

COMPETITIVE TECHNOLOGIES INC  
Form 10-Q  
May 18, 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 March 31, 2012

or

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission file number 1-8696

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

*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  
(Address of principal executive offices)

06824  
(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   
Non-accelerated filer  (Do not check if a smaller reporting company)

Accelerated filer   
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 May 18, 2012 was 14,830,204 shares.

**COMPETITIVE TECHNOLOGIES, INC.**

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

## Condensed Consolidated Balance Sheets

	<b>March 31, 2012</b> (Unaudited)	December 31, 2011
<b>Assets</b>		
Current Assets:		
Cash and cash equivalents	\$	\$
	<b>1,570</b>	28,485
Restricted cash	-	750,000
Receivables, net of allowance of \$101,154	<b>112,015</b>	42,471
at March 31, 2012, and December 31, 2011		
Inventory, Finished Goods	<b>4,440,156</b>	4,210,156
Prepaid expenses and other current assets	<b>56,245</b>	70,268
<b>Total current assets</b>	<b>4,609,986</b>	5,101,380
Property and equipment, net	<b>42,707</b>	26,169
Security deposits	<b>17,275</b>	17,275
<b>TOTAL ASSETS</b>	<b>\$</b>	<b>\$</b>
	<b>4,669,968</b>	5,144,824
<b>Liabilities and Shareholders' Interest (Deficit)</b>		
Current Liabilities:		
Accounts payable, general	\$	\$
	<b>1,326,862</b>	1,124,007
Accounts payable, GEOMC	<b>4,175,225</b>	3,865,225
Accrued expenses and other liabilities	<b>549,500</b>	1,228,473
Notes payable	<b>300,000</b>	100,000
Deferred revenue	<b>9,600</b>	12,800
Derivative liability	<b>88,960</b>	66,176
Preferred stock liability	<b>375,000</b>	375,000
<b>Total current liabilities</b>	<b>6,825,147</b>	6,771,681
<b>Commitments and Contingencies</b>		
Shareholders' interest (Deficit):		
5% preferred stock, \$25 par value, 35,920 shares	<b>60,675</b>	60,675



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authorized, 2,427 shares issued and outstanding 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 March 31, 2012 and December 31, 2011 Common stock, \$.01 par value, 20,000,000 shares	<b>148,302</b>	147,157
authorized, 14,830,204 shares issued and outstanding at March 31, 2012 and 14,715,789 shares issued		
and outstanding at December 31, 2011		
Capital in excess of par value	<b>45,036,867</b>	44,771,128
Accumulated deficit	<b>(47,401,023)</b>	(46,605,817)
Total shareholders' interest (Deficit)	<b>(2,155,179)</b>	(1,626,857)
<b>TOTAL LIABILITIES AND SHAREHOLDERS'</b>	<b>\$</b>	<b>\$</b>
<b>INTEREST (DEFICIT)</b>	<b>4,669,968</b>	5,144,824
	<i>See accompanying notes</i>	

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

## Condensed Consolidated Statements of Operations

(Unaudited)

	<b>Three months ended March 31, 2012</b>	Three months ended March 31, 2011
<b>Revenue</b>		
Product sales	\$	\$
	<b>329,746</b>	1,827,056
Cost of product sales	<b>150,571</b>	856,754
<b>Gross profit from product sales</b>	<b>179,175</b>	970,302
<b>Other Revenue</b>		
Gain on sale on rental assets	-	34,728
Retained royalties	<b>12,403</b>	10,610
Investment income	<b>1,497</b>	-
Other income	<b>14,704</b>	10,910
<b>Total other revenue</b>	<b>28,604</b>	56,248
<b>Expenses</b>		
Selling expenses	<b>86,940</b>	100,793
Personnel and consulting expenses	<b>331,370</b>	367,119
General and administrative expenses	<b>552,378</b>	516,637
Interest expense	<b>9,513</b>	9,616
Unrealized loss on derivative instrument	<b>22,784</b>	2,951
<b>Total Expenses</b>	<b>1,002,985</b>	997,116
Income (loss) before income taxes	<b>(795,206)</b>	29,434
Provision (benefit) for income taxes	-	-
<b>Net income (loss)</b>	\$	\$
	<b>(795,206)</b>	29,434
Basic income (loss) per share	\$	\$
	<b>(0.05)</b>	(0.00)
Basic weighted average number	<b>14,752,251</b>	13,826,055

of common shares outstanding:

Diluted income (loss) per share	\$	\$	
		<b>(0.05)</b>	(0.00)
Diluted weighted average number		<b>14,752,251</b>	14,466,787

of common shares outstanding:

