

COMPETITIVE TECHNOLOGIES INC  
Form 10-Q  
November 16, 2012  
**UNITED STATES**

**SECURITIES AND EXCHANGE COMMISSION**

**Washington, D.C. 20549**

**FORM 10-Q**

(Mark One)

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

For the quarterly period ended September 30, 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)

*www.competitivetech.net*

Delaware

36-2664428

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(State or other jurisdiction of incorporation or organization)

(I. R. S. Employer Identification No.)

1375 Kings Highway East, Suite 400 Fairfield,  
Connecticut

06824

(Address of principal executive offices)

(Zip Code)

(203) 368-6044

(Registrant's telephone number, including area code)

(Former name, former address and former fiscal year, if changed since last report)

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 during the preceding 12 months.

Yes

No

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 definition of "accelerated filer, large accelerated filer and smaller reporting company" as defined 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

The number of shares of the registrant's common stock outstanding as of November 14, 2012 was 15,237,304 shares.

**COMPETITIVE TECHNOLOGIES, INC.****INDEX TO QUARTERLY REPORT ON FORM 10-Q**

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**PART I. FINANCIAL INFORMATION****Item 1. Condensed Consolidated Interim Financial Statements****COMPETITIVE TECHNOLOGIES, INC. AND SUBSIDIARY**

## Condensed Consolidated Balance Sheets (Unaudited)

	<b>September 30, 2012</b>	December 31, 2011
<b>Assets</b>		
Current Assets:		
Cash and cash equivalents	\$	\$
	<b>500</b>	28,485
Restricted cash	-	750,000
Receivables, net of allowance of \$101,154 at September 30, 2012, and December 31, 2011	<b>166,972</b>	42,471
Inventory, finished goods	<b>4,390,156</b>	4,210,156
Prepaid expenses and other current assets	<b>103,412</b>	70,268
Total current assets	<b>4,661,040</b>	5,101,380
Property and equipment, net	<b>30,356</b>	26,169
Security deposits	<b>15,000</b>	17,275
<b>TOTAL ASSETS</b>	<b>\$</b>	<b>\$</b>
	<b>4,706,396</b>	5,144,824
<b>Liabilities and Shareholders' Interest (Deficit)</b>		
Current Liabilities:		
Accounts payable, general	\$	\$
	<b>1,876,050</b>	1,124,007
Accounts payable, GEOMC	<b>4,181,225</b>	3,865,225
Accrued expenses and other liabilities	<b>572,968</b>	1,228,473
Notes payable	<b>735,000</b>	100,000
Deferred revenue	<b>9,600</b>	12,800
Derivative liability	<b>90,493</b>	66,176
Preferred stock liability	<b>375,000</b>	375,000
<b>Total current liabilities</b>	<b>7,840,336</b>	6,771,681
Long term notes payable	<b><u>225,000</u></b>	-
<b>TOTAL LIABILITIES</b>	<b>8,065,336</b>	6,771,681
<b>Commitments and Contingencies</b>		

Shareholders' interest (deficit):		
5% preferred stock, \$25 par value, 35,920 shares authorized, 2,427 shares issued and outstanding	<b>60,675</b>	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 outstanding at September 30, 2012 and December 31, 2011	-	-
Common stock, \$.01 par value, 40,000,000 shares authorized, 15,237,304 shares issued and outstanding at September 30, 2012 and 14,715,789 shares issued and outstanding at December 31, 2011	<b>152,373</b>	147,157
Capital in excess of par value	<b>45,367,796</b>	44,771,128
Accumulated deficit	<b>(48,939,784)</b>	(46,605,817)
Total shareholders' interest (deficit)	<b>(3,358,940)</b>	(1,626,857)
<b>TOTAL LIABILITIES AND SHAREHOLDERS' INTEREST \$ (DEFICIT)</b>	<b>4,706,396</b>	5,144,824

*See accompanying notes*

**PART I. FINANCIAL INFORMATION (Continued)****COMPETITIVE TECHNOLOGIES, INC. AND SUBSIDIARY**

## Condensed Consolidated Statements of Operations

(Unaudited)

	<b>Three months ended September 30, 2012</b>	Three months ended September 30, 2011
<b>Revenue</b>		
Product sales	\$	\$
	<b>310,867</b>	1,198,230
Cost of product sales	<b>100,134</b>	504,988
<b>Gross profit from product sales</b>	<b>210,733</b>	693,242
<b>Other Revenue</b>		
Retained royalties	<b>5,955</b>	4,322
Other income	<b>16,634</b>	9,486
<b>Total other revenue</b>	<b>22,589</b>	13,808
<b>Expenses</b>		
Selling expenses	<b>125,633</b>	219,029
Personnel and consulting expenses	<b>277,493</b>	430,778
General and administrative expenses	<b>393,023</b>	601,055
Interest expense	<b>18,628</b>	9,002
Unrealized loss (gain) on derivative instrument	<b>15,434</b>	(15,149)
<b>Total Expenses</b>	<b>830,211</b>	1,244,715
Income (loss) before income taxes	<b>(596,889)</b>	(537,665)
Provision (benefit) for income taxes	-	-
<b>Net income (loss)</b>	\$	\$
	<b>(596,889)</b>	(537,665)
Basic income (loss) per share	\$	\$
	<b>(0.04)</b>	<b>(0.04)</b>
Basic weighted average number of common shares outstanding:	<b>15,184,765</b>	14,255,351



Diluted income (loss) per share	\$	\$
	(0.04)	(0.04)
Diluted weighted average number of common shares outstanding:	<b>15,184,765</b>	14,255,351

*See accompanying notes*

**PART I. FINANCIAL INFORMATION (Continued)****COMPETITIVE TECHNOLOGIES, INC. AND SUBSIDIARY**

## Condensed Consolidated Statements of Operations

(Unaudited)

