

COMPETITIVE TECHNOLOGIES INC

Form 10-K/A

April 30, 2014

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

**Washington, D.C. 20549**

**FORM 10-K/A**

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

Mark One)

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

For the fiscal year ended December 31, 2013

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 001-08696

**COMPETITIVE TECHNOLOGIES, INC.**

(Exact name of registrant as specified in its charter)

Delaware 36-2664428  
(State or other jurisdiction of (I. R. S. Employer  
incorporation or organization) Identification No.)

1375 Kings Highway East, Suite 400, Fairfield, CT 06824  
(Address of principal executive offices) (Zip  
Code)

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

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

Title of each class Name of each exchange on which registered

None None

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

None  
(Title of Class)

(Title of Class)

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

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

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

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

Edgar Filing: COMPETITIVE TECHNOLOGIES INC - Form 10-K/A

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

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

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

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

State the aggregate market value of the registrant's voting and non-voting common equity held by non-affiliates, based on the closing price of \$0.27 as reported by the OTCQX Market, as of the last business day of the registrant's most recently completed second quarter (June 30, 2013). \$4,415,797

Indicate the number of shares outstanding of each of the registrant's classes of common stock, as of the latest practicable date. 22,577,907

**DOCUMENTS INCORPORATED BY REFERENCE**

None

**Competitive Technologies, Inc.**

TABLE OF CONTENTS

**Part I**

|                                    |    |
|------------------------------------|----|
| Forward-Looking Statements         | 3  |
| Item 1. Business                   | 3  |
| Item 1A. Risk Factors              | 9  |
| Item 1B. Unresolved Staff Comments | 13 |
| Item 2. Properties                 | 13 |
| Item 3. Legal Proceedings          | 13 |
| Item 4. Mine Safety Disclosures    | 15 |

**Part II**

|  |    |
|--|----|
| Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities | 16 |
| Item 6. Selected Financial Data  | 17 |
| Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations                        | 18 |
| Item 7A. Quantitative and Qualitative Disclosures About Market Risk  | 26 |
| Item 8. Financial Statements and Supplementary Data  | 27 |
| Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure                         | 56 |
| Item 9A. Controls and Procedures   | 56 |
| Item 9B. Other Information   | 57 |

**Part III**

|   |    |
|---|----|
| Item 10. Directors and Executive Officers and Corporate Governance                                      | 58 |
| Item 11. Executive Compensation   | 61 |
| Item 12. Security Ownership of Certain Beneficial Owners and Management And Related Stockholder Matters | 65 |
| Item 13. Certain Relationships and Related Transactions, and Director Independence                      | 66 |
| Item 14. Principal Accounting Fees and Services   | 66 |

**Part IV**

|  |    |
|--|----|
| Item 15. Exhibits, Financial Statement Schedules | 68 |
| Signatures                                       | 69 |
| Exhibit Index                                    | 70 |

## **Explanatory Note**

This Form 10-K/A is being filed as an amendment (“Amendment No. 1”) to the Annual Report on Form 10-K filed by Competitive Technologies, Inc. with the Securities and Exchange Commission (the “SEC”) on April 16, 2014 (the “Original Filing”), to replace in its entirety the information provided in Part III of the Original Filing, which was previously expected to be incorporated by reference from the Proxy Statement for our 2014 Annual Meeting of Stockholders. In addition, with this Amendment No. 1, we are including currently dated certifications by our chief executive officer and chief financial officer as Exhibit 31.1 under Section 302 of the Sarbanes-Oxley Act of 2002 as required by Rule 12b-15 under the Securities Exchange Act of 1934, as amended. We are not including updated certifications under Section 906 of the Sarbanes-Oxley Act of 2002, as there are no financial statements included in this Amendment No. 1.

Except as described above, no other sections of the Original Filing have been amended. This Amendment No. 1 is presented as of April 16, 2014, the filing date of the Original Filing, and has not been updated to reflect other events, occurring after the date of the Original Filing, or to modify or update those disclosures affected by subsequent events.. More current information is contained in our other filings with the Securities and Exchange Commission.

## **PART I**

### **Forward-Looking Statements**

Statements about our future expectations are "forward-looking statements" within the meaning of applicable Federal Securities Laws, and are not guarantees of future performance. When used herein, the words "may," "will," "should," "anticipate," "believe," "appear," "intend," "plan," "expect," "estimate," "approximate," and similar expressions are intended to identify such forward-looking statements. These statements involve risks and uncertainties inherent in our business, including those set forth in Item 1A under the caption "Risk Factors," in this Annual Report on Form 10-K for the year ended December 31, 2013, and other filings with the SEC, and are subject to change at any time. Our actual results could differ materially from these forward-looking statements. We undertake no obligation to update publicly any forward-looking statement.

### **Item 1. Business**

#### **Overview:**

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

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

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

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

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

The Company has incurred operating losses since fiscal 2006 and has a working capital deficiency at December 31, 2013. We continue to seek revenue from new technologies or products to mitigate the concentration of revenues, and replace revenues from expiring licenses. At current reduced spending levels, the Company may not have sufficient cash flow to fund operations through 2014. These conditions raise substantial doubt about the Company's ability to continue as a going concern. The Company's continuation as a going concern is dependent upon its developing other recurring revenue streams sufficient to cover operating costs. If necessary, we will meet anticipated operating cash

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

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

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

### **Product Distribution Services**

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

### **Technology Commercialization Services**

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

We identify and commercialize innovative technologies in life and physical sciences, electronics, and nano science. Life sciences include medical testing, diagnostics, pharmaceuticals, biotechnologies, medical devices and other medical or biological applications. Physical sciences include chemical, display, and environmental applications. Electronics include communications, semiconductors, Internet related, e-commerce and consumer electronics



applications. Nanotechnologies are the manipulation of microscopic particles into useful arrangements, and smart or novel materials; a nano particle is one thousand times smaller than the width of a human hair. We have technologies in each area, with a concentration in life sciences.

### **Portfolio Acquisition and Maintenance**

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

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

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

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

### **Marketing Technologies and Products**

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

### **Technology Protection and Litigation**

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

### **Revenue Generation**

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

Revenue for 2013 primarily represented the sale of Calmare medical devices to end users in the United States. It also includes rental income from situations where we rented Calmare medical devices to end-users in the United States

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

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

Sales of our Calmare device continue to be the major source of revenue for the Company. The Company initially acquired the exclusive, worldwide rights to the *Scrambler Therapy*<sup>®</sup> technology in 2007. The Company's 2007 agreement with Giuseppe Marineo ("Marineo"), an inventor of *Scrambler Therapy* technology, and Delta Research and Development ("Delta"), authorized CTI to manufacture and sell worldwide the device developed from the patented *Scrambler Therapy* technology. The *Scrambler Therapy* technology is patented in Italy and in the U.S., effective in February 2013. Applications for patents have been filed internationally as well and are pending approval. The Calmare device has CE Mark certification from the European Union as well as U.S. FDA 510(k) clearance.

In 2011, the Company negotiated an extension to the agreement Marineo and Delta. This agreement extended the Company's exclusive, worldwide rights to the *Scrambler Therapy*<sup>®</sup> technology until March 31, 2016.

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

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

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

*Technology royalties* Client and customer agreements are generally for the duration of the technology life, which usually is determined by applicable patent law. When we receive customer reports of sales or payments, whichever occurs first, we record revenue for our portion, and record our obligation to our clients for their portion. For early stage technologies that may not be ready for commercial development without further research, we may receive annual minimum payments and/or milestone payments based on research progress or subsequent sublicense or joint venture proceeds. In certain sublicense or license agreements, we may receive an upfront fee upon execution of the

license. Our fees are generally non-refundable, and, except for annual minimums, are usually not creditable against future royalties. In certain cases, the first year or several years' royalties may be waived in consideration for an upfront fee. We may apply the upfront fee or initial fees to reimburse patent prosecution and/or maintenance costs incurred by either party. In these cases, payments are recorded as a reduction of expense, and not as revenue. If the reimbursement belongs solely to our client, we record no revenue or expense. As a result, a new technology may not generate significant revenue in its early years.

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

In 2013, we had a significant concentration of revenue from our Calmare medical device. We actively market other technologies, and seek new technologies to mitigate this concentration of revenue and provide a steady future revenue stream. However, Calmare device was the only technology that produced revenue equal to or exceeding 15% of our total revenue in 2013 and 2012.

We receive revenue from legal awards that result from successful patent enforcement actions and/or out of court settlements. Such awards or settlements may be significant, are non-recurring and may include punitive damages, attorneys' fees, court costs and interest. No such awards were received in 2013 or 2012.

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

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

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

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

Our applied science/electronics portfolio includes:

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

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

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

## Employees

As of April 11, 2014, we employed the full-time equivalent of five (5) people. We also had independent consultants under contract to provide financial management services, business development services, and sales management services. In addition to the diverse technical, intellectual property, legal, financial, marketing and business expertise of our professional team, from time to time we rely on advice from outside specialists to fulfill unique technology and other needs.

## Changes in Leadership in the Company

On September 12, 2013, Mr. Carl O'Connell, the Chief Executive Officer of the Company notified the Company's Board of Directors of his resignation from his position as Chief Executive Officer, effective September 26, 2013. Mr. O'Connell will remain a member of the Board of Directors. The resignation of Mr. O'Connell was not a result of any disagreements relating to the Company's operations, policies or practices.

On September 30, 2013, the Board of Directors removed Johnnie D. Johnson as the Company's Chief Financial Officer.

On September 27, 2013, the Board of Directors of the Company appointed Conrad Mir as the Company's new Chief Executive Officer, and President and elected him as a member of the Board of Directors. On September 30, 2013, in connection with Mr. Johnson's removal, Mr. Mir was appointed as the Company's interim Chief Financial Officer.

The Company entered into a formal employment agreement with Mr. Mir on October 1, 2013. This employment agreement is attached to this Form 10-K, filed as Exhibit 10.43.

## Corporate Governance

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



#### Available Information

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

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

#### Fiscal Year

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

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

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

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

*We derived more than 85% of our total revenue in 2013 from one technology.*

Total revenue consists of revenue from product sales, retained royalties, and other income. We derived approximately \$653,000, or 85%, of 2013 revenue from sales of our Calmare pain therapy medical device technology. An additional 4% of revenue derived indirectly from that technology through sales of supplies and training, rental payments and the sale of rental assets. A concentration of revenue makes our operations vulnerable to patent changes or expiration, or to variability in the medical device market, or to the development of new and competing technologies and could have a significant adverse impact on our financial position.

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

The Company has incurred operating losses since fiscal 2006 and has a working capital deficiency at December 31, 2013. At current reduced spending levels, the Company may not have sufficient cash flow to fund operations through 2014. These conditions raise substantial doubt about the Company's ability to continue as a going concern. The financial statements do not include adjustments to reflect the possible future effect of the recoverability and classification of assets or amounts and classifications of liabilities that may result from the outcome of this uncertainty.

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

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

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

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

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

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

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

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

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

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

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

Our clients and/or we may pursue patent infringement litigation or interference proceedings against holders of conflicting patents or sellers of competing products that we believe infringe our patent rights. We cannot be certain that our clients and/or we will be successful in any litigation or proceeding. The costs and outcome may materially adversely affect our business, operating results and financial condition.

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

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

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

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

Commercial development of some licensed patents may require the approval of foreign or domestic governmental regulatory agencies, especially in the life sciences area, and there is no assurance that those agencies will grant such approvals. In the United States, the principal governmental agency involved is the U.S. Food and Drug Administration ("FDA"). The FDA's approval process is rigorous, time consuming and costly. Until a licensee obtains approval for a product requiring such approval, the licensee may not sell the product in the U.S., and therefore we will not receive revenue based on U.S. sales.

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

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

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

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

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

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

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

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

## **Risks Related to Our Common Stock**

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

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

*Our shares are listed for trading on the OTC Bulletin Board, and our shares will likely be classified as a “penny stock” as that term is generally defined in the Securities Exchange Act of 1934 to mean equity securities with a price less than \$5.00. Our shares will be subject to rules that impose sales practice and disclosure requirements on broker-dealers who engage in certain transactions involving a penny stock.*

We are subject to the penny stock rules adopted by the Securities and Exchange Commission that require brokers to provide extensive disclosure to its customers prior to executing trades in penny stocks. These disclosure requirements may cause a reduction in the trading activity of our common stock, which in all likelihood would make it difficult for our stockholders to sell their securities.

Under the penny stock regulations, a broker-dealer selling a penny stock to anyone other than an established customer or accredited investor must make a special suitability determination regarding the purchaser and must receive the purchaser’s written consent to the transaction prior to the sale, unless the broker-dealer is otherwise exempt. Generally, an individual with a net worth in excess of \$1,000,000, or annual income exceeding \$200,000 individually, or \$300,000 together with his or her spouse, is considered an accredited investor. In addition, under the penny stock regulations the broker-dealer is required to:

Deliver, prior to any transaction involving a penny stock, a disclosure schedule prepared by the Securities and Exchange Commission relating to the penny stock market, unless the broker-dealer or the transaction is otherwise exempt;

Disclose commissions payable to the broker-dealer and our registered representatives and current bid and offer quotations for the securities;

Send monthly statements disclosing recent price information pertaining to the penny stock held in a customer’s account, the account’s value and information regarding the limited market in penny stocks;

Make a special written determination that the penny stock is a suitable investment for the purchaser and receive the purchaser's written agreement to the transaction, prior to conducting any penny stock transaction in the customer's account.

Because of these regulations, broker-dealers may encounter difficulties in their attempt to sell shares of our common stock, which may affect the ability of selling stockholders or other holders to sell their shares in the secondary market and have the effect of reducing the level of trading activity in the secondary market. These additional sales practice and disclosure requirements could impede the sale of our securities. In addition, the liquidity for our securities may be decreased, with a corresponding decrease in the price of our securities. Our shares in all probability will be subject to such penny stock rules and our stockholders will, in all likelihood, find it difficult to sell their securities.



***Our common stock is subject to price volatility unrelated to our operations.***

The market price of our common stock could fluctuate substantially due to a variety of factors, including market perception of our ability to achieve our planned growth, trading volume in our common stock, changes in general conditions in the economy and the financial markets or other developments affecting us or our competitors. In addition, the stock market is subject to extreme price and volume fluctuations. This volatility has had a significant effect on the market price of securities issued by many companies for reasons unrelated to their operating performance and could have the same effect on our common stock.

***Sales of substantial amounts of our common stock in the public market could depress the market price of our common stock.***

The sale of a substantial amount of common stock in the public market, or the perception that such sales may occur, could cause the market price of our common stock to decline.

***The OTC Bulletin Board, or the OTCBB, is a quotation system, not an issuer listing service, market or exchange. Therefore, buying and selling stock on the OTCBB is not as efficient as buying and selling stock through an exchange. As a result, it may be difficult for you to sell your common stock or you may not be able to sell your common stock for an optimum trading price.***

The OTCBB is a regulated quotation service that displays real-time quotes, last sale prices and volume limitations in over-the-counter securities. Our common stock is traded on the OTC QX Marketplace, or OTCQX, which is the trading tier on the OTCBB with the most demanding listing standards. Nevertheless, because trades and quotations on the OTCBB involve a manual process, the market information for such securities cannot be guaranteed. In addition, quote information, or even firm quotes, may not be available. The manual execution process may delay order processing and intervening price fluctuations may result in the failure of a limit order to execute or the execution of a market order at a significantly different price. Execution of trades, execution reporting and the delivery of legal trade confirmations may be delayed significantly. Consequently, one may not be able to sell shares of our common stock at the optimum trading prices.

