon receipt of certain revenues, to repay up to \$165,788 and \$199,334, respectively, in consideration of grant funding received in 1994 and 1995. CTTC recorded expenses reducing that obligation of \$70 in the year ended December 31, 2012, and \$33,148 in the year ended December 31, 2011. CTTC also is obligated to pay at the rate of 7.5% of its revenues, if any, from transferring rights to certain inventions supported by the grant funds. VVI is obligated to pay at rates of 1.5% of its net sales of supported products or 15% of its revenues from licensing supported products, if any. We recognize these obligations only if we receive revenues related to the grant funds. We recognized approximately \$1,749 in the year ended December 31, 2012 and \$1,387 in the year ended December 31, 2011.

### **Critical Accounting Estimates**

The preparation of our consolidated financial statements in conformity with accounting principles generally accepted in the U.S. requires that we make estimates, assumptions and judgments that affect the reported amounts of assets and liabilities at the date of the consolidated financial statements, the reported amounts of revenue and expenses for the reporting period, and related disclosures. We base our estimates on information available at the time, and assumptions we believe are reasonable. By their nature, estimates, assumptions and judgments are subject to change at any time, and may depend on factors we cannot control. As a result, if future events differ from our estimates, assumptions and judgments, we may need to adjust or revise them in later periods.

We believe the following significant estimates, assumptions, and judgments we used in preparing our consolidated financial statements are critical to understanding our financial condition and operations.

*Deferred tax assets.* In assessing the realization of deferred tax assets, the Company considers whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. As a result of uncertainty of achieving sufficient taxable income in the future, a full valuation allowance against its deferred tax asset has been recorded. If these estimates and assumptions change in the future, the Company may be required to reverse the valuation allowance against deferred tax assets, which could result in additional income tax income.

*Share-based compensation.* We account for share-based compensation on a fair value basis. Share-based compensation cost is measured at the grant date based on the value of the award and is recognized as expense over the service (vesting) period. Determining the fair value of share-based awards at the grant date requires judgment, including, estimating the expected life of the stock option, volatility, and the amount of share-based awards that can be expected to be forfeited. Our estimates were based on our historical experience with stock option awards.

### **Related Party Transactions**

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 consulting expenses.

We had no related party transactions for the years ended December 31, 2012 and December 31, 2011.

**Item 7A. Quantitative and Qualitative Disclosures About Market Risk**

Not applicable for smaller reporting company.

**Item 8. Financial Statements and Supplementary Data**

Description

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**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

To the Board of Directors and Stockholders of

Competitive Technologies, Inc.

Fairfield, CT

We have audited the accompanying consolidated balance sheets of Competitive Technologies, Inc. and Subsidiary as of December 31, 2012 and 2011 and the related consolidated statements of operations, changes in shareholders interest (deficit) and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of Competitive Technologies, Inc. and Subsidiary at December 31, 2012 and 2011, and the results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

The accompanying consolidated financial statements have been prepared assuming that Competitive Technologies, Inc. and Subsidiary will continue as a going concern. As more fully described in Note 1, at December 31, 2012, the Company has incurred operating losses since fiscal year 2006. These conditions raise substantial doubt about the Company's ability to continue as a going concern. Management's plans in regard to these matters are also described in Note 1. The consolidated financial statements do not include any adjustments to reflect the possible future effects on the recoverability and classification of assets or the amounts and classification of liabilities that may result from the outcome of this uncertainty.

/s/ Mayer Hoffman McCann CPAs (The New York Practice of Mayer Hoffman McCann P.C.)

New York, New York

May 31, 2013

**COMPETITIVE TECHNOLOGIES, INC. AND SUBSIDIARY**

Consolidated Balance Sheets

|   | <b>December 31,<br/>2012</b> | December 31, 2011 |
|---|------------------------------|-------------------|
| <b>ASSETS</b>   |                              |                   |
| Current Assets:   | \$                           | \$                |
| Cash  | 74,322                       | 28,485            |
| Restricted Cash   | -                            | 750,000           |
| Receivables, net of allowance of \$101,154 at December 31, 2012 and 2011  | 216,365                      | 42,471            |
| Inventory   | 4,360,156                    | 4,210,156         |
| Prepaid expenses and other current assets   | 78,727                       | 70,268            |
| Total current assets  | 4,729,570                    | 5,101,380         |
| Security Deposits   | 15,000                       | 17,275            |
| Property and equipment, net   | 26,817                       | 26,169            |
|   | \$                           | \$                |
| <b>TOTAL ASSETS</b>   | <b>4,771,387</b>             | 5,144,824         |
| <b>LIABILITIES AND SHAREHOLDERS' INTEREST (DEFICIT)</b>   |                              |                   |
| Current Liabilities:  | \$                           | \$                |
| Accounts payable  | 1,806,346                    | 1,124,007         |
| Accounts payable, GEOMC   | 4,181,225                    | 3,865,225         |
| Accrued expenses and other liabilities  | 773,364                      | 1,228,473         |
| Notes payable   | 1,310,000                    | 100,000           |
| Deferred revenue  | 9,600                        | 12,800            |
| Derivative liability  | 119,922                      | 66,176            |
| Preferred stock liability   | 375,000                      | 375,000           |
| Total current liabilities   | 8,575,457                    | 6,771,681         |
| Long term notes payable   | 225,000                      |                   |
| Commitments and contingencies   |                              |                   |
| Shareholders' interest (deficit):   |                              |                   |
| 5% preferred stock, \$25 par value, 35,920 shares authorized, 2,427 shares issued and outstanding                                 | 60,675                       | 60,675            |
| Series B preferred stock, \$0.001 par value, 20,000 shares authorized, no shares issued and outstanding                           | -                            | -                 |
| Series C convertible preferred stock, \$1,000 par value, 750 shares authorized, 375 shares issued and outstanding                 | -                            | -                 |
| Common stock, \$.01 par value, 40,000,000 and 20,000,000 shares authorized at December 31, 2012 and 2011 respectively, 15,237,304 | 152,373                      | 147,157           |

shares issued and outstanding at December 31, 2012 and 14,715,789

shares issued and outstanding at December 31, 2011

|  |                     |              |
|--|---------------------|--------------|
| Capital in excess of par value         | <b>45,367,796</b>   | 44,771,128   |
| Accumulated deficit                    | <b>(49,609,914)</b> | (46,605,817) |
| Total shareholders' interest (deficit) | <b>(4,029,070)</b>  | (1,626,857)  |

|   |                  |           |
|---|------------------|-----------|
|   | \$               | \$        |
| <b>TOTAL LIABILITIES AND SHAREHOLDERS' INTEREST (DEFICIT)</b> | <b>4,771,387</b> | 5,144,824 |

*See accompanying notes*

## COMPETITIVE TECHNOLOGIES, INC. AND SUBSIDIARY

## Consolidated Statements of Operations

|  | Year ended<br>December 31, 2012 | Year ended<br>December 31, 2011 |
|--|---------------------------------|---------------------------------|
| <b>Revenue</b>   |                                 |                                 |
| Product sales  | \$                              | \$                              |
|  | <b>912,548</b>                  | 3,328,756                       |
| Cost of product sales  | <b>366,409</b>                  | 1,464,205                       |
| <b>Gross profit from product sales</b>                         | <b>546,139</b>                  | 1,864,551                       |
| <b>Other Revenue</b>   |                                 |                                 |
| Gain on sale of rental asset                                   | -                               | 34,728                          |
| Retained royalties   | <b>105,850</b>                  | 46,637                          |
| Other income   | <b>51,315</b>                   | 34,640                          |
| <b>Total other revenue</b>                                     | <b>157,165</b>                  | 116,005                         |
| <b>Expenses</b>  |                                 |                                 |
| Selling expenses   | <b>391,435</b>                  | 517,865                         |
| Personnel and consulting expenses                              | <b>1,419,887</b>                | 1,604,661                       |
| General and administrative expenses                            | <b>1,759,777</b>                | 3,401,826                       |
| Interest expense   | <b>82,557</b>                   | 36,211                          |
| Unrealized loss on derivative instrument                       | <b>53,745</b>                   | 15,757                          |
| <b>Total Expenses</b>  | <b>3,707,401</b>                | 5,576,320                       |
| Income (loss) before income taxes                              | <b>(3,004,097)</b>              | (3,595,764)                     |
| Provision (benefit) for income taxes                           | -                               | -                               |
| <b>Net income (loss)</b>                                       | \$                              | \$                              |
|  | <b>(3,004,097)</b>              | (3,595,764)                     |
| Basic income (loss) per share                                  | \$                              | \$                              |
|  | <b>(0.20)</b>                   | (0.26)                          |
| Basic weighted average number<br>of common shares outstanding: | <b>15,007,852</b>               | 14,115,651                      |
| Diluted income (loss) per share                                | \$                              | \$                              |
|  | <b>(0.20)</b>                   | (0.26)                          |
| Diluted weighted average number                                | <b>15,007,852</b>               | 14,115,651                      |

of common shares outstanding:

*See accompanying notes*

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**COMPETITIVE TECHNOLOGIES, INC. AND SUBSIDIARY**

## Consolidated Statements of Changes in Shareholders' Interest (Deficit)

|  | Preferred Stock    |                 | Common Stock       |                |                                | Receivable   |                       | Total Shareholders Interest (Deficit) |
|--|--------------------|-----------------|--------------------|----------------|--------------------------------|--------------|-----------------------|---------------------------------------|
|  | Shares outstanding | Amount          | Shares outstanding | Amount         | Capital in excess of par value | From Crisnic | Accumulated deficit   |                                       |
| Balance January 1, 2011  | 2,427              | \$60,675        | 13,824,944         | \$138,249      | \$43,484,989                   | \$(22,500)   | \$(43,010,053)        | \$651,360                             |
| Net loss   | -                  | -               | -                  | -              | -                              | -            | (3,595,764)           | (3,595,764)                           |
| Exercise of stock options  | -                  | -               | 10,000             | 100            | 9,950                          | -            | -                     | 10,050                                |
| Stock option compensation expense                                    | -                  | -               | -                  | -              | 67,639                         | -            | -                     | 67,639                                |
| Return of shares issued to Crisnic                                   | -                  | -               | (25,000)           | (250)          | (22,250)                       | 22,500       | -                     | -                                     |
| Common shares issued to settle accounts payable and accrued expenses | -                  | -               | 175,000            | 1,750          | 215,100                        | -            | -                     | 216,850                               |
| Conversion of Class C Convertible Preferred Stock                    | -                  | -               | 315,126            | 3,151          | 453,782                        | -            | -                     | 456,933                               |
| Restricted Shares Purchased in Private Placement                     | -                  | -               | 396,500            | 3,965          | 531,310                        | -            | -                     | 535,275                               |
| Common shares issued to Directors                                    | -                  | -               | 19,219             | 192            | 30,608                         | -            | -                     | 30,800                                |
| <b>Balance December 31, 2011</b>                                     | <b>2,427</b>       | <b>\$60,675</b> | <b>14,715,789</b>  | <b>147,157</b> | <b>44,771,128</b>              | <b>-</b>     | <b>\$(46,605,817)</b> | <b>(1,626,857)</b>                    |

|                                     |              |               |                   |                |                   |           |                     |                    |
|-------------------------------------|--------------|---------------|-------------------|----------------|-------------------|-----------|---------------------|--------------------|
| <b>Net loss</b>                     | -            | -             | -                 | -              | -                 | -         | <b>(3,004,097)</b>  | <b>(3,004,097)</b> |
| <b>Stock option compensation</b>    |              |               |                   |                |                   |           |                     |                    |
| <b>expense</b>                      | -            | -             | -                 | -              | <b>138,630</b>    | -         | -                   | <b>138,630</b>     |
| <b>Common shares issued to</b>      |              |               |                   |                |                   |           |                     |                    |
| <b>settle accounts payable and</b>  |              |               |                   |                |                   |           |                     |                    |
| <b>accrued expenses</b>             | -            | -             | <b>474,415</b>    | <b>4,745</b>   | <b>423,509</b>    | -         | -                   | <b>428,254</b>     |
| <b>Share based consulting fees,</b> |              |               |                   |                |                   |           |                     |                    |
| <b>Common stock</b>                 | -            | -             | <b>47,100</b>     | <b>471</b>     | <b>34,529</b>     | -         | -                   | <b>35,000</b>      |
| <b>Balance December 31, 2012</b>    | <b>\$</b>    | <b>\$</b>     | <b>\$</b>         | <b>\$</b>      | <b>\$</b>         | <b>\$</b> | <b>\$</b>           |                    |
|                                     | <b>2,427</b> | <b>60,675</b> | <b>15,237,304</b> | <b>152,373</b> | <b>45,367,796</b> | <b>-</b>  | <b>(49,609,914)</b> | <b>(4,029,070)</b> |