	<b>Nine months ended September 30, 2012</b>	Nine months ended September 30, 2011
<b>Revenue</b>		
Product sales	\$	\$
	<b>703,113</b>	3,336,506
Cost of product sales	<b>295,925</b>	1,483,862
<b>Gross profit from product sales</b>	<b>407,188</b>	1,852,644
<b>Other Revenue</b>		
Retained royalties	<b>70,337</b>	20,244
Gain on sale of rental asset	-	34,728
Investment income	<b>1,496</b>	-
Other income	<b>39,327</b>	30,625
<b>Total other revenue</b>	<b>111,160</b>	85,597
<b>Expenses</b>		
Selling expenses	<b>306,889</b>	416,123
Personnel and consulting expenses	<b>1,111,058</b>	1,204,288
General and administrative expenses	<b>1,369,128</b>	2,114,537
Interest expense	<b>40,923</b>	28,992
Unrealized loss (gain) on derivative instrument	<b>24,317</b>	17,361
<b>Total Expenses</b>	<b>2,852,315</b>	3,781,301
Income (loss) before income taxes	<b>(2,333,967)</b>	(1,843,060)
Provision (benefit) for income taxes	-	-
<b>Net income (loss)</b>	\$	\$
	<b>(2,333,967)</b>	(1,843,060)
Basic income (loss) per share	\$	\$
	<b>(0.16)</b>	(0.13)
	<b>14,930,809</b>	13,994,740

Basic weighted average number of common shares  
outstanding:

Diluted income (loss) per share	\$	\$
	(0.16)	(0.13)

Diluted weighted average number of common shares  
outstanding:

	<b>14,930,809</b>	13,994,740
	<i>See accompanying notes</i>	

**PART I. FINANCIAL INFORMATION (Continued)****COMPETITIVE TECHNOLOGIES, INC. AND SUBSIDIARY**

Condensed Consolidated Statement of Changes in Shareholders' Interest (Deficit)

For the Nine Months Ended September 30, 2012

(Unaudited)

	Preferred Stock		Common Stock		Capital in excess of par value	Accumulated deficit	Total shareholders interest(deficit)
	Shares outstanding	Amount	Shares outstanding	Amount			
Balance December 31, 2011	2,427	\$ 60,675	14,715,789	\$ 147,157	\$ 44,771,128	\$ (46,605,817)	(1,626,857)
Net income (loss)	-	-	-	-	-	(2,333,967)	(2,333,967)
Common shares issued to settle accounts payable, general and accrued expenses	-	-	474,415	4,745	423,509	-	428,254
Share based consulting fees common stock			47,100	471	34,529	-	35,000
Compensation expense from stock option grants	-	-	-	-	138,630		138,630
<b>Balance September 30, 2012</b>	<b>2,427</b>	<b>\$ 60,675</b>	<b>15,237,304</b>	<b>\$ 152,373</b>	<b>\$ 45,367,796</b>	<b>\$ (48,939,784)</b>	<b>(3,358,940)</b>

*See accompanying notes*



**PART I. FINANCIAL INFORMATION (Continued)****COMPETITIVE TECHNOLOGIES, INC. AND SUBSIDIARY**

## Condensed Consolidated Statements of Cash Flows

(Unaudited)

	<b>Nine months ended September 30, 2012</b>	Nine months ended September 30, 2011
<b>Cash flows from operating activities:</b>		
Net income (loss)	\$	\$
	<b>(2,333,967)</b>	(1,843,060)
Adjustments to reconcile net income (loss) to net cash used in operating activities:		
Depreciation and amortization	<b>10,995</b>	17,400
Share-based compensation stock options	<b>138,630</b>	67,639
Share-based consulting fees common stock	<b>35,000</b>	17,800
Accrued stock contribution (directors stock expense)	-	7,717
Gains on sale of rental assets	-	(34,728)
Loss on disposal of property and equipment	<b>4,817</b>	-
Unrealized loss on derivative instrument	<b>24,317</b>	17,361
Changes in assets and liabilities:		
Receivables	<b>(124,501)</b>	(336,188)
Due from factor	-	(465,000)
Restricted cash	<b>750,000</b>	-
Prepaid expenses and other current assets	<b>40,358</b>	5,369
Inventory	<b>(180,000)</b>	(2,500,227)
Accounts payable, accrued expenses and other liabilities	<b>764,091</b>	4,336,816
<b>Net cash (used in) operating activities</b>	<b>(870,260)</b>	(709,101)
<b>Cash flows from investing activities:</b>		
Purchase of property and equipment	<b>(20,000)</b>	(14,685)
Proceeds from sale of rental asset	-	43,800
(Increase) / Decrease in security deposits	<b>2,275</b>	(2,275)
<b>Net cash provided by (used in) provided by investing activities</b>	<b>(17,725)</b>	26,840
<b>Cash flows from financing activities:</b>		
Proceeds from note payable	<b>1,125,000</b>	200,000
Repayment of note payable	<b>(265,000)</b>	(50,000)
Proceeds from exercise of stock options	-	10,050

<b>Cash provided by financing activities</b>	<b>860,000</b>	160,050
<b>Net (decrease) in cash and cash equivalents</b>	<b>(27,985)</b>	(522,211)
<b>Cash and cash equivalents at beginning of period</b>	<b>28,485</b>	557,018
<b>Cash and cash equivalents at end of period</b>	<b>\$</b>	<b>\$</b>
	<b>500</b>	34,807
Supplemental Cash Flow Information		
Cash paid for interest	<b>\$</b>	<b>\$</b>
	<b>4,559</b>	19,562

**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.

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 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.

*See accompanying notes*

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**PART I. FINANCIAL INFORMATION (Continued)**

**COMPETITIVE TECHNOLOGIES, INC. AND SUBSIDIARY**

Notes to Condensed Consolidated Interim Financial Statements

(Unaudited)

**1.**

**BASIS OF PRESENTATION**

The interim condensed consolidated financial information presented in the accompanying condensed consolidated financial statements and notes hereto is unaudited.

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.

On November 15, 2010, the Board of Directors of CTTC approved a fiscal year-end change from July 31 to December 31, in order to align its fiscal periods with the calendar year. We filed a Transitional Report on Form 10-Q for the two and five months ended December 31, 2010, and began a new fiscal year on January 1, 2011. CTTC now files its quarterly and annual reports for fiscal years ending December 31. CTTC's annual report on Form 10-K for the fiscal year ended December 31, 2011 included separate audited financial statements for the five-month transitional period ended December 31, 2010.