When fewer shares of a security are being traded on the OTCBB, volatility of prices may increase and price movement may outpace the ability to deliver accurate quote information. Lower trading volumes in a security may result in a lower likelihood of an individual's orders being executed, and current prices may differ significantly from the price one was quoted by the OTCBB at the time of the order entry. Orders for OTCBB securities may be canceled or edited like orders for other securities. All requests to change or cancel an order must be submitted to, received and processed by the OTCBB. Due to the manual order processing involved in handling OTCBB trades, order processing

and reporting may be delayed, and an individual may not be able to cancel or edit his order. Consequently, one may not be able to sell shares of common stock at the optimum trading prices.

The dealer's spread (the difference between the bid and ask prices) may be large and may result in substantial losses to the seller of securities on the OTCBB if the common stock or other security must be sold immediately. Further, purchasers of securities may incur an immediate "paper" loss due to the price spread. Moreover, dealers trading on the OTCBB may not have a bid price for securities bought and sold through the OTCBB. Due to the foregoing, demand for securities that are traded through the OTCBB may be decreased or eliminated.

***We anticipate the need to sell additional authorized shares in the future. This will result in a dilution to our existing shareholders and a corresponding reduction in their percentage ownership in the Company.***

We may seek additional funds through the sale of our common stock. This will result in a dilution effect to our shareholders whereby their percentage ownership interest in the Company is reduced. The magnitude of this dilution effect will be determined by the number of shares we will have to issue in the future to obtain the funds required. The sale of additional stock to new shareholders will reduce the ownership position of the current shareholders. The price of each share outstanding common share may decrease in the event we sell additional shares.

***Since our securities are subject to penny stock rules, you may have difficulty reselling your shares.***

Our shares are "penny stocks" and are covered by Section 15(d) of the Securities Exchange Act of 1934 which imposes additional sales practice requirements on broker/dealers who sell our securities including the delivery of a standardized disclosure document; disclosure and confirmation of quotation prices; disclosure of compensation the broker/dealer receives; and, furnishing monthly account statements. For sales of our securities, the broker/dealer must make a special suitability determination and receive from its customer a written agreement prior to making a sale. The imposition of the foregoing additional sales practices could adversely affect a shareholder's ability to dispose of his stock.

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

None.

### **Item 2. Properties**

The Company leases approximately 2,700 square feet of office space in Fairfield, CT. Effective October 2013, the Company extended the term of the lease through February 2017 with an average annual cost of approximately \$76,000.

In January 2011, the Company entered into a two-year lease effective February 1, 2011 for additional office space for training staff in Charlotte, NC. Obligations under this lease average \$27,000 per year for the two-year term. In July 2012, the Company closed the North Carolina office and agreed to pay the landlord \$15,000.

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

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

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

according to USPTO requirements for handling reexamination proceedings of patents involved in litigation.

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

***Employment matters – former employee (case pending)***– 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 CTI requested de novo review and a hearing before an administrative law judge (“ALJ”). In July 2005, after the close of the hearing on CTI’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 CTI's appeal of the OSHA findings ruled in CTI'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 CTI following his termination. OSHA dismissed the complaint and the employee filed a request for a hearing by an administrative law judge. Ultimately, the employee voluntarily dismissed the appeal.

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

***John B. Nano vs. Competitive Technologies, Inc. - Arbitration (case completed)*** – On September 3, 2010, the Board of Directors of CTI found cause consisting of violation of fiduciary duties to the Corporation and violation of the CTI 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 CTI 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 CTI.

On September 13, 2010, Mr. Nano brought an arbitration claim to the American Arbitration Association against CTI. 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, CTI'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 and additional hearing dates were held in May and June 2011. At the conclusion of the arbitration hearing dates, in July 2011, each party submitted a summary 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, Connecticut to have the award confirmed. CTI 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, CTI settled all disputes with its former Chairman and CEO John B. Nano. Pursuant to the settlement, CTI has released to Mr. Nano from escrow the \$750,000 deposited by CTI following Mr. Nano's application for a prejudgment remedy. CTI 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 CTI 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. CTI's payments to Mr. Nano have been completed.

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

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

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

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

Not Applicable.

Page 15



## PART II

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

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

| Year Ended December 31, 2013 |        |        | Year Ended December 31, 2012 |        |        |
|------------------------------|--------|--------|------------------------------|--------|--------|
|                              | High   | Low    |                              | High   | Low    |
| First Quarter                | \$0.63 | \$0.28 | First Quarter                | \$1.29 | \$1.01 |
| Second Quarter               | \$0.42 | \$0.13 | Second Quarter               | \$1.24 | \$0.70 |
| Third Quarter                | \$0.29 | \$0.06 | Third Quarter                | \$1.04 | \$0.44 |
| Fourth Quarter               | \$0.48 | \$0.05 | Fourth Quarter               | \$0.77 | \$0.35 |

**Holder of Common Stock.** At April 11, 2014, there were 450 holders of record of our common stock.

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

**Equity Compensation Plan Information**

The following table summarizes securities available under our equity compensation plans as of December 31, 2013.

| Weighted<br>average per | Shares<br>issuable upon | Shares<br>issuable upon | Total shares<br>issuable | Number<br>of |
|-------------------------|-------------------------|-------------------------|--------------------------|--------------|
|-------------------------|-------------------------|-------------------------|--------------------------|--------------|

|  | share<br>exercise<br>price of<br>stock<br>options | exercise of<br>outstanding<br>stock options | vesting of<br>outstanding<br>restricted<br>stock units | Under<br>Current<br>Outstanding<br>awards | Securities<br>available<br>for future<br>issuance |
|--|---|---|--|---|---|
| Equity compensation plans approved by security holders:        |   |   |  |   |   |
| None   |   |   |  |   | -   |
| Equity compensation plans not approved by security holders:    |   |   |  |   |   |
| 1997 Employee Stock Option Plan                                | \$ 2.74   | 87,000                                      | -  | 87,000                                    | -   |
| 2000 Directors' Stock Option Plan                              | \$ 1.57   | 120,000                                     | -  | 120,000                                   | -   |
| 2011 Employees', Directors' and Consultants' Stock Option Plan | \$ 0.23   | 1,165,000                                   | -  | 1,165,000                                 | 335,000   |

### **Issuer Repurchases of Equity Securities**

None.

### **Unregistered Sales of Equity Securities**

#### **Series A 15% Original Issue Discount Convertible Notes and Warrants**

During the quarter ended December 31, 2013, the Company did a private offering of two tranches of convertible notes and warrants, under which it issued \$283,648 of convertible promissory notes for consideration of \$241,100, the difference between the proceeds from the notes and the principal amount consists of \$42,548 of original issue discount. The notes are convertible at initial conversion prices ranging from \$0.20 to \$0.25 per share any time after issuance thereby having an embedded beneficial conversion feature. The note holders were also issued market-related warrants for 170,354 in shares of common stock. The warrants have exercise prices that range from \$0.40 to \$0.60 and a 2-year term.

#### **Stock Options Issued to the CEO**

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

**COMPETITIVE TECHNOLOGIES, INC.****Item 6. Selected Financial Data** <sup>(1) (2)</sup>

|  | Year Ended<br>December 31,<br>2013 | Year Ended<br>December 31,<br>2012 | Year Ended<br>December 31,<br>2011 | Five Months<br>Ended<br>December 31,<br>2010 | Year Ended<br>July 31, 2010 |
|--|------------------------------------|------------------------------------|------------------------------------|--|-----------------------------|
| <b>Statement of Operations Summary:</b>                  |                                    |                                    |                                    |  |                             |
| Total revenues <sup>(3)</sup>                            | \$ 771,868                         | \$ 1,069,713                       | \$ 3,444,761                       | \$ 187,742                                   | \$ 2,009,682                |
| Net loss <sup>(3) (4)</sup>                              | \$ (2,672,154 )                    | \$ (3,004,097 )                    | \$ (3,595,764 )                    | \$ (2,407,544 )                              | \$ (2,708,534 )             |
| Net loss per share:                                      |                                    |                                    |                                    |  |                             |
| Basic  | \$ (0.16 )                         | \$ (0.20 )                         | \$ (0.26 )                         | \$ (0.18 )                                   | \$ (0.25 )                  |
| Assuming dilution  | \$ (0.16 )                         | \$ (0.20 )                         | \$ (0.26 )                         | \$ (0.18 )                                   | \$ (0.25 )                  |
| Weighted average number of<br>common shares outstanding: |                                    |                                    |                                    |  |                             |
| Basic  | 16,977,027                         | 15,007,852                         | 14,115,651                         | 13,824,944                                   | 10,832,043                  |
| Assuming dilution  | 16,977,027                         | 15,007,852                         | 14,115,651                         | 13,824,944                                   | 10,832,043                  |

| <b>Year-end Balance Sheet Summary:</b> | At December 31, |             |             |           | At July 31, |
|--|-----------------|-------------|-------------|-----------|-------------|
|  | 2013            | 2012        | 2011        | 2010      | 2010        |
| Cash and cash equivalents              | \$57,009        | \$74,322    | \$28,485    | \$557,018 | \$907,484   |
| Total assets                           | 4,566,332       | 4,771,387   | 5,144,824   | 3,195,543 | 4,949,923   |
| Total long-term obligations            | -               | -           | -           | -         | 66,369      |
| Total shareholders' interest (deficit) | (5,944,470)     | (4,029,070) | (1,626,857) | 651,360   | 2,608,502   |

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

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

Year ended December 31, 2013, year ended December 31, 2012, year ended December 31, 2011, five months ended December 31, 2010 and year ended July 31, 2010 include \$653,000, \$913,000, \$3,329,000, \$164,000 and \$1,941,000, respectively, from sales of our pain therapy medical device.

Year ended December 31, 2013, year ended December 31, 2012, year ended December 31, 2011, five months ended December 31, 2010 and year ended July 31, 2010 includes \$273,000, \$366,000, \$1,464,000, \$28,000 and (4) \$516,000, respectively, of cost of sales for our pain therapy medical device. Year ended December 31, 2011 includes \$775,000 accrued for legal settlement with former CEO.

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

**Forward-Looking Statements**

Statements about our future expectations are "forward-looking statements" within the meaning of applicable Federal Securities Laws, and are not guarantees of future performance. When used herein, the words "may," "will," "should," "anticipate," "believe," "appear," "intend," "plan," "expect," "estimate," "approximate," and similar expressions are intended to identify such forward-looking statements. These statements involve risks and uncertainties inherent in our business, including those set forth in Item 1A under the caption "Risk Factors," in this Annual Report on Form 10-K for the year ended December 31, 2013, 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. ("CTI") was incorporated in Delaware in 1971, succeeding an Illinois corporation which had incorporated in 1968. CTI and its majority-owned subsidiary (collectively, "we", "our", or "us") provide distribution, patent and technology transfer, sales and licensing services focusing on the needs of our customers, matching those requirements with commercially viable technology or product solutions. We develop relationships with universities, companies, inventors and patent or intellectual property holders to obtain the rights or a license to their intellectual property or to their product. They become our clients, for whom we find markets to sell or further develop or distribute their technology or product. We also develop relationships with those who have a need or use for technologies or products. They become our customers, usually through a license or sublicense, distribution agreement or sales contract.

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

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

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

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

Sales of our Calmare device continue to be the major source of revenue for the Company. The Company initially acquired the exclusive, worldwide rights to the *Scrambler Therapy*® technology in 2007. The Company's 2007 agreement with Giuseppe Marineo ("Marineo"), an inventor of *Scrambler Therapy* technology, and Delta Research and Development ("Delta"), authorizes CTI to manufacture and sell worldwide the device developed from the patented *Scrambler Therapy* technology. The *Scrambler Therapy* technology is patented in Italy and in the U.S., effective in February 2013. Applications for patents have been filed internationally as well and are pending approval. The Calmare device has CE Mark certification from the European Union as well as U.S. FDA 510(k) clearance.

In 2011, the Company negotiated an extension to the agreement Marineo and Delta. This agreement extended the Company's exclusive, worldwide rights to the *Scrambler Therapy*<sup>®</sup> technology until March 31, 2016.

In July 2012, the Company attempted to negotiate a five-year extension to the agreement with Marineo and Delta (the "2012 Amendment"). However, a valid contract was never formed as the 2012 Amendment was not executed by Marineo and Delta.

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

*Reliance on one revenue source.* In 2013, we had a significant concentration of revenue from our pain therapy medical device technology. We continue to seek revenue from new and existing technology licenses to mitigate the concentration of revenue, and replace revenue from expiring licenses.

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

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

## **Changes in Leadership in the Company**

On September 12, 2013, Mr. Carl O'Connell, the Chief Executive Officer of the Company notified the Company's Board of Directors of his resignation from his position as Chief Executive Officer, effective September 26, 2013. Mr. O'Connell will remain a member of the Board of Directors. The resignation of Mr. O'Connell was not a result of any disagreements relating to the Company's operations, policies or practices.

On September 30, 2013, the Board of Directors removed Johnnie D. Johnson as the Company's Chief Financial Officer.

On September 27, 2013, the Board of Directors of the Company appointed Conrad Mir as the Company's new Chief Executive Officer, and President and elected him as a member of the Board of Directors. On September 30, 2013, in connection with Mr. Johnson's removal, Mr. Mir was appointed as the Company's interim Chief Financial Officer.

The Company entered into a formal employment agreement with Mr. Mir on October 1, 2013. This employment agreement is attached to this Form 10-K, filed as Exhibit 10.43.

## **Results of Operations – 2013 versus 2012**

### **Summary of Results**

Our net loss, for 2013, decreased to \$2,672,000 or \$0.16 per basic and diluted share as compared with a net loss of \$3,004,000 or \$0.20 per basic and diluted share for 2012. This net loss decrease is attributable to a decrease across multiple expense areas, including a decrease of \$320,000 or 23% in personnel and consulting expenses, partially offset by a decrease in total revenues and an increase in interest expense.

### **Revenue and Gross Profit from Sales**

*Revenue from the sale and shipment of Calmare® pain therapy medical devices (the "Devices")*, for 2013, decreased 28% or \$260,000 to \$653,000 as compared with \$913,000 for 2012.

*Cost of product sales*, for 2013, decreased 25% or \$93,000 to \$273,000 as compared with \$366,000 for 2012. The decrease is consistent with the decrease in revenues during the same period.

*Device sales*, for 2013 we had nine (9) Device sales as compared with fourteen (14) Device sales for 2012.

## **Other Revenue**

*Retained royalties*, for 2013 decreased by 65% or \$69,000, to \$37,000 as compared with the \$106,000 of retained royalties for 2012. The 2012 amount included the receipt of a \$40,000 royalty payment received for 2011, which was greater than management's original internal estimates.

*Other income*, for 2013, increased 61% or \$31,000 to \$82,000 as compared with \$51,000 for 2012. Other income includes:

|  | 2013     | 2012     |
|--|----------|----------|
| Training payments and the sale of supplies such as electrodes and cables for use with our Calmare® devices | \$15,000 | \$18,000 |
| Rental income from customers renting Calmare® pain therapy medical devices                                 | \$29,000 | \$33,000 |

In addition to the aforescribed break-down, the Company received a one-time payment in 2013 from one of our insurance companies for its conversion to a stock insurance company totaling \$38,000.

## **Expenses**

*Total expenses*, for 2013, decreased 14% or \$536,000 to \$3,171,000 as compared with \$3,707,000 for 2012.

