

RETRACTABLE TECHNOLOGIES INC  
Form 10-Q  
November 18, 2011

**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

**FORM 10-Q**

(Mark One)

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

For the quarterly period ended September 30, 2011

or

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

For the transition period from      to

Commission file number: 001-16465

**Retractable Technologies, Inc.**

(Exact name of registrant as specified in its charter)

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**Texas**  
(State or other jurisdiction of  
incorporation or organization)

**75-2599762**  
(I.R.S. Employer  
Identification No.)

**511 Lobo Lane**  
**Little Elm, Texas**  
(Address of principal executive offices)

**75068-0009**  
(Zip Code)

**(972) 294-1010**

(Registrant's telephone number, including area code)

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

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

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

Indicate by check mark 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

APPLICABLE ONLY TO ISSUERS INVOLVED IN BANKRUPTCY

PROCEEDINGS DURING THE PRECEDING FIVE YEARS:

Indicate by check mark whether the registrant has filed all documents and reports required to be filed by Sections 12, 13, or 15(d) of the Securities Exchange Act of 1934 subsequent to the distribution of securities under a plan confirmed by a court. Yes  No

APPLICABLE ONLY TO CORPORATE ISSUERS

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date: 25,279,900 shares of Common Stock, no par value, issued and outstanding on November 14, 2011.

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RETRACTABLE TECHNOLOGIES, INC.

FORM 10-Q

For the Quarterly Period Ended September 30, 2011

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## PART I FINANCIAL INFORMATION

## Item 1. Financial Statements.

## RETRACTABLE TECHNOLOGIES, INC.

## CONDENSED BALANCE SHEETS

	September 30, 2011 (unaudited)	December 31, 2010
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 26,915,292	\$ 23,266,039
Accounts receivable, net	5,813,142	7,582,062
Inventories, net	7,647,590	8,682,191
Income taxes receivable	16,462	12,031
Other current assets	121,103	681,244
Total current assets	40,513,589	40,223,567
Property, plant, and equipment, net	12,587,856	12,560,592
Intangible and other assets, net	374,083	406,910
Total assets	\$ 53,475,528	\$ 53,191,069
<b>LIABILITIES AND STOCKHOLDERS EQUITY</b>		
Current liabilities:		
Accounts payable	\$ 2,929,537	\$ 3,847,966
Current portion of long-term debt	655,093	519,611
Accrued compensation	498,754	603,484
Dividends payable	72,925	
Accrued royalties to shareholders	772,084	949,619
Other accrued liabilities	1,452,570	3,910,428
Income taxes payable	48,746	155,000
Total current liabilities	6,429,709	9,986,108
Long-term debt, net of current maturities	4,066,669	4,304,460
Total liabilities	10,496,378	14,290,568
Commitments and contingencies	see Note 6	
Stockholders' equity:		
Preferred stock \$1 par value:		
Series I, Class B	144,000	144,000
Series II, Class B	219,700	219,700
Series III, Class B	130,245	130,245
Series IV, Class B	552,500	552,500
Series V, Class B	1,232,571	1,232,571
Common stock, no par value		
Additional paid-in capital	57,354,113	57,674,737
Retained deficit	(16,653,979)	(21,053,252)
Total stockholders' equity	42,979,150	38,900,501

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Total liabilities and stockholders' equity	\$	53,475,528	\$	53,191,069
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See accompanying notes to condensed financial statements

## RETRACTABLE TECHNOLOGIES, INC.

## CONDENSED STATEMENTS OF OPERATIONS

(unaudited)

	Three Months	Three Months	Nine Months	Nine Months
	Ended	Ended	Ended	Ended
	September 30, 2011	September 30, 2010	September 30, 2011	September 30, 2010
Sales, net	\$ 8,270,608	\$ 12,235,018	\$ 25,994,211	\$ 28,149,368
Cost of sales				
Cost of manufactured product	4,208,993	6,081,201	14,175,830	14,565,160
Royalty expense to shareholders	672,084	953,454	2,002,720	2,107,967
Total cost of sales	4,881,077	7,034,655	16,178,550	16,673,127
Gross profit	3,389,531	5,200,363	9,815,661	11,476,241
Operating expenses:				
Sales and marketing	937,868	1,140,151	2,487,136	2,946,128
Research and development	169,279	316,044	539,161	865,295
General and administrative	2,308,759	2,729,116	7,903,586	11,699,468
Impairment of assets				163,039
Total operating expenses	3,415,906	4,185,311	10,929,883	15,673,930
Income (loss) from operations	(26,375)	1,015,052	(1,114,222)	(4,197,689)
Interest and other income	15,322	10,046	48,920	18,243
Interest expense, net	(62,455)	(69,853)	(184,911)	(236,390)
Litigation settlements, net	1,900,000	7,275,760	5,700,000	7,275,760
Income before income taxes	1,826,492	8,231,005	4,449,787	2,859,924
Provision (benefit) for income taxes	(1,952)		50,514	(334,507)
Net income	1,828,444	8,231,005	4,399,273	3,194,431
Preferred stock dividend requirements	(342,217)	(342,717)	(1,026,651)	(1,028,151)
Earnings applicable to common shareholders	\$ 1,486,227	\$ 7,888,288	\$ 3,372,622	\$ 2,166,280
Basic earnings per share	\$ 0.06	\$ 0.33	\$ 0.14	\$ 0.09
Diluted earnings per share	\$ 0.06	\$ 0.29	\$ 0.13	\$ 0.08
Weighted average common shares outstanding:				
Basic	24,027,053	23,887,028	24,005,761	23,845,775
Diluted	25,950,804	28,726,692	26,364,753	26,419,403