*See accompanying notes*



**COMPETITIVE TECHNOLOGIES, INC. AND SUBSIDIARY**

## Consolidated Statements of Cash Flows

|   | Year ended        | Year ended        |
|---|-------------------|-------------------|
|   | December 31, 2012 | December 31, 2011 |
| <b>Cash flows from operating activities:</b>                                |                   |                   |
|   | \$                | \$                |
| Net loss  | (3,004,097)       | (3,595,764)       |
| Adjustments to reconcile net loss to net cash used in operating activities: |                   |                   |
| Depreciation and amortization   | 14,534            | 20,087            |
| Stock option compensation expense   | 138,630           | 67,639            |
| Stock based expense for legal and consulting services                       | 35,000            | 17,800            |
| Accrued Stock contribution (directors' stock expense)                       | 17,154            | 7,717             |
| Gain on sale of rental assets   | -                 | (34,728)          |
| Loss on disposal of property and equipment                                  | 4,818             | -                 |
| Unrealized loss on derivative instrument                                    | 53,746            | 15,757            |
| Changes in assets and liabilities:  |                   |                   |
| Restricted cash   | 750,000           | -                 |
| Receivables   | (173,894)         | (7,819)           |
| Prepaid expenses and other current assets                                   | 38,354            | 7,684             |
| Inventory   | (150,000)         | (2,480,227)       |
| Accounts payable, accrued expenses and other liabilities                    | 907,517           | 4,778,006         |
| Deferred revenue  | (3,200)           | 12,800            |
| Net cash used in operating activities                                       | (1,371,438)       | (1,191,048)       |
| <b>Cash flows from investing activities:</b>                                |                   |                   |
| Purchases of property and equipment   | (20,000)          | (14,685)          |
| Proceeds from sale of rental assets   | -                 | 43,800            |
| (Increase) decrease in security deposits                                    | 2,275             | (2,275)           |
| Net cash provided by (used in) investing activities                         | (17,725)          | 26,840            |
| <b>Cash flows from financing activities:</b>                                |                   |                   |
| Proceeds from exercises of stock options                                    | -                 | 10,050            |
| Proceeds from sale of stock   | -                 | 525,625           |
| Proceeds from issuance of note payable                                      | 1,700,200         | 200,000           |
| Principal payments of note payable  | (265,200)         | (100,000)         |
| Net cash provided by financing activities                                   | 1,435,000         | 635,675           |
| Net increase (decrease) in cash   | 45,837            | (528,533)         |
| Cash at beginning of year   | 28,485            | 557,018           |
|   | \$                | \$                |
| Cash at end of year   | 74,322            | 28,485            |

**Supplemental Cash Flow Information**

|                        |                |          |
|------------------------|----------------|----------|
| Cash Paid for interest | <b>\$4,907</b> | \$20,721 |
|------------------------|----------------|----------|

*See accompanying notes*

**Supplemental disclosure of non-cash transactions:**

During July 2012, the Company issued 240,000 common shares at \$0.8333 per share to settle \$200,000 of accrued liabilities.

During June 2012, the Company issued 120,000 common shares at \$0.8333 per share to prepay \$100,000 in legal expenses. \$46,813 remained in prepaid expenses at December 31, 2012.

During March 2012, the Company issued 100,000 common shares at \$1.111 per share to settle \$111,100 of accrued liabilities.

During February 2012, the Company issued 14,415 shares at \$1.19 per share to settle \$17,154 of accrued liabilities.

During November 2011, the Company issued 7,148 common shares totaling \$9,650 on subscription.

During August 2011, the Company issued 100,000 common shares at \$1.25 per share to settle \$125,000 accrued liabilities.

During August 2011, the Company issued 9,219 common shares at \$1.4103 per share to two of its directors in lieu of \$13,000 of directors' fees.

During June 2011, the Company converted 375 shares of Class C Convertible Preferred Stock to 315,126 shares of common stock at the conversion price of \$1.19 per share of common stock. In addition, \$81,933 of derivative liability was reclassified to equity upon conversion.

During May 2011, the Company issued 50,000 common shares at \$1.31 per share to settle \$65,600 of accrued liabilities.

During February 2011, the Company canceled 10,000 common shares previously issued to Crisnic and canceled the related \$9,000 receivable.

During February 2011, the Company issued 10,000 common shares at \$0.99 per share to settle \$9,900 of deferred payroll.

During January 2011, the Company canceled 15,000 common shares previously issued to Crisnic and canceled the related \$13,500 receivable.

During January 2011, the Company issued 15,000 common shares at \$1.09 per share to settle \$16,350 of accrued liabilities.

**COMPETITIVE TECHNOLOGIES, INC. AND SUBSIDIARY**

Notes to Consolidated Financial Statements

**1.**

**BUSINESS AND BASIS OF PRESENTATION**

Competitive Technologies, Inc. ("CTTC") and its majority-owned (56.1%) subsidiary, Vector Vision, Inc. ("VVI"), (collectively, "we" or "us") provide patent and technology licensing and commercialization services throughout the world, with concentrations in the U.S., Europe, and Asia, with respect to a broad range of life and physical sciences, electronics, and nanotechnologies originally invented by individuals, corporations and universities.

Within the current portfolio of technologies, one technology has been the main focus of our business during years ended December 31, 2012 and 2011: the Calmare<sup>®</sup> pain therapy medical device, which features the patented *Scrambler Therapy*<sup>®</sup> technology.

The consolidated financial statements include the accounts of CTTC, and VVI. Inter-company accounts and transactions have been eliminated in consolidation.

The Company has incurred operating losses since fiscal 2006. During the years ended December 31, 2012 and December 31, 2011, we had a significant concentration of revenues from our pain therapy medical device technology. We continue to seek revenue from new technologies or products to mitigate the concentration of revenues, and replace revenues from expiring licenses. At current reduced spending levels, the Company may not have sufficient cash flow to fund operating expenses beyond third quarter fiscal 2013. These conditions raise substantial doubt about the Company's ability to continue as a going concern. The financial statements do not include adjustments to reflect the possible future effect of the recoverability and classification of assets or amounts and classifications of liabilities that may result from the outcome of this uncertainty.

The Company's continuation as a going concern is dependent upon its developing other recurring revenue streams sufficient to cover operating costs. If necessary, we will meet anticipated operating cash requirements by further reducing costs, issuing debt or equity, and/or pursuing sales of certain assets and technologies while we pursue licensing and distribution opportunities for our remaining portfolio of technologies. The Company does not have any significant capital requirements in the budget going forward. There can be no assurance that the Company will be successful in such efforts. Failure to develop a recurring revenue stream sufficient to cover operating expenses would negatively affect the Company's financial position.

Our liquidity requirements arise principally from our working capital needs, including funds needed to find and obtain new technologies or products, and protect and enforce our intellectual property rights, if necessary. We fund our liquidity requirements with a combination of cash on hand, debt and equity financing, and cash flows from operations, if any, including royalty legal awards. At December 31, 2012, we had \$1,535,000 of outstanding debt.

During 2011, the Company entered into a Factoring Agreement with Versant Funding, LLC ("Versant") to accelerate receivable collection and better manage cash flow. Under the Factoring Agreement the Company agreed to sell to Versant certain of the Company's accounts receivables. For those accounts receivable the Company tendered to Versant and Versant chose to purchase, Versant had agreed to advance 75% of the face value to the Company, and to submit a percentage of the remainder to the Company upon collection on the account. The percentage was based on the time it takes Versant to collect on the account. As part of the Factoring Agreement, the Company and Versant entered into a Security Agreement whereby the Company granted Versant a security interest in certain of the Company's assets to

secure the Company's performance of the representations made with respect to the purchase of the accounts receivable. During the fourth quarter of 2012, the Company ended its Factoring Agreement with Versant and entered into a new Factoring Agreement with LSQ Funding ("LSQ"). The new Factoring Agreement with LSQ provides for an 85% advance of factored accounts, lower fees, a faster payout of both advances and balances due, and the possibility of over-advances. At December 31, 2012, the Company had one factored account and LSQ had over-advanced the Company \$80,000 of which approximately \$77,500 remained outstanding at December 31, 2012 and is included in accrued expenses.

On December 2, 2008, the Company received notice from the NYSE Amex, then known as NYSE Alternext US LLC (the "Exchange"), notifying us that the staff of the Exchange Corporate Compliance Department had determined that the Company's Form 10-K for the fiscal year ended July 31, 2008 did not meet continued listing standards as set forth in Part 10 of the Exchange Company Guide, and the Company has therefore become subject to the procedures and requirements of Section 1009 of the Exchange Company Guide. As noted in Section 1003 of the Exchange Company Guide, companies with stockholders' equity of less than \$2 million, and losses from continuing operations and net losses in two out of its three most recent fiscal years, or with stockholders' equity of less than \$4 million and losses from continuing operations and net losses in three out of its four most recent fiscal years are non-compliant. We were only non-compliant with the stockholders' equity component.

Despite the Company's efforts to regain compliance, as required by the Exchange's rules, on June 4, 2010 the Exchange notified CTTC that the Exchange intended to file a delisting application with the Securities and Exchange Commission (SEC) to strike the listing of CTTC's securities from the Exchange pursuant to Section 1009(d) of the NYSE Amex Company Guide. The Company filed an appeal of the delisting determination and requested an oral hearing before a Listing Qualifications Panel of the Exchange (the Panel). That hearing was held on August 25, 2010. On August 30, the Company announced that the Panel had affirmed the Exchange Staff's determination to delist the Company's securities. On September 3, 2010, the Company's securities began trading on the OTCQB marketplace under the ticker symbol CTTC. On October 5, 2010, the Company's securities began trading on the OTC market's top tier, the OTCQX.