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

We believe we made all adjustments necessary, consisting only of normal recurring adjustments, to present the unaudited condensed consolidated financial statements in conformity with accounting principles generally accepted in the U.S. The results for the three months ended September 30, 2012 are not necessarily indicative of the results that can be expected for the next full fiscal year ending December 31, 2012.

The interim unaudited condensed consolidated financial statements and notes thereto, should be read in conjunction with our Annual Report on Form 10-K for the year ended December 31, 2011, filed with the Securities and Exchange Commission ("SEC") on April 16, 2012.

Subsequent to September 30, 2012, the Company entered into an employment agreement with a new President and Chief Executive Officer, Carl O. Connell, effective November 1, 2012. The agreement was filed with the SEC on October 31, 2012.

During the three and nine months ended September 30, 2012, and the three and nine months ended September 30, 2011, we had a significant concentration of revenues from our Calmare<sup>®</sup> pain therapy medical device. The percentages of gross revenue attributed to sales and rentals of Calmare<sup>®</sup> devices were 93% and 86% in the three and nine months ended September 30, 2012, respectively, and 98% and 98% in the three and nine months ended September 30, 2011, respectively. We continue to expand our sales activities for the Calmare<sup>®</sup> device and expect the majority of our revenues to come from this technology for at least the next two fiscal years. However, we continue to seek revenue from new or existing technologies or products to mitigate the concentration of revenues, and replace revenues from expiring licenses and patents on other technologies.

The Company incurred operating losses for the past six quarters, having produced marginal net income in the first quarter of 2011, after having incurred operating losses each quarter since fiscal 2006. The Company has taken steps to significantly reduce its operating expenses going forward and expects revenue from sales of Calmare<sup>®</sup> medical devices to grow. However, even at the reduced spending levels, should the anticipated increase in revenue from sales of Calmare<sup>®</sup> devices not occur the Company may not have sufficient cash flow to fund operating expenses beyond the first quarter of calendar 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 recurring revenue streams sufficient to cover operating costs. The company does not have any significant individual cash or capital requirements in the budget going forward. If necessary, CTTC will meet anticipated operating cash requirements by further reducing costs, issuing debt and/or equity, and/or pursuing sales of certain assets and technologies while we pursue licensing and distribution opportunities for our remaining portfolio of technologies. 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 sell our current technologies 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, cash flows from operations, if any, including royalty legal awards, short term borrowing, and sales of common stock.

During the fiscal 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 will sell to Versant certain of the Company's accounts receivables. For those accounts receivable the Company tenders to Versant and Versant chooses to purchase, Versant will advance 75% of the face value to the Company, and will 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. At September 30, 2012, no receivables were factored. Subsequent to September 30, 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.

Sales of our Calmare® pain therapy medical 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 agreement with Giuseppe 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 applications for patents have been filed in the U.S. and 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.

In July 2012, the Company negotiated a five-year extension to the agreement with Professor 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 Professor 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 Prof. Marineo's "Scrambler Therapy®" technology. The GEOMC agreement is for a period of ten (10) years, through 2017, and outlines each company's specific financial obligations.

The Company has entered into a number of international distribution agreements, at one time covering nearly 40 countries. The Company conducted a review of its distribution partners during the five-month period ending December 31, 2010, leading to the termination of CTTC's agreement with Life Epistème Group, srl ("LEG"). LEG had the distribution rights in 34 countries, but had not met its minimum obligations to CTTC, and the Company had no indication that LEG would meet its commitments in the foreseeable future.

During the quarter ended March 31, 2011, CTTC negotiated a new distribution agreement with Life Episteme Italia ("LEI") for the countries of Italy and Malta. The distribution agreement with LEI contained quarterly and annual

marketing and sales requirements which LEI must meet in order to retain continued exclusivity within LEI's territory.

During 2011, CTTC contracted a new Managing Director for International Business Development, to take more active control of its international sales. CTTC currently has international distribution agreements covering 21 countries, with other distribution agreements in various stages of negotiation. 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 Professor Marineo who will be managing such activities for the mutual benefit of the partners. Professor Marineo will assume management responsibility for existing distribution agreements for countries outside the focus region of the USA, Canada, Mexico and the countries of Central and South America, as well as Australia and New Zealand, and the Company will retain a financial interest in those relationships.

In 2010, the Company became its own distributor in the U.S, contracting with 15 commissioned sales representatives. During 2011, the Company and its representatives developed plans to increase awareness of the Calmare device among critical medical specialties and have begun to implement those plans targeting specific customers and locations in fiscal 2012.

Over the past 18 months, the Company entered into several sales agreements for the Calmare<sup>®</sup> 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 are generating revenue for the Company.

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.

In 2011 the Company took greater control of the sales process, worldwide. 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.



2.

**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>Three months Ended September 30, 2012</b>	<b>Nine months Ended September 30, 2012</b>	Three months Ended September 30, 2011	Nine months Ended September 30, 2011
Denominator for basic net income (loss) per share, weighted average shares outstanding	<b>15,184,765</b>	<b>14,930,809</b>	14,255,351	13,994,740
Dilutive effect of common stock options	N/A	N/A	N/A	N/A
Dilutive Effect of Series C convertible preferred stock	N/A	N/A	N/A	N/A
Denominator for diluted net income (loss) per share, weighted average shares outstanding	<b>15,184,765</b>	<b>14,930,809</b>	14,255,351	13,994,740

Options to purchase 343,000 and 320,000 shares of our common stock outstanding at September 30, 2012 and 2011, respectively, and 375 shares of convertible preferred stock at September 30, 2012 and 2011, were not included in the computation of diluted net loss per share because they were anti-dilutive.

3.

**RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS**

No new accounting pronouncements issued or effective during the nine months ended September 30, 2012 has had or is expected to have a material impact on the consolidated financial statements.

4.