See accompanying notes to condensed financial statements

## RETRACTABLE TECHNOLOGIES, INC.

## CONDENSED STATEMENTS OF CASH FLOWS

(unaudited)

	Nine Months Ended September 30, 2011	Nine Months Ended September 30, 2010
<b>Cash flows from operating activities</b>		
Net income	\$ 4,399,273	\$ 3,194,431
Adjustments to reconcile net income to net cash provided by (used by) operating activities:		
Depreciation and amortization	987,161	1,169,293
Litigation settlement - marketing fees payable		(1,419,760)
Stock option compensation		1,340,300
Provision for doubtful accounts	429,815	65,280
Provision for inventory valuation	52,835	
Reserve for non-contractual deductions	471,072	850,000
Accreted interest	14,518	24,394
Impairment of assets		163,039
(Increase) decrease in assets		
Inventories	981,766	(3,148,200)
Accounts receivable	868,033	2,177,840
Income taxes receivable	(4,431)	3,639,613
Other current assets	560,141	298,073
Increase (decrease) in liabilities		
Accounts payable	(918,429)	(4,771,486)
Accrued liabilities, other	(2,740,123)	1,446,394
Income taxes payable	(106,254)	
Net cash provided by operating activities	4,995,377	5,029,211
<b>Cash flows from investing activities</b>		
Purchase of property, plant, and equipment	(653,873)	(99,667)
Net cash used by investing activities	(653,873)	(99,667)
<b>Cash flows from financing activities</b>		
Repayments of long-term debt and notes payable	(444,552)	(2,529,308)
Proceeds from the exercise of stock options	44,001	71,616
Payment of Preferred Stock dividends	(291,700)	(876,566)
Net cash used by financing activities	(692,251)	(3,334,258)
Net increase in cash and cash equivalents	3,649,253	1,595,286
Cash and cash equivalents at:		
Beginning of period	23,266,039	18,126,084
End of period	\$ 26,915,292	\$ 19,721,370
Supplemental disclosures of cash flow information:		
Interest paid	\$ 210,307	\$ 250,861
Income taxes paid	\$ 134,057	\$ 15,960
Supplemental disclosure of noncash investing and financing activities:		
Preferred dividends declared	\$ 72,925	\$
Debt assumed for the purchase of molding machines	\$ 327,725	\$



See accompanying notes to condensed financial statements

**RETRACTABLE TECHNOLOGIES, INC.**

**NOTES TO CONDENSED FINANCIAL STATEMENTS**

**(unaudited)**

**1. BUSINESS OF THE COMPANY AND BASIS OF PRESENTATION**

**Business of the Company**

Retractable Technologies, Inc. (the Company) was incorporated in Texas on May 9, 1994, and designs, develops, manufactures, and markets safety syringes and other safety medical products for the healthcare profession. The Company began to develop its manufacturing operations in 1995. The Company's manufacturing and administrative facilities are located in Little Elm, Texas. The Company's primary products with Notice of Substantial Equivalence to the FDA are the VanishPoint® 0.5mL insulin syringe; 1mL tuberculin, insulin, and allergy antigen syringes; the 0.5mL, 2mL, 3mL, 5mL, and 10mL syringes; the small diameter tube adapter; the blood collection tube holder; the allergy tray; the IV safety catheter; the Patient Safe® syringe; and the Patient Safe® Luer Cap.

**Basis of presentation**

The accompanying condensed financial statements are unaudited and, in the opinion of Management, reflect all adjustments that are necessary for a fair presentation of the financial position and results of operations for the periods presented. All such adjustments are of a normal and recurring nature. The results of operations for the periods presented are not necessarily indicative of the results to be expected for the entire year. The condensed financial statements should be read in conjunction with the financial statement disclosures contained in the Company's audited financial statements incorporated into its Form 10-K filed on March 31, 2011 for the year ended December 31, 2010 and Form 10-K/A filed on June 9, 2011 for the same period. Certain prior year amounts have been reclassified to conform with the current period's presentation.