The Company acquired the exclusive, worldwide rights to the *Scrambler Therapy*® technology in 2007. The Company's original 2007 agreement with Giuseppe Marineo, the inventor of *Scrambler Therapy* technology, and Delta Research and Development, authorized CTTC to manufacture and sell worldwide the device developed from the patented *Scrambler Therapy* technology. The original agreement was amended in 2011 and again in 2012. The 2012 amendment reduced CTTC's territory, in exchange for extending the term of the agreement. The *Scrambler Therapy* technology is patented in Italy and the U.S. Additional applications for patents have been filed internationally and are pending approval. The Calmare® device has CE Mark certification from the European Union as well as U.S. FDA 510(k) clearance. CTTC's partner, GEOMC Co., Ltd. of Korea, is manufacturing the product commercially. Sales of these devices are expected to provide a significant proportion of the Company's revenue for the next several years.

2.

## SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

## **Use of Estimates**

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America ( GAAP ) requires that we make estimates, judgments and assumptions that affect the reported amounts of assets, liabilities, revenues, expenses, and disclosure of contingent assets and liabilities. Actual results could differ significantly from our estimates.



## Revenue Recognition

We earn revenue in two ways: retained royalties from licensing our clients' and our own technologies to our customer licensees, and sales of finished products. We record revenue when the terms of the sales arrangement are accepted by all parties including a fee that is fixed and determinable, delivery has occurred and our customer has taken title, and collectability is reasonably assured.

Since 2011 the Company has taken greater control of the sales process. We are the primary obligor, responsible for delivering devices as well as for training our customers in the proper use of the device. We deal directly with customers, setting pricing and providing training; work directly with the inventor of the technology to develop specifications and any changes thereto and to select and contract with manufacturing partners; and retain significant credit risk for amounts billed to customers. Therefore, all product sales are recorded following a gross revenue methodology.

Revenue from foreign sources totaled approximately \$30,000 \$1,645,000 for the years ended December 31, 2012 and 2011, respectively. Of the foreign-sourced revenue received, all \$30,000 earned during the year ended December 31, 2012 was from sources in the Middle East, while approximately \$1,159,000 earned during the year ended December 31, 2011 was from sources in Europe.

Retained royalties or distribution fees earned are of the following types:

*Non-refundable, upfront license fee* We record our share of non-refundable, upfront license fees upon execution of a license, sublicense or distribution agreement. Once delivery is complete, and the fee is collected, we have no continuing obligation. No upfront fees were received during the years ended December 31, 2012 or 2011.

*Royalty or per unit fees* The royalty or per unit rate is fixed in the license or distribution agreement, with the amount earned contingent upon our customer's usage of our technology or sale of our product. Some agreements may contain stipulated minimum monthly or annual fee payments to CTTC. We determine the amount of revenue to record when we can estimate the amount earned for a period. We receive payment or royalty reports on a monthly, quarterly or semi-annual basis indicating usage or sales of licensed technologies or products to determine the revenue earned in the period. Revenue may fluctuate from one quarter to another based on receipt of reports from customers.

*Royalty legal awards* We earn non-recurring revenues from royalty legal awards, principally from patent infringement actions filed on behalf of our clients and/or us. Patent infringement litigation cases generally occur when a customer or another party ignores our patent rights, or challenges the legal standing of our clients' or our technology rights. These cases, even if settled out of court, may take several years to complete, and the expenses may be borne by our clients, by us, or shared. We share royalty legal awards in accordance with the agreement we have

with our clients, usually after reimbursing each party for their related legal expenses. We recognize royalty legal award revenue when our rights to litigation awards are final and unappealable and we have assurance of collecting those awards, or when we have collected litigation awards in cash from the adverse party, or by sale of our rights to another party without recourse, and we have no obligation or are very unlikely to be obligated to repay such collected amounts. Proceeds from cases settled out of court are recorded as retained royalties.

Legal awards in patent infringement cases usually include accrued interest through the date of payment, as determined by the court. The court awards interest for unpaid earned income. Interest may also be included in other settlements with customers. Interest included in an award or settlement is generally recorded as interest income when received.

Unless otherwise specified, we record all other revenue, as earned.

### **Concentration of Revenues**

Total revenue consists of revenue from product sales, gain on sales of rental assets, retained royalties, and other income. During the year ended December 31, 2012, we derived approximately \$913,000 or 85% of total revenue from sales of our Calmare pain therapy medical device technology. An additional 5% of revenue derived indirectly from that technology through sales of supplies and training, rental payments and the sale of rental assets. Of this amount approximately \$120,000 or 13% of total revenue from sales of our Calmare pain therapy medical device technology came from one customer in 2012, and an additional \$100,000 or 11% of total revenue from sales of our Calmare pain therapy medical device technology came from one other customer in 2012.

During the year ended December 31, 2011, we derived approximately \$3,329,000 or 97% of total revenue from sales of our Calmare pain therapy medical device technology, as well as an additional 1% of revenue derived indirectly from that technology through sales of supplies and training, rental payments and the sale of rental assets. Of this amount, approximately \$1,060,000 or 32% was received from one customer in 2011. We continue to seek revenue from new technology licenses to mitigate the concentration of revenues, and replace revenue from expiring licenses. We have created a business model for appropriate technologies, such as the Calmare device, that allows us to move beyond our usual royalty arrangement and share in the profits of distribution.

### **Expenses**

We recognize expenses related to evaluating, patenting and licensing inventions, and enforcing intellectual property rights in the period incurred.

Cost of product sales includes contractual payments to inventor and manufacturer relating to our Calmare pain therapy medical device. Expenses associated with shipping devices which are not reimbursed by customers are also included in cost of product sales.

Selling Expenses include commission expenses related to sales of inventory (Calmare devices) technologies, domestic and foreign patent legal filing, prosecution and maintenance expenses, net of reimbursements, royalty audits, and other direct costs

Personnel and consulting expenses include employee salaries and benefits, marketing and consulting expenses related to technologies and specific revenue initiatives, and other direct costs.

General and administrative expenses include directors' fees and expenses, public company related expenses, professional services, including financing, audit and legal services, rent and other general business and operating expenses.

### **Fair Value of Financial Instruments**

The Company believes the carrying amounts of cash, accounts receivable, accounts payable, accrued expenses and other liabilities, deferred revenue, preferred stock liability and note payable approximate fair value due to their short-term maturity. The fair values described herein were determined using significant other observable inputs (Level 2) as defined by GAAP

### **Inventory**

Inventory consists of finished product of our pain therapy device. Inventory is stated at lower of cost (first in, first out) or market.

## **Property and Equipment**

Property and equipment are carried at cost net of accumulated depreciation. Expenditures for normal maintenance and repair are charged to expense as incurred. The costs of depreciable assets are charged to operations on a straight-line basis over their estimated useful lives, three to five years for equipment, or the terms of the related lease for leasehold improvements. The cost and related accumulated depreciation or amortization of property and equipment are removed from the accounts upon retirement or other disposition, and any resulting gain or loss is reflected in earnings.

## **Impairment of Long-lived Assets**

We review our long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of the asset may not be recoverable. If the estimated fair value is less than the carrying amount of the asset, we record an impairment loss. If a quoted market price is available for the asset or a similar asset, we use it to determine estimated fair value. We re-evaluate the remaining useful life of the asset and adjust the useful life accordingly. There were no impairment indicators identified during the years ended December 31, 2012 and 2011.

## **Income Taxes**

Income taxes are accounted for under an asset and a liability approach that requires recognition of deferred income tax assets and liabilities for the expected future consequences of events that have been recognized in the Company's consolidated financial statements and income tax returns. The Company provides a valuation allowance for deferred income tax assets when it is considered more likely than not that all or a portion of such deferred income tax assets will not be realized.

## **Net Income (Loss) Per Share**

We calculate basic net income (loss) per share based on the weighted average number of common shares outstanding during the period without giving any effect to potentially dilutive securities. Net income (loss) per share, assuming dilution, is calculated giving effect to all potentially dilutive securities outstanding during the period.

## **Share-Based Compensation**

The Company accounts for its share-based compensation in accordance with the Financial Accounting Standards Board's ("FASB") Accounting Standards Codification ("ASC") 718 "Compensation - Stock Compensation."

Accordingly, the Company recognizes compensation expense equal to the fair value of the stock awards at the time of the grant over the requisite service period.

Our accounting for share-based compensation has resulted in our recognizing non-cash compensation expense related to stock options granted to employees, which is included in personnel and consulting expenses, and stock options

granted to our directors, which is included in general and administrative expenses.

### **Recent Accounting Pronouncements**

No new accounting pronouncements issued or effective during the year ended December 31, 2012 has had or is expected to have a material impact on the consolidated financial statements.

## 3.

**INCOME TAXES**

In current and prior years, we generated significant federal and state income and alternative minimum tax losses, and these net operating losses ("NOLs") were carried forward for income tax purposes to be used against future taxable income.

A reconciliation of our effective income tax rate compared to the U.S. federal statutory rate is as follows:

|  | <b>Year ended December 31,<br/>2012</b> | <b>Year ended December 31,<br/>2011</b> |
|--|---|---|
| Provision (benefit) at U.S. federal statutory rate | <b>(35.0)%</b>                          | <b>(34.0)%</b>                          |
| State provision (benefit), net of U.S. federal tax | <b>(4.8)</b>                            | <b>(4.9)</b>                            |
| Permanent differences                              | <b>(0.2)</b>                            | <b>0.1</b>                              |
| Expiration of capital loss carryforwards-          |   | -                                       |
| Other items  | <b>5.2</b>                              | <b>(1.9)</b>                            |
| Deferred tax valuation allowance                   | <b>34.8</b>                             | <b>40.7</b>                             |
| Effective income tax rate                          | <b>0.0%</b>                             | <b>0.0%</b>                             |

Net deferred tax assets consist of the following:

|  | <b>Year ended December 31,<br/>2012</b> | <b>Year ended December 31,<br/>2011</b> |
|--|---|---|
| Net federal and state operating loss carryforwards | \$ 14,785,650                           | \$ 13,603,574                           |
| Impairment of investments                          | 531,470                                 | 524,388                                 |
| Other, net   | 680,637                                 | 523,473                                 |
| Deferred tax assets                                | 15,997,757                              | 14,651,435                              |
| Valuation allowance                                | (15,997,757)                            | (14,651,435)                            |
| Net deferred tax assets                            | \$ -                                    | \$ -                                    |

At December 31, 2012, we had aggregate federal net operating loss carryforwards of approximately \$36,573,000, which expire at various times through 2032. A majority of our federal NOLs can be used to reduce taxable income used in calculating our alternative minimum tax liability. We also have state net operating loss carryforwards of approximately \$35,014,000 that expire at various times through 2032.

Approximately \$4,196,000 of our NOL carryforward remaining at December 31, 2012 was derived from income tax deductions related to the exercise of stock options. The tax effect of these deductions will be credited against capital in excess of par value at the time they are utilized for book purposes, and not credited to income. We will never receive a benefit for these NOLs in our statement of operations.