*See accompanying notes*

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

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

For the Three Months Ended March 31, 2012

(Unaudited)

	Preferred Stock		Common Stock		Capital	Accumulated deficit	Total shareholders interest(deficit)
	Shares outstanding	Amount	Shares outstanding	Amount	in excess of par value		
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)	-	-	-	-	-	\$(795,206)	\$(795,206)
Common shares issued to settle accounts payable, general and accrued expenses	-	-	114,415	1,145	127,109	-	128,254
Compensation expense from stock option grants	-	-	-	-	138,630	-	138,630
<b>Balance March 31, 2012</b>	<b>2,427</b>	<b>\$ 60,675</b>	<b>14,830,204</b>	<b>\$ 148,302</b>	<b>\$ 45,036,867</b>	<b>\$(47,401,023)</b>	<b>\$(2,155,179)</b>

*See accompanying notes*



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

## Condensed Consolidated Statements of Cash Flows

(Unaudited)

	<b>Three months ended March 31, 2012</b>	Three months ended March 31, 2011
<b>Cash flows from operating activities:</b>		
Net income (loss)	\$	\$
	<b>(795,206)</b>	29,434
Adjustments to reconcile net income (loss) to net cash used in operating activities:		
Depreciation and amortization	<b>3,464</b>	8,154
Share-based compensation stock options	<b>138,630</b>	4,720
Accrued stock contribution (directors stock exp)	-	(10,083)
Gains on sale of rental assets	-	(34,728)
Unrealized loss on derivative instrument	<b>22,784</b>	2,951
Changes in assets and liabilities:		
Receivables	<b>(69,544)</b>	(1,152,853)
Restricted cash	<b>750,000</b>	-
Prepaid expenses and other current assets	<b>14,022</b>	1,764
Inventory	<b>(230,000)</b>	(870,228)
Accounts payable, accrued expenses and other liabilities	<b>(41,063)</b>	1,708,077
<b>Net cash (used in) operating activities</b>	<b>(206,913)</b>	(312,792)
<b>Cash flows from investing activities:</b>		
Purchase of property and equipment	<b>(20,002)</b>	(14,415)
Proceeds from sale of rental asset	-	43,800
Increase in security deposits	-	(2,275)
<b>Net cash provided by (used in) provided by investing activities</b>	<b>(20,002)</b>	27,110
<b>Cash flows from financing activities:</b>		
Proceeds from note payable	<b>200,000</b>	50,000
Proceeds from exercise of stock options	-	10,050
<b>Cash provided by financing activities</b>	<b>200,000</b>	60,050
<b>Net (decrease) in cash and cash equivalents</b>	<b>(26,915)</b>	(225,632)
<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>1,570</b>	331,386

Supplemental disclosure of non-cash investing and financing transactions:

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

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



**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 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.

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 March 31, 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.

During the three months ended March 31, 2012, and the three months ended March 31, 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 92% and 97% in the three months ended March 31, 2012 and March 31, 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 three 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. During the five month transitional period ended December 31, 2010; the Company undertook a major reduction of its operating expenses through staff reductions and reduced office space costs. 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 fourth quarter of calendar 2012.

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. At March 31, 2012, we had no outstanding long-term debt.

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 March 31, 2012, no receivables were factored.

Sales of our Calmare® pain therapy medical device continue to be the major source of revenue for the Company. The Company 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 "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.

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.

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® 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 March 31, 2012</b>	Three months ended March 31, 2011
Denominator for basic net income (loss) per share, weighted average shares outstanding	<b>14,752,251</b>	13,826,055
Dilutive effect of common stock options	N/A	8,212
Dilutive Effect of Series C convertible preferred stock	N/A	632,520
Denominator for diluted net income (loss) per share, weighted average shares outstanding	<b>14,752,251</b>	14,466,787

Options to purchase 373,000 shares of our common stock outstanding at March 31, 2012 and 375 shares of convertible preferred stock at March 31, 2012 were not included in the computation of diluted net income (loss) per share because they were anti-dilutive.

In the quarter ended March 31, 2011, those options with exercise prices less than \$1.28, (average market price for the period) if exercised, would have resulted in dilution using the treasury stock method. At March 31, 2011 the Company had 280,000 outstanding options to purchase its common stock, of which only 30,000 options had an exercise price less than \$1.28. In addition, 750 shares of convertible preferred stock were outstanding at March 31, 2011, with the dilutive effect of 632,520 shares of common stock.

3.

**RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS**

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

**4.****RECEIVABLES**

Receivables consist of the following:

	<b>March 31, 2012</b>	December 31, 2011
Calmare® Sales Receivable	\$	\$
	<b>102,850</b>	24,444
Other Receivable	<b>9,165</b>	18,027
Royalties, net of allowance of \$101,154	-	
at March 31, 2012 and December 31, 2011		
Total receivables	\$	\$
	<b>112,015</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, were zero, consisted of shares in Security Innovation and Xion Pharmaceutical Corporation. 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 12) 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 \$88,960 and \$66,176 at March 31, 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, Accounts Receivable, 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>March 31, 2012</b>	December 31, 2011
Prepaid insurance	\$	\$
	<b>855</b>	25,283
Travel and commission advances	<b>35,500</b>	35,500
Other	<b>19,890</b>	9,485
Prepaid expenses and other current assets	\$	\$
	<b>56,245</b>	70,268

8.

#### PROPERTY AND EQUIPMENT

Property and equipment, net, consist of the following:

	<b>March 31, 2012</b>	December 31, 2011
Property and equipment, gross	\$	\$
	<b>247,647</b>	227,645
Accumulated depreciation and amortization	<b>204,940</b>	201,476
Property and equipment, net	\$	\$
	<b>42,707</b>	26,169

Depreciation and amortization expense was \$3,464 and \$8,154 for the three months ended March 31, 2012, and 2011, respectively.

## 9.

### ACCOUNTS PAYABLE, GENERAL

	<b>March 31, 2012</b>	December 31, 2011
	\$	\$
Legal fees payable	<b>785,534</b>	733,858
Accounting fees payable	<b>103,397</b>	39,285
Consulting fees payable	<b>225,024</b>	110,515
Other payables	<b>212,907</b>	240,349
	\$	\$
Accounts Payable, General	<b>1,326,862</b>	1,124,007

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

	<b>March 31, 2012</b>	December 31, 2011
	\$	\$
Royalties payable	<b>284,948</b>	210,169
Deferred compensation	<b>8,089</b>	-
Accrued accounting fees	<b>65,502</b>	93,529
Arbitration settlement payable	-	775,000
Other accrued liabilities	<b>190,961</b>	149,775
	\$	\$
Accrued Expenses and Other Liabilities	<b>549,500</b>	1,228,473

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

**11.****NOTES PAYABLE**

In December 2011, the Company issued a 90-day note payable to borrow \$100,000. That note was originally extended for an additional 30 days in March 2012. The proceeds were used for general corporate purposes. In January 2012, two additional notes were issued to borrow \$50,000 each. In April and May, 2012 additional notes totaling \$125,000 were issued. On May 10, 2012 all notes totaling \$325,000 were combined into one note. Note payable bears simple of interest at 6.00% per annum. Principal amounts totaling \$300,000 and \$25,000 including all unpaid interest are due on July 2, 2012 and August 1, 2012, respectively.

In March 2012, the Company issued a 24-month convertible promissory note to borrow \$100,000 for general corporate purposes. The convertible promissory note bears simple interest of 6.00% simple interest per annum and is payable monthly in advance. At any time on or after September 13, 2012 the holder of the note may elect by notice to the Company to convert this convertible promissory note into shares of Company's common stock at the rate of \$1.05 per share.

**12.****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 ended March 31, 2012, the Company granted 70,000 options to directors which were fully vested upon granting. Also, 10,000 previously granted options were forfeited during the quarter ended March 31, 2012. 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 \$80,000 for the three months ended March 31, 2012.

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

Three Months Ended March 31, 2012

Dividend yield (1)

0.0%

Expected volatility (2)

86.7% - 87.1%

Risk-free interest rates (3)

0.89%

Expected lives (2)

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 months ended March 31, 2012, the Company recognized expense of \$58,630 for stock options issued to directors during the current period. During the three months ended March 31, 2011, the Company recognized expense of \$4,720, for stock options issued to employees.

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

On December 15, 2010, the Company's Board of Directors authorized the issuance of 750 shares of Series C Convertible Preferred Stock (\$1,000 par value) with a 5% cumulative dividend to William R. Waters, Ltd. of Canada. On December 30, 2010, 750 shares were issued. The Company converted the above \$400,000 promissory note into 400 shares and received cash of \$350,000 for the remaining 350 shares. These transactions were necessitated to replenish the Company's operating cash which had been drawn down by the \$750,000 cash collateral previously posted by CTTC in a prejudgment remedy action styled *John B. Nano v. Competitive Technologies, Inc.*, Docket No. CV10 5029318 (Superior Court, Bridgeport, CT), see Note 12 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 months ended March 31, 2012 were \$4,623. At March 31, 2012, \$14,075 dividends declared have not been paid, including the \$4,623 declared in the current quarter, and are shown in accrued and other 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 13 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 for the six months ended June 30, 2011 related to the converted shares. Upon conversion, the \$81,933 derivative liability was reclassified to equity.