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Accounting estimates**

The preparation of financial statements in conformity with U.S. generally accepted accounting principles (GAAP) requires Management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ significantly from those estimates.

**Cash and cash equivalents**

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For purposes of reporting cash flows, cash and cash equivalents include unrestricted cash, money market accounts, and investments with original maturities of three months or less.

### **Accounts receivable**

The Company records trade receivables when revenue is recognized. No product has been consigned to customers. The Company's allowance for doubtful accounts is primarily determined by review of specific trade receivables. Those accounts that are doubtful of collection are included in the allowance. An additional allowance has been established based on a percentage of receivables outstanding. These provisions are reviewed to determine the adequacy of the allowance for doubtful accounts. Trade receivables are charged off when there is certainty as to their being uncollectible. Trade receivables are considered delinquent when payment has not been made within contract terms.

The Company requires certain distributors to make a prepayment prior to beginning production or shipment of their order. Distributors may apply such prepayments to their outstanding invoices or pay the invoice and

continue to carryforward the deposit for future orders. Such amounts are included in Other accrued liabilities on the Condensed Balance Sheets and are shown in Note 5, Other Accrued Liabilities.

The Company records an allowance for estimated returns as a reduction to Accounts receivable and Gross sales. Historically, returns have been immaterial.

### **Inventories**

Inventories are valued at the lower of cost or market, with cost being determined using actual average cost. The Company compares the average cost to the market price and records the lower value. Management considers such factors as the amount of inventory on hand and in the distribution channel, estimated time to sell such inventory, the shelf life of inventory, and current market conditions when determining excess or obsolete inventories. A reserve is established for any excess or obsolete inventories or they may be written off.

### **Property, plant, and equipment**

Property, plant, and equipment are stated at cost. Expenditures for maintenance and repairs are charged to operations as incurred. Cost includes major expenditures for improvements and replacements which extend useful lives or increase capacity and interest cost associated with significant capital additions. Gains or losses from property disposals are included in income.

Depreciation and amortization are calculated using the straight-line method over the following useful lives:

Production equipment	3 to 13 years
Office furniture and equipment	3 to 10 years
Buildings	39 years
Building improvements	15 years
Automobiles	7 years

### **Long-lived assets**

The Company assesses the recoverability of long-lived assets using an assessment of the estimated undiscounted future cash flows related to such assets. In the event that assets are found to be carried at amounts which are in excess of estimated gross future cash flows, the assets will be adjusted for impairment to a level commensurate with a discounted cash flow analysis of the underlying assets.

During the first quarter of 2010, the Company recognized an impairment charge of \$163,039 on equipment designed in connection with research and development activities. The Company will outsource the majority of this production through overseas manufacturers. Minimal cash flows,

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if any, are expected to be generated by this equipment. Accordingly, the Company has reduced the carrying value of this equipment to an estimated fair value of zero. The Company's management estimated the fair value of the equipment based on guidance established by the *Fair Value Measurements and Disclosures* Topic of the Financial Accounting Standards Board ( FASB ) Accounting Standards Codification ( ASC ). In this instance, the Company's management determined the impairment charge by utilizing observable market data, a Level 2 input under the FASB ASC. A Level 1 input would require quoted prices, which were not available in this matter.

The Company's remaining property, plant, and equipment primarily consists of buildings, land, assembly equipment for syringes, molding machines, molds, office equipment, furniture, and fixtures. There has been no impairment charge against the assembly equipment since the Company continues to manufacture a significant portion of 1cc and 3cc syringes at the Company's Little Elm facility which results in sufficient future cash flows to recoup the net book value of all property, plant, and equipment.

### **Intangible assets**

Intangible assets are stated at cost and consist primarily of patents, a license agreement granting exclusive rights to use patented technology, and trademarks which are amortized using the straight-line method over 17 years.

### **Financial instruments**

The Company estimates the fair market value of financial instruments through the use of public market prices, quotes from financial institutions, and other available information. Judgment is required in interpreting data to develop estimates of market value and, accordingly, amounts are not necessarily indicative of the amounts that could be realized in a current market exchange. Short-term financial instruments, including cash and cash equivalents, accounts receivable, accounts payable and other liabilities, consist primarily of instruments without extended maturities, the fair value of which, based on Management's estimates, equals their recorded values.

### **Concentration risks**

The Company's financial instruments exposed to concentrations of credit risk consist primarily of cash, cash equivalents, and accounts receivable. Cash balances, some of which exceed federally insured limits, are maintained in financial institutions; however, Management believes the institutions are of high credit quality. The majority of accounts receivable are due from companies which are well-established entities. As a consequence, Management considers any exposure from concentrations of credit risks to be limited. The Company had a high concentration of sales with four significant customers accounting for approximately \$13.0 million, or 50.1% of net sales in the nine months ended September 30, 2011.