Changes in the valuation allowance were as follows:

|  | <b>Year ended</b>   | <b>Year ended</b>   |
|--|---------------------|---------------------|
|  | <b>December 31,</b> | <b>December 31,</b> |
|  | <b>2012</b>         | <b>2011</b>         |
| Balance, beginning of year                 | \$                  | \$                  |
|  | <b>14,651,435</b>   | <b>13,185,199</b>   |
| Change in temporary differences            | <b>157,164</b>      | <b>68,680</b>       |
| Change in net operating and capital losses | <b>1,189,158</b>    | <b>1,397,556</b>    |
| Balance, end of year                       | \$                  | \$                  |
|  | <b>15,997,757</b>   | <b>14,651,435</b>   |

Our ability to derive future tax benefits from the net deferred tax assets is uncertain and therefore we continue to provide a full valuation allowance against the assets, reducing the carrying value to zero. We will reverse the valuation allowance if future financial results are sufficient to support a carrying value for the deferred tax assets.

At December 31, 2012 and December 31, 2011, we had no uncertain tax positions.

We include interest and penalties on the underpayment of income taxes in income tax expense.

We file income tax returns in the United States and Connecticut. The Internal Revenue Service has completed audits for the periods through the fiscal year ended July 31, 2005. Our open tax years for review are fiscal years ended July 31, 2009 through year ended December 31, 2012. The Company's returns filed with Connecticut are subject to audit as determined by the statute of limitations.

#### 4.

#### NET INCOME (LOSS) PER COMMON SHARE

The following sets forth the denominator used in the calculations of basic net income (loss) per share and net income (loss) per share assuming dilution:

| <b>Year ended</b>        | <b>Year ended December</b> |
|--------------------------|----------------------------|
| <b>December 31, 2012</b> | <b>31, 2011</b>            |

|   |                   |            |
|---|-------------------|------------|
| Denominator for basic net income (loss) per share,<br>weighted average shares outstanding | <b>15,007,852</b> | 14,115,651 |
| Dilutive effect of common stock options   | N/A               | N/A        |
| Dilutive effect of Series C Convertible Preferred<br>Stock                                | N/A               | N/A        |
| Denominator for net income (loss) per share,<br>assuming dilution                         | <b>15,007,852</b> | 14,115,651 |

Options to purchase 317,000 and 313,000 shares of our common stock at December 31, 2012 and 2011, respectively, were outstanding but were not included in the computation of net income (loss) per share because they were anti-dilutive. The outstanding 375 shares of Series C Convertible Preferred Stock, if converted at December 31, 2012 and 2011, would have resulted in an additional 773,000 and 350,140 shares of common stock, respectively. Due to the net loss incurred for the years ended December 31, 2012, and December 31, 2011, the denominator used in the calculation of basic net loss per share was the same as that used for net loss per share, assuming dilution, since the effect of any options or converted preferred shares would have been anti-dilutive.

5.

## SHAREHOLDERS INTEREST

### *Common shares.*

On June 2, 2010, we entered into an agreement with Crisnic Fund, S.A. to sell up to two million share of our common stock to Crisnic at a 15% discount from the volume weighted average price on the date the SEC declared our registration statement effective. As part of the agreement, Crisnic was entitled to \$10,000 cash and 75,000 shares of our common stock as a fee.

The SEC declared our registration statement effective on July 14, 2010. The volume weighted average price on that day was \$2.40 per share and the 15% discount priced the shares at \$2.04 per share. During this same period, June and July 2010, the Company also received notification of its pending delisting from the NYSE Amex (see Note 1).

Although the Company believed completing the Crisnic Agreement would enable it to comply with the NYSE Amex's continued listing standards, market conditions existing at the time, primarily the threat of the Company being delisted from the NYSE Amex, led to a significant increase in short sales and a rapid decrease in the stock price.

Following the closing date for the sale, the stock price went down rapidly, to the point where Crisnic was unable to complete the funding for the transaction. Because the stock was trading below the discounted price of \$2.04, portions of the shares could not be sold to third parties at the agreed-upon price, as had been planned by Crisnic. Shares were sold in several tranches, initially at the agreed upon price per share of \$2.04, and as market conditions worsened, at lower prices which would still enable the Company to receive the necessary financing. No shares were sold below \$0.90.

The Company ultimately received approximately \$1.6 million for the sale of 1,447,867 shares of common stock (including 75,000 shares given to Crisnic as a fee). These shares were sold between July 14, 2010, which was the date the registration statement was declared effective by the Securities and Exchange Commission, and September 15, 2010. Plans to sell the remaining 627,133 shares issued on subscription for \$0.90 a share had been halted due to market conditions. In November 2010, the Company and Crisnic agreed to cancel 602,133 common shares previously issued on subscription and canceled the related \$541,920 receivable. During January 2011 the Company and Crisnic canceled 15,000 additional shares previously issued on subscription and canceled the related \$13,500 receivable. During February 2011 the Company and Crisnic canceled 10,000 additional shares previously issued on subscription and canceled the related \$9,000 receivable.

The 627,133 shares were reissued. In November 2010, the Company issued 69,528 shares to attorneys and the contractor where the CEO is employed to settle \$85,900 of accounts payable. In December 2010, an additional 532,605 shares were sold for approximately \$505,000. In January 2011 the Company issued 15,000 shares to attorneys to settle \$16,350 of accrued liabilities. In February 2011 the Company issued 10,000 shares to the Company

Executive Vice President to settle \$9,900 of deferred payroll.

On November 22, 2011, the Company's Board of Directors authorized the Company to initiate a Private Placement of up to 420,000 shares of restricted common stock. The authorization was amended on November 28, 2011 to authorize up to 450,000 shares to be placed. As of December 31, 2011, the Company sold 396,500 shares of common stock at \$1.35 per share; of the total proceeds (\$535,275) \$9,650 remained to be collected at December 31, 2011, and was collected during the first quarter of 2012. At December 31, 2011, and at December 31, 2012, an additional 53,500 shares remained available for sale per the Board Resolution. The proceeds of the stock sale went toward funding operations during the quarter, traditionally a slower sales period for medical devices.

At the Company's Annual Meeting held on May 24, 2012, the stockholders voted to increase the number of authorized shares of the Company's common stock by amending Article FOURTH of the Certificate of Incorporation filed with the Office of the Secretary of State of Delaware to read as follows:

The total number of shares of stock of all classes of stock which the Corporation shall have authority to issue is 40,035,920 shares, of which 35,920 shares, with a par value of \$25.00 each, are to be 5% Preferred Stock, and 40,000,000 shares, with a par value of \$.01 each, are to be common stock.

Subsequent to December 31, 2012, the Company entered into an Equity Purchase Agreement with Southridge Partners II, L.P. ( "Southridge" ). Under the terms of the Purchase Agreement, which was filed with the SEC on February 26, 2013, Southridge will purchase, at the Company's election, up to \$10,000,000 of the Company's registered common stock (the "Shares"). During the two year term of the Purchase Agreement, the Company may at any time in its sole discretion deliver a "put notice" to Southridge thereby requiring Southridge to purchase a certain dollar amount of the Shares. Simultaneous with the delivery of such Shares, Southridge shall deliver payment for the Shares. Subject to certain restrictions, the purchase price for the Shares shall be equal to ninety percent of the lowest closing bid price for the Company's common stock during the ten-day trading period immediately after the Shares specified in the Put Notice are delivered to Southridge.

The number of Shares sold to Southridge shall not exceed the number of such shares that, when aggregated with all other shares of common stock of the Company then beneficially owned by Southridge, would result in Southridge owning more than 9.99% of all of the Company's common stock then outstanding. Additionally, Southridge may not execute any short sales of the Company's common stock.

Subsequent to December 31, 2012, the Company has issued 1,000,000 shares of its common stock into escrow, pending the completion of potential financing with a European investment group.

### ***Preferred Stock***

Holders of 5% preferred stock are entitled to receive, if, as, and when declared by the Board of Directors, out of funds legally available therefore, preferential non-cumulative dividends at the rate of \$1.25 per share per annum, payable quarterly, before any dividends may be declared or paid upon or other distribution made in respect of any share of common stock. The 5% preferred stock is redeemable, in whole at any time or in part from time to time, on 30 days' notice, at the option of the Company, at a redemption price of \$25. In the event of voluntary or involuntary liquidation, the holders of preferred stock are entitled to \$25 per share in cash before any distribution of assets can be made to holders of common stock.

Each share of 5% preferred stock is entitled to one vote. Holders of 5% preferred stock have no preemptive or conversion rights. The preferred stock is not registered to be publicly traded.

At its December 2, 2010 meeting, the CTTC Board of Directors declared a dividend distribution of one right (each, a Right ) for each outstanding share of common stock, par value \$0.01, of the Company (the Common Shares ). The dividend was payable to holders of record as of the close of business on December 2, 2010 (the Record Date ). Issuance of the dividend may be triggered by an investor purchasing more than 20% of the outstanding shares of common stock. This shareholder rights plan and the subsequent authorization of 20,000 shares of Series B Preferred Stock were announced with a Form 8-K filing on December 15, 2010, following CTTC's finalization of the Rights Agreement with CTTC's Rights Agent, American Stock Transfer & Trust Company, LLC. The Rights Agreement was filed with the December 15, 2010, Form 8-K. It is intended to provide the CTTC Board of Directors with

time for proper valuation of the Company should other entities attempt to purchase a controlling interest of CTTC shares.

On December 15, 2010 the Company issued a \$400,000 promissory note. The promissory note was scheduled to mature on December 31, 2012 with an annual interest rate of 5%.

On December 15, 2010, the Company's Board of Directors authorized the issuance of 750 shares of Series C Convertible Preferred Stock (\$1,000 par value) with a 5% cumulative dividend to William R. Waters, Ltd. of Canada. On December 30, 2010, 750 shares were issued. The Company converted the above \$400,000 promissory note into 400 shares and received cash of \$350,000 for the remaining 350 shares. These transactions were necessitated to replenish the Company's operating cash which had been drawn down by the \$750,000 cash collateral previously posted by CTTC in a prejudgment remedy action styled John B. Nano v. Competitive Technologies, Inc., Docket No. CV10 5029318 (Superior Court, Bridgeport, CT), see Note 16.

On June 17, 2011, William R. Waters, Ltd. of Canada, advised the Company of its intent to convert one half of its Series C Convertible Preferred Stock, 375 shares, to common stock, with a conversion date of June 16, 2011. On July 14, 2011, American Stock Transfer & Trust Company was asked to issue the certificate for 315,126 shares of CTTC common stock. In accordance with the conversion rights detailed below, the conversion price for these shares was \$1.19, which is 85% of the mid-point of the last bid price (\$1.35) and the last ask price (\$1.45) on June 16, 2011, the agreed upon conversion date.

The rights of the Series C Convertible Preferred Stock are as follows:

**Dividend rights** The shares of Series C Convertible Preferred Stock accrue a 5% cumulative dividend on a quarterly basis and is payable on the last day of each fiscal quarter when declared by the Company's Board. As of December 31, 2012 dividends declared were \$46,949, of which \$18,750 were declared during the year ended December 31, 2012 and \$28,202 have not been paid and are shown in accrued and other liabilities at December 31, 2012.