**RECEIVABLES**

Receivables consist of the following:

	<b>September 30, 2012</b>	December 31, 2011
Calmare® Sales Receivable	\$	\$
	<b>163,850</b>	24,444
Other Receivable	<b>3,122</b>	18,027
Royalties, net of allowance of \$101,154	-	-
at September 30, 2012 and December 31, 2011		
Total receivables	\$	\$
	<b>166,972</b>	42,471

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

The fair value of the equity securities we held were categorized as available-for-sale securities, which were carried at a fair value of zero, consisted of shares in Security Innovation and Xion Pharmaceutical. We own 223,317 shares of stock in the privately held Security Innovation, an independent provider of secure software located in Wilmington, MA.

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. CTTC currently owns 60 shares of common stock or 33% of the outstanding stock of privately held Xion Pharmaceutical Corporation.



6.

## FAIR VALUE MEASUREMENTS

The Company measures fair value in accordance with Topic 820 of the FASB Accounting Standards Codification ("ASC"), "Fair Value Measurements and Disclosures" ("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 Company 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 13) 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 \$90,493 and \$66,176 at September 30, 2012 and December 31, 2011, respectively, in Level 2 of the fair value hierarchy.

The carrying amounts reported in our Condensed Consolidated Balance Sheet for Cash and Cash Equivalents, Receivables, Accounts Payable, Notes Payable, Accrued Expenses and Other Liabilities and Preferred Stock Liability approximate fair value due to the short-term maturity of those financial instruments.

7.

**PREPAID EXPENSES AND OTHER CURRENT ASSETS**

Prepaid expenses and other current assets consist of the following:

	<b>September 30, 2012</b>	December 31, 2011
Prepaid insurance	\$	\$
	<b>6,585</b>	25,283
Travel and commission advances	-	35,500
Prepaid legal fees	<b>73,502</b>	-
Other	<b>23,325</b>	9,485
Prepaid expenses and other current assets	\$	\$
	<b>103,412</b>	70,268

In the quarter ended June 30, 2012, the Company issued 120,000 shares to prepay \$100,000 in legal fees. At September 30, 2012, expenses of \$26,498 offset this prepayment and a prepayment of \$73,502 remains.

8.

**PROPERTY AND EQUIPMENT**

Property and equipment, net, consist of the following:

	<b>September 30, 2012</b>	December 31, 2011
Property and equipment, gross	<b>189,631</b>	227,645
Accumulated depreciation and amortization	<b>159,275</b>	201,476
Property and equipment, net	\$	\$
	<b>30,356</b>	26,169

Depreciation and amortization expense was \$3,541 and \$10,995 for the three and nine months ended September 30, 2012, and \$3,910 and \$17,400 for the three and nine months ended September 30, 2011.

9.

**ACCOUNTS PAYABLE, GENERAL**

	September 30, 2012	December 31, 2011
	\$	\$
Legal fees payable	<b>963,831</b>	733,858
Accounting fees payable	<b>149,665</b>	39,285
Consulting fees payable	<b>522,846</b>	110,515
Other payables	<b>239,708</b>	240,349
	\$	\$
Accounts Payable, General	<b>1,876,050</b>	1,124,007

**10.****ACCRUED EXPENSES AND OTHER LIABILITIES**

	September 30, 2012	December 31, 2011
	\$	\$
Royalties payable	<b>140,150</b>	210,169
Accrued accounting fees	<b>56,110</b>	93,529
Arbitration settlement payable	-	775,000
Accrued commissions payable	<b>45,650</b>	-
Customer deposits	<b>20,000</b>	-
Accrued consulting fees payable	<b>102,723</b>	-
Accrued other technology fees payable	<b>24,821</b>	24,821
Accrued professional fees payable	<b>16,217</b>	10,817
Accrued directors fees payable	-	53,338
Accrued interest payable	<b>45,997</b>	9,633
Other accrued liabilities	<b>121,300</b>	51,166
	\$	\$
Accrued Expenses and Other Liabilities	<b>572,968</b>	1,228,473

**11.**

**DEFERRED REVENUE**

Deferred revenue includes 12 and 16 training days which were purchased but not conducted during the nine months ended September 30, 2012 and the year ended December 31, 2011, respectively.

**12.**

**NOTES PAYABLE**

In December 2011, the Company issued a 90-day note payable to borrow \$100,000. Additional notes payable were issues 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); and in September 2012 (\$15,000). The proceeds from these notes (\$735,000) 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 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 December 31, 2012.

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 September 30, 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 September 30, 2012, \$835,000 of the outstanding were Notes payable to related parties; \$735,000 to the chairman of our Board and \$100,000 to another director. Subsequent to September 30, 2012, an additional \$165,000 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 December 31, 2012 and the notes are convertible to common stock at any time on or after the effective date of the initial loan amount.

13.

### SHAREHOLDERS INTEREST

On May 2, 2011 the Company adopted and executed the Employees Directors and Consultants Stock Option Plan (the Plan ). During the three months and nine months ended September 30, 2012, the Company granted 0 and 70,000 options, respectively, to directors which were fully vested upon granting. Also, 30,000 and 40,000 previously granted options were forfeited during the three and nine months ended September 30, 2012, respectively. All outstanding options have been fully expensed.

During the three months ended March 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 compensation of \$0 and \$80,000 for the three and nine months ended September 30, 2012, respectively.

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

Nine Months Ended September 30, 2012

Dividend yield <sup>(1)</sup>	0.0%
Expected volatility <sup>(2)</sup>	86.7% - 87.1%
Risk-free interest rates <sup>(3)</sup>	0.89%
Expected lives <sup>(2)</sup>	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.

During the three and nine months ended September 30, 2012, the Company recognized expense of \$0 and \$138,630 respectively for stock options issued to directors during the current period. During the three and nine months ended September 30, 2011, the Company recognized expense of \$6,866 and \$67,639, respectively, for stock options issued to employees and directors

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 a \$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 14 below 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.

Dividends declared for the three and nine months ended September 30, 2012 were \$4,727 and \$14,025, respectively. At September 30, 2012, \$23,477 dividends declared have not been paid, including the \$4,727 declared in the current quarter, and are shown in other accrued liabilities.