The Company manufactures syringes in Little Elm, Texas as well as utilizing manufacturers in China. The Company purchases most of its product components from single suppliers, including needle adhesives and packaging materials. There are multiple sources of these materials. The Company obtained roughly 68.6% of its finished products in the first nine months of 2011 from Double Dove, a Chinese manufacturer. In the event that the Company becomes unable to purchase such product from Double Dove, the Company would need to find an alternate supplier for its 0.5mL insulin syringe, its 5mL and 10mL syringes and its autodisable syringe and increase domestic production for 1mL and 3mL syringes to avoid a disruption in supply.

### **Revenue recognition**

Revenue is recognized for sales when title and risk of ownership passes to the customer, generally upon shipment. Under certain contracts, revenue is recorded on the basis of sales price to distributors, less contractual pricing allowances. Contractual pricing allowances consist of: (i) rebates granted to distributors who provide tracking reports which show, among other things, the facility that purchased the products, and (ii) a provision for estimated contractual pricing allowances for products that the Company has not received tracking reports. Rebates are recorded when issued and are applied against the customer's receivable balance. Distributors receive a rebate for the difference between the Wholesale Acquisition Cost and the appropriate contract price as reflected on a tracking report provided by the distributor to the Company. If product is sold by a distributor to an entity that has no contract, there is a standard rebate (lower than a contracted rebate) given to the distributor. One of the purposes of the rebate is to encourage distributors to submit tracking reports to the Company. The provision for

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contractual pricing allowances is reviewed at the end of each quarter and adjusted for changes in levels of products for which there is no tracking report. Additionally, if it becomes clear that tracking reports will not be provided by individual distributors, the provision is further adjusted. The estimated contractual allowance is netted against the individual distributor's accounts receivable balances for financial reporting purposes. The resulting net balance is reflected in accounts receivable or accounts payable, as appropriate. The terms and conditions of contractual pricing allowances are governed by contracts between the Company and its distributors. Revenue for shipments directly to end-users is recognized when title and risk of ownership pass from the Company. Any product shipped or distributed for evaluation purposes is expensed.

Certain distributors have taken rebates to which they are not entitled, such as utilizing a rebate for products not purchased directly from the Company. The Company has been in discussions with the principal customers that claimed non-contractual rebates. Major customers said they have ceased the practices resulting in claiming non-contractual rebates. Rebates can only be claimed on purchases made directly from the Company. The Company has established a reserve for the collectability of these non-contractual rebate amounts. The expense for the reserve is recorded in Operating expense, General and administrative. The reserve for such non-contractual deductions is a reduction of accounts receivable.

The Company's domestic return policy is set forth in its standard Distribution Agreement. This policy provides that a customer may return incorrect shipments within 10 days following arrival at the distributor's facility. In all such cases the distributor must obtain an authorization code from the Company and affix the code to the returned product. The Company will not accept returned goods without a returned goods authorization number. The Company may refund the customer's money or replace the product.

The Company's domestic return policy also provides that a customer may return product that is overstocked. Overstocking returns are limited to two times in each 12-month period up to 1% of distributor's total purchase of products for the prior 12-month period. All product overstocks and returns are subject to inspection and acceptance by the Company.

The Company's international distribution agreements do not provide for any returns.

#### **Litigation settlements**

Proceeds from litigation settlements are recognized when realizable. Generally, realization is not reasonably assured and expected until proceeds are collected. In connection with a settlement agreement, the Company granted Hospira, Inc. (Hospira) an exclusive one-year option to negotiate a licensing agreement for certain uses of the Patient Safe® syringe, which option expired unexercised in July 2011. The Company received the \$8.0 million option payment which included payments of \$2.0 million in the fourth quarter of 2010, and in the first, second, and third quarters of 2011. The Company recognizes proceeds from litigation settlements, net of any associated royalty expense.

#### **Income taxes**

The Company evaluates tax positions taken or expected to be taken in a tax return for recognition in the financial statements based on whether it is more-likely-than-not that a tax position will be sustained based upon the technical merits of the position. Measurement of the tax position is based upon the largest amount of benefit that is greater than 50% likely of being realized upon ultimate settlement.

The Company provides for deferred income taxes through utilizing an asset and liability approach for financial accounting and reporting based on the tax effects of differences between the financial statement and tax bases of assets and liabilities, based on enacted rates expected to be in effect when such differences reverse in future periods. Deferred tax assets are periodically reviewed for realizability. The Company has established a valuation allowance for its net deferred tax asset as future taxable income cannot be reasonably assured. Penalties and interest on uncertain tax positions are classified as income taxes in the Condensed Statements of Operations.



**Earnings per share**

The Company computes basic earnings per share ( EPS ) by dividing net earnings for the period (adjusted for any cumulative dividends for the period) by the weighted average number of common shares outstanding during the period. Diluted EPS includes the determinants of basic EPS and, in addition, reflects the dilutive effect, if any, of the common stock deliverable pursuant to stock options or common stock issuable upon the conversion of convertible preferred stock and convertible debt. The potential dilution, if any, is shown on the following schedule.