**Voting rights** Holders of these shares of Series C Convertible Preferred Stock shall have voting rights equivalent to 1,000 votes per \$1,000 par value Series C Convertible Preferred share voted together with the shares of common stock

**Liquidation rights** Upon any liquidation these Series C Convertible Preferred Stock shares shall be treated as equivalent to shares of Common stock to which they are convertible.

**Redemption rights**

Holder may demand redemption of outstanding Series C Convertible Preferred Stock shares by the Company at a price equal to par plus any accrued but unpaid dividends in the event that the \$750,000 escrow by the Company has been released and returned to the company.

The Company may upon notice to holder redeem all or any portion of outstanding Series C Convertible Preferred Stock shares by the Company at a price equal to par plus any accrued but unpaid dividends in the event that the \$750,000 escrow by the Company has been released and returned to the company. However, the holder may elect to convert (see conversion rights below) the preferred shares upon receipt of such notice.

At December 31, 2011, the \$750,000 was still held in escrow. In January 2012, the \$750,000 held in escrow was released but not returned to the Company, nullifying the redemption rights. However the holder retains the right to convert



Conversion rights Holder has right to convert each share of Series C Convertible Preferred Stock at any time into shares of the Company's common stock at a conversion price for each share of common stock equal to 85% of the lower of (1) the closing market price at the date of notice of conversion or (2) the mid-point of the last bid price and the last ask price on the date of the notice of conversion. The variable conversion feature creates an embedded derivative that was bifurcated from the Series C Convertible Preferred Stock on the date of issuance and was recorded at fair value. The derivative liability will be recorded at fair value on each reporting date with any change recorded in the Statement of Operations as an unrealized gain (loss) on derivative instrument.

The holder did convert 375 shares in June 2011. On the date of conversion of the 375 shares of Series C Convertible Preferred Stock the Company calculated the value of the derivative liability to be \$81,933 and recorded an unrealized loss of \$15,678 for the six months ended June 30, 2011 related to the converted shares. Upon conversion, the \$81,933 derivative liability was reclassified to equity.

The Company recorded a convertible preferred stock derivative liability of \$119,922 and \$66,176, associated with the 375 shares of Series C Convertible Preferred Stock outstanding at December 31, 2012 and, 2011, respectively.

The Company has classified the Series C Convertible Preferred Stock as a liability at December 31, 2012 and, 2011 because the variable conversion feature may require the Company to settle the conversion in a variable number of its common shares.

**6.**

**RECEIVABLES**

Receivables consist of the following:

|   | <b>December 31,</b> | December 31, |
|---|---------------------|--------------|
|   | <b>2012</b>         | 2011         |
| Calmare Sales Receivable                  | \$ 212,774          | \$ 24,444    |
| Royalties, net of reserve of \$101,154 at | -                   | -            |
| December 31, 2012 and 2011                |                     |              |
| Other                                     | <b>3,591</b>        | 18,027       |
| Total                                     | <b>\$ 216,365</b>   | \$ 42,471    |

Included in other at December 31, 2011 was \$9,650 from the sale of the Company's common stock (Note 5) that was received in January 2012.

7.

**PROPERTY AND EQUIPMENT, NET**

Property and equipment, net, consist of the following:

|   | <b>December 31,</b> | December 31, |
|---|---------------------|--------------|
|   | <b>2012</b>         | 2011         |
| Equipment and furnishings                 | \$                  | \$           |
|   | <b>189,633</b>      | 227,645      |
| Accumulated depreciation and amortization | <b>(162,816)</b>    | (201,476)    |
| Property and equipment, net               | \$                  | \$           |
|   | <b>26,817</b>       | 26,169       |

In July 2012, the Company closed its Charlotte, NC office and disposed of the property and equipment at that location at a loss of \$4,818.

Depreciation expense was \$14,534 and \$20,087 for the years ended December 31, 2012 and 2011, respectively.

8.

**AVAILABLE-FOR-SALE AND EQUITY SECURITIES**

|                                 | <b>December 31,<br/>2012</b> | December 31,<br>2011 | Number of<br>shares | Type         |
|---------------------------------|------------------------------|----------------------|---------------------|--------------|
| Security Innovation, Inc.       | --                           | --                   | 223,317             | Common stock |
| Xion Pharmaceutical Corporation | --                           | --                   | 60                  | Common stock |

In prior years, we acquired 3,129,509 shares of NTRU Cryptosystems, Inc. ("NTRU") common stock, and certain preferred stock that later was redeemed, in exchange for cash and a reduction in our future royalty rate on sales of NTRU's products. NTRU was a privately held company that sold encryption software for security purposes, principally in wireless markets. There was no public market for NTRU shares. In 2003, we wrote down the value of NTRU to \$0, but we continued to own the shares. On July 22, 2009, all NTRU assets were acquired by Security Innovation, an independent provider of secure software located in Wilmington, MA. We received 223,317 shares of stock in the privately held Security Innovation for our shares of NTRU.

In September 2009 we announced the formation of a joint venture with Xion Corporation for the commercialization of our patented melanocortin analogues for treating sexual dysfunction and obesity. We received 60 shares of privately held Xion Pharmaceutical Corporation common stock in June 2010. CTTC currently owns 30% of the outstanding stock of Xion Pharmaceutical Corporation.

9.

**FAIR VALUE MEASUREMENTS**

The Company measures fair value in accordance with Topic 820 of the FASB "ASC", "Fair Value Measurements" ("ASC 820"), which provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy under ASC 820 are described as follows:

Level 1 -

Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Plan has the ability to access.

Level 2 -

Inputs to the valuation methodology include:

- 

Quoted prices for similar assets or liabilities in active markets;

- 

Quoted prices for identical or similar assets or liabilities in inactive markets;

- 

Inputs other than quoted prices that are observable for the asset or liability;

- 

Inputs that are derived principally from or corroborated by observable market data by correlation or other means.

If the asset or liability has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability.

Level 3 -

Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The asset's or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

The Company values its derivative liability associated with the variable conversion feature on its Series C Convertible Preferred Stock (Note 5) based on the market price of its common stock. For each

reporting period the Company calculates the amount of potential common stock that the Series C Preferred Stock could convert into based on the conversion formula (incorporating market value of our common stock) and multiplies those converted shares by the market price of its common stock on that reporting date. The total converted value is subtracted by the consideration paid to determine the fair value of the derivative liability.

The method described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while the Company believes its valuation method is appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value could result in a different fair value measurement at the reporting date.

The Company classified the derivative liability of \$119,922 and \$66,176 at December 31, 2012 and, 2011 and, respectively, in Level 2 of the fair value hierarchy.

**10.**

**PREPAID EXPENSES AND OTHER CURRENT ASSETS**

Prepaid expenses and other assets consist of the following:

|   | <b>December 31,</b> | December 31, |
|---|---------------------|--------------|
|   | <b>2012</b>         | 2011         |
| Prepaid insurance                         | \$ 17,473           | \$ 25,283    |
| Travel & commission advances              | -                   | 35,500       |
| Prepaid legal fees                        | 46,813              | -            |
| Other                                     | 14,441              | 9,485        |
| Prepaid expenses and other current assets | \$ 78,727           | \$ 70,268    |

**11.**

**ACCRUED EXPENSES AND OTHER LIABILITIES**

Accrued expenses and other liabilities consist of the following:

|  | December 31, | December 31, |
|--|--------------|--------------|
|  | 2012         | 2011         |
| Royalties payable                      | \$ 182,052   | \$ 210,169   |
| Accrued audit fee                      | 80,000       | 93,529       |
| Arbitration settlement payable         | -            | 775,000      |
| Over advance, fees LSQ Funding         | 77,464       | -            |
| Commissions payable                    | 48,722       | -            |
| Accrued interest payable               | 85,184       | 9,633        |
| Accrued consulting fees                | 167,726      | -            |
| Accrued directors fees                 | -            | 53,339       |
| Other                                  | 132,216      | 86,803       |
| Accrued expenses and other liabilities | \$ 773,364   | \$ 1,228,473 |

12.

**NOTES PAYABLE**

In December 2011, the Company issued a 90-day note payable to borrow \$100,000. Additional notes payable were issued in January 2012 (\$100,000); in April 2012 (\$100,000), in May 2012 (\$25,000); in June 2012 (\$20,000); in July 2012 (\$325,000); in August 2012 (\$50,000); in September 2012 (\$15,000); in October 2012 (\$165,000); in November 2012 (\$130,000); and in December 2012 (\$280,000). The proceeds from these notes (\$1,210,000) were used for general corporate purposes. These notes have been extended several times. A conversion feature was added to the Notes when they were extended, which allows for

conversion of the eligible principal amounts to common stock at any time after the six month anniversary of the effective date (the date the funds are received) at a rate of \$1.05 per share. The full amount of principal and 6.00% simple interest per annum are now due in the quarter ended September 30, 2013.

In March 2012, the Company issued a 24-month convertible promissory note to borrow \$100,000 for general corporate purposes. Additional 24-month convertible promissory notes were issued in April 2012 (\$25,000) and in June 2012 (\$100,000). Conversion of the eligible principal amounts to common stock is allowed at any time after the six month anniversary of the effective date of each note at a rate of \$1.05 per share. The full amount of principal was outstanding at December 31, 2012; 6.00% simple interest is payable monthly in advance. These notes are classified as long term, with due dates in March, April and June of 2014.

In March 2011, the Company issued a 90-day note payable to borrow \$50,000. The proceeds were used for general corporate purposes. The full amount of principal and 5.00% simple interest per annum was paid during the quarter ended June 30, 2011.

At December 31, 2012, \$1,410,000 of the outstanding were Notes payable to related parties; \$1,310,000 to the chairman of our Board and \$100,000 to another director. Subsequent to December 31, 2012, an additional \$1,005,000 was borrowed from our chairman. The terms and conditions are the same: 6.00% simple interest per annum and principal are due in the quarter ended September 30, 2013 and the notes are convertible to common stock at any time on or after the effective date of the initial loan amount.

### 13.

#### STOCK-BASED COMPENSATION PLANS

*2011 Employees', Directors' and Consultants' Stock Option Plan* In May 2011, the Board of Directors approved a new option plan for employees, directors and consultants. Pursuant to this plan which is administered by a Committee appointed by the Board of Directors, we could grant to qualified employees, directors and consultants either incentive options or nonstatutory options (as defined by the Internal Revenue Service). The stock options granted per written option agreements approved by the Committee, must have exercise prices not less than 100% of the Fair Market Value of our common stock on the date of the grant. Up to 1,000,000 common shares are available for grants under this plan. No options may be granted under this plan after December 31, 2015.

The following information relates to the 2011 Option Plan:

|  | <b>December 31, 2012</b> | <b>December 31, 2011</b> |
|--|--------------------------|--------------------------|
| Common shares reserved for issuance on exercise of options | <b>110,000</b>           | <b>40,000</b>            |

|   |                |                |
|---|----------------|----------------|
| Shares available for future option grants | <b>890,000</b> | <b>960,000</b> |
|---|----------------|----------------|

*Employee Stock Option Plans* Pursuant to our 1997 Employees' Stock Option Plan, as amended (the "1997 Option Plan"), we could grant to employees either incentive stock options or nonqualified stock options (as defined by the Internal Revenue Service). The stock options had to be granted at exercise prices not less than 100% of the fair market value of our common stock at the grant date. The maximum life of stock options granted under this plan is ten years from the grant date. The Compensation Committee or the Board of Directors determined vesting provisions when stock options were granted, and stock options granted generally vested over three or four years. No options could be granted under this plan after September 30, 2007.