*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* The redemption rights were associated with the \$750,000 that had been held in escrow by the Company in the event that the funds were released and returned to the company. However, the funds were withdrawn from escrow and paid out in accordance with the settlement agreement (see Note 14 for details). Therefore the redemption rights no longer apply to the remaining Series C Convertible Preferred Stock.

*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 and \$14,281 for the six and three 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 \$90,493, associated with the 375 shares of Series C Convertible Preferred Stock outstanding at September 30, 2012, and \$66,176, associated with the 375 shares of Series C Convertible Preferred Stock outstanding at December 31, 2011.

The Company has classified the Series C Convertible Preferred Stock as a liability at September 30, 2012 and December 31, 2011 because the variable conversion feature may require the Company to settle the conversion in a variable number of its common shares.

In July 2012, the Company issued 47,100 shares of common stock as consulting fees in connection with listing the Company's common stock on the Frankfurt Stock Exchange of Deutsche Borse (Entry Standard Segment).

14.

#### **CONTRACTURAL OBLIGATIONS AND CONTINGENCIES**

As of September 30, 2012, CTTC and its majority-owned subsidiary, VVI, have remaining obligations, contingent upon receipt of certain revenue, to repay up to \$199,006 and \$203,478, respectively, in consideration of grant funding received in 1994 and 1995. CTTC is also obligated to pay at the rate of 7.5% of its revenue, 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 revenue from licensing supported products, if any. We recognize these obligations when we receive revenue related to the grant funds. We recognized \$489 and \$1,306 of these obligations during the three and nine months ended September 30, 2012. We recognized \$180 and \$860 of these obligations during the three and nine months ended September 30, 2011.

On November 22, 2010, the Company terminated its operating lease 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. 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 sales and training staff in Charlotte, NC. Obligations under this lease averaged \$27,000 per year for the two-year term. In July 2012, we closed this office and executed a lease termination agreement with the landlord. A final payment of \$15,000, which includes accrued rent payments, is due during the fourth quarter of 2012.

***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. Future action on this case pends.

***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 ALJ. 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. No date has been set for oral argument.

***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, balance sheet. 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 were completed in the quarter ended March 31, 2012.

***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 of 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 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

### 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 in herein, the words "may," "will," "should," "anticipate," "believe," "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 our most recent Annual Report on Form 10-K for the year ended December 31, 2011, filed with the Securities and Exchange Commission ("SEC") on April 16, 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, or distribution agreement.

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 from retained royalties from licensing our clients' and our own technologies to our customer licensees and sales of finished products. Our customers pay us license fees, royalties based on usage of a technology, or per unit fees, and we share that revenue with our clients.

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, delivery has occurred and our customer has taken title, and collectability is reasonably assured.

In 2011 the Company took greater control of the sales process, worldwide. 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 invoiced and received 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<sup>®</sup> pain therapy medical 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 agreement with Giuseppe 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 applications for patents have been filed in the U.S. and internationally and are pending approval. The Calmare<sup>®</sup> 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 Professor 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 Professor 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<sup>®</sup> pain therapy medical device, based on Prof. Marineo's "Scrambler Therapy" technology. The GEOMC agreement is for a period of ten (10) years, through 2017, and outlines each company's specific financial obligations.

The Company has entered into a number of international distribution agreements, at one time covering nearly 40 countries. The Company conducted a review of its distribution partners during the five-month period ending December 31, 2010, leading to the termination of CTTC's agreement with Life Epist me Group, srl ("LEG"). LEG had the distribution rights in 34 countries, but had not met its minimum obligations to CTTC, and the Company had no indication that LEG would meet its commitments in the foreseeable future.



During 2011, CTTC contracted a new Managing Director for International Business Development, to take more active control of its international sales. CTTC currently has international distribution agreements covering 21 countries, with other distribution agreements in various stages of negotiation. 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 Professor Marineo who will be managing such activities for the mutual benefit of the partners. Professor Marineo will assume management responsibility for existing distribution agreements for countries outside the focus region of the USA, Canada, Mexico and the countries of Central and South America, as well as Australia and New Zealand, and the Company will retain a financial interest in those relationships.

During the quarter ended March 31, 2011, CTTC negotiated a new distribution agreement with Life Episteme Italia ("LEI") for the countries of Italy and Malta. As a part of that agreement, LEI purchased 53 of the 55 devices CTTC had taken back into inventory from LEG. In addition to the purchase of the 53 devices, the distribution agreement with LEI contained quarterly and annual marketing and sales requirements which LEI must meet in order to retain continued exclusivity within LEI's territory. The remaining two devices were donated to a children's hospital in Italy.

In 2010, the Company became its own distributor in the U.S, contracting with 15 commissioned sales representatives.

During 2011, the Company and its representatives developed plans to increase awareness of the Calmare device among critical medical specialties and have begun to implement those plans targeting specific customers and locations in fiscal 2012.

Over the past 21 months, the Company 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 are generating revenue for the Company.

## **Presentation**

We rounded all amounts in this Item 2 to the nearest thousand dollars. Certain amounts may not total precisely.

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.

**Results of Operations Three months ended September 30, 2012 vs. three months ended September 30, 2011**

**Summary of Results**

We incurred a net loss of \$597,000 or \$0.04 loss per basic and diluted share for the three months ended September 30, 2012, compared to a net loss of \$538,000 or \$0.04 loss per basic and diluted share for the three months ended September 30, 2011. As explained in detail below, the net loss reflects a decrease of \$887,000 in gross revenue, a decrease of \$482,000 in gross profit from product sales and a decrease in other expenses of \$415,000.

**Revenue and Gross Profit from Sales**

*Revenue from product sales:* In the three months ended September 30, 2012, we recorded \$311,000 in revenue from the sale and shipment of four Calmare<sup>®</sup> pain therapy medical devices; with a cost of product sales of \$100,000. In the three months ended September 30, 2011, we recorded \$1,198,000 in gross revenue from the sale and shipment of 22 Calmare<sup>®</sup> pain therapy medical devices, with a cost of product sales of \$505,000. The increase in the gross profit over the prior period is primarily due to the lower margins on sales to International and U.S. Government customers as compared with U.S commercial customers. International and U.S. Government customers accounted for 61% of product sales in the quarter ended September 30, 2011 and 0% of product sales in the quarter ended September 30, 2012.