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	Three Months		Three Months		Nine Months		Nine Months	
	Ended		Ended		Ended		Ended	
	September 30, 2011		September 30, 2010		September 30, 2011		September 30, 2010	
Net income	\$	1,828,444	\$	8,231,005	\$	4,399,273	\$	3,194,431
Preferred dividend requirements		(342,217)		(342,717)		(1,026,651)		(1,028,151)
Effect of dilutive securities:								
Conversion of preferred stock				342,717				
Convertible debt interest and loan fees		2,259		(18,887)		(6,955)		(843)
Earnings available to common shareholders after assumed conversions	\$	1,488,486	\$	8,212,118	\$	3,365,667	\$	2,165,437
Average common shares outstanding		24,027,053		23,887,028		24,005,761		23,845,775
Dilutive stock equivalents from stock options		1,815,360		2,342,119		2,250,601		2,361,349
Shares issuable upon conversion of preferred stock				2,285,266				
Shares issuable upon conversion of convertible debt		108,391		212,279		108,391		212,279
Average common and common equivalent shares outstanding - assuming dilution		25,950,804		28,726,692		26,364,753		26,419,403
Basic earnings per share	\$	0.06	\$	0.33	\$	0.14	\$	0.09
Diluted earnings per share	\$	0.06	\$	0.29	\$	0.13	\$	0.08

**Shipping and handling costs**

The Company classifies shipping and handling costs as part of Cost of sales in the Condensed Statements of Operations.

**Research and development costs**

Research and development costs are expensed as incurred.

**Share-based compensation**

The Company's share-based payments are accounted for using the fair value method. The Company records share-based compensation expense on a straight-line basis over the requisite service period. The Company incurred the following share-based compensation costs:

	Three Months	Three Months	Nine Months	Nine Months
	Ended	Ended	Ended	Ended

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	September 30, 2011	September 30, 2010	September 30, 2011	September 30, 2010
Cost of sales	\$	\$	\$	\$ 182,891
Sales and marketing				78,343
Research and development				28,259
General and administrative				1,050,807
	\$	\$	\$	\$ 1,340,300

**Recent Pronouncement**

In June 2011, FASB issued Accounting Standards Update ( ASU ) No. 2011-05, *Presentation of Comprehensive Income*. FASB ASU No. 2011-05 amends existing guidance by allowing two options for presenting the components of net income and other comprehensive income: (1) in a single continuous financial statement: a statement of income and other comprehensive income or (2) in two separate but consecutive financial statements, consisting of an income statement followed by a separate statement of other comprehensive income. Also, items that are reclassified from other comprehensive income to net income must be presented on the face of the financial statements. ASU No. 2011-05 requires retrospective application, and it is effective for fiscal years, and interim periods within those years, beginning after December 15, 2011, with early adoption permitted. The Company does not expect the adoption of this standard to have an impact on the Company's financial position, results of operations, or cash flows.

**3. INVENTORIES**

Inventories consist of the following:

	<b>September 30, 2011</b>	<b>December 31, 2010</b>
Raw materials	\$ 1,366,306	\$ 1,401,930
Finished goods	6,539,719	7,485,861
	7,906,025	8,887,791
Inventory reserve	(258,435)	(205,600)
	\$ 7,647,590	\$ 8,682,191

**4. INCOME TAXES**

The Company's effective tax rate on income before income taxes was 1.1% and 11.7% (benefit) for the nine months ended September 30, 2011 and September 30, 2010, respectively. The benefit for the nine months ended September 30, 2010 was due to a carryback of net operating loss for 2009 pursuant to a revision in the tax law.

**5. OTHER ACCRUED LIABILITIES**

Other accrued liabilities consist of the following:

	<b>September 30, 2011</b>	<b>December 31, 2010</b>
Prepayments from customers	\$ 892,713	\$ 3,555,272
Accrued property taxes	373,248	
Accrued professional fees	110,265	288,942
Other accrued expenses	76,344	66,214
	\$ 1,452,570	\$ 3,910,428

Prepayments from customers are attributable primarily to purchases by South American customers.

**6. COMMITMENTS AND CONTINGENCIES**

In June 2010, Becton, Dickinson and Company ( "BD" ) filed an appeal in the U.S. Court of Appeals (the "Court" ) for the Federal Circuit appealing a final judgment entered on May 19, 2010 for the Company and against BD's counterclaims in patent litigation. Such final judgment ordered that the Company recover \$5,000,000 plus prejudgment interest, and ordered a permanent injunction for BD's 1mL and 3mL Integra syringes until the expiration of certain patents. The permanent injunction was stayed for the longer of the exhaustion of the appeal of the district court's case or twelve months from May 19, 2010. In July 2011, a three-judge panel of the Court reversed the district court's judgment that BD's 3mL Integra infringed the Company's 224 patent and 077 patent. The Court affirmed the district court's judgment that the 1mL

Integra infringes the Company's 244 and 733 patents. The Court also affirmed the district court's judgment that the 077 patent is not invalid for anticipation or obviousness. Out of eight principal issues that were contested in the appeal, the Company and an officer prevailed on six and BD prevailed on two. The Company had petitioned for a rehearing by all the judges of the Federal Circuit as to whether the three-judge panel properly construed the Company's patent claim language in finding that the 3mL Integra did not infringe. The Company's petition for rehearing by all of the judges of the Federal Circuit was denied with two dissents being issued. The Company is currently evaluating further appeal.