The following information relates to the 1997 Option Plan:

|  | <b>December 31, 2012</b> | December 31, 2011 |
|--|--------------------------|-------------------|
| Common shares reserved for issuance on exercise of options | <b>57,000</b>            | 113,000           |
| Shares available for future option grants                  | -                        | -                 |

Prior to the 1997 Option Plan, we had a stock option plan that expired on December 31, 2000, after which no option could be granted under the plan. Pursuant to this plan incentive stock options and nonqualified stock options were granted to key employees. Incentive stock options could be granted at an exercise price not less than the fair market value of our common stock on the grant date. Nonqualified stock options could be granted at an exercise price not less than 85% of the fair market value of our common stock on the grant date. Options generally vested over a period of up to three years after the grant date and expire ten years after the grant date if not terminated earlier. No common shares remain reserved for issuance on exercise of stock options as of December 31, 2012 and 2011.

*2000 Director's Stock Option Plan* Pursuant to our Directors' Stock Option Plan (the "Directors' Option Plan"), we could grant each non-employee director 10,000 fully vested, nonqualified common stock options when the director first is elected, and 10,000 common stock options on the first business day of January thereafter, as long as the individual is a director. All such stock options are granted at an option price not less than 100% of the fair market value of the common stock at the grant date. The maximum life of options granted under this plan is ten years from the grant date. No options could be granted after January 4, 2010.

The following information relates to the 2000 Directors' Stock Option Plan:

|  | <b>December 31,</b> | December 31, |
|--|---------------------|--------------|
|  | <b>2012</b>         | 2011         |
| Common shares reserved for issuance on exercise of options | <b>150,000</b>      | 160,000      |
| Shares available for future option grants                  | -                   | -            |

As this plan expired in January 2010, no further option awards can be issued from this plan.

*Summary of Common Stock Options* The total fair value of shares vested in the years ended December 31, 2012 and December 31, 2011 was \$138,630 and \$67,639, respectively, of non-cash compensation expense. Of these amounts, \$0 and \$16,539 was included in personnel and consulting expenses, from stock options granted to employees in prior years, and vesting during the year ended December 31, 2012 and 2011, respectively. Stock options granted during the year are outstanding only a portion of the year, with the compensation expense recognized for that portion of the year. As of December 31, 2012, all outstanding options granted to employees were fully vested.

Also \$58,630 and \$51,280 of noncash compensation expense was included in general and administrative expenses, from stock options granted to directors pursuant to the Directors Option Plan in the years ended December 31, 2012 and 2011, respectively. Since these stock options are fully vested upon grant, the full fair value of the stock options is recorded as expense at the date of grant. During the year ended December 31, 2012, the Board of Directors extended the expiration dates for all options previously granted to two departing Board members in recognition for their service during the period of managerial transition. Those options will expire per their original term specified in each individual option agreement, typically either 5 or 10 years from the date of granting, rather than expiring within the specified time period, typically 90 days following the Board members' termination dates. The Company considered the extension as a modification to the option agreements recording incremental non-cash compensation of \$80,000 included in general and administrative expenses for the year ended December 31, 2012.

We estimated the fair value of each option on the grant date using a Black-Scholes option-pricing model with the following weighted average assumptions:

|   | Year ended December<br>31, 2012 | Year ended December<br>31, 2011 |
|---|---------------------------------|---------------------------------|
| Dividend yield <sup>(1)</sup>           | 0.0%                            | 0.0%                            |
| Expected volatility <sup>(2)</sup>      | 86.7% - 87.1%                   | 89.95%                          |
| Risk-free interest rates <sup>(3)</sup> | 0.89%                           | 1.96%                           |
| Expected lives <sup>(2)</sup>           | 5 years                         | 5 years                         |

(1)

We have not paid cash dividends on our common stock since 1981, and currently do not have plans to pay or declare cash dividends. Consequently, we used an expected dividend rate of zero for the valuations.

(2)

Estimated based on our historical experience. Volatility was based on historical experience over a period equivalent to the expected life in years.

(3)

Based on the U.S. Treasury constant maturity interest rate with a term consistent with the expected life of the options granted.

A summary of the status of all our common stock options as of December 31, 2012 and 2011, and changes during the periods then ended is presented below.

|                                    | Year ended December 31, 2012 |  |                                  | Year ended December 31, 2011 |  |                               |
|------------------------------------|------------------------------|--|----------------------------------|------------------------------|--|-------------------------------|
|                                    | Shares                       | Weighted<br>Average<br>Exercise<br>Price | Aggregate<br>Intrinsic<br>Values | Shares                       | Weighted<br>Average<br>Exercise<br>Price | Aggregate Intrinsic<br>Values |
|                                    | \$                           | \$                                       |                                  | \$                           | \$                                       |                               |
| Outstanding at beginning of period | 313,000                      | 2.11                                     | 7,650                            | 293,750                      | 2.18                                     | 11,800                        |
| Granted                            | 70,000                       | 1.24                                     |                                  | 40,000                       | 1.83                                     |                               |
| Forfeited                          | (66,000)                     | 2.44                                     |                                  | (3,750)                      | 2.25                                     |                               |
| Exercised                          | -                            |  |                                  | (10,000)                     | 1.01                                     |                               |
| Expired or terminated              | -                            |  |                                  | (7,000)                      | 5.00                                     |                               |
|                                    | <b>317,000 \$</b>            | <b>\$</b>                                |                                  | <b>313,000 \$</b>            | <b>\$</b>                                |                               |

|   |                |             |   |         |      |       |
|---|----------------|-------------|---|---------|------|-------|
| Outstanding at end of year  |                | <b>1.85</b> | - |         | 2.11 | 7,650 |
|   | \$             | \$          |   | \$      | \$   |       |
| Exercisable at end of year  | <b>317,000</b> | <b>1.85</b> | - | 313,000 | 2.11 | 7,650 |
| Weighted average fair value per share of options issued during the year | \$             |             |   | \$      |      |       |
|   |                | <b>1.18</b> |   |         | 1.28 |       |

There were no stock option exercises for the year ended December 31, 2012. The total intrinsic value of stock options exercised during the year ended December 31, 2011 was \$5,000. Total proceeds from stock option exercises were \$10,050 during the year ended December 31, 2011. Generally, we issue new shares of common stock to satisfy stock option exercises.

All outstanding stock options were fully vested at December 31, 2012 and December 31, 2011.

*1996 Directors' Stock Participation Plan* Pursuant to the terms of our 1996 Directors' Stock Participation Plan, on the first business day of January of each year, we issue to each non-employee director who has served at least one year as a director, the lesser of 2,500 shares of our common stock or a number of shares of common stock equal to \$15,000 on the date such shares are issued. If an otherwise eligible director terminates as a director before the first business day of the year, we issue such director a number of shares equal to the portion of the year served by that director. This plan expired on January 3, 2011. No shares were issued under this plan in the years ended December 31, 2012, or 2011.

**15.**

#### **401(k) PLAN**

We have an employee-defined contribution plan qualified under section 401(k) of the Internal Revenue Code (the "Plan"), for all employees age 21 or over, and meeting certain service requirements. The Plan has been in effect since January 1, 1997. Participation in the Plan is voluntary. Employees may defer compensation up to a specific dollar amount determined by the Internal Revenue Service for each calendar year. We do not make matching contributions, and employees are not allowed to invest in our stock under the Plan.

Our directors may authorize a discretionary contribution to the Plan, allocated according to the provisions of the Plan, and payable in shares of our common stock valued as of the date the shares are contributed. No contributions were accrued or made in the years ended December 31, 2012 and 2011.

**16.**

#### **COMMITMENTS AND CONTINGENCIES**

##### *Operating Leases*

On November 22, 2010, the Company terminated its operating lease for approximately 11,000 square feet of space in a building in Fairfield, Connecticut, and paid the landlord all existing obligations thereto. The Company then entered into a new, three-year operating lease for new, more appropriately sized office spaces in a different building, also in Fairfield, Connecticut. The obligations are significantly less than the previous lease, averaging \$70,000 per year for the three-year term.

In January 2011, the Company entered into a two-year lease effective February 1, 2011 for additional office space for the sales and training staff in Charlotte, NC. This lease was cancelled in July of 2012 and the Company agreed to pay the landlord a fixed amount of \$15,000 of which \$11,000 remains of unpaid at December 31, 2012.

Since the existing lease expires on November 30, 2013, and renewal is currently being negotiated, at December 31, 2012, there were no future minimum rental payments required under operating leases with initial or remaining non-cancelable lease terms in excess of one year. The future minimum rental payments required under operating leases with remaining non-cancelable lease terms less than one year were \$60,600 for 2013.

Total rental expense for all operating leases was:

|                         | <b>Year ended</b>   | Year ended   |
|-------------------------|---------------------|--------------|
|                         | <b>December 31,</b> | December 31, |
|                         | <b>2012</b>         | 2011         |
|                         | \$                  | \$           |
| Minimum rental payments | <b>84,242</b>       | 85,063       |
| Less: Sublease rentals  | <b>7,188</b>        | 7,188        |
|                         | \$                  | \$           |
| Net rent expense        | <b>77,054</b>       | 77,875       |

*Contingencies Revenue based*

As of December 31, 2012, CTTC and its majority owned subsidiary, VVI, have remaining obligations, contingent upon receipt of certain revenues, to repay up to \$165,788 and \$199,334, respectively, in consideration of grant funding received in 1994 and 1995. CTTC recorded expenses reducing that obligation of \$70 in the year ended December 31, 2012, and \$33,148 in the year ended December 31, 2011. CTTC also is obligated to pay at the rate of 7.5% of its revenues, if any, from transferring rights to certain inventions supported by the grant funds. VVI is obligated to pay at rates of 1.5% of its net sales of supported products or 15% of its revenues from licensing supported products, if any. We recognize these obligations only if we receive revenues related to the grant funds. We recognized approximately \$1,749 in the year ended December 31, 2012 and \$1,387 in the year ended December 31, 2011.

We have engaged R.F. Lafferty & Co. to seek an acquisition partner from a limited number of companies for our nano particle bone biomaterial patents, among other assets and/or securities. The Company would pay Lafferty a 10% finder's fee in the event an acquisition partner is found, which Management has deemed to be an immaterial and contingent obligation.

*Contingencies Litigation*

***Carolina Liquid Chemistries Corporation, et al. (case pending)*** On August 29, 2005, we filed a complaint against Carolina Liquid Chemistries Corporation ("Carolina Liquid") in the United States District Court for the District of Colorado, alleging patent infringement of our patent covering homocysteine assays, and seeking monetary damages, punitive damages, attorneys' fees, court costs and other remuneration at the option of the court. As we became aware of other infringers, we amended our complaint to add as defendants Catch, Inc. ("Catch") and the Diazyme Laboratories Division of General Atomics ("Diazyme"). On September 6, 2006, Diazyme filed for declaratory judgment in the Southern District of California for a change in venue and a declaration of non-infringement and invalidity. On September 12, 2006, the District Court in Colorado ruled that both Catch and Diazyme be added as defendants to the Carolina Liquid case.