**Other Revenue**

*Retained royalties* for the three months ended September 30, 2012, were \$6,000, which was \$2,000 more than the \$4,000 of retained royalties reported in the three months ended September 30, 2011. .

*Other income* for the three months ended September 30, 2012, was \$17,000 which included income earned for training and the sale of supplies such as electrodes and cables for use with our Calmare<sup>®</sup> devices and rental income from customers who were renting Calmare<sup>®</sup> pain therapy medical devices from us. Approximately \$10,000 of other income rental income from customers who were renting Calmare<sup>®</sup> pain therapy medical devices from us was reported in the three months ended September 30, 2011.

**Expenses**

*Total expenses* were \$830,000 in the three months ended September 30, 2012 compared to \$1,245,000 in the three months ended September 30, 2011, a decrease of \$415,000.

*Selling expenses* were \$126,000 in three months ended September 30, 2012, compared to \$219,000 in the three months ended September 30, 2011. The decrease of \$93,000 was due to a decrease of \$62,000 in commission expenses due to fewer sales of Calmare<sup>®</sup> devices combined with a decrease of \$33,000 in domestic patent legal expenses related to the joint venture with XION Corporation to develop the melanocortin technologies, slightly offset by a \$2,000 increase in the in patent, trademark and translation fees related to working with the inventor of the Calmare<sup>®</sup> device.

*Personnel and consulting expenses* were \$277,000 in the three months ended September 30, 2012, as compared to \$431,000 in the three months ended September 30, 2011, a decrease of \$154,000.

Personnel related expenses were \$112,000 in the quarter ended September 30, 2012 as compared to \$242,000 quarter ended September 30, 2011, a reduction of \$131,000 primarily due to the departure of two employees in January 2012, and that of a third employee in June 2012. There was no employee stock option expense in 2012 as all outstanding option expense was recorded in 2011. The reduction in personnel related expenses combined with decreased consulting fees (\$23,000), primarily due to a reduction in the work and fees assigned to the contracted insurance reimbursement specialists.

*General and administrative expenses* were \$393,000 in the three months ended September 30, 2012, a decrease of \$208,000, or 35% from \$601,000 in the three months ended September 30, 2011. The change is primarily due to decreases in legal fees (\$120,000) associated with the legal activity relating to the former CEO challenging his termination for cause, as well as reduced corporate legal expenses (\$53,000). There were also decreases in directors' fees and expenses (\$16,000) due to fewer meetings, and changes in the makeup of the Board; decreased travel and entertainment expenses (\$15,000) due to fewer employees traveling in 2012; decreased marketing expenses (\$21,000) due to the one-time nature of several expenses in 2011 that did not recur in 2012; decreased audit and tax expenses (\$25,000); decreases in postage and delivery expenses (\$28,000); decreases in supply expenses (\$9,000); and decreases in bank fees and maintenance expenses (\$7,000). These decreases were offset by increases in legal fees associated with other litigation (\$36,000), increased public company expenses, primarily financing costs and stock listing fees (\$29,000); increased taxes (\$3,000); increased office-related fees and subscriptions (\$6,000); increased insurance expenses (\$5,000); increased bad debt expenses (\$2,000) and a loss on disposal of fixed assets (\$5,000) both related to the closing of the North Carolina office

*Interest expense* of \$19,000 in the three months ended September 30, 2012, reflects an increase of \$10,000 as compared to \$9,000 the three months ended September 30, 2011, due to an increase in borrowing.

*Unrealized loss on derivative instrument* of \$15,000 in three months ended September 30, 2012 as compared to the \$15,000 gain recorded in the three months ended September 30, 2011, reflects the difference in the portion of the

Class C Preferred stock which is based on changes in the price of the Company's common shares at the end of each period (see Note 13 for a description).

**Results of Operations**    **Nine months ended September 30, 2012 vs. nine months ended September 30, 2011**

**Summary of Results**

We incurred a net loss of \$2,334,000 or \$0.16 loss per basic and diluted share for the nine months ended September 30, 2012, compared to a net loss of \$1,843,000 or \$0.13 loss per basic and diluted share for the nine months ended September 30, 2011. As explained in detail below, the net loss reflects a decrease of \$2,634,000 in gross revenue, a decrease of \$1,446,000 in gross profit from product sales and a decrease in other expenses of \$929,000.

**Revenue and Gross Profit from Sales**

*Revenue from product sales:* In the nine months ended September 30, 2012, we recorded \$703,000 in revenue from the sale and shipment of eleven Calmare® pain therapy medical devices; with a cost of product sales of \$296,000, resulting in a gross profit of \$407,000. In the nine months ended September 30, 2011, we recorded \$3,337,000 in revenue from the sale and shipment of 100 (67 internationally, 33 domestic) Calmare® pain therapy medical devices; with a cost of product sales of \$1,484,000, and gross profit of \$1,853,000. The increase in the gross profit over the prior period is primarily due to the lower margins on sales to International and U.S. Government customers as compared with U.S commercial customers. International and U.S. Government customers accounted for 64% of product sales in the nine months ended September 30, 2011 and 18% of product sales in the nine months ended September 30, 2012.

Fifty-three of the 100 medical devices sold in the nine months ended September 30, 2011 represent the sale to a new distributor of units the Company had brought back into inventory during the transition period ended December 31, 2010, following the cancellation of the earlier distribution agreement with Life Epistème Group, srl.

## Other Revenue

*Retained royalties* for the nine months ended September 30, 2012, were \$70,000, which was \$50,000 more than the \$20,000 of retained royalties reported in the nine months ended September 30, 2011. This increase was primarily due to the timing of royalties earned for a technology related to genetically modified seeds which resulted in the entire royalty due for 2011 being paid in lump sum during the nine months ended September 30, 2012.