In May 2010, the Company and an officer's suit against BD in the U.S. District Court for the Eastern District of Texas, Marshall Division alleging violations of antitrust acts, false advertising, product disparagement, tortious interference, and unfair competition was reopened. The Company and an officer filed a Second Amended Complaint on July 23, 2010 setting forth additional detail regarding the allegations of BD's illegal conduct. BD filed a motion to dismiss and the Court denied that motion in part and granted it in part, granting the Company the right to re-plead certain allegations by May 13, 2011. The Company and an officer filed a Third Amended Complaint in May 2011, setting forth additional detail regarding the alleged illegal conduct by BD. Trial is set for February 14, 2012.

In September 2007, BD and MDC Investment Holdings, Inc. (MDC) sued the Company in the United States District Court for the Eastern District of Texas, Texarkana Division, initially alleging that the Company is infringing two U.S. patents of MDC (6,179,812 and 7,090,656) that are licensed to BD. BD and MDC seek injunctive relief and unspecified damages. The Company counterclaimed for declarations of non-infringement, invalidity, and unenforceability of the asserted patents. The plaintiffs subsequently dropped allegations with regard to patent no. 7,090,656 and the Company subsequently dropped its counterclaims for unenforceability of the asserted patents. The Court conducted a claims construction hearing on September 25, 2008 and issued its claims construction order on November 14, 2008. There is currently no trial date set for this case. The Company has filed a motion for summary judgment that is now pending.

## 7. BUSINESS SEGMENTS

	<b>Three Months Ended</b>	<b>Three Months Ended</b>	<b>Nine Months Ended</b>	<b>Nine Months Ended</b>
	<b>September 30, 2011</b>	<b>September 30, 2010</b>	<b>September 30, 2011</b>	<b>September 30, 2010</b>
U.S. sales	\$ 7,956,439	\$ 9,801,446	\$ 21,120,938	\$ 24,509,721
North and South America sales (excluding U.S.)	218,969	1,962,509	4,422,056	2,729,154
Other international sales	95,200	471,063	451,217	910,493
Total sales	\$ 8,270,608	\$ 12,235,018	\$ 25,994,211	\$ 28,149,368

	<b>September 30, 2011</b>	<b>December 31, 2010</b>
Long-lived assets		
U.S.	\$ 12,341,178	\$ 12,297,942
International	\$ 246,678	\$ 262,650

The Company does not operate in separate reportable segments. The Company has minimal long-lived assets in foreign countries. Shipments to international customers generally require a prepayment either by wire transfer or an irrevocable confirmed letter of credit. The Company does extend credit to international customers on some occasions depending upon certain criteria, including, but not limited to, the credit worthiness of the customer, the stability of the country, banking restrictions, and the size of the order. All transactions are in U.S. currency.

## 8. SUBSEQUENT EVENTS

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On September 12, 2011, the Company commenced an offer to purchase outstanding Class B Convertible Preferred Stock (the Preferred Stock ) for cash and Common Stock (the Exchange Offer ). As of November 4, 2011, the expiration date of the Exchange Offer, Preferred Stockholders had tendered the following number of shares of Preferred Stock: 1) 27,500 shares of Series I Preferred Stock; 2) 41,000 shares of Series II Preferred Stock; 3) 0 shares of Series III Preferred Stock; 4) 5,000 shares

of Series IV Preferred Stock; and 5) 1,173,464 shares of Series V Preferred Stock. A total of \$1,308,275 and 1,246,964 shares of Common Stock were issued as consideration to participating Preferred Stockholders pursuant to the Exchange Offer. In accordance with the terms of the Exchange Offer, participating Preferred Stockholders agreed to waive all unpaid dividends in arrears associated with their tendered Preferred Stock, which resulted in a waiver of a total of \$3,539,714 in unpaid dividends in arrears.