*Selling expenses*, for 2013, decreased 59% or \$232,000 to \$159,000 compared with \$391,000 for 2012. The decrease primarily reflects the following:



- a) \$75,000 decrease in commission expenses due to fewer Device sales and a restructuring of certain commission agreements; and
  
- b) \$145,000 decrease in patent and translation fees related to the Device as a result of transferring the contractual obligation to pay patent costs back to the inventor of the Device.

*Personnel and consulting expenses*, for 2013, decreased 23% or \$320,000 to \$1,100,000 as compared with \$1,420,000 for 2012. Personnel expenses, for 2013, increased 47% or \$287,000 to \$901,000, as compared with \$614,000 for 2012. This substantive increase was primarily due to the addition of Mr. O'Connell as the Company's CEO in March 2013, whose compensation package included cash and employee options, a portion of which vested immediately. Mr. O'Connell was subsequently replaced by Mr. Mir in September 2013. There was no Company-employed CEO in 2012. Additionally, no options were granted to employees in 2012. The increase in personnel expenses were offset by a significant reduction in consulting fees. Consulting expenses, for 2013, decreased 75% or \$607,000 to \$199,000, as compared with \$806,000 for 2012. The significant decrease in consulting fees included: 1) a \$245,000 decrease related to the termination of services related to obtaining private insurance and Medicare reimbursement approval for the Company's flagship Device, 2) a \$231,000 decrease related to the termination of the contract for the managing director for International Business Development who provided international sales and other support for the Device, and 3) a \$112,000 decrease related to the supplanting of management services provided to the Company by a retained consultant CEO, Mr. Johnson, for a full-time, Company-employed CEO, Mr. O'Connell, in November 2012.

*General and administrative expenses*, for 2013, were substantially unchanged at \$1,761,000 compared to \$1,760,000 for 2012. The change reflects a net effect of:

- (a) \$119,000 decrease in directors' fees and expenses, primarily due to the timing and number of extensions awarded to resigning directors;
- (b) \$43,000 increase in travel expenses stemming from overseas travel related to product manufacturing and distribution issues in 2013;
- (c) \$19,000 increase in audit and tax services fees related to the timing of activities;
- (d) \$61,000 decrease in investor and public relations expenses attributable to the discontinuation of consulting services by the monthly-retained, consultant CEO;
- (e) \$23,000 decrease in rent and associated expenses due to the closing of the North Carolina office in 2012; and
- (f) \$19,000 decrease in marketing expenses, similarly attributable to the discontinuation of consulting services by the monthly-retained, consultant CEO.

- (g) \$158,000 increase in finance costs, primarily related the Southridge transaction.

*Interest expense*, for 2013, increased 154% or \$127,000 to \$210,000 as compared with \$83,000 for 2012. This increase is due to increased use of debt financing.

*Unrealized (gain) loss on derivative instruments*, for 2013, was a gain of \$59,000 as compared with a \$54,000 loss recorded for 2012. The change reflects the movement in the Company's common share price on the Company's Class C Preferred Stock at the end of each period as well as the addition of a derivative instrument associated with the Tonaquint Convertible Note (see Note 13 for details).

In current and prior years, we generated significant federal and state income and alternative minimum tax ("AMT") losses, and these net operating losses ("NOLs") were carried forward for income tax purposes to be used against future taxable income. In the years ended December 31, 2013 and 2012, we incurred additional losses but did not record a benefit since the benefit was fully reserved (see below).

The NOLs are an asset to us if we can use them to offset or reduce future taxable income and therefore reduce the amount of both federal and state income taxes to be paid in future years. Previously, since we were incurring losses and could not be sure that we would have future taxable income to be able to use the benefit of our NOLs, we recorded a valuation allowance against the asset, reducing its book value to zero. In 2013 and 2012, the benefit from our net loss was offset completely by a valuation allowance recorded against the asset. We did not show a benefit for income taxes. We will reverse the valuation allowance or portions thereof when we determine it is more likely than not that our NOL's will be utilized. We have substantial federal and state NOLs and to use against future regular taxable income. In addition, we can use our NOLs to reduce our future AMT liability. A significant portion of the remaining NOLs at December 31, 2013, approximately \$4,196,000, was derived from income tax deductions related to the stock options exercises. The tax effect of these deductions will be credited against capital in excess of par value at the time they are utilized for book purposes, and not credited to income. We will never receive a benefit for these NOLs in our statement of operations.

## 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 December 31, 2013, we had outstanding debt, in the form of promissory notes with a total principal amount of \$3,151,000 and a carrying value of \$2,934,000.

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 are implementing a corporate reengineering effort, which commenced on September 26, 2013 under the direction of CTI's new president & CEO, Mr. Conrad Mir. This plan design will change the inherent design of the current distributor network and focus on opportunities within the US Departments of Defense (the "DOD") and Veterans Affairs ("VA"), and set out to upgrade CTI's current U.S. Food and Drug Administration ("FDA") clearance designation for the Calmare Pain Device to approval. 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 pain therapy medical device continue to expand and other products are added to the Company's portfolio of technologies.

At December 31, 2013, cash was \$57,000, as compared with \$74,000 at December 31, 2012. Net cash used in operating activities was \$(1,566,000) for 2013 as compared to \$(1,371,000) for 2012, primarily reflecting the decrease in the net loss in 2013 compared to 2012, offset by adverse changes in restricted cash, accounts payable and accrued expenses. There was minimal investing activity in 2013 and 2012. Net cash provided by financing activities was \$1,549,000 for 2013 as compared to \$1,435,000 for 2012 primarily as a result of the Company's debt financing activities in both years.

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

At December 31, 2013, we had aggregate federal net operating loss carryforwards of approximately \$39,371,000, which expire at various times through 2033. A majority of our federal NOLs can be used to reduce taxable income used in calculating our AMT liability. We also have state net operating loss carry forwards of approximately \$37,812,000 that expire through 2033.

A significant portion of the NOLs remaining at December 31, 2013, approximately \$4,196,000, was derived from income tax deductions related to the exercise of stock options.

### **Going Concern**

The Company has incurred operating losses since fiscal 2006 and has a working capital deficiency at December 31, 2013. During 2013 and 2012, we had a significant concentration of revenues from our Calmare® pain therapy medical device technology. We continue to seek revenue from new and existing 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 and other technologies not occur, the Company may not have sufficient cash flow to fund operations through 2014 . 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.

## Funding and Capital Requirements

### Debt Financing

Notes payable as of December 31, 2013 consists of the following:

|  | Principal Amount | Carrying Value | Cash Interest Rate | Common Stock Conversion Price | Maturity Date          |
|--|------------------|----------------|--------------------|-------------------------------|------------------------|
| 90 day Convertible Notes (Chairman of the Board)       | \$2,518,000      | \$2,518,000    | 6                  | % \$1.05                      | Various 2014           |
| 24 month Convertible Notes (\$100,000 to Board member) | 225,000          | 225,000        | 6                  | % 1.05                        | March 2014 – June 2014 |
| Tonaquint 9% OID Convertible Notes and Warrants        | 112,500          | 87,705         | 7                  | % 0.30                        | May 2014               |
| Southridge Convertible Note                            | 12,000           | 12,000         | None               | 75% of closing bid            | June 2014              |
| Series A1 15% OID Convertible Notes and Warrants       | 149,412          | 81,415         | None               | 0.20                          | August 2014            |
| Series A2 15% OID Convertible Notes and Warrants       | 134,236          | 69,571         | None               | 0.25                          | September 2014         |
| Notes Payable, gross                                   | \$3,151,148      | 2,933,691      |                    |                               |                        |
| Less LPA amount  |                  | (505,000 )     |                    |                               |                        |
| Notes Payable, net                                     |                  | \$2,488,691    |                    |                               |                        |

### 90 day Convertible Notes

The Company has issued 90-day notes payable to borrow funds from a director, now the chairman of our Board, as follows:

|       |             |
|-------|-------------|
| 2013  | \$1,208,000 |
| 2012  | 1,210,000   |
| 2011  | 100,000     |
| Total | \$2,518,000 |

Page 23

These notes have been extended several times and all bear 6.00% simple interest. A conversion feature was added to the Notes when they were extended, which allows for conversion of the eligible principal amounts to common stock at any time after the six month anniversary of the effective date –the date the funds are received – at a rate of \$1.05 per share. Additional terms have been added to all Notes to include additional interest payments to all Notes if extended beyond their original maturity dates and to provide the lender with a security interest in unencumbered inventory and intangible assets of the Company other than proceeds relating to the Calmare device and accounts receivable.

A total of \$505,000 of the aforementioned notes issued between December 1, 2012 and March 31, 2013 fall under the liabilities purchase agreement with ASC Recap, and are expected to be repaid using the process as described in Note 11. Because there can be no assurance that the Company will be successful in completing this process, the Company retains ultimate responsibility for this debt, until fully paid down. As a result, the Company continues to accrue interest on these notes and they remain convertible as described above.

#### **24 month Convertible Notes**

In March 2012, the Company issued a 24-month convertible promissory note to borrow \$100,000. Additional 24-month convertible promissory notes were issued in April 2012 (\$25,000) and in June 2012 (\$100,000). All of the notes bear 6.00% simple interest. 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.

#### **Tonaquint 9% Original Issue Discount Convertible Notes and Warrants**

During the quarter ended September 30, 2013, the Company entered into a securities purchase agreement with Tonaquint, Inc., under which it was issued a \$112,500 convertible promissory note in consideration for \$100,000, the difference between the proceeds from the Note and the principal amount consists of a \$10,000 original issue discount and a carried transaction expense of \$2,500. The original issue discounted is amortized over the life of the note. The note is convertible at an initial conversion price of \$0.30 per share at any time, and contains a “down-round protection” feature that requires the valuation of a derivative liability associated with the note. The note bears interest at 7% and is due in May 2014; with five monthly installment payments of principal, accrued interest and any outstanding fees or allowed expenses beginning in January 2014. Tonaquint was also issued a market-related warrant for \$112,500 in shares of common stock with a “cashless” exercise feature. The warrant has a \$0.35 exercise price, a 5-year term and includes a “down-round protection” feature that requires it to be classified as a liability rather than as equity (see Note 9).

Subsequent to December 31, 2013, the Company settled the Note and Warrants with Tonaquint.

#### **Southridge**



During 2013 the Company had issued a convertible promissory note payable to Southridge as part of its EPA in the amount of \$65,000, which during 2013, Southridge converted to 260,000 shares of common stock.

During 2013, the Company issued a six-month \$12,000 convertible note payable to Southridge to cover legal expenses as part of the LPA (see Note 11). The convertible note is convertible into the Company's common stock at 75% of the lowest closing bid price during the twenty (20) trading days prior to conversion and is due June 2014.

#### **Series A 15% Original Issue Discount Convertible Notes and Warrants**

During the quarter ended December 31, 2013, the Company did a private offering of two tranches of convertible notes and warrants, under which it issued \$283,648 of convertible promissory notes for consideration of \$241,100, the difference between the proceeds from the notes and the principal amount consists of \$42,548 of original issue discount. The notes are convertible at initial conversion prices ranging from \$0.20 to \$0.25 per share anytime after issuance thereby having an embedded beneficial conversion feature. The note holders were also issued market-related warrants for 170,354 in shares of common stock. The warrants have exercise prices that range from \$0.40 to \$0.60 and a 2-year term. The beneficial conversion feature and the warrants were recorded to additional paid-in-capital. The total debt discount is amortized over the life of the notes to interest expense.

## 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.

For 2014, we expect our capital expenditures to be less than \$100,000.

## Contractual Obligations and Contingencies

At December 31, 2013, our contractual obligations were:

| Contractual Obligations                                      | Total     | Within<br>1 year | 1-3<br>years | 3-5<br>years | More<br>than<br>5 years |
|--|-----------|------------------|--------------|--------------|-------------------------|
| Operating lease obligations, principally rent <sup>(1)</sup> | \$228,000 | \$62,000         | \$153,000    | \$13,000     | \$ -                    |

(1) The current lease expires February 2017.

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

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

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

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

As of December 31, 2013, CTI and its majority owned subsidiary, Vector Vision, Inc. ("VVI"), have remaining obligations, contingent upon receipt of certain revenues, to repay up to \$165,788 and \$199,334, respectively, in consideration of grant funding received in 1994 and 1995. CTI also is obligated to pay at the rate of 7.5% of its revenues, if any, from transferring rights to certain inventions supported by the grant funds. VVI is obligated to pay at rates of 1.5% of its net sales of supported products or 15% of its revenues from licensing supported products, if any. We recognize these obligations only if we receive revenues related to the grant funds. We recognized approximately \$1,577 in the year ended December 31, 2013 and \$1,749 in the year ended December 31, 2012.

#### Critical Accounting Estimates

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

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

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

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

#### Related Party Transactions

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

At December 31, 2013, \$2,618,000 of the outstanding Notes were Notes payable to related parties; \$2,518,000 to the chairman of our Board, Peter Brennan, and \$100,000 to another director, Stan Yarbro.

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

Not applicable for smaller reporting company.

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

| Description   | Page  |
|---|-------|
| Report of Independent Registered Public Accounting Firm     | 28    |
| Consolidated Balance Sheets                                 | 29    |
| Consolidated Statements of Operations                       | 30    |
| Consolidated Statements of Changes in Shareholders' Deficit | 31    |
| Consolidated Statements of Cash Flows                       | 32-33 |
| Notes to Consolidated Financial Statements                  | 34-55 |

Page 27

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders of

Competitive Technologies, Inc.

Fairfield, CT

We have audited the accompanying consolidated balance sheets of Competitive Technologies, Inc. and Subsidiary as of December 31, 2013 and 2012 and the related consolidated statements of operations, changes in shareholders' deficit and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

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

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of Competitive Technologies, Inc. and Subsidiary at December 31, 2013 and 2012, and the results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

The accompanying consolidated financial statements have been prepared assuming that Competitive Technologies, Inc. and Subsidiary will continue as a going concern. As more fully described in Note 1, at December 31, 2013, the Company has incurred operating losses since fiscal year 2006 and has a working capital deficiency at December 31, 2013. These conditions raise substantial doubt about the Company's ability to continue as a going concern. Management's plans in regard to these matters are also described in Note 1. The consolidated financial statements do not include any adjustments to reflect the possible future effects on the recoverability and classification of assets or the amounts and classification of liabilities that may result from the outcome of this uncertainty.