On October 23, 2006, Diazyme requested the United States Patent and Trademark Office (the "USPTO") to re-evaluate the validity of our patent and this request was granted by the USPTO on December 14, 2006. On July 30, 2009, the U.S. Patent and Trademark Office's Board of Patent Appeals and Interferences ( BPAI ) upheld the homocysteine patent. In September 2008, the examiner had denied the patent, but that denial was overruled by the BPAI. While the examiner had appealed that BPAI decision, delaying further action, that appeal was also denied by the BPAI on December 13, 2010. In June 2011, the examiner once again appealed the BPAI decision. In addition to responding to this new appeal, the Company petitioned the Director of the USPTO to help expedite further action on the case within the USPTO, which was to have been handled with special dispatch according to USPTO requirements for handling reexamination proceedings of patents involved in litigation.

On March 13, 2012, the USPTO issued the Ex Parte Reexamination Certificate confirming the patentability of claims examined. The company has begun collecting unpaid amounts from various obligated companies.

***Employment matters former employee (case pending)*** In September 2003, a former employee filed a whistleblower complaint with the Occupational Safety and Health Administration of the Department of Labor (OSHA) alleging that the employee had been terminated for engaging in conduct protected under the Sarbanes Oxley Act of 2002 (SOX). In February 2005, OSHA found probable cause to support the employee's complaint and the Secretary of Labor ordered reinstatement and back wages since the date of termination and CTCC requested de novo review and a hearing before an administrative



law judge ( ALJ ). In July 2005, after the close of the hearing on CTTC's appeal, the U.S. district court for Connecticut enforced the Secretary's preliminary order of reinstatement and back pay under threat of contempt and the Company rehired the employee with back pay.

On October 5, 2005, the ALJ who conducted the hearing on CTTC's appeal of the OSHA findings ruled in CTTC's favor and recommended dismissal of the employee's complaint. Although the employee abandoned his position upon notice of the ALJ's decision, he nevertheless filed a request for review by the DOL Administrative Review Board ("ARB").

In May 2006, the U.S. Court of Appeals for the Second Circuit vacated the order of the district court enforcing the Secretary's preliminary order of reinstatement and back pay. The employee also filed a new SOX retaliation complaint with OSHA based on alleged black listing action by CTTC following his termination. OSHA dismissed the complaint and the employee filed a request for a hearing by an administrative law judge. Ultimately, the employee voluntarily dismissed the appeal.

In March 2008, the ARB issued an order of remand in the employee's appeal of the October 2005 dismissal of his termination complaint, directing the ALJ to clarify her analysis utilizing the burden-shifting standard articulated by the ARB. In January 2009, the ALJ issued a revised decision again recommending dismissal and once again the employee appealed the ruling to the ARB. On September 30, 2011, the ARB issued a final decision and order affirming the ALJ's decision on remand and dismissing the employee's complaint. The employee has appealed the ARB's decision before the U.S. Court of Appeals for the Second Circuit which has ordered the employee to file his opening brief by May 31, 2012. Response briefs by the Solicitor's Office of the U.S. Department of Labor and CTTC were submitted in August 2012. In March 2013, the U.S. Court of Appeals for the Second Circuit upheld the ARB's decision dismissing the former employee's complaint and denied the employee's appeal from that order. In April 2013, the Second Circuit terminated proceedings in that court.

***John B. Nano vs. Competitive Technologies, Inc. - Arbitration (case completed)*** On September 3, 2010, the Board of Directors of CTTC found cause consisting of violation of fiduciary duties to the Corporation and violation of the CTTC Corporate Code of Conduct and removed John B. Nano as an Officer of the Corporation, in all capacities. On September 13, 2010, the Board of Directors also found cause consisting of violation of fiduciary duties to the Corporation and violation of the CTTC Corporate Code of Conduct removed John B. Nano as a Director of the Corporation, in all capacities, for cause, consisting of violation of his fiduciary duties. Details of these actions are outlined in Form 8-K filings with the SEC on September 13, 2010, and September 17, 2010. Mr. Nano was previously the Chairman of the Board of Directors, President and Chief Executive Officer of CTTC.

On September 13, 2010, Mr. Nano brought an arbitration claim to the American Arbitration Association against CTTC. Mr. Nano's employment contract with the Company had called for arbitration, which Mr. Nano had demanded to resolve this conflict. Mr. Nano sought \$750,000 that he claimed was owed under his contract and claimed that he had been terminated without cause.

On September 23, 2010 the Company was served notice that John B. Nano, CTTC's former Chairman, President and CEO had filed a Notice of Application for Prejudgment Remedy/Claim of \$750,000 and an Application for an Order Pendente Lite claiming we had breached Mr. Nano's employment contract with us. The applications were filed in the State of Connecticut Superior Court in Bridgeport, CT. In November 2010, the Company funded \$750,000 as a Prejudgment Remedy held in escrow with the Company's counsel and has included this amount as restricted cash on the December 31, 2011 and December 31, 2010 balance sheets. The Company did not believe it was liable to the former Chairman, President and CEO, believing he was terminated for cause. The case proceeded through the arbitration process. The initial arbitration hearing began in April 2011; additional hearing dates were held in May and June 2011. In July 2011, each party submitted a summary limited in length stating their positions.

Prior to the conclusion of the arbitration hearings, the Company filed suit in Federal Court against the American Arbitration Association. The Company requested a temporary restraining order to halt the arbitration, which was denied by the court. The Company also requested a hearing before the court to review the arbitration proceedings. In August 2011, the American Arbitration Association's assigned arbitrator gave award to the Company's former Chairman, President and CEO, despite the Company's strongly held belief that the Board of Directors properly exercised its reasonable discretion under the employment agreement in finding that the former executive engaged in willful misconduct and gross negligence and that the executive's actions were cause for employment termination under the employment agreement and governing law. The former executive had requested a payment of \$750,000, which he believed was due under his employment agreement. Following the notification of award, the former employee filed a motion with the State of Connecticut Superior Court in Bridgeport, CT to have the award confirmed. CTTC followed with a motion to vacate the award. A hearing on those two motions was held before a judge in October 2011.

In January 2012, the judge denied the Company's motion to vacate the arbitration award in favor of its former CEO John B. Nano and granted Mr. Nano's application to confirm the award. Following the decision, CTTC settled all disputes with its former Chairman and CEO John B. Nano. Pursuant to the settlement, CTTC has released to Mr. Nano from escrow the \$750,000 deposited by CTTC following Mr. Nano's application for a prejudgment remedy. CTTC paid an additional \$25,000 as settlement of additional amounts of statutory interest. These amounts (\$775,000) had been accrued at December 31, 2011. The settlement includes mutual general releases of any and all claims either party has or had against the other. The settlement agreement also includes a provision that neither CTTC nor Mr. Nano would disparage the other. Should any such disparagement occur and litigation ensue, they further agreed that the prevailing party would be entitled to recover its costs and expenses, including reasonable attorney's fees. CTTC's payments to Mr. Nano have been completed.

***Unfair Trade Practices; U.S. District Court of Connecticut (Case completed)*** In September 2011, the Company filed a complaint against an individual in U.S. District Court of Connecticut for (1) violation of the Connecticut Unfair Trade Practices Act, (2) tortious interference with business and economic expectancy, (3) libel and (4) injunctive relief. The complaint noted that the individual named in the civil action has, for more than a year, engaged in a systematic campaign to destroy the Company's trades and business, interfere with the Company's expectations and contracts and libel the Company by disseminating materially false and libelous statements about the Company on message boards throughout the Internet and otherwise. The Company sought punitive damages from the individual for his alleged unfair trade practices and wrongful interference with the Company's business. The case was concluded in March 2012. By the parties' stipulation settling the matter, the defendant agreed to cease his posting any statements on the Internet or publishing any statements elsewhere, orally or in writing, concerning CTTC, CTTC's officers, directors, and employees, the Calmare device, Marineo (the inventor of the Calmare device), or any other person or entity in connection with their purchase or use of the Calmare device.

***Summary*** We may be a party to other legal actions and proceedings from time to time. We are unable to estimate legal expenses or losses we may incur, if any, or possible damages we may recover, and we have not recorded any potential judgment losses or proceeds in our financial statements to date, with the exception of the accrued expenses related to the Nano case, previously disclosed. We record expenses in connection with these suits as incurred.

We believe that we carry adequate liability insurance, directors and officers insurance, casualty insurance, for owned or leased tangible assets, and other insurance as needed to cover us against potential and actual claims and lawsuits that occur in the ordinary course of our business. However, an unfavorable resolution of any or all matters, and/or our incurrence of significant legal fees and other costs to defend or

prosecute any of these actions and proceedings may, depending on the amount and timing, have a material adverse effect on our consolidated financial position, results of operations or cash flows in a particular period.

17.

#### **RELATED PARTY TRANSACTIONS**

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 consulting expenses.

At December 31, 2012, \$1,410,000 of the outstanding Notes were Notes payable to related parties; \$1,310,000 to the chairman of our Board, Peter Brennan, and \$100,000 to another director, Stan Yarbro. Subsequent to December 31, 2012, an additional \$1,005,000 was borrowed from our chairman. The terms and conditions are as defined in Note 12. At December 31, 2011, \$100,000 of the outstanding Notes were Notes payable to a related party, the chairman of our Board, Peter Brennan.

**Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosures**

N/A

**Item 9A. Controls and Procedures.**

*Evaluation of Disclosure Controls and Procedures*

The Company maintains disclosure controls and procedures that are designed to ensure that information required to be disclosed by the Company in the reports filed or submitted by it under the Securities Exchange Act of 1934, as amended (the "Exchange Act"), is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms, and include controls and procedures designed to ensure that information required to be disclosed by the Company in such reports is accumulated and communicated to the Company's management, including the Company's Chief Executive Officer ("CEO"), and Chief Financial Officer ("CFO"), as appropriate to allow timely decisions regarding required disclosure.

Each fiscal quarter the Company carries out an evaluation, under the supervision and with the participation of the Company's management, including the Company's CEO, and CFO, of the effectiveness of the design and operation of the Company's disclosure controls and procedures pursuant to Exchange Act Rule 13a-15. Based on this evaluation, our management, with the participation of the CEO, and CFO, concluded that, as of December 31, 2012, our disclosure controls and procedures were effective.

*Changes in Internal Control over Financial Reporting*

During the year ended December 31, 2012, there have been no changes in our internal control over financial reporting that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

*Management's Report on Internal Control over Financial Reporting*

Management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Exchange Act Rules 13a-15(f). A system of internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation and fair presentation of financial statements for external purposes in accordance with generally accepted accounting principles.

All internal control systems, no matter how well designed, have inherent limitations. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Under the supervision and with the participation of our management, including our CEO, and CFO, we conducted an assessment of the effectiveness of our internal control over financial reporting as of December 31, 2012. In making this assessment, our management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in Internal Control – Integrated Framework. Based on this assessment, management concluded that our internal control over financial reporting was effective as of December 31, 2012.

This annual report does not include an attestation report of the Company's independent registered public accounting firm regarding internal control over financial reporting. Management's report was not subject to attestation by the Company's independent registered public accounting firm pursuant to rules of the Securities and Exchange Commission that permit the Company to provide only management's report in this annual report.