The Company recorded a convertible preferred stock derivative liability of \$88,960, associated with the 375 shares of Series C Convertible Preferred Stock outstanding at March 31, 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 March 31, 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.

13.

### **CONTRACTURAL OBLIGATIONS AND CONTINGENCIES**

As of March 31, 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 \$425 and \$345 of these obligations during the quarters ended March 31, 2012 and March 31, 2011, respectively.

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 average \$27,000 per year for the two-year term.

***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 its return to the District Court in Colorado.

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

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

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

In March 2008, the ARB issued an order of remand in the employee's appeal of the October 2005 dismissal of his termination complaint, directing the ALJ to clarify her analysis utilizing the burden-shifting standard articulated by the ARB. In January 2009, the ALJ issued a revised decision again recommending dismissal and once again the employee appealed the ruling to the ARB. On September 30, 2011, the ARB issued a final decision and order affirming the ALJ's decision on remand and dismissing the employee's complaint. The employee has appealed the ARB's decision before the U.S. Court of Appeals for the Second Circuit which has ordered the employee to file his opening brief by May 31, 2012. Response briefs by the Solicitor's Office of the U.S. Department of Labor and CTTC are due by July 30, 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, 2011 and December 31, 2010 balance sheets. The Company did not believe it was liable to the former Chairman, President and CEO, believing he was terminated for cause. The case proceeded through the

arbitration process. The initial arbitration hearing began in April 2011; additional hearing dates were held in May and June 2011. In July 2011, each party submitted a summary limited in length stating their positions.

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

In January 2012, the judge denied the Company's motion to vacate the arbitration award in favor of its former CEO John B. Nano and granted Mr. Nano's application to confirm the award. Following the decision, CTTC settled all disputes with its former Chairman and CEO, John B. Nano. Pursuant to the settlement, CTTC has released to Mr. Nano from escrow the \$750,000 deposited by CTTC following Mr. Nano's application for a prejudgment remedy. CTTC paid an additional \$25,000 as settlement of additional amounts of statutory interest. These amounts (\$775,000) had been accrued at December 31, 2011. The settlement includes mutual general releases of any and all claims either party has or had against the other. The settlement agreement also includes a provision that neither CTTC nor Mr. Nano would disparage the other. Should any such disparagement occur and litigation ensue, they further agreed that the prevailing party would be entitled to recover its costs and expenses, including reasonable attorney's fees. CTTC's payments to Mr. Nano 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 as amended on May 15, 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® pain therapy medical device continue to be the major source of revenue for the Company. The Company 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 "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.

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 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.

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.

## **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 March 31, 2012 vs. three months ended March 31, 2011**

**Summary of Results**

We incurred a net loss of \$795,000 or \$0.05 per basic and diluted share for the three months ended March 31, 2012, compared to a nominal gain of \$29,000 or \$0.00 per basic and diluted share for the three months ended March 31, 2011. As explained in detail below, the net loss reflects a decrease of \$791,000 in gross profit from product sales, a decrease in other revenue of \$28,000 and an increase in other expenses of \$6,000.

**Revenue and Gross Profit from Sales**

*Revenue from product sales:* In the three months ended March 31, 2012, we recorded \$330,000 in revenue from the sale and shipment of six Calmare<sup>®</sup> pain therapy medical devices; with a cost of product sales of \$151,000. In

the three months ended March 31, 2011, we recorded \$1,827,000 in gross revenue from the sale and shipment of 71 (63 internationally, 8 domestic) Calmare<sup>®</sup> pain therapy medical devices, with a cost of product sales of \$857,000.

53 of the 71 medical devices sold in the quarter ended March 31, 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 Epist me Group, srl.

## **Other Revenue**

*Gain on sale of rental assets* for the three months ended March 31, 2011 of \$35,000 represents the gain on the sale of one Calmare medical device to a customer that had previously rented the device from the Company. No sale of a rental asset occurred in the three months ended March 31, 2012.

*Retained royalties* for the three months ended March 31, 2012, were \$12,000, which was \$1,000 or 9% more than the \$11,000 of retained royalties reported in the three months ended March 31, 2011.

*Investment income* of \$1,000 in the three months ended March 31, 2012 represents interest paid on the \$750,000 restricted cash which was held in escrow per the legal case involving the former chief executive (See Note 13 for a discussion of that case). No such income was received in the three months ended March 31, 2011.