/s/ Mayer Hoffman McCann CPAs

(The New York Practice of Mayer Hoffman McCann P.C.)  
New York, New York

April 15, 2014

Page 28

**COMPETITIVE TECHNOLOGIES, INC. AND SUBSIDIARY**

## Consolidated Balance Sheets

|  | December 31,<br>2013 | December 31,<br>2012 |
|--|----------------------|----------------------|
| <b>ASSETS</b>  |                      |                      |
| Current Assets:  |                      |                      |
| Cash   | \$ 57,009            | \$ 74,322            |
| Receivables, net of allowance of \$101,154 at December 31, 2013 and 2012   | 143,330              | 216,365              |
| Inventory  | 4,278,220            | 4,360,156            |
| Prepaid expenses and other current assets  | 65,167               | 78,727               |
| Total current assets   | 4,543,726            | 4,729,570            |
| Security Deposits  | 15,000               | 15,000               |
| Property and equipment, net  | 7,606                | 26,817               |
| <b>TOTAL ASSETS</b>  | <b>\$ 4,566,332</b>  | <b>\$ 4,771,387</b>  |
| <b>LIABILITIES AND SHAREHOLDERS' DEFICIT</b>   |                      |                      |
| Current Liabilities:   |                      |                      |
| Accounts payable   | \$ 692,251           | \$ 1,806,346         |
| Liabilities under claims purchase agreement  | 2,093,303            | -                    |
| Accounts payable, GEOMC  | 4,183,535            | 4,181,225            |
| Accrued expenses and other liabilities   | 582,987              | 773,364              |
| Deferred revenue   | 6,400                | 9,600                |
| Notes payable  | 2,488,691            | 1,310,000            |
| Warrant liability  | 8,227                | -                    |
| Series C convertible preferred stock liability   | 375,000              | 375,000              |
| Series C convertible preferred stock derivative liability  | 80,408               | 119,922              |
| Total current liabilities  | 10,510,802           | 8,575,457            |
| Long term notes payable  | -                    | 225,000              |
| Commitments and contingencies  |                      |                      |
| Shareholders' deficit:   |                      |                      |
| 5% preferred stock, \$25 par value, 35,920 shares authorized, 2,427 shares issued and outstanding  | 60,675               | 60,675               |
| Series B preferred stock, \$0.001 par value, 20,000 shares authorized, no shares issued and outstanding  | -                    | -                    |
| Series C convertible preferred stock, \$1,000 par value, 750 shares authorized, 375 shares issued and outstanding  | -                    | -                    |
| Common stock, \$.01 par value, 40,000,000 shares authorized, 19,952,907 shares issued and outstanding at December 31, 2013 and 15,237,304 shares issued and outstanding at December 31, 2012 | 199,529              | 152,373              |



Edgar Filing: COMPETITIVE TECHNOLOGIES INC - Form 10-K/A

|   |               |               |
|---|---------------|---------------|
| Capital in excess of par value              | 46,077,394    | 45,367,796    |
| Accumulated deficit                         | (52,282,068 ) | (49,609,914 ) |
| Total shareholders' deficit                 | (5,944,470 )  | (4,029,070 )  |
| TOTAL LIABILITIES AND SHAREHOLDERS' DEFICIT | \$4,566,332   | \$4,771,387   |

*See accompanying notes*

**COMPETITIVE TECHNOLOGIES, INC. AND SUBSIDIARY**

## Consolidated Statements of Operations

|   | Year ended<br>December 31, 2013 | Year ended<br>December 31, 2012 |   |
|---|---------------------------------|---------------------------------|---|
| Revenue   |                                 |                                 |   |
| Product sales   | \$ 652,792                      | \$ 912,548                      |   |
| Cost of product sales   | 272,736                         | 366,409                         |   |
| Gross profit from product sales                               | 380,056                         | 546,139                         |   |
| Other Revenue   |                                 |                                 |   |
| Retained royalties  | 37,007                          | 105,850                         |   |
| Other income  | 82,069                          | 51,315                          |   |
| Total other revenue   | 119,076                         | 157,165                         |   |
| Expenses  |                                 |                                 |   |
| Selling expenses  | 159,245                         | 391,435                         |   |
| Personnel and consulting expenses                             | 1,100,041                       | 1,419,887                       |   |
| General and administrative expenses                           | 1,760,585                       | 1,759,777                       |   |
| Interest expense  | 209,953                         | 82,557                          |   |
| Unrealized (gain) loss on derivative instruments              | (58,538                         | ) 53,745                        |   |
| Total Expenses  | 3,171,286                       | 3,707,401                       |   |
| Loss before income taxes                                      | (2,672,154                      | ) (3,004,097                    | ) |
| Provision (benefit) for income taxes                          | -                               | -                               |   |
| Net loss  | \$ (2,672,154                   | ) \$ (3,004,097                 | ) |
| Basic loss per share  | \$ (0.16                        | ) \$ (0.20                      | ) |
| Basic weighted average number of common shares outstanding:   | 16,977,027                      | 15,007,852                      |   |
| Diluted loss per share  | \$ (0.16                        | ) \$ (0.20                      | ) |
| Diluted weighted average number of common shares outstanding: | 16,977,027                      | 15,007,852                      |   |

*See accompanying notes*

**COMPETITIVE TECHNOLOGIES, INC. AND SUBSIDIARY**

## Consolidated Statements of Changes in Shareholders' Deficit

|   | Preferred Stock       |          | Common Stock          |           | Capital in<br>excess<br>of par value | Accumulated<br>deficit | Total<br>Shareholders'<br>Deficit |
|---|-----------------------|----------|-----------------------|-----------|--------------------------------------|------------------------|-----------------------------------|
|   | Shares<br>outstanding | Amount   | Shares<br>outstanding | Amount    |                                      |                        |                                   |
| Balance – January 1,<br>2012  | 2,427                 | \$60,675 | 14,715,789            | \$147,157 | \$44,771,128                         | \$(46,605,817)         | \$ (1,626,857 )                   |
| Net loss  | -                     | -        | -                     | -         | -                                    | (3,004,097 )           | (3,004,097 )                      |
| Stock option<br>compensation<br>expense                                       | -                     | -        | -                     | -         | 138,630                              | -                      | 138,630                           |
| Common shares<br>issued to settle<br>accounts payable and<br>accrued expenses | -                     | -        | 474,415               | 4,745     | 423,509                              | -                      | 428,254                           |
| Share based<br>consulting fees,<br>Common stock                               | -                     | -        | 47,100                | 471       | 34,529                               | -                      | 35,000                            |
| Balance – December<br>31, 2012  | 2,427                 | 60,675   | 15,237,304            | 152,373   | 45,367,796                           | (49,609,914)           | (4,029,070 )                      |
| Net loss  | -                     | -        | -                     | -         | -                                    | (2,672,154 )           | (2,672,154 )                      |
| Stock option<br>compensation<br>expense                                       | -                     | -        | -                     | -         | 116,365                              | -                      | 116,365                           |
| Common shares<br>issued for legal<br>services                                 | -                     | -        | 1,300,000             | 13,000    | 250,000                              | -                      | 263,000                           |
| Common stock issued<br>in accordance with<br>escrow agreement                 | -                     | -        | 1,000,000             | 10,000    | (10,000 )                            | -                      | -                                 |
| Common stock issued<br>in accordance with<br>liability purchase<br>agreement  | -                     | -        | 1,618,235             | 16,182    | (16,182 )                            | -                      | -                                 |
| Common stock issued<br>as part of equity                                      | -                     | -        | 710,000               | 7,100     | 215,400                              | -                      | 222,500                           |

|  |       |          |            |           |              |                |               |
|--|-------|----------|------------|-----------|--------------|----------------|---------------|
| purchase agreement<br>and/or liability                               |       |          |            |           |              |                |               |
| purchase agreement   |       |          |            |           |              |                |               |
| Common stock issued<br>to directors                                  | -     | -        | 87,368     | 874       | 33,228       | -              | 34,102        |
| Warrants and<br>beneficial conversion<br>feature on notes<br>payable | -     | -        | -          | -         | 120,787      | -              | 120,787       |
| Balance – December<br>31, 2013                                       | 2,427 | \$60,675 | 19,952,907 | \$199,529 | \$46,077,394 | \$(52,282,068) | \$(5,944,470) |

*See accompanying notes*

**COMPETITIVE TECHNOLOGIES, INC. AND SUBSIDIARY**

## Consolidated Statements of Cash Flows

|   | Year ended<br>December 31, 2013 | Year ended<br>December 31, 2012 |
|---|---------------------------------|---------------------------------|
| Cash flows from operating activities:                                       |                                 |                                 |
| Net loss  | \$ (2,672,154                   | ) \$ (3,004,097                 |
| Adjustments to reconcile net loss to net cash used in operating activities: |                                 |                                 |
| Depreciation and amortization   | 11,147                          | 14,534                          |
| Stock option compensation expense   | 116,365                         | 138,630                         |
| Share-based compensation – common stock                                     | 7,655                           | -                               |
| Stock based expense for legal and consulting services                       | -                               | 35,000                          |
| Accrued stock contribution (directors' stock expense)                       | -                               | 17,154                          |
| Loss on disposal of property and equipment                                  | -                               | 4,818                           |
| Bad debt expense  | 8,588                           | -                               |
| Unrealized (gain) loss on derivative instrument                             | (58,538                         | ) 53,746                        |
| Debt discount amortization  | 63,480                          | -                               |
| Noncash finance charges   | 216,650                         | -                               |
| Changes in assets and liabilities:  |                                 |                                 |
| Restricted cash   | -                               | 750,000                         |
| Receivables   | 64,447                          | (173,894                        |
| Prepaid expenses and other current assets                                   | 276,560                         | 38,354                          |
| Inventory   | 90,000                          | (150,000                        |
| Accounts payable, accrued expenses and other liabilities                    | 307,341                         | 907,517                         |
| Deferred revenue  | (3,200                          | ) (3,200                        |
| Net cash used in operating activities                                       | (1,566,413                      | ) (1,371,438                    |
| Cash flows from investing activities:                                       |                                 |                                 |
| Purchases of property and equipment   | -                               | (20,000                         |
| Decrease in security deposits   | -                               | 2,275                           |
| Net cash used in investing activities                                       | -                               | (17,725                         |
| Cash flows from financing activities:                                       |                                 |                                 |
| Proceeds from issuance of notes payable                                     | 1,549,100                       | 1,700,200                       |
| Principal payments of note payable  | -                               | (265,200                        |
| Net cash provided by financing activities                                   | 1,549,100                       | 1,435,000                       |
| Net increase in cash  | 17,313                          | 45,837                          |
| Cash at beginning of year   | 74,322                          | 28,485                          |
| Cash at end of year   | \$ 57,009                       | \$ 74,322                       |
| Supplemental Cash Flow Information  |                                 |                                 |
| Cash Paid for interest  | \$ 15,304                       | \$ 4,907                        |

*See accompanying notes*

Page 32

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

During December 2013, the Company issued 66,118 shares of its common stock to directors at \$0.40 per share to settle \$26,447 of accrued liabilities.

During December 2013, Southridge converted its \$65,000 note for 260,000 shares of the Company's common stock (see Note 13).

During December 2013, the Company issued 450,000 shares of its common stock valued at \$157,500 in connection with the Equity Purchase Agreement and Liability Purchase Agreement (see Notes 5 and 11).

During December 2013, the Company issued 66,118 shares of its common stock to directors at \$0.40 per share to settle \$26,447 of accrued liabilities.

During November and December 2013, the Company allocated \$120,787 of convertible note proceeds for the fair value of warrants and beneficial conversion feature to additional paid-in capital.

During September 2013, the Company issued 1,618,235 shares of its common stock as the first tranche in its Liabilities Purchase Agreement (see Note 11).

During September 2013, the Company issued 1,000,000 shares of its common stock at \$0.18 per share for legal services to its former legal team, Cutler Law Group ("CLG"), for services to be billed in the 2013-2014 fiscal year. As the Company has since changed counsel, management has requested the return of 950,000 shares, while the remaining 50,000 shares priced at \$ 0.18 will cure any outstanding issues. As of April 15, 2014, CLG has neither returned the 1,000,000 shares nor accepted the 50,000 shares.

During July 2013, the Company allocated \$45,100 of proceeds from the Tonaquint, Inc. note payable (see Note 13) to a warrant and conversion feature derivative liability.

During July 2013, the Company issued 200,000 shares of its common stock at \$0.20 per share for legal services.

During 2013, the Company transferred a rental asset with a net book value (“NBV”) of approximately \$8,000 to inventory.

During May 2013, the Company issued 500,000 shares of its common stock into escrow, pending the completion of potential financing with a European investment group.

During March 2013, the Company issued 150,000 shares of its common stock into escrow, pending the completion of potential financing with a European investment group.

During March 2013, the Company issued 100,000 shares of its common stock at \$0.43 per share for legal services.

During January 2013, the Company issued 350,000 shares of its common stock into escrow, pending the completion of potential financing with a European investment group.

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 settle \$3,178 of accrued liabilities and to prepay \$96,822 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.



COMPETITIVE TECHNOLOGIES, INC. AND SUBSIDIARY

Notes to Consolidated Financial Statements

**1. Business AND BASIS OF PRESENTATION**

Competitive Technologies, Inc. ("CTI") and its majority-owned (56.1%) subsidiary, Vector Vision, Inc. ("VVI"), (collectively, the "Company", "we" or "us") is a biotechnology company developing and commercializing innovative products and technologies. The Company is the licensed distributor of the non-invasive Calmare® pain therapy medical device, which incorporates the biophysical "Scrambler Therapy"® technology developed to treat neuropathic and cancer-derived pain by Professor Giuseppe Marineo.

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

The Company has incurred operating losses since fiscal 2006 and has a working capital deficiency at December 31, 2013. During the years ended December 31, 2013 and December 31, 2012, we had a significant concentration of revenues from our pain therapy medical device technology. We continue to seek revenue from new technologies or products to mitigate the concentration of revenues, and replace revenues from expiring licenses. At current reduced spending levels, the Company may not have sufficient cash flow to fund operations through 2014. These conditions raise substantial doubt about the Company's ability to continue as a going concern. The financial statements do not include adjustments to reflect the possible future effect of the recoverability and classification of assets or amounts and classifications of liabilities that may result from the outcome of this uncertainty.

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

Our liquidity requirements arise principally from our working capital needs, including funds needed to find and obtain new technologies or products, and protect and enforce our intellectual property rights, if necessary. We fund our liquidity requirements with a combination of cash on hand, debt and equity financing, and cash flows from operations,

if any, including royalty legal awards. At December 31, 2013, we had outstanding debt, in the form of promissory notes with a total principal amount of \$3,151,000 and a carrying value of \$2,934,000.

Since October 5, 2010, the Company's securities have traded on the OTC market's top tier, the OTCQX.

The Company acquired the exclusive, worldwide rights to the *Scrambler Therapy*<sup>®</sup> technology in 2007. The Company's original 2007 agreement with Giuseppe Marineo (the "Scrambler Therapy Agreement"), an inventor of *Scrambler Therapy* technology, and Delta Research and Development, authorized CTI to manufacture and sell worldwide the device developed from the patented *Scrambler Therapy* technology. The original agreement was amended in 2011 to provide the Company was exclusive rights to the *Scrambler Therapy* technology through March 31, 2016. In July 2012, the Company attempted to negotiate a five-year extension to the agreement with Marineo and Delta (the "2012 Amendment"). However, a valid contract was never formed as the 2012 Amendment was not executed by Marineo and Delta. The *Scrambler Therapy* technology is patented in Italy and the U.S. Additional applications for patents have been filed internationally and are pending approval. The Calmare<sup>®</sup> device has CE Mark certification from the European Union as well as U.S. FDA 510(k) clearance. CTI's partner, GEOMC Co., Ltd. of Korea, is manufacturing the product commercially under a ten (10) year agreement through 2017. Sales of these devices are expected to provide a significant proportion of the Company's revenue for the next several years.

## 2.SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### Use of Estimates

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

### Revenue Recognition

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

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

credit risk for amounts billed to customers. Therefore, all product sales are recorded following a gross revenue methodology.

Revenue from foreign sources was not significant compared to total revenue in 2013 or 2012.

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

Page 35

*Non-refundable, upfront license fee* – We record our share of non-refundable, upfront license fees upon execution of a license, sublicense or distribution agreement. Once delivery is complete, and the fee is collected, we have no continuing obligation. No upfront fees were received during the years ended December 31, 2013 or 2012.