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

**FORWARD-LOOKING STATEMENT WARNING**

Certain statements included by reference in this filing containing the words *could*, *may*, *believes*, *anticipates*, *intends*, *expects*, and similar words constitute forward-looking statements within the meaning of the Private Securities Litigation Reform Act. Any forward-looking statements involve known and unknown risks, uncertainties, and other factors that may cause our actual results, performance, or achievements to be materially different from any future results, performance, or achievements expressed or implied by such forward-looking statements. Such factors include, among others, our ability to maintain liquidity, our maintenance of patent protection, the impact of current litigation, our ability to maintain favorable supplier arrangements and relationships, our ability to quickly increase capacity in response to an increase in demand, our ability to access the market, our ability to maintain or lower production costs, our ability to continue to finance research and development as well as operations and expansion of production, the increased interest of larger market players, specifically Becton, Dickinson and Company (BD), in providing devices to the safety market, and other factors referenced in Item 1A. Risk Factors in Part II. Given these uncertainties, undue reliance should not be placed on forward-looking statements.

**MATERIAL CHANGES IN FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

*Overview*

We have been manufacturing and marketing our products into the marketplace since 1997. Safety syringes comprised 96.7% of our sales in the first nine months of 2011. We also manufacture and market the blood collection tube holder and the IV safety catheter. We currently provide other safety medical products in addition to safety products utilizing retractable technology. One such product is the Patient Safe® syringe, which is uniquely designed to reduce the risk of bloodstream infections resulting from catheter hub contamination.

Historically, unit sales have increased in the latter part of the year due, in part, to the demand for syringes during the flu season.

Our products have been and continue to be distributed nationally and internationally through numerous distributors. Although we have made limited progress in some areas, such as the alternate care market, our volumes are not as high as they should be given the nature and quality of our products and the federal and state legislation requiring the use of safe needle devices. The alternate care market is composed of alternate care facilities that provide long-term nursing care out-patient surgery, emergency care, and physician services. The fact that our progress is limited is principally due to exclusive marketing practices engaged in by BD, the dominant maker and seller of disposable syringes and other needle products, which practices have blocked us from access to the market. A suit against BD is currently pending alleging violations of state and federal antitrust acts and false advertising. BD has ceased marketing the infringing 1mL Integra syringe.



We continue to pursue various strategies to have better access to the hospital market, as well as other markets, including attempting to gain access to the market through our sales efforts, our innovative technology, introduction of new products, and, when necessary, litigation.

In the event we continue to have only limited market access, and the cash provided by the litigation settlements and generated from operations becomes insufficient, we would take additional cost cutting measures to reduce cash requirements. Such measures could result in the reduction of units being produced, the reduction of workforce, the reduction of salaries of officers and other nonhourly employees, and the deferral of royalty payments.

We took such actions at the end of the second quarter of 2009. Salary reductions put in place in the second quarter of 2009 remain in place.

We are bringing additional molding operations to Little Elm as a cost saving measure. The addition of four molding machines in 2011 is part of that endeavor. We continue to focus on methods of upgrading our manufacturing capability and efficiency in order to reduce costs.

Effective July 12, 2010, we entered into a settlement agreement with Abbott and Hospira. In connection with this settlement agreement, we granted Hospira an exclusive one-year option to negotiate a licensing agreement for certain uses of our Patient Safe® syringe. This option expired unexercised in July 2011. We have received the total \$8 million option payment, including the final payment in the third quarter of 2011. As part of the settlement, in the third quarter of 2010, Hospira paid us \$6.0 million and forgave a marketing fee of \$1.4 million. The settlement was reduced by an outstanding invoice due to us for \$144 thousand.

In the second quarter of 2010, we reached an agreement with our counsel, Locke Lord LLP, regarding future litigation expenditures that caps certain of our litigation costs in exchange for a contingent fee interest. We believe this agreement serves both our short-term and long-term interests and will reduce the legal fee component of our General and administrative costs and will continue to impact our cash flow in a positive manner.

On September 12, 2011, we commenced an offer to purchase outstanding Class B Convertible Preferred Stock (the Preferred Stock) for cash and Common Stock (the Exchange Offer). As of November 4, 2011, the expiration date of the Exchange Offer, Preferred Stockholders had tendered the following number of shares of Preferred Stock: 1) 27,500 shares of Series I Preferred Stock; 2) 41,000 shares of Series II Preferred Stock; 3) 0 shares of Series III Preferred Stock; 4) 5,000 shares of Series IV Preferred Stock; and 5) 1,173,464 shares of Series V Preferred Stock. A total of \$1,308,275 and 1,246,964 shares of Common Stock were issued as consideration to participating Preferred Stockholders pursuant to the Exchange Offer. In accordance with the terms of the Exchange Offer, participating Preferred Stockholders agreed to waive all unpaid dividends in arrears associated with their tendered Preferred Stock, which resulted in a waiver of a total of \$3,539,714 in unpaid dividends in arrears.

Product purchases from Double Dove, a Chinese manufacturer, have enabled us to increase manufacturing capacity with little capital outlay and have provided a competitive manufacturing cost. In the nine months ended September 30, 2011, Double Dove manufactured approximately 68.6% of the units we produced. We believe we could make up any long-term disruption in these purchases by utilizing more of the capacity at the Little Elm facility, except for the 0.5mL insulin syringe, the 5mL and 10mL syringes, and the autodisable syringe which altogether comprised about 10.3% of our revenues for the nine months ended September 30, 2011.