*Other income* for the three months ended March 31, 2012, was \$15,000, including payments for training and the sale of supplies such as electrodes and cables for use with our Calmare<sup>®</sup> devices (\$7,000) and rental income (\$8,000) from customers who were renting Calmare<sup>®</sup> pain therapy medical devices from us. Approximately \$8,000 of other income consisting of rental income from customers who were renting Calmare<sup>®</sup> pain therapy medical devices from us was reported in the three months ended March 31, 2011.

## **Expenses**

*Total expenses* were \$1,003,000 in the three months ended March 31, 2012 compared to \$997,000 in the three months ended March 31, 2011, an increase of \$6,000.

*Selling expenses* were \$87,000 in three months ended March 31, 2012, compared to \$101,000 in the three months ended March 31, 2011. The decrease of \$14,000 was due to a decrease of \$5,000 in domestic patent legal expenses

related to the joint venture with XION Corporation to develop the melanocortin technologies and a decrease of \$34,000 in commission expenses due to fewer sales of Calmare<sup>®</sup> devices, offset by an increase of \$25,000 in patent and translation fees related to working with the inventor of the Calmare<sup>®</sup> device.

*Personnel and consulting expenses* were \$331,000 in the three months ended March 31, 2012, as compared to \$367,000 in the three months ended March 31, 2011, a reduction of \$36,000 or 10%.

Personnel related expenses were \$187,000 in the quarter ended March 31, 2012 as compared to \$233,000 quarter ended March 31, 2011, a reduction of \$46,000 primarily due to the departure of two employees in January 2012. In addition, there were increased consulting fees (\$10,000), 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.

*General and administrative expenses* were \$552,000 in the three months ended March 31, 2012, an increase of \$35,000, or 7% from \$517,000 in the three months ended March 31, 2011. The change is primarily due to decreases in legal fees (\$101,000) associated with the legal activity relating to the former CEO challenging his termination for cause. In addition, there were increases in legal fees associated with other litigation (\$20,000), increases in corporate legal expenses (\$32,000); increases in directors' fees and expenses (\$161,000, which includes \$139,000 in stock option expense for directors); and increases in rent and associated expenses related to opening another office during the quarter ended March 31, 2011 (\$5,000). The increases were offset by decreases in investor and public relations expenses due primarily to the shift of emphasis in the duties of the investor relations/public relations consultant to management

services (\$14,000); decreases in audit and compliance expense primarily due to timing of activities (\$21,000); a reduction in travel expenses (\$19,000) due to fewer employees traveling in 2012; decreased insurance expenses (\$1,000); decreases in marketing expenses (\$9,000); decreases in supply expenses (\$9,000); a reduction in banking fees, miscellaneous taxes and other fees (\$4,000); and a reduced depreciation expense of (\$5,000) due to having less property and equipment to depreciate.

*Interest expense* was essentially unchanged, \$10,000 in the three months ended March 31, 2012, compared to the three months ended March 31, 2011.

*Unrealized loss on derivative instruments* The variable conversion feature related to the Company's Series C Convertible Preferred Stock (Series C) creates an embedded derivative that is required to be recorded at fair value at each reporting period. During the three months ended March 31, 2012, the Company recorded \$23,000 loss related to the embedded derivative's change in fair value, which was an increase of \$20,000 from the \$3,000 loss related to the embedded derivative's change in fair value recorded in the three months ended March 31, 2011.

### **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. At March 31, 2012, we had no outstanding long-term debt.

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 March 31, 2012, the Company had no factored receivables.

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.

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 March 31, 2012, the Company's balance sheet showed cash and cash equivalents of \$2,000. 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 quarter ended March 31, 2012 (See Note 13 for details regarding that case). The net loss of \$795,000 for the three months ended March 31, 2012 contained non-cash inflow of \$165,000 and net cash inflow related to changes in assets and liabilities of \$423,000, resulting in cash used in operations of \$207,000.

During

the three-month period ending March 31, 2012, the company issued notes payable to borrow \$200,000 and issued 114,000 shares of common stock to pay down \$128,000 in accrued liabilities.

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 four 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 month periods ended March 31, 2012 and March 31, 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 fourth quarter of 2012. 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.

*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, 2011, 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 \$425 and 345 of these obligations during the quarters ended March 31, 2012 and March 31, 2011, respectively.

### **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 /A 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 March 31, 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 March 31, 2012.

(b)

Change in Internal Controls

During the period ending March 31, 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 13 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/A 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 March 31, 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.

**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/ Johnnie D. Johnson.

Johnnie D. Johnson

Chief Executive Officer,

Chief Financial Officer, Chief Accounting

Officer and Authorized Signer

May 18, 2012

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

INDEX TO EXHIBITS

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