**Item 9B. Other Information**

None.



## PART III

### **Item 10. Directors, Executive Officers and Corporate Governance**

Information required by this item was contained in our Definitive Proxy Statement, or the Definitive Proxy Statement, which was filed with the Securities and Exchange Commission in connection with our 2013 Annual Meeting of Stockholders on May 10, 2013, under the headings Election of Directors, Corporate Governance and Other Matters, Executive Officers, and Section 16(a) Beneficial Ownership Reporting Compliance, and is incorporated herein by reference .

We have adopted a Code of Conduct that applies to our officers, directors and employees which is available on our internet website at [www.competitivetech.net](http://www.competitivetech.net). The Code of Conduct contains general guidelines for conducting the business of our company consistent with the highest standards of business ethics, and is intended to qualify as a code of ethics within the meaning of Section 406 of the Sarbanes-Oxley Act of 2002 and Item 406 of Regulation S-K. In addition, we intend to promptly disclose (1) the nature of any amendment to our Code of Conduct that applies to our principal executive officer, principal financial officer, principal accounting officer or controller or persons performing similar functions and (2) the nature of any waiver, including an implicit waiver, from a provision of our code of ethics that is granted to one of these specified officers, the name of such person who is granted the waiver and the date of the waiver on our website in the future.

### **Item 11. Executive Compensation**

Information required by this item is contained in our Definitive Proxy Statement under the heading Executive Compensation and Other Information and is incorporated herein by reference.

### **Item 12. Security Ownership of Certain Beneficial Owners and Management and Related**

#### **Stockholder Matters**

Information required by this item is contained in our Definitive Proxy Statement under the headings Security Ownership of Certain Beneficial Owners and Management and is incorporated herein by reference.

### **Item 13. Certain Relationships, Related Transactions and Director Independence**

Information required by this item is contained in our Definitive Proxy Statement under the headings "Certain Relationships and Related Party Transactions" and "Independence of the Board of Directors" and is incorporated herein by reference.

**Item 14. Principal Accounting Fees and Services**

Information required by this item is contained in our Definitive Proxy Statement under the heading "Independent Registered Public Accounting Firm's Fees" and is incorporated herein by reference.

**PART IV**

**Item 15. Exhibits and Financial Statement Schedules**

(a)

List of financial statements and schedules.

The following consolidated financial statements of Competitive Technologies, Inc. and Subsidiary are included herein by reference to the pages listed in "Item 8. Financial Statements and Supplementary Data":

Report of Independent Registered Public Accounting Firm

Consolidated Balance Sheets as of December 31, 2012 and 2011

Consolidated Statements of Operations for the years ended December 31, 2012 and December 31, 2011

Consolidated Statements of Changes in Shareholders' Interest (Deficit) for the years ended December 31, 2012 and December 31, 2011

Consolidated Statements of Cash Flows for the years ended December 31, 2012 and December 31, 2011

Notes to Consolidated Financial Statements

(b)

List of exhibits: See Exhibit Index immediately preceding exhibits.



SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

COMPETITIVE TECHNOLOGIES, INC.

(the registrant)

By /s/ Johnnie D. Johnson

Johnnie D. Johnson

Chief Financial Officer (Principal Financial Officer  
and Principal Accounting Officer)

Date: June 7, 2013

By /s/ Carl O. Connell

Carl O. Connell

Chief Executive Officer

(Principal Executive Officer)

Date: June 7, 2013

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

| <u>Name</u>   | <u>Title</u>   | )                | <u>Date</u>  |
|---|--|------------------|--------------|
| <u>/s/ Johnnie D. Johnson</u><br>Johnnie D. Johnson | Chief Financial Officer<br>(Principal Financial Officer and<br>Principal Accounting Officer) | )<br>)<br>)<br>) | June 7, 2013 |
| <u>/s/ Carl O. Connell</u><br>Carl O. Connell       | Chief Executive Officer, Director<br>(Principal Executive Officer)                           | )<br>)           | June 7, 2013 |
| <u>/s/ Peter Brennan</u><br>Peter Brennan           | Chairman   | )<br>)           | June 7, 2013 |
| <u>/s/ Rustin Howard</u><br>Rustin Howard           | Director   | )<br>)           | June 7, 2013 |
| <u>/s/ Robert Moussa</u><br>Robert Moussa           | Director   | )<br>)           | June 7, 2013 |
| <u>/s/ Stan Yarbrow</u><br>Stan Yarbrow             | Director   | )<br>)           | June 7, 2013 |

**EXHIBIT INDEX**

Exhibit

No.

Description

3.1

Unofficial restated certificate of incorporation of the registrant as amended to date filed (on April 1, 1998) as Exhibit 4.1 to registrant's Registration Statement on Form S-8, File Number 333-49095 and hereby incorporated by reference.

3.2

By-laws of the registrant as amended, filed (on December 12, 2005) as Exhibit 3.2 to registrant's Quarterly Report on Form 10-Q for the quarterly period ended October 31, 2005 and amended pursuant to the Current Report on Form 8-K filed March 31, 2012, and hereby incorporated by reference.

10.3\*

Registrant's 2000 Directors Stock Option Plan as amended January 24, 2003, filed (on January 29, 2003) as Exhibit 4.4 to registrant's Registration Statement on Form S-8, File Number 333-102798 and hereby incorporated by reference.

10.5\*

Registrant's 1997 Employees' Stock Option Plan as amended January 14, 2005, filed (on January 21, 2005) as Exhibit 4.3 to registrant's Current Report on Form 8-K, and hereby incorporated by reference.

10.14

Employment Agreement dated February 2, 2007 between registrant and John B. Nano, filed (on February 6, 2007) as Exhibit 10.1 to registrant's Current Report on Form 8-K dated February 6, 2007, and hereby incorporated by reference.

10.20

Distribution Agreement between the registrant and Life Episteme srl, dated February 24, 2009 filed (on February 26, 2009) as Exhibit 10.1 to registrant's Current Report on Form 8-K Dated February 26, 2009, and hereby incorporated by reference.

10.22

License Agreement between Competitive Technologies, Inc. and Daeyand E&C Co., Ltd. (now GEOMC Co., Ltd.), dated September 25, 2007. filed (on March 4, 2011) as Exhibit 10.1 to registrant's Current Report on Form 8-K dated March 4, 2011, and hereby incorporated by reference.

10.23

Distributor Appointment Agreement between Competitive Technologies, Inc. and GEOMC Co., Ltd. dated August 22, 2008 granting rights in South Korea, filed (on March 4, 2011) as Exhibit 10.2 to registrant's Current Report on Form 8-K dated March 4, 2011, and hereby incorporated by reference.

10.24

Memorandum of understanding between Competitive Technologies, Inc. and GEOMC Co., Ltd. dated January 18, 2010, filed (on March 4, 2011) as Exhibit 10.3 to registrant's Current Report on Form 8-K dated March 4, 2011, and hereby incorporated by reference.

10.25

Distributor Appointment Agreement between Competitive Technologies, Inc. and GEOMC Co., Ltd. dated February 4, 2011 granting rights in Japan filed (on March 4, 2011) as Exhibit 10.4 to registrant's Current Report on Form 8-K dated March 4, 2011, and hereby incorporated by reference.



10.27

Lease Agreement between Competitive Technologies, Inc. and 1375 Kings Highway LLC dated November 22, 2010, and filed (February 11, 2011) as Exhibit 10.1 to registrant's Current Report on Form 8-K dated February 11, 2011, and hereby incorporated by reference

10.28

Registration Rights Agreement dated December 2, 2010 and filed (December 14, 2010) as Exhibit 4.1 to registrant's Current Report on Form 8-K dated December 14, 2010, and hereby incorporated by reference

10.29

Preferred Stock Certification for Class C Convertible Preferred Stock issued December 30, 2011, and filed as Exhibit 4.1 to registrant's Quarterly Report on Form 10-Q for the period ended December 31, 2010 filed on February 20, 2011, and hereby incorporated by reference.

10.30

Settlement Agreement between Competitive Technologies, Inc. and Life Episteme srl (LEG) dated March 31, 2011 and filed (April 18, 2011) as Exhibit 10.2 to registrant's Current Report on Form 8-K dated April 18, 2011, and hereby incorporated by reference

10.31

Distribution Agreement between Competitive Technologies, Inc. and Life Episteme Italia dated March 31, 2011 and filed (April 18, 2011) as Exhibit 10.1 to registrant's Current Report on Form 8-K dated April 18, 2011, and hereby incorporated by reference

10.35

Amended, Restated and Extended Services and Representation Agreement among Competitive Technologies, Inc., Professor Giuseppe Marineo, and Delta Research & Development dated May 24, 2011 and effective April 1, 2011, and filed (May 31, 2011) as Exhibit 10.1 to registrant's Current Report on Form 8-K dated May 31, 2011, and hereby incorporated by reference.

10.36

2011 Employees' Directors' and Consultants' Stock Option Plan dated May 2, 2011, and filed as Exhibit 10.1 to registrant's Registration Statement on FormS-8 dated May 26, 2011, and hereby incorporated by reference.

10.37

Factoring Agreement between Competitive Technologies, Inc. and Versant Funding LLC Entered into on September 28, 2011 and Effective September 9, 2011, filed (October 3, 2011) as Exhibit 10.1 to registrant's Current Report on Form 8-K dated October 3, 2011, and hereby incorporated by reference.

10.38

Security Agreement between Competitive Technologies, Inc. and Versant Funding LLC Entered into on September 28, 2011 and Effective September 9, 2011, and filed (October 3, 2011) as Exhibit 10.2 to registrant's Current Report on Form 8-K dated October 3, 2011, and hereby incorporated by reference.

10.39

Settlement Agreement between Competitive Technologies, Inc. and John B. Nano dated January 24, 2012, and filed Exhibit 10.1 to registrant's Current Report on Form 8-K dated February 1, 2012, and hereby incorporated by reference.

10.40

Amended, Restated and Extended Services and Representation Agreement among Competitive Technologies, Inc., Professor Giuseppe Marineo, and Delta Research & Development dated July 3, 2012, and filed as Exhibit 10.1 to

registrant's Current Report on Form 8-K dated July 6, 2012, and hereby incorporated by reference.

10.41

Carl O Connell Employment Agreement effective October 25, 2012, and filed as Exhibit 10.1 to registrant's Current Report on Form 8-K dated October 31, 2012, and hereby incorporated by reference.

10.42

Security Agreement with LSQ Funding, LLC effective September 18, 2012, and filed as Exhibit 10.42 to registrant's Annual Report on Form 10-K for the Year Ended December 31, 2013, filed on May 31, 2013, and hereby incorporated by reference.

21^

Subsidiary of registrant.

31.1^

Certification of the Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (Rule 13a-14(a) or Rule 15d-14(a)).

31.2^

Certification of the Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (Rule 13a-14(a) or Rule 15d-14(a)).

32.1^

Certification by the Chief Executive Officer of Competitive Technologies, Inc. pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (18 U.S.C. 1350).

32.2^

Certification by the Chief Financial Officer of Competitive Technologies, Inc. pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (18 U.S.C. 1350).

101^

Interactive Data Files.

\* Management Contract or Compensatory Plan

^ Filed herewith

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