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

*Royalty legal awards* – We earn non-recurring revenues from royalty legal awards, principally from patent infringement actions filed on behalf of our clients and/or us. Patent infringement litigation cases generally occur when a customer or another party ignores our patent rights, or challenges the legal standing of our clients' or our technology rights. These cases, even if settled out of court, may take several years to complete, and the expenses may be borne by our clients, by us, or shared. We share royalty legal awards in accordance with the agreement we have with our clients, usually after reimbursing each party for their related legal expenses. We recognize royalty legal award revenue when our rights to litigation awards are final and unappealable and we have assurance of collecting those awards, or when we have collected litigation awards in cash from the adverse party, or by sale of our rights to another party without recourse, and we have no obligation or are very unlikely to be obligated to repay such collected amounts. Proceeds from cases settled out of court are recorded as retained royalties.

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

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

### **Concentration of Revenues**

Total revenue consists of revenue from product sales, retained royalties, and other income. During the year ended December 31, 2013, we derived approximately \$653,000 or 85% of total revenue from sales of our Calmare pain therapy medical device technology. An additional 4% of revenue derived indirectly from that technology through sales of supplies and training, rental payments and the sale of rental assets. Of this amount approximately \$160,000 or 25% of total revenue from sales of our Calmare pain therapy medical device technology came from one customer in 2013.

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

## Expenses

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

Cost of product sales includes contractual payments to inventor and manufacturer relating to our Calmare pain therapy medical device. Expenses associated with shipping devices are also included in cost of product sales.

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

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

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

## Fair Value of Financial Instruments

The Company believes the carrying amounts of cash, accounts receivable, deferred revenue, preferred stock liability and note payable approximate fair value due to their short-term maturity.

## Inventory

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

## Property and Equipment

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

## Impairment of Long-lived Assets

We review our long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of the asset may not be recoverable. If the estimated fair value is less than the carrying amount of the asset, we record an impairment loss. If a quoted market price is available for the asset or a similar asset, we use it to determine estimated fair value. We re-evaluate the remaining useful life of the asset and adjust the useful life accordingly. There were no impairment indicators identified during the years ended December 31, 2013 and 2012.



## Income Taxes

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

## Net Income (Loss) Per Share

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

## Share-Based Compensation

The Company accounts for its share-based compensation in accordance with the Financial Accounting Standards Board's ("FASB") Accounting Standards Codification ("ASC") 718 – "Compensation – Stock Compensation." Accordingly, the Company recognizes compensation expense equal to the fair value of the stock awards at the time of the grant over the requisite service period.

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

## Recent Accounting Pronouncements

No new accounting pronouncements issued or effective during the year ended December 31, 2013 has had or is expected to have a material impact on the consolidated financial statements.

**3. INCOME TAXES**

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

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

|  | Year ended<br>December 31, 2013 |    | Year ended<br>December 31, 2012 |    |
|--|---------------------------------|----|---------------------------------|----|
| Provision (benefit) at U.S. federal statutory rate | (35.0                           | )% | (35.0                           | )% |
| State provision (benefit), net of U.S. federal tax | (4.9                            | )  | (4.8                            | )  |
| Permanent differences                              | (0.3                            | )  | (0.2                            | )  |
| Other items  | 5.0                             |    | 5.2                             |    |
| Deferred tax valuation allowance                   | (35.2                           | )  | (34.8                           | )  |
| Effective income tax rate                          | 0.0                             | %  | 0.0                             | %  |

Net deferred tax assets consist of the following:

|  | December 31, 2013 | December 31, 2012 |
|--|-------------------|-------------------|
| Net federal and state operating loss carryforwards | \$ 15,748,253     | \$ 14,785,650     |
| Impairment of investments                          | 531,470           | 531,470           |
| Other, net   | 687,426           | 680,637           |
| Deferred tax assets                                | 16,967,149        | 15,997,757        |
| Valuation allowance                                | (16,967,149)      | (15,997,757)      |
| Net deferred tax assets                            | \$ -              | \$ -              |

At December 31, 2013, we had aggregate federal net operating loss carryforwards of approximately \$39,371,000, which expire at various times through 2033. A majority of our federal NOLs can be used to reduce taxable income used in calculating our alternative minimum tax liability. We also have state net operating loss carryforwards of approximately \$37,812,000 that expire at various times through 2033.

Approximately \$4,196,000 of our NOL carryforward remaining at December 31, 2013 was derived from income tax deductions related to the exercise of stock options. The tax effect of these deductions will be credited against capital in excess of par value at the time they are utilized for book purposes, and not credited to income. We will never receive a benefit for these NOLs in our statement of operations.

Changes in the valuation allowance were as follows:

|  | Year ended<br>December 31,<br>2013 | Year ended<br>December 31,<br>2012 |
|--|------------------------------------|------------------------------------|
| Balance, beginning of year                 | \$ 15,997,757                      | \$ 14,651,435                      |
| Change in temporary differences            | 6,789                              | 157,164                            |
| Change in net operating and capital losses | 962,603                            | 1,189,158                          |
| Balance, end of year                       | \$ 16,967,149                      | \$ 15,997,757                      |

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

At December 31, 2013 and December 31, 2012, we had no uncertain tax positions.

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

We file income tax returns in the United States and Connecticut. The Internal Revenue Service has completed audits for the periods through the fiscal year ended July 31, 2005. Our open tax years for review are fiscal years ended July 31, 2010 through year ended December 31, 2013. The Company's returns filed with Connecticut are subject to audit as determined by the statute of limitations.

Page 39

**4. NET INCOME (LOSS) PER COMMON SHARE**

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

|  | Year ended<br>December 31,<br>2013 | Year ended<br>December 31,<br>2012 |
|--|------------------------------------|------------------------------------|
| Denominator for basic net income (loss) per share, weighted average shares outstanding | 16,977,027                         | 15,007,852                         |
| Dilutive effect of common stock options  | N/A                                | N/A                                |
| Dilutive effect of Series C convertible preferred stock and convertible debt           | N/A                                | N/A                                |
| Denominator for net income (loss) per share, assuming dilution                         | 16,977,027                         | 15,007,852                         |

Due to the net loss incurred for the years ended December 31, 2013, and December 31, 2012, the denominator used in the calculation of basic net loss per share was the same as that used for net loss per share, assuming dilution, since the effect of any options, convertible preferred shares, convertible debt or warrants would have been anti-dilutive. Options to purchase 1,372,000 and 317,000 shares of our common stock were outstanding at December 31, 2013 and 2012, respectively, 375 shares outstanding of Series C Convertible Preferred Stock, at December 31, 2013 and 2012, outstanding convertible debt of \$2,934,000 and \$1,535,000 at December 31, 2013 and 2012, respectively and the warrants outstanding at December 31, 2013 were not included in the computation of diluted net income (loss) per share because they were also anti-dilutive.

**5. SHAREHOLDERS' INTEREST***Common Stock*

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

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

Under the terms of the EPA, the Company had issued a convertible promissory note in the amount of \$65,000 to Southridge which, during 2013 Southridge converted to 260,000 shares of common stock. In addition, during 2013, the Company negotiated a liabilities purchase agreement ("LPA") with Southridge (see Note 11).

Under the terms of the LPA, the Company issued 200,000 shares of its common stock at \$0.35, or \$70,000, and a convertible note in the amount of \$12,000 Southridge as a fee.

Additionally, under the terms of the EPA and LPA, the Company issued 250,000 shares of its common stock at \$0.35, or \$87,500, to Southridge for expenses associated with the EPA and LPA.

During 2013 the Company issued 1,000,000 shares of its common stock into escrow, pending the completion of potential financing with a European investment group.

### *Preferred Stock*

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

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

At its December 2, 2010 meeting, the CTI Board of Directors declared a dividend distribution of one right (each, a "Right") for each outstanding share of common stock, par value \$0.01, of the Company (the "Common Shares"). The dividend was payable to holders of record as of the close of business on December 2, 2010 (the "Record Date"). Issuance of the dividend may be triggered by an investor purchasing more than 20% of the outstanding shares of common stock.

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.

Effective June 16, 2011, William R. Waters, Ltd. of Canada converted one half of its Series C Convertible Preferred Stock, or 375 shares, to 315,126 shares of common stock.

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

*Dividend rights* – The shares of Series C Convertible Preferred Stock accrue a 5% cumulative dividend on a quarterly basis and is payable on the last day of each fiscal quarter when declared by the Company's Board. As of December a) 31, 2013 dividends declared were \$65,700, of which \$18,750 were declared during the year ended December 31, 2013 and \$46,952 have not been paid and are shown in accrued and other liabilities at December 31, 2013.



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

c) *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.

d) *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 CTI. However, the funds were withdrawn from escrow and paid out in accordance with the settlement agreement. Therefore the redemption rights no longer apply to the remaining Series C Convertible Preferred Stock.

e) *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. Upon conversion, the \$81,933 derivative liability was reclassified to equity.

The Company recorded a convertible preferred stock derivative liability of \$80,408 and \$119,922, associated with the 375 shares of Series C Convertible Preferred Stock outstanding at December 31, 2013 and, 2012, respectively.

The Company has classified the Series C Convertible Preferred Stock as a liability at December 31, 2013 and, 2012 because the variable conversion feature may require the Company to settle the conversion in a variable number of its common shares.

## 6. RECEIVABLES

Receivables consist of the following:

Edgar Filing: COMPETITIVE TECHNOLOGIES INC - Form 10-K/A

|  | December 31,<br>2013 | December 31,<br>2012 |
|--|----------------------|----------------------|
| Calmare sales receivable   | \$ 132,850           | \$ 212,774           |
| Royalties, net of allowance of \$101,154 at December 31, 2013 and 2012 | 10,086               | -                    |
| Other  | 394                  | 3,591                |
| Total  | \$ 143,330           | \$ 216,365           |

Page 42

**7. PROPERTY AND EQUIPMENT, NET**

Property and equipment, net, consist of the following:

|   | December 31,<br>2013 | December 31,<br>2012 |
|---|----------------------|----------------------|
| Property and equipment, gross             | \$ 177,537           | \$ 189,633           |
| Accumulated depreciation and amortization | (169,931 )           | (162,816 )           |
| Property and equipment, net               | \$ 7,606             | \$ 26,817            |

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

Depreciation and amortization expense was \$11,147 and \$14,534 for the years ended December 31, 2013 and 2012, respectively.

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

|                                 | December 31,<br>2013 | December 31,<br>2012 | Number of<br>shares | Type         |
|---------------------------------|----------------------|----------------------|---------------------|--------------|
| Security Innovation, Inc.       | —                    | —                    | 223,317             | Common stock |
| Xion Pharmaceutical Corporation | —                    | —                    | 60                  | Common stock |

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

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

## 9. FAIR VALUE MEASUREMENTS

The Company measures fair value in accordance with Topic 820 of the FASB ASC, Fair Value Measurement ("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 5) based on the market price of its common stock. For each reporting period the Company calculates the amount of potential common stock that the Series C Preferred Stock could convert into based on the conversion formula (incorporating market value of our common stock) and multiplies those converted shares by the market price of its common stock on that reporting date. The total converted value is subtracted by the consideration paid to determine the fair value of the derivative liability. The Company classified the derivative liability of \$80,000 and \$120,000 at December 31, 2013 and December 31, 2012, respectively, in Level 2 of the fair value hierarchy.

The warrant issued in connection with the Tonaquint Note (the "Tonaquint Warrants," see Note 13) are measured at fair value and liability-classified because the Tonaquint Warrants contain "down-round" protection and therefore do not meet the scope exception under FASB ASC 815, Derivatives and Hedging ("ASC 815"). Since "down-round" protection is not an input to the fair value of the warrants, the warrants cannot be considered indexed to the Company's own stock which is a requirement for the scope exception as outlined under ASC 815. The Company valued the warrants at \$8,000 at December 31, 2013, and \$26,000 upon issuance at July 16, 2013, in Level 3 of the fair value hierarchy.

Similarly, the conversion feature of the Tonaquint Note (Note 13) also contains "down-round" protection and therefore does not meet the scope exception under FASB ASC 815. The Company classified the derivative liability of \$0 at December 31, 2013, and \$19,000 upon issuance at July 16, 2013, in Level 3 of the fair value hierarchy.

The methods 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.



**10. PREPAID EXPENSES AND OTHER CURRENT ASSETS**

Prepaid expenses and other assets consist of the following:

|   | December 31,<br>2013 | December 31,<br>2012 |
|---|----------------------|----------------------|
| Prepaid insurance                         | \$ 16,802            | \$ 17,473            |
| Prepaid legal fees                        | -                    | 46,813               |
| Other                                     | 48,365               | 14,441               |
| Prepaid expenses and other current assets | \$ 65,167            | \$ 78,727            |

**11. LIABILITIES ASSIGNED TO LIABILITY PURCHASE AGREEMENT**

During third quarter of 2013, the Company negotiated a LPA with Southridge. The LPA takes advantage of a provision in the Securities Act of 1933, Section 3(a)(10), that allows the exchange of claims, securities, or property for stock when the arrangement is approved for fairness by a court proceeding. The process, approved by the court in August 2013, has the potential to eliminate nearly \$2.1 million of our financial obligations to existing creditors who agreed to participate and executed claims purchase agreements with Southridge's affiliate ASC Recap, LLC ("ASC Recap") accounting for \$2,093,303 of existing payables, accrued expenses and other current liabilities, and notes payable. The process began with the issuance in September 2013 of 1,618,235 shares of the Company's common stock to ASC Recap, however at December 31, 2013, no creditors had yet been paid from the proceeds.

There can be no assurance that the Company will be successful in completing this process with Southridge, and the Company retains ultimate responsibility for this debt, until fully paid.

**12. ACCRUED EXPENSES AND OTHER LIABILITIES**

Accrued expenses and other liabilities consist of the following:

|                                | December 31,<br>2013 | December 31,<br>2012 |
|--------------------------------|----------------------|----------------------|
| Royalties payable              | \$ 127,708           | \$ 182,052           |
| Accrued audit fee              | 82,141               | 80,000               |
| Over advance, fees LSQ Funding | -                    | 77,464               |
| Commissions payable            | 21,975               | 48,722               |
| Accrued interest payable       | 216,518              | 85,184               |

Edgar Filing: COMPETITIVE TECHNOLOGIES INC - Form 10-K/A

|   |            |            |
|---|------------|------------|
| Accrued consulting fees                     | 2,000      | 167,726    |
| Other                                       | 132,645    | 132,216    |
| Accrued expenses and other liabilities, net | \$ 582,987 | \$ 773,364 |

Excluded above is approximately \$244,000 of accrued expenses and other liabilities that fall under the LPA with ASC Recap, and are expected to be repaid using the process as described in Note 11. Because there can be no assurance that the Company will be successful in completing this process, the Company retains ultimate responsibility for these liabilities, until fully paid down.