*Other income (including investment income)* for the nine months ended September 30, 2012, was \$41,000, including amounts earned for training and the sale of supplies such as electrodes and cables for use with our Calmare<sup>®</sup> devices and rental income from customers who were renting Calmare<sup>®</sup> pain therapy medical devices from us. Approximately \$31,000 of other income consisting of rental income from customers who were renting Calmare<sup>®</sup> pain therapy medical devices from us and the sale of supplies for use with our Calmare<sup>®</sup> devices was reported in the nine months ended September 30, 2011.

## Expenses

*Total expenses* were \$2,852,000 in the nine months ended September 30, 2012 compared to \$3,781,000 in the nine months ended September 30, 2011; a decrease of \$929,000.

*Selling expenses* were \$307,000 in nine months ended September 30, 2012, compared to \$416,000 in the nine months ended September 30, 2011. The decrease of \$109,000 was due to a decrease of \$128,000 in commission expenses due to fewer sales of Calmare<sup>®</sup> devices by combined with a decrease of \$31,000 in patent legal expenses which was offset by an increase of \$83,000 in patent, trademark and translation fees related to working with the inventor of the Calmare<sup>®</sup> device. Also in the nine months ended September 30, 2011, the Company recognized a liability related to the sale of video compression patents of \$33,000, which did not recur in 2012.

*Personnel and consulting expenses* were \$1,111,000 in the nine months ended September 30, 2012, as compared to \$1,204,000 in the nine months ended September 30, 2011, a decrease of \$93,000. Personnel related expenses were \$445,000 in the nine months ended September 30, 2012 as compared to \$705,000 in the nine months ended September 30, 2011, a reduction of \$260,000 primarily due to the departure of two employees in January 2012, and that of a third employee in June 2012. There was no employee stock option expense in 2012 as all outstanding option expense was recorded in 2011. The reduction in personnel related expenses was offset by increased consulting fees (\$56,000), primarily due to work related to U.S. and Federal government sales of our Calmare<sup>®</sup> device, the management services of our current CEO, and the work of the contracted Managing Director for International Business Development, as well as increases (\$111,000) in the ongoing work of the contracted insurance reimbursement specialists.

*General and administrative expenses* were \$1,369,000 in the nine months ended September 30, 2012, a decrease of \$746,000, or 35% from \$2,115,000 in the nine months ended September 30, 2011. The change is primarily due to decreases in legal fees (\$618,000) associated with the legal activity relating to the former CEO challenging his termination for cause, as well as decreased corporate legal expenses (\$40,000). In addition, there were decreases in travel expenses (\$53,000) due to fewer employees traveling in 2012; decreased marketing expenses (\$99,000) due to the one-time nature of several expenses in 2011 that did not recur in 2011, including costs associated with development of a promotional video for TV and attendance at an international trade show in Europe; decreased audit and tax expenses (\$60,000); decreases in supply expenses primarily due to the expenses in 2011 of opening the North Carolina office which did not recur in 2012 (\$28,000); reduced postage and delivery expenses (\$32,000); a reduction in banking fees, miscellaneous taxes and other fees and expenses (\$14,000); and a reduced depreciation expense of (\$6,000) due to having less property and equipment to depreciate. In the nine months ended September 30, 2011, there was a contribution expense of \$7,000 related to a donation of two devices to a children's hospital in Italy which did not recur in 2012. These decreases were offset by increases in legal fees associated with other litigation (\$92,000); increases in directors' fees and expenses (\$54,000) primarily due to the stock option expense related to the modification of option agreements for former directors; increased public company expenses, primarily financing costs and stock listing fees (\$23,000); increased insurance expenses (\$7,000); increased rent and associated expenses related to opening another office during the nine months ended September 30, 2011 (\$6,000); a loss on disposal of fixed assets related to the closing of the North Carolina office (\$5,000); increased bad debt expenses related to a former employee and the closing of the North Carolina office (\$10,000); an increase (\$7,000) due to bad debt expense recovery from 2011 which did not recur in 2012; an increase due to a restructuring charge that occurred in 2011 and did not recur in 2012 (\$5,000), and increased taxes (\$2,000)

*Interest expense* of \$41,000 in the nine months ended September 30, 2012, reflects an increase of \$12,000 as compared to \$29,000 in the nine months ended September 30, 2011, due to an increase in borrowing.

*Unrealized loss on derivative instrument* of \$24,000 in nine months ended September 30, 2012 as compared to the \$17,000 loss recorded in the three months ended September 30, 2011, reflects the difference in the portion of the Class C Preferred stock which is based on changes in the price of the Company's common shares at the end of each period (see Note 13 for a description).

## **Financial Condition and Liquidity**

Our liquidity requirements arise principally from our working capital needs, including funds needed to find and market new or existing 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 and cash flows from operations, if any, including royalty legal awards, short term debt, and sales of common stock.

During the third quarter of fiscal 2011, we entered into a Factoring Agreement with Versant to accelerate receivable collection and manage cash flow. Under the Factoring Agreement the Company will sell to Versant certain of the Company's accounts receivables. For those accounts receivable the Company tenders to Versant and Versant chooses to purchase, Versant will advance 75% of the face value to the Company, and will 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. At September 30, 2012, the Company had no factored receivables. Subsequent to September 30, 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.

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 equity financing. To achieve and sustain profitability, we must increase the number of 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. 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 executing our strategic plan will be sufficient to meet our obligations of current and anticipated operating cash requirements.

In fiscal 2010, the Company incorporated revenue from the sale of inventory into its revenue stream. That source of revenue is expected to continue as sales of its Calmare<sup>®</sup> pain therapy medical device continue to expand and other products are added to the Company's portfolio of technologies.

Cash and cash equivalents consist of demand deposits and interest earning investments with maturities of three months or less, including overnight bank deposits and money market funds. We carry cash equivalents at cost.