**13. NOTES PAYABLE**

Notes payable as of December 31, 2013 consists of the following:

|  | Principal<br>Amount | Carrying<br>Value | Cash<br>Interest<br>Rate | Common<br>Stock<br>Conversion<br>Price | Maturity<br>Date       |
|--|---------------------|-------------------|--------------------------|--|------------------------|
| 90 day Convertible Notes (Chairman of the Board)       | \$2,518,000         | \$2,518,000       | 6                        | % \$1.05                               | Various 2014           |
| 24 month Convertible Notes (\$100,000 to Board member) | 225,000             | 225,000           | 6                        | % 1.05                                 | March 2014 – June 2014 |
| Tonaquint 9% OID Convertible Notes and Warrants        | 112,500             | 87,705            | 7                        | % 0.30                                 | May 2014               |
| Southridge Convertible Note                            | 12,000              | 12,000            | None                     | 75% of closing bid                     | June 2014              |
| Series A1 15% OID Convertible Notes and Warrants       | 149,412             | 81,415            | None                     | 0.20                                   | August 2014            |
| Series A2 15% OID Convertible Notes and Warrants       | 134,236             | 69,571            | None                     | 0.25                                   | September 2014         |
| Notes Payable, gross                                   | \$3,151,148         | 2,933,691         |                          |  |                        |
| Less LPA amount  |                     | (505,000 )        |                          |  |                        |
| Notes Payable, net                                     |                     | \$2,488,691       |                          |  |                        |

**90 day Convertible Notes**

The Company has issued 90-day notes payable to borrow funds from a director, now the chairman of our Board, as follows:

|       |             |
|-------|-------------|
| 2013  | \$1,208,000 |
| 2012  | 1,210,000   |
| 2011  | 100,000     |
| Total | \$2,518,000 |

These notes have been extended several times and all bear 6.00% simple interest. A conversion feature was added to the Notes when they were extended, which allows for conversion of the eligible principal amounts to common stock at any time after the six month anniversary of the effective date –the date the funds are received – at a rate of \$1.05 per share. Additional terms have been added to all Notes to include additional interest payments to all Notes if extended beyond their original maturity dates and to provide the lender with a security interest in unencumbered inventory and intangible assets of the Company other than proceeds relating to the Calmare device and accounts receivable.

A total of \$505,000 of the aforementioned notes issued between December 1, 2012 and March 31, 2013 fall under the LPA with ASC Recap, and are expected to be repaid using the process as described in Note 11. Because there can be no assurance that the Company will be successful in completing this process, the Company retains ultimate responsibility for this debt, until fully paid down. As a result, the Company continues to accrue interest on these notes and they remain convertible as described above.

**24 month Convertible Notes**

In March 2012, the Company issued a 24-month convertible promissory note to borrow \$100,000. Additional 24-month convertible promissory notes were issued in April 2012 (\$25,000) and in June 2012 (\$100,000). All of the notes bear 6.00% simple interest. 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.

**Tonaquint 9% Original Issue Discount Convertible Notes and Warrants**

During the quarter ended September 30, 2013, the Company entered into a securities purchase agreement with Tonaquint, Inc., under which it was issued a \$112,500 convertible promissory note in consideration for \$100,000, the difference between the proceeds from the Note and the principal amount consists of a \$10,000 original issue discount and a carried transaction expense of \$2,500. The original issue discount is amortized over the life of the note. The note is convertible at an initial conversion price of \$0.30 per share at any time, and contains a “down-round protection” feature that requires the valuation of a derivative liability associated with the note. The note bears interest at 7% and is due in May 2014; with five monthly installment payments of principal, accrued interest and any outstanding fees or allowed expenses beginning in January 2014. Tonaquint was also issued a market-related warrant for \$112,500 in shares of common stock with a “cashless” exercise feature. The warrant has a \$0.35 exercise price, a 5-year term and includes a “down-round protection” feature that requires it to be classified as a liability rather than as equity (see Note 9).

We estimated the fair value of each component on the issue date and the conversion date using a Black-Scholes pricing model with the following assumptions:

|                | Warrant -<br>July 16, 2013 | Warrant –<br>December 31,<br>2013 | Derivative –<br>July 16, 2013 | Derivative –<br>December 31,<br>2013 |
|----------------|----------------------------|-----------------------------------|-------------------------------|--------------------------------------|
| Expected term  | 5 years                    | 4.54 years                        | 0.83 years                    | 0.38 years                           |
| Volatility     | 124.51                     | % 139.93                          | % 192.87                      | % 230.46                             |
| Risk Free Rate | 1.38                       | % 1.75                            | % 0.10                        | % 0.70                               |

The proceeds of the Note were allocated to the three components as follows:

|   | Proceeds allocated<br>at issue date – July<br>16, 2013 | Value at December<br>31, 2013 |
|---|--|-------------------------------|
| Tonaquint Note                                  | \$ 57,400  | \$ 87,705                     |
| Tonaquint Warrant                               | \$ 26,076  | \$ 8,227                      |
| Embedded conversion option derivative liability | \$ 19,024  | \$ -                          |

|       |            |           |
|-------|------------|-----------|
| Total | \$ 102,500 | \$ 95,932 |
|-------|------------|-----------|

Subsequent to December 31, 2013, the Company settled the note and Warrant with Tonaquint ( see Note 18.).

**Southridge**

During 2013 the Company had issued a convertible promissory note payable to Southridge as part of its EPA in the amount of \$65,000, which during 2013 Southridge converted to 260,000 shares of common stock.

Page 47

During 2013, the Company issued a six-month \$12,000 convertible note payable to Southridge to cover legal expenses as part of the LPA (see Note 11). The convertible note is convertible into the Company's common stock at 75% of the lowest closing bid price during the twenty (20) trading days prior to conversion and is due in June 2014.

### **Series A 15% Original Issue Discount Convertible Notes and Warrants**

During the quarter ended December 31, 2013, the Company did a private offering of two tranches of convertible notes and warrants, under which it issued \$283,648 of convertible promissory notes for consideration of \$241,100, the difference between the proceeds from the notes and the principal amount consists of \$42,548 of original issue discount. The notes are convertible at initial conversion prices ranging from \$0.20 to \$0.25 per share anytime after issuance thereby having an embedded beneficial conversion feature. The note holders were also issued market-related warrants for 170,354 in shares of common stock. The warrants have exercise prices that range from \$0.40 to \$0.60 and a 2-year term. The beneficial conversion feature and the warrants were recorded to additional paid-in-capital. The Company allocated the proceeds received to the notes, the beneficial conversion feature and the warrants on a relative fair value basis at the time of issuance. The total debt discount is amortized over the life of the notes to interest expense.

The beneficial conversion feature was valued at the intrinsic value on the issuance date. The intrinsic value represents the difference between the conversion price and the fair value of the common stock multiplied by the number of share into which the note is convertible. We estimated the fair value of the warrants on the issue date using a Black-Scholes pricing model with the following assumptions:

|                | Warrants<br>(Tranche 1)-<br>November 15,<br>2013 |   | Warrants<br>(Tranche 2)-<br>December 30,<br>2013 |   |
|----------------|--|---|--|---|
| Expected term  | 2 years  |   | 2 years  |   |
| Volatility     | 180.02   | % | 184.38   | % |
| Risk Free Rate | 0.31   | % | 0.39   | % |

The proceeds of the Notes were allocated to the components as follows:

|                               | Proceeds allocated<br>at issue date |
|-------------------------------|-------------------------------------|
| Private Offering Notes        | \$ 120,313                          |
| Private Offering Warrants     | 76,429                              |
| Beneficial Conversion feature | 44,358                              |

Total \$ 241,100

#### 14. STOCK-BASED COMPENSATION PLANS

*2011 Employees', Directors' and Consultants' Stock Option Plan* – In May 2011, the Board of Directors approved a new option plan for employees, directors and consultants. Pursuant to this plan which is administered by a Committee appointed by the Board of Directors, we could grant to qualified employees, directors and consultants either incentive options or nonstatutory options (as defined by the Internal Revenue Service). The stock options granted per written option agreements approved by the Committee, must have exercise prices not less than 100% of the Fair Market Value of our common stock on the date of the grant. Up to 1,500,000 common shares are available for grants under this plan. No options may be granted under this plan after December 31, 2015.

The following information relates to the 2011 Option Plan:

|  | December 31, 2013 | December 31, 2012 |
|--|-------------------|-------------------|
| Common shares reserved for issuance on exercise of options | 1,165,000         | 110,000           |
| Shares available for future option grants                  | 335,000           | 890,000           |

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

The following information relates to the 1997 Option Plan:

|  | December 31, 2013 | December 31, 2012 |
|--|-------------------|-------------------|
| Common shares reserved for issuance on exercise of options | 87,000            | 87,000            |
| Shares available for future option grants                  | -                 | -                 |

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

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

|  | December 31,<br>2013 | December 31,<br>2012 |
|--|----------------------|----------------------|
| Common shares reserved for issuance on exercise of options | 120,000              | 120,000              |
| Shares available for future option grants                  | -                    | -                    |

*Summary of Common Stock Options* – The total fair value of shares vested in the years ended December 31, 2013 and December 31, 2012 was \$116,365 and \$138,630, respectively, of non-cash compensation expense. Of these amounts, \$84,550 and \$0 was included in personnel and consulting expenses, from stock options granted to employees, and vesting during the year ended December 31, 2013 and 2012, respectively.

Also \$14,895 and \$58,630 of noncash compensation expense was included in general and administrative expenses, from stock options granted to directors pursuant to the Directors Option Plan in the years ended December 31, 2013 and 2012, respectively. Since these stock options are fully vested upon grant, the full fair value of the stock options is recorded as expense at the date of grant. During the year ended December 31, 2013, the Company granted 50,000 options to non-employee directors which were fully vested upon issuance, and 5,000 options which were fully vested upon issuance to two non-employee directors who had served as chairman, as approved by the Board of Directors. During the years ended December 31, 2013 and 2012, the Board of Directors extended the expiration dates for all options previously granted to one and two, respectively, departing Board members in recognition for service. 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 or 180 days following the Board members' termination dates. The Company considered the extension as a modification to the option agreements recording incremental compensation expense of \$16,920 and \$80,000 for the years ended December 31, 2013 and 2012, respectively.

During the quarter ended March 31, 2013, the Company granted 1,000,000 options to the then-CEO. As approved by the Board of Directors, these options granted were expected to vest over a four (4) year period, with 200,000 options vesting upon issuance. Since his resignation on September 26, 2013, expense for the quarters ended March 31, 2013 and June 30, 2013 has been reversed. The 200,000 vested options all expired 90 days from his resignation, per the Option Agreement.

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

No options were granted to employees during the year ended December 31, 2012.

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

|   | Year ended<br>December 31, 2013 |   | Year ended<br>December 31, 2012 |   |
|---|---------------------------------|---|---------------------------------|---|
| Dividend yield <sup>(1)</sup>           | 0.0                             | % | 0.0                             | % |
| Expected volatility <sup>(2)</sup>      | <b>99.2% - 110.2</b>            | % | 86.7% - 87.1                    | % |
| Risk-free interest rates <sup>(3)</sup> | 1.02                            | % | 0.89                            | % |
| Expected lives <sup>(2)</sup>           | <b>2-5 years</b>                |   | 5 years                         |   |

(1)



Edgar Filing: COMPETITIVE TECHNOLOGIES INC - Form 10-K/A

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

- (2) Estimated based on our historical experience. Volatility was based on historical experience over a period equivalent to the expected life in years.
- (3) Based on the U.S. Treasury constant maturity interest rate with a term consistent with the expected life of the options granted.

A summary of the status of all our common stock options as of December 31, 2013 and 2012, and changes during the periods then ended is presented below.

|   | Year ended December 31, 2013 |                                 |                            | Year ended December 31, 2012 |                                 |                            |
|---|------------------------------|---------------------------------|----------------------------|------------------------------|---------------------------------|----------------------------|
|   | Shares                       | Weighted Average Exercise Price | Aggregate Intrinsic Values | Shares                       | Weighted Average Exercise Price | Aggregate Intrinsic Values |
| Outstanding at beginning of period                                      | 317,000                      | \$ 1.85                         | \$                         | 313,000                      | \$ 2.11                         |                            |
| Granted   | 2,055,000                    | 0.29                            |                            | 70,000                       | 1.24                            |                            |
| Forfeited   | (1,000,000 )                 | 0.50                            |                            | (66,000 )                    | 2.44                            |                            |
| Exercised   | -                            |                                 |                            | -                            |                                 |                            |
| Expired or terminated   | -                            |                                 |                            | -                            |                                 |                            |
| Outstanding at end of year  | 1,372,000                    | \$ 0.50                         | \$ 240,750                 | 317,000                      | \$ 1.85                         |                            |
| Vested at end of year   | 572,000                      | \$ 1.10                         | \$ 48,750                  | 317,000                      | \$ 1.85                         |                            |
| Nonvested at end of year  | 800,000                      | \$ 0.08                         | \$ 192,000                 |                              |                                 |                            |
| Weighted average fair value per share of options issued during the year |                              | \$ 0.21                         |                            |                              | \$ 1.18                         |                            |

Generally, we issue new shares of common stock to satisfy stock option exercises.

### 15.401(k) PLAN

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

Our directors may authorize a discretionary contribution to the Plan, allocated according to the provisions of the Plan, and payable in shares of our common stock valued as of the date the shares are contributed. No contributions were accrued or made in the years ended December 31, 2013 and 2012.

### 16.COMMITMENTS AND CONTINGENCIES

#### *Operating Leases –*

Future minimum rental payments required under operating leases with remaining non-cancelable lease terms as of December 31, 2013 are as follows:

|                   |           |
|-------------------|-----------|
| More than 5 years | \$-       |
| 3-5 years         | 13,076    |
| 1-3 years         | 153,279   |
| Within 1 year     | 62,085    |
| Total             | \$228,440 |

Total rental expense for all operating leases was:

|                         | Year ended<br>December 31,<br>2013 | Year ended<br>December 31,<br>2012 |
|-------------------------|------------------------------------|------------------------------------|
| Minimum rental payments | \$ 60,038                          | \$ 84,242                          |

Edgar Filing: COMPETITIVE TECHNOLOGIES INC - Form 10-K/A

|                        |           |           |
|------------------------|-----------|-----------|
| Less: Sublease rentals | 3,594     | 7,188     |
| Net rent expense       | 56,444    | 77,054    |
| Deferred rent charge   | 5,248     | -         |
|                        | \$ 61,692 | \$ 77,054 |

Page 51

*Contingencies – Revenue based*

As of December 31, 2013, CTI and its majority owned subsidiary, VVI, have remaining obligations, contingent upon receipt of certain revenues, to repay up to \$165,788 and \$199,334, respectively, in consideration of grant funding received in 1994 and 1995. CTI also is obligated to pay at the rate of 7.5% of its revenues, if any, from transferring rights to certain inventions supported by the grant funds. VVI is obligated to pay at rates of 1.5% of its net sales of supported products or 15% of its revenues from licensing supported products, if any. We recognize these obligations only if we receive revenues related to the grant funds. We recognized approximately \$1,577 in the year ended December 31, 2013 and \$1,749 in the year ended December 31, 2012.

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

*Contingencies – Litigation*

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

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

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

***Employment matters – former employee (case pending)*** – In September 2003, a former employee filed a whistleblower complaint with the Occupational Safety and Health Administration of the Department of Labor (OSHA) alleging that the employee had been terminated for engaging in conduct protected under the Sarbanes Oxley Act of 2002 (SOX). In February 2005, OSHA found probable cause to support the employee’s complaint and the Secretary of Labor ordered reinstatement and back wages since the date of termination and CTCC requested de novo review and a hearing before an administrative law judge (“ALJ”). In July 2005, after the close of the hearing on CTI’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 CTI's appeal of the OSHA findings ruled in CTI'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 CTI 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 CTI were submitted in August 2012. In March 2013, the U.S. Court of Appeals for the Second Circuit upheld the ARB's decision dismissing the former employee's complaint and denied the employee's appeal from that order. In April 2013, the Second Circuit terminated proceedings in that court.

***John B. Nano vs. Competitive Technologies, Inc. - Arbitration (case completed)*** – On September 3, 2010, the Board of Directors of CTI found cause consisting of violation of fiduciary duties to the Corporation and violation of the CTI 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 CTI 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 CTI.

On September 13, 2010, Mr. Nano brought an arbitration claim to the American Arbitration Association against CTI. 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, CTI'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. CTI 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, CTI settled all disputes with its former Chairman and CEO John B. Nano. Pursuant to the settlement, CTI has released to Mr. Nano from escrow the \$750,000 deposited by CTI following Mr. Nano's application for a prejudgment remedy. CTI 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 CTI 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. CTI's payments to Mr. Nano have been completed.

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

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



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

## 17. RELATED PARTY TRANSACTIONS

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

At December 31, 2013, \$2,618,000 of the outstanding Notes were payable to related parties; \$2,518,000 to the chairman of our Board, Peter Brennan, and \$100,000 to another director, Stan Yarbrow.

## 18. SUBSEQUENT EVENTS

### Tonaquint

During the first quarter of 2014 the Company executed a debt settlement agreement with Tonaquint related to the note and warrant described in Note 13. In summary, the Company and Tonaquint agreed to settle the warrant for \$98,000 and the note and all related interest for \$144,000 all to be paid by April 18, 2014.

### Additional financing

During the first quarter of 2014 the Company raised additional working capital of approximately \$600,000 through the issuance of debt and equity instruments.

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

N/A

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

*Evaluation of Disclosure Controls and Procedures*

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

Each fiscal quarter the Company carries out an evaluation, under the supervision and with the participation of the Company's management, including the Company's CEO, and CFO, of the effectiveness of the design and operation of the Company's disclosure controls and procedures pursuant to Exchange Act Rule 13a-15. Based on this evaluation, our management, with the participation of the CEO, and CFO, concluded that, as of December 31, 2013, our disclosure controls and procedures were not effective.

*Changes in Internal Control over Financial Reporting*

During the year ended December 31, 2013, there have been no changes in our internal control over financial reporting that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

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

Management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Exchange Act Rules 13a-15(f). A system of internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation and fair presentation of financial statements for external purposes in accordance with generally accepted accounting principles. All internal control systems, no matter how well designed, have inherent limitations. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation.

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

Under the supervision and with the participation of our management, including our CEO, and CFO, we conducted an assessment of the effectiveness of our internal control over financial reporting as of December 31, 2013. In making this assessment, our management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in Internal Control — Integrated Framework. A material weakness is a control deficiency, or a combination of control deficiencies, that results in more than a remote likelihood that a material misstatement of annual or interim financial statements will not be prevented or detected. In connection with the assessment described above, management has identified the following material weakness as of December 31, 2013:

The Company did not maintain an effective control environment because Mr. Johnnie Johnson (“Johnson”), the Company’s former chief financial officer and consultant, may have acted contrary to the best interests of Company and its stockholders in connection to certain contracts, agreements, initiatives or other actions Johnson entered into on behalf of the Company without obtaining the Board’s approval (the “Actions”) and may have breached fiduciary duties owed to the Company and its stockholders.

To protect the best interest of the Company and its stockholders, the Board further determined that Johnson did not have the authority to act on behalf of the Company in connection to the Actions and rendered such Actions rejected, null and void. The Board also authorized certain officers to take all measures appropriate and necessary to nullify the Actions.

Additionally, the material weakness above could result in a material misstatement to the Company's interim or annual consolidated financial statements and disclosures which would not be prevented or detected.

As a result of the material weakness described above, management has concluded that, as of December 31, 2013, the Company's internal control over financial reporting was not effective based on the criteria in *Internal Control-Integrated Framework* issued by the COSO.

The Company has engaged in substantial remediation efforts to address the material weakness in its internal control over financial reporting related to its control environment described above, including:

- Certain key individuals in senior management positions have left the Company, been terminated, or been replaced.
- Certain key service provider relations have been terminated or been replaced.
- Ongoing communication between the Board and management has been expanded

Notwithstanding the material weakness, management believes the consolidated financial statements included in this Annual Report on Form 10-K fairly represent in all material respects our financial condition, results of operations and cash flows at and for the periods presented in accordance with U.S. GAAP.

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

None.

Page 57

**PART III****Item 10. Directors, Executive Officers and Corporate Governance****Our Management**

Our directors, executive officers and key employees are listed below. The number of directors is determined by our board of directors. All directors hold office until the next annual meeting of the board or until their successors have been duly elected and qualified. Officers are elected by the board of directors and their terms of office are, except to the extent governed by employment contract, at the discretion of the board of directors.

| <u>Name and Address</u>  | <u>Age</u> | <u>Position(s)</u>   |
|--------------------------|------------|--|
| Conrad Mir               | 46         | President and Chief Executive Officer, Interim Chief Financial Officer, Director |
| Peter Brennan            | 59         | Chairman of the Board  |
| Rustin R. Howard         | 57         | Director   |
| Robert G. Moussa         | 67         | Director   |
| Carl D. O'Connell        | 50         | Director   |
| Stanley K. Yarbro, Ph.D. | 64         | Director   |

Set forth below is a summary of our executive officers' and directors' business experience for the past 5 years. The experience and background of each of the directors, as summarized below, were significant factors in their previously being nominated as directors of the Company.

**Conrad F. Mir**, 46, has been a member of the Board of Directors, President and Chief Executive Officer, Interim Chief Financial Officer of our Company since September 2013. Mr. Mir has over twenty years of investment banking, financial structuring, and corporate reengineering experience. He has served in various executive management roles and on the Board of Directors of several companies in the biotechnology industry. Most recently, Mr. Mir was CFO of Pressure BioSciences, Inc., a sample preparation company advancing its proprietary pressure cycling technology. Before that, he was chairman and CEO of Genetic Immunity, Inc., a plasmid, DNA company in the HIV space, and was the executive director of Advaxis, Inc., a vaccine company. Over the last five years, he was responsible for raising more than \$40 million in growth capital and broadening corporate reach to new investors and current shareholders. Mr. Mir has worked for several investment banks including Sanford C. Bernstein, First Liberty Investment Group, and Nomura Securities International. He holds a BS/BA in Economics and English with special concentrations in Mathematics and Physics from New York University.

We believe Mr. Mir's qualifications to serve on our Board of Directors include his expertise in the micro-cap biotechnology space, along with his experience turning around distressed biotech companies.

**Peter Brennan**, 59, has been a director of our Company since June 2011. Peter Brennan, MBA, CFA is a New York based investor who has worked over 30 years in the investment management business as an analyst and portfolio manager.

In 2004, Mr. Brennan founded Damel Investors LLC, a private partnership which invests in small technology companies. Since 2005 Mr. Brennan has been a director and a member of the audit committee of Sonomax Technologies Inc., a Montreal based hearing healthcare company. Mr. Brennan received his MBA from the University of Chicago in 1979 and his BA from Haverford College in 1977. He is a member and past Chairman of the Corporate Governance Committee of the New York Society of Security Analysts and received the 2001 Volunteer of the Year award from the NYSSA. Mr. Brennan was a member of the US Advocacy Committee of the CFA Institute and was a founding member of the Capital Markets Policy Council of the CFA Institute for Market Integrity, the global advocacy committee of the CFA Institute.

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

**Rustin R. Howard**, 57, has been a director of our company since October 2007. Mr. Howard is the Chairman of DeepGulf, Inc., which builds underwater pipelines and associated facilities in deep and ultra-deep offshore oil and gas production fields. Additionally, he is a principal of Whitesand Investments LLC, an angel investment organization, and a co-owner and officer of Silver Bullet Technology. Silver Bullet Technology, where he has been primarily responsible for corporate and financial oversight as well as strategic planning, manufactures and sells software for the banking and payment processing industry. In 1990, he founded and served as CEO and Chairman of Phyton, Inc., a world leader in the use of proprietary plant cell fermentation technology, including the production of paclitaxel, the active ingredient of Bristol-Myers Squibb's multi-billion dollar anticancer drug, Taxol®. Phyton was sold to DFB Pharmaceuticals, Inc. in 2003. Previously, Mr. Howard served as president and CEO of BioWorks Inc., a biotechnology company he founded to develop, produce, and sell products that replace chemical pesticides. Mr. Howard earned his MBA from Cornell University's Johnson Graduate School of Management, where he focused his studies on entrepreneurship, and managing innovation and technology.

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

**Robert G. Moussa**, 67, has been a director of our company since January 2012. Robert Moussa currently serves as Chairman, President, and Chief Executive Officer of Dillon Diagnostics, having spent more than 30 years in the healthcare field. In addition to his role at Dillon, he has held a number of senior positions at both Sherwood Medical



Industries and Mallinckrodt Medical. Mr. Moussa has extensive experience launching new products in the diagnostic, nuclear medicine and medical device markets.

Before joining Dilon Technologies, Inc., Mr. Moussa served as President and Chief Executive Officer of Robert Moussa & Associates, a consulting firm serving the pharmaceutical, biotechnology and healthcare industries. Prior to founding this firm, he served in a variety of executive positions with Mallinckrodt, Inc., St. Louis, Missouri, a \$2.4 billion healthcare and chemical company. Mr. Moussa's most recent assignment at Mallinckrodt was President - International, a position he held from 1995 through 1997. Previously he served as President and Chief Executive Officer - Mallinckrodt Medical, Inc., Mallinckrodt's largest business unit with over \$1 billion dollars in revenues (1992-1996). Before joining Mallinckrodt Medical in 1992, Mr. Moussa served as Mallinckrodt, Inc.'s Group Vice President - International Medical Products, Vice President and General Manager - Medical Products Europe, General Manager of Critical Care, Director of Business Operations and General Sales Manager. Prior to joining Mallinckrodt, Mr. Moussa held a number of positions during the period 1969 through 1976 with Sherwood Medical, United Kingdom, most recently as Director of Marketing. Mr. Moussa received his Baccalaureate from the Collge du Sacre-Cur, Beirut, Lebanon, in 1966 and his Bachelor of Science in Business Administration from Ealing University, London, England, in 1969. He has also completed executive seminars at the University of California at Berkley, the Aspen Institute, the Wharton Executive School and the Center for Creative Leadership.

We believe Mr. Moussa’s qualifications to serve on our Board of Directors include his expertise in biotechnology and medical devices and his years of experience as a senior executive in leading companies the pharmaceutical and health care industries.

**Carl D. O’Connell**, 50, has been a director of our Company since January 2013, having served as President and Chief Executive Officer from November 2012 until September 2013. Mr. O’Connell has 30 years of experience in the healthcare field and 20 years as a leader in the medical device arena. Prior to joining Competitive Technologies Mr. O’Connell held executive positions for top global medical device and Fortune 500 companies. He recently served as President and CEO for the US Healthcare Division MedSurg for ITOCHU, a Japanese conglomerate, Vice President of Global Marketing for Stryker Spine, and President of Carl Zeiss Surgical, the market leader in optical digital solutions for Neurosurgery, Spine, Ophthalmology, ENT and Dentistry.

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

**Stanley K. Yarbrow, Ph.D.**, 64, has been a director of our Company since March 2012. Stan Yarbrow has extensive experience in market development of high technology solutions to a worldwide customer base. He recently retired as Executive Vice President, Worldwide Field Operations, for Varian Semiconductor Equipment Associates, a position he had held since 2004. Prior to Varian, Dr. Yarbrow served in various executive capacities at KLA-Tencor Corporation, in the semi-conductor industry. He currently serves on the boards of FSI International and Carbon Design Innovations and has previously served on the boards of Electrogas, Inc. and Molecular Imaging where he worked closely with the organizations to develop and improve sales and marketing strategies. Dr. Yarbrow holds a Ph.D. in Analytical Chemistry from Georgia Institute of Technology and a B.S.in Chemistry from Wake Forest University.

We believe Mr. Yarbrow qualifications to serve on our Board of Directors include his expertise in technology and high-growth business development.

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

| <b>Audit Committee</b>    | <b>Compensation Committee</b> | <b>Nominating and Corporate Governance Committee</b> |
|---------------------------|-------------------------------|--|
| Stanley Yarbrow, Chairman | Robert Moussa, Chairman       | Rustin Howard, Chairman                              |
| Robert Moussa             | Stanley Yarbrow               | Robert Moussa  |

Rustin Howard

Rustin Howard

Stanley Yarbrow

### **Involvement in Certain Legal Proceedings**

During the past ten years, no present director or executive officer of the Company has been the subject matter of any of the following legal proceedings that are required to be disclosed pursuant to Item 401(f) of Regulation S-K including: (a) any bankruptcy petition filed by or against any business of which such person was a general partner or executive officer either at the time of the bankruptcy or within two years prior to that time; (b) any criminal convictions; (c) any order, judgment, or decree permanently or temporarily enjoining, barring, suspending or otherwise limiting his involvement in any type of business, securities or banking activities; (d) any finding by a court, the SEC or the CFTC to have violated a federal or state securities or commodities law, any law or regulation respecting financial institutions or insurance companies, or any law or regulation prohibiting mail or wire fraud; or (e) any sanction or order of any self-regulatory organization or registered entity or equivalent exchange, association or entity. Further, no such legal proceedings are believed to be contemplated by governmental authorities against any director or executive officer.

### **Material Changes to the Procedures by which Security Holders may Recommend Nominees to the Board**

There have been no material changes to the procedures by which our security holders may recommend nominees to the Board of Directors.

## **Code of Ethics**

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

## **Family Relationships**

There are no family relationships among our directors and executive officers.

## **Audit Committee; Audit Committee Financial Expert**

### *Audit Committee*

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

The Audit Committee’s purpose is to assist the Board with overseeing:

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

The Audit Committee is to be comprised of not less than three of our independent directors. The Board has determined that each member of the Audit Committee is an independent director in accordance with applicable legal or regulatory requirements. It has also determined that each member is financially literate and has identified Mr.

Howard as an audit committee financial expert as defined by the Securities and Exchange Commission.

**Section 16(a) Beneficial Ownership Reporting Compliance**

The Company does not have a class of securities registered under the Exchange Act and therefore its directors, executive officers, and any persons holding more than ten percent of the Company's common stock are not required to comply with Section 16 of the Exchange Act.

Page 60

**Item 11. Executive Compensation**

The following table summarizes the total compensation awarded to, earned by or paid by us for services rendered by our Chief Executive Officer (principal executive officer), our Chief Financial Officer (principal financial officer) and the 2 other highest paid (\$100,000 or more) employees that served during the years ended December 31, 2013, and 2012.

Page 61

| Name and Principal Position   | Year ended        | Salary     | Option<br>Bonus Awards<br>(4) | All Other<br>Compensation | Total      |
|---|-------------------|------------|-------------------------------|---------------------------|------------|
| <b>Former Executive Officer:</b>  |                   |            |                               |                           |            |
| Carl D. O'Connell <sup>(1)</sup><br>Board of Directors, President and Chief<br>Executive Officer                        | December 31, 2013 | \$ 225,000 | \$ 344,000                    |                           | \$ 569,000 |
|   | December 31, 2012 | \$ 40,385  |                               |                           | \$ 40,385  |
| Conrad F. Mir <sup>(2)</sup><br>Directors, President and Chief<br>Executive Officer, Interim Chief<br>Financial Officer | December 31, 2013 | \$ 70,212  | \$ 63,201                     |                           | \$ 133,413 |
| <b>Next Highest Paid Employees</b>  |                   |            |                               |                           |            |
| Laurie Murphy <sup>(3)</sup> Accounting Manager   | December 31, 2013 | \$ 100,400 | -                             | -                         | \$ 100,400 |
|   | December 31, 2012 | \$ 104,172 | -                             | -                         | \$ 104,172 |

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

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

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

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

### Grants of Plan-Based Awards

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

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

No options were granted to employees during the year ended December 31, 2012.