At September 30, 2012, the Company's balance sheet showed cash and cash equivalents of \$1,000. This is compared to \$28,000 cash and cash equivalents at December 31, 2011. In addition, at December 31, 2011, the Company had \$750,000 of restricted cash held in escrow as a Prejudgment Remedy associated with the arbitration case involving our former Chairman, President and CEO. Those funds are no longer held in escrow, having been paid out as part of the settlement of that case during the nine months ended September 30, 2012 (See Note 14 for details regarding that case). The net loss of \$2,334,000 for the nine months ended September 30, 2012 contained non-cash inflow of \$179,000 and net cash inflow related to changes in assets and liabilities of \$1,285,000, resulting in cash used in operations of \$870,000. During the nine-month period ending September 30, 2012, the company issued notes payable to borrow \$1,125,000 and issued 474,415 shares of common stock to pay down \$328,000 in accrued liabilities, and to prepay \$74,000 in expenses.

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 enough to utilize the benefit of the remaining NOLs before they expire.

## **Going Concern**

The Company incurred operating losses for the past six quarters, having produced marginal net income in the first quarter of fiscal 2011, after having incurred operating losses each quarter since fiscal 2006. During the three and nine month periods ended September 30, 2012 and September 30, 2011, we had a significant concentration of revenues from our Calmare® 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 on other technologies.

Although we have taken steps to significantly reduce operating expenses going forward, even at these reduced spending levels, should the anticipated increase in revenue from sales of Calmare® medical devices not occur the Company may not have sufficient cash flow to fund operating expenses beyond the first quarter of 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 recurring revenue streams sufficient to cover operating costs. The company does not have any significant individual cash or capital requirements in the budget going forward. During the transitional period ended December 31, 2010, the Company undertook a major reduction of its operating expenses through staff reductions and reduced office space costs. If necessary, the Company will meet anticipated operating cash requirements by further reducing costs, issuing debt and /or equity, and / or pursuing sales of certain assets and technologies while we pursue licensing and distribution opportunities for our remaining portfolio of technologies. 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.

## **Capital requirements**

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.

All purchases under \$1,000 are expensed. We expect capital expenditures to be less than \$50,000 in 2012.

## **Contractual Obligations and Contingencies**



On November 22, 2010, the Company terminated our operating lease for office space 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. 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 sales and training staff in Charlotte, NC. Obligations under this lease average \$27,000 per year for the two-year term. In July 2012, we closed this office and executed a lease termination agreement with the landlord. A final payment of \$15,000, which includes accrued rent payments, is due during the fourth quarter of 2012.

*Contingencies.* Our directors, officers, employees and agents may claim indemnification in certain circumstances.

We seek to limit and reduce our potential financial 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 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. If we incur such costs, we expense them as incurred, and reduce our expense if we are reimbursed from future fees and/or royalties we receive. If the reimbursement belongs to our client, we record no revenue or expense.

As of September 30, 2012, CTTC and its majority-owned subsidiary, VVI, have remaining obligations, contingent upon receipt of certain revenue, to repay up to \$199,006 and \$203,478, respectively, in consideration of grant funding received in 1994 and 1995. CTTC is also obligated to pay at the rate of 7.5% of its revenue, 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 revenue from licensing supported products, if any. We recognize these obligations when we receive revenue related to the grant funds. We recognized \$489 and \$1,306 of these obligations during the three and nine months ended September 30, 2012. We recognized \$180 and \$860 of these obligations during the three and nine months ended September 30, 2011

### **Critical Accounting Estimates**

There have been no significant changes in our accounting estimates described under the caption *Critical Accounting Estimates* included in Part II, Item 7, *Management's Discussion and Analysis of Financial Condition and Results of Operations*, in our Annual report on Form 10-K for the year ended December 31, 2011.

### **Item 3. Quantitative and Qualitative Disclosures About Market Risk**

Not applicable.

### **Item 4. Controls and Procedures**

(a)

Evaluation of disclosure controls and procedures

Our management evaluated the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Securities Exchange Act Rules 13a-15(e) and 15d-15(e)) as of September 30, 2012. Our disclosure controls and procedures are designed to ensure that information required to be disclosed by the issuer in the reports that it files or submits under the Act (15 U.S.C. 78a *et seq.*) is recorded, processed, summarized, and reported, within the time periods specified in the Commission's rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by an issuer in the reports that it files or submits under the Act is accumulated and communicated to the issuer's management, including its principal executive and principal financial officers, or persons performing similar functions, as appropriate to allow timely decisions regarding required disclosure. Based on this evaluation, management concluded that our disclosure controls and procedures were effective as of September 30, 2012.

(b)

Change in Internal Controls

During the period ending September 30, 2012, there were no changes in our internal control over financial reporting during that period that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

**PART II OTHER INFORMATION**

**Item 1.**

**Legal Proceedings**

See Part I, Item 1, Note 14 to the accompanying unaudited condensed consolidated financial statements of this Quarterly Report on Form 10-Q.

**Item 1A.**

**Risk Factors**

We disclosed the risk factors related to our business and the market environment in our Annual Report on Form 10-K for the fiscal year ended December 31, 2011. Since September 2010, the Company has taken several actions that we believe will reduce the Company's risk. These include lowering costs through staff reductions and office relocation, developing additional sales, and obtaining additional capital.

**Item 2.**

**Unregistered Sales of Equity Securities and Use of Proceeds**

There were no unregistered sales of equity securities in the quarter ended September 30, 2012.

**Item 3.**

**Defaults Upon Senior Securities**

None

**Item 5.**

**Other Information**

None.

**Item 6.**

**Exhibits**

- 31.1 Certification by the Chief Executive Officer of Competitive Technologies, Inc. pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (Rule 13a-14(a) or Rule 15d-14(a)).
- 31.2 Certification by the Chief Financial Officer of Competitive Technologies, Inc. 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) (furnished herewith).
- 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) (furnished herewith).
- 101\* Interactive Data Files.

\* to be added by amendment

**SIGNATURES**

Pursuant to the requirements 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/ Carl O. Connell

Carl O. Connell

Chief Executive Officer

and Authorized Signer

November 16, 2012

By /s/ Johnnie D. Johnson

Johnnie D. Johnson

Chief Financial Officer, Chief Accounting

Officer and Authorized Signer

November 16, 2012

INDEX TO EXHIBITS

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[www.competitivetech.net](http://www.competitivetech.net)