Page 62



**Outstanding Equity Awards at Fiscal Year-End**

| Name          | Number of Securities Underlying Unexercised Options Exercisable <sup>(1)</sup> | Number of Securities Underlying Unexercised Options Unexercisable <sup>(1)</sup> | Option Price | Option Expiration Date |
|---------------|--|--|--------------|------------------------|
| Conrad Mir    | 200,000  | 800,000  | 0.08         | 10/1/18                |
| Laurie Murphy | 10,000   | -  | 2.25         | 9/28/17                |
|               | 5,000  | -  | 2.33         | 8/18/16                |
|               | 2,500  | -  | 5.34         | 10/17/15               |
|               | 3,000  | -  | 3.72         | 8/12/14                |

(1) Option awards under our 1997 Employees Stock Option Plan, except for Mr. Mir's options which were awarded under the 2011 Employees', Directors' and Consultants' Stock Option Plan.

**Director Compensation Table**

Each of our non-employee directors is paid an annual cash retainer of \$10,000, paid quarterly in arrears, for their services to the Company. In addition, directors are issued shares of common stock pursuant to our 1996 Directors Stock Participation Plan, as amended, and are granted stock options to purchase common stock pursuant to our 2000 Directors Stock Option Plan, both as described below. In addition, the Chairman of the Board, if a non-employee, is paid fees for the additional responsibilities and time commitments required of him. These fees are equal to an additional \$5,000 cash retainer, in addition to the amount noted above and an additional \$500 for each Board meeting attended,

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

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

Non-employee directors were granted 10,000 fully vested, non-qualified stock options to purchase our common stock on the date the individual was first elected as a director, whether by the stockholders or by the Board, and was granted 10,000 options on the first business day of January thereafter, provided the individual was still a director. The stock options granted were at an exercise price not less than 100% of the fair market value of the common stock at the grant date and had a term of five (5) years from date of grant; options granted under earlier, now expired plans had ten year terms. If an individual's directorship terminated because of death or permanent disability, the stock options may be exercised within one year after termination. If the termination was for any other reason, the stock options may be exercised within 180 days after termination. However, the Board had the discretion to amend previously granted stock options to provide that such stock options may continue to be exercisable for specified additional periods following termination. In no event may a stock option be exercised after the expiration of its term. On March 1, 2012, the Board of Directors voted to waive the accelerated termination date on options held by Joel Evans, MD, and William L. Reali that would have occurred as a result of their resignations from the Board. On January 29, 2013, the Board of Directors voted to waive the accelerated termination date on options held by Richard D. Hornidge, Jr. that would have occurred as a result of his resignation from the Board.

The following table summarizes the total compensation awarded to, earned by or paid by us for services rendered during the year ended December 31, 2013, to the non-employee Board of Director members:

| Name                         | Fees<br>Earned<br>or Paid<br>in<br>Cash <sup>(1)</sup> | Option<br>Awards<br>(2) | Other Equity<br>Compensation<br>(3) | Total    |
|------------------------------|--|-------------------------|-------------------------------------|----------|
| Peter Brennan <sup>(4)</sup> | \$33,417   | \$ 2,633                | \$ 950                              | \$37,000 |
| Richard D. Hornidge, Jr.     | \$ 1,833   | -                       | -                                   | \$1,833  |
| Rustin Howard <sup>(5)</sup> | \$27,000   | \$ 2,633                | \$ 950                              | \$30,583 |
| Robert G. Moussa             | \$18,000   | \$ 2,633                | \$ 950                              | \$21,583 |
| Carl O'Connell               | \$2,500  | \$ 658                  | 238                                 | \$3,396  |
| Stan Yarbro, Ph.D.           | \$18,000   | \$ 2,633                | \$ 950                              | \$21,583 |

1) No cash payments were made to Directors for fees during 2013.

2) Each director serving on January 2, 2014 received a stock option for 10,000 shares of common stock, for services rendered during 2013, except for Mr. O'Connell, who received 2,500 shares as he was an employee of the Company for nine (9) months of 2013, in January 2014 at \$0.32 per share under the 2011 Directors Stock Option Plan approved by the Board of Directors in May 2011. We estimated the fair value of stock awards at \$0.263 per share using the Black-Scholes option valuation model with expected life of 5 years, risk free interest rate of 1.721%, volatility of 118.538% and dividend yield of 0.

3) Each director serving on March 31, 2014 received 2,500 shares of common stock, for services rendered during 2013, except for Mr. O'Connell, who received 625 shares as he was an employee of the Company for nine (9) months of 2013. The fair market value of the stock was \$0.38 per share.

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

5) Mr. Howard served as Chairman from December 2011 to May 2012.

#### Outstanding Equity Awards at January 2, 2014 to Non-Employee Directors

| Name          | Number of<br>Securities<br>Underlying<br>Unexercised<br>Options | Option<br>Exercise<br>Price | Option<br>Expiration<br>Date |
|---------------|---|-----------------------------|------------------------------|
| Peter Brennan | 10,000  | (2) \$ 0.32                 | 1/2/19                       |

Edgar Filing: COMPETITIVE TECHNOLOGIES INC - Form 10-K/A

|                  |        |              |         |
|------------------|--------|--------------|---------|
|                  | 10,000 | (2) \$ 0.501 | 1/1/18  |
|                  | 10,000 | (2) \$ 1.26  | 1/2/17  |
| Rustin Howard    | 10,000 | (2) \$ 0.32  | 1/2/19  |
|                  | 10,000 | (2) \$ 0.501 | 1/1/18  |
|                  | 10,000 | (2) \$ 1.26  | 1/2/17  |
|                  | 10,000 | (2) \$ 1.83  | 5/1/16  |
|                  | 10,000 | (1) \$ 2.29  | 10/5/17 |
|                  | 10,000 | (1) \$ 1.51  | 1/2/18  |
|                  | 10,000 | (1) \$ 1.005 | 1/2/19  |
| Robert G. Moussa | 10,000 | (1) \$ 1.87  | 1/4/20  |
|                  | 10,000 | (2) \$ 0.32  | 1/2/19  |
|                  | 10,000 | (2) \$ 0.501 | 1/1/18  |
|                  | 10,000 | (2) \$ 1.24  | 1/18/17 |
| Carl O'Connell   | 2,500  | (2) \$ 0.32  | 1/2/19  |
| Stan Yarbro      | 10,000 | (2) \$ 0.32  | 1/2/19  |
|                  | 10,000 | (2) \$ 0.501 | 1/1/18  |
|                  | 10,000 | (2) \$ 1.13  | 2/28/17 |

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

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

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

The following information indicates the beneficial ownership of our stock by our directors and executive officers and by each person known to us to be the beneficial owner of more than 5% of our outstanding stock. The indicated owners, with sole voting and investment power, furnished such information to us as of April 30, 2014, except as otherwise indicated in the footnotes.

Beneficial ownership is determined in accordance with the rules of the SEC, which deem a person to beneficially own any shares the person has or shares voting or dispositive power over and any additional shares obtainable within 60 days through the exercise of options, warrants, or other purchase rights. Shares of common stock subject to options, warrants, or other rights to purchase that are currently exercisable or are exercisable within 60 days (including shares subject to restrictions that lapse within 60 days) are deemed outstanding for purposes of computing the percentage ownership of the person holding such shares, options, warrants or other rights, but are not deemed outstanding for purposes of computing the percentage ownership of any other person. Unless otherwise indicated, each person possesses sole voting and investment power with respect to the shares identified as beneficially owned.

| <b>Names of Beneficial Owners<br/>(and address, if ownership is more than 5%)</b> | <b>Amount<br/>Beneficially (1)<br/>Owned</b> | <b>Percent<br/>(%)</b> |
|---|--|------------------------|
| <u>Directors and Executive Management</u>   |  |                        |
| Peter Brennan <sup>(3)</sup>  | 3,788,481                                    | (2)(4) 15.2 %          |
| Rustin Howard   | 106,255                                      | (2)(6) *               |
| Conrad Mir  | 200,000                                      | (2) *                  |
| Robert G. Moussa  | 30,000                                       | (2)(7) *               |
| Carl O'Connell  | 2,500  | (2)(8) *               |
| Stan Yarbro   | 258,480                                      | (2)(5) 1.1 %           |
| Directors and executive management total:   | 4,385,716                                    | 17.2 %                 |
| <u>Five percent beneficial owners</u>   |  |                        |
| Joseph M. Finley<br>Suite 2300, 150 South Fifth St., Minneapolis, MN 55402        | 1,268,326                                    | (9) 5.6 %              |

\* Less than 1%

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

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

| Name                                     | Right to Acquire |
|--|------------------|
| Peter Brennan                            | 30,000           |
| Rustin Howard                            | 80,000           |
| Conrad Mir                               | 200,000          |
| Robert G. Moussa                         | 30,000           |
| Carl O'Connell                           | 2,500            |
| Stan Yarbrow                             | 30,000           |
| Directors and Executive Management total | 372,500          |

(3) Peter Brennan is the beneficial owner of Damel Diversified LP, Damel Partners LP, Lisl Brennan Family Trust 2005, and Peter Brennan.

(4) Peter Brennan beneficially owns 1,390,386 shares (including the 30,000 stock options referenced in footnote 2 above) and has the right to acquire an additional 2,398,095 shares upon conversion of \$2,518,000 of convertible debt.

(5) Steve Yarbo beneficially owns 163,242 shares (including the 30,000 stock options referenced in footnote 2 above) and has the right to acquire an additional 95,238 shares upon conversion of \$100,000 of convertible debt.

(6) Rustin Howard beneficially owned 26,255 shares and has the right to acquire 80,000 shares upon exercise of stock options referenced in footnote 2 above.

(7) Conrad Mir has the right to acquire 200,000 shares upon exercise of stock options referenced in footnote 2 above.

(8) Carl O'Connell has the right to acquire 2,500 shares upon exercise of stock options referenced in footnote 2 above.

(9) Joseph Finley is the beneficial owners of Birch Coulle Fund LLC, FMTC TTEE, FMTC Custodian-Roth IRA and FMT CO Cust IRA Rollover. He beneficially owns 1,082,612 shares and has the right to acquire an additional 185,714 shares upon the exercise of stock warrants.

On March 10, 2014, the stock transfer records maintained by us with respect to our Preferred Stock showed that the largest holder of Preferred Stock owned 500 shares; the largest owner of Class C Convertible Preferred Stock owned 375 shares. No directors or executive officer own Preferred Stock.

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

#### **Transactions with Related Persons**

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

At December 31, 2013, \$2,618,000 of the outstanding Notes were payable to related parties; \$2,518,000 to the chairman of our Board, Peter Brennan, and \$100,000 to another director, Stan Yarbrow.

#### **Director Independence**

Because our common stock is not currently listed on a national securities exchange, we have used the definition of "independence" of The NASDAQ Stock Market to make this determination. NASDAQ Listing Rule 5605(a)(2) provides that an "independent director" is a person other than an officer or employee of the Company or any other individual having a relationship which, in the opinion of the Company's board of directors, would interfere with the exercise of independent judgment in carrying out the responsibilities of a director. The NASDAQ listing rules provide that a director cannot be considered independent if:

- the director is, or at any time during the past three years was, an employee of the company;
- the director or a family member of the director accepted any compensation from the company in excess of \$120,000 during any period of 12 consecutive months within the three years preceding the independence determination (subject to certain exclusions, including, among other things, compensation for board or board committee service);
- a family member of the director is, or at any time during the past three years was, an executive officer of the company;
- the director or a family member of the director is a partner in, controlling stockholder of, or an executive officer of an entity to which the company made, or from which the company received, payments in the current or any of the past three fiscal years that exceed 5% of the recipient's consolidated gross revenue for that year or \$200,000, whichever is greater (subject to certain exclusions);

the director or a family member of the director is employed as an executive officer of an entity where, at any time during the past three years, any of the executive officers of the company served on the compensation committee of such other entity; or the director or a family member of the director is a current partner of the company's outside auditor, or at any time during the past three years was a partner or employee of the company's outside auditor, and who worked on the company's audit.

Four of CTTC's Board Directors – O'Connell, Howard, Moussa, and Yarbro - are considered to be independent directors.

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

##### Fees

Aggregate fees for professional services rendered to us by Mayer Hoffman McCann CPAs (The New York Practice of Mayer Hoffman McCann P.C.) ("MHM"), our independent registered public accounting firm engaged to provide accounting services for the years ended December 31, 2013, and December 31, 2012 were:

|                        | Year Ended<br>December 31, 2013 | Year Ended<br>December 31, 2012 |
|------------------------|---------------------------------|---------------------------------|
| Audit fees             | \$ 114,339                      | \$ 126,500                      |
| Audit related fees (1) | 9,521                           | 2,575                           |
| Tax fees               | -                               | -                               |
| All other fees         | -                               | -                               |
| Total                  | \$ 123,860                      | \$ 129,075                      |

(1) Fees for S-1 and S-8 review.

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



**Policy on Pre-Approval of Audit and Permissible Non-audit Services of Independent Auditors**

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

## **PART IV**

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

(a) List of financial statements and schedules.

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

Report of Independent Registered Public Accounting Firm

Consolidated Balance Sheets as of December 31, 2013 and 2012

Consolidated Statements of Operations for the years ended December 31, 2013 and December 31, 2012

Consolidated Statements of Changes in Shareholders' Deficit for the years ended December 31, 2013 and December 31, 2012

Consolidated Statements of Cash Flows for the years ended December 31, 2013 and December 31, 2012

Notes to Consolidated Financial Statements

(b) List of exhibits: See Exhibit Index immediately preceding exhibits.

SIGNATURES

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

COMPETITIVE  
TECHNOLOGIES,  
INC.  
(the registrant)

By /s/ Conrad Mir  
Conrad Mir  
President, Chief  
Executive Officer  
and interim Chief  
Financial Officer  
(Duly Authorized  
Officer, Principal  
Executive Officer,  
and Principal  
Financial Officer  
and Principal  
Accounting Officer)

Date: April 30,  
2014

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

| Name              | Title  | )Date                  |
|-------------------|--|------------------------|
| /s/ Conrad Mir    | President, Chief Executive Officer and<br>interim Chief Financial Officer                      | )<br>April 30,<br>2014 |
| Conrad Mir        | (Principal Executive Officer, Principal Financial Officer and Principal Accounting<br>Officer) | )                      |
| /s/ Peter Brennan | Chairman   | )April 30,<br>2014     |

|                          |          |                     |
|--------------------------|----------|---------------------|
| Peter Brennan            |          | )                   |
| /s/ Rustin Howard        | Director | ) April 30,<br>2014 |
| Rustin Howard            |          | )                   |
| /s/ Robert Moussa        | Director | ) April 30,<br>2014 |
| Robert Moussa            |          | )                   |
| /s/ Stan Yarbrow         | Director | ) April 30,<br>2014 |
| Stan Yarbrow             |          | )                   |
| /s/ Carl D.<br>O'Connell | Director | ) April 30,<br>2014 |
| Carl D. O'Connell        |          | )                   |

**EXHIBIT INDEX**

31.1<sup>^</sup> Certification of the Chief Executive Officer and Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (Rule 13a-14(a) or Rule 15d-14(a)).

<sup>^</sup> Filed herewith

Page 70

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

Page 71