With increased volumes, our manufacturing unit costs have generally tended to decline. Factors that could affect our unit costs include increases in costs by third party manufacturers, changing production volumes, costs of petroleum products, and transportation costs. Increases in such costs may not be recoverable through price increases of our products.

The following discussion may contain trend information and other forward-looking statements that involve a number of risks and uncertainties. Our actual future results could differ materially from our historical results of operations and those discussed in any forward-looking statements. Dollar amounts have been rounded for ease of reading. All period references are to the periods ended September 30, 2011 or 2010.

## RESULTS OF OPERATIONS

*Comparison of Three Months Ended September 30, 2011 and September 30, 2010*

Domestic sales accounted for 96.2% and 80.1% of the revenues for the three months ended September 30, 2011 and 2010, respectively. Domestic revenues decreased 18.8% principally due to lower sales volumes and lower average sales prices. Domestic unit sales decreased 7.8%. Domestic unit sales were 94.7% of total unit sales for the three months ended September 30, 2011. International unit sales and revenues decreased 89.5% and 87.1%, respectively. Overall, unit sales decreased 34.7%.

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Gross profit decreased 34.8% primarily due to lower revenues. The average cost of manufactured product sold per unit increased by 6.1%. Profit margins can fluctuate depending upon, among other things, the cost of manufactured product and the capitalized cost of product recorded in inventory, as well as product sales mix. Royalty expense decreased 29.5% due to lower gross sales.

Operating expenses decreased 18.4% or \$769 thousand. The decrease in General and administrative expense was the most significant. The decrease of \$420 thousand in General and administrative expense was due mainly to bonuses paid in 2010. Sales and marketing expense decreased 17.7% due principally to bonuses paid in 2010 and lower fee expenses. Research and development costs decreased 46.4% due to lower validation and sampling costs.

Our operating loss was \$26 thousand compared to an operating income for the same period last year of \$1.0 million due primarily to lower revenues, mitigated by a reduction in operating expenses.

Litigation settlements, net reflects cash proceeds of \$2.0 million from Hospira less royalty expense of \$100,000 for the three months ended September 30, 2011. Litigation settlements, net for the three months ended September 30, 2010 reflects our settlement with Abbott and Hospira, including a payment of \$6.0 million, a waiver of an invoice due to us of \$144,000, and a \$1.4 million marketing fee payable to Abbott.

Our effective tax rate on income before income taxes was (0.1)% and zero percent for the three months ended September 30, 2011 and September 30, 2010, respectively.

### *Comparison of Nine Months Ended September 30, 2011 and September 30, 2010*

Domestic sales accounted for 81.3% and 87.0% of the revenues for the nine months ended September 30, 2011 and 2010, respectively. Domestic revenues decreased 13.8% principally due to lower volumes and lower average sales prices. Domestic unit sales decreased 5.1%. Domestic unit sales were 71.0% of total unit sales for the nine months ended September 30, 2011. International unit sales and revenues increased 37.1% and 33.9%, respectively, due primarily to South American sales. Overall, unit sales increased 4.2%.

Gross profit decreased 14.5% primarily due to lower revenues mitigated by lower unit cost. The average cost of manufactured product sold per unit decreased by 6.6%. Profit margins can fluctuate depending upon, among other things, the cost of manufactured product and the capitalized cost of product recorded in inventory, as well as product sales mix. Royalty expense decreased 5.0% due to lower gross sales.

Operating expenses decreased 30.3% or \$4.7 million. The decrease in General and administrative expense was the most significant. The decrease of \$3.8 million in General and administrative expense was due mainly to legal expenses, stock option expense, and bonuses paid last year. Sales and marketing expense decreased 15.6% due principally to lower fees and lower compensation costs. Research and development costs decreased 37.7% due to lower validation and sample costs.

Our operating loss was \$1.1 million compared to an operating loss for the same period last year of \$4.2 million due primarily to the reduction in operating expenses.

Litigation settlements, net reflects cash proceeds of \$6.0 million from Hospira less royalty expense of \$300,000 for the nine months ended September 30, 2011. Litigation settlements, net for the nine months ended September 30, 2010 reflects our settlement with Abbott and Hospira, including a payment of \$6.0 million, a waiver of an invoice due to us of \$144,000, and a \$1.4 million marketing fee payable to Abbott.

Our effective tax rate on income before income taxes was 1.1% and 11.7% (benefit) for the nine months ended September 30, 2011 and September 30, 2010, respectively. The benefit for the nine months ended September 30, 2010 is due to a carryback of our net operating loss for 2009 pursuant to a revision in the tax law.

*Discussion of Balance Sheet and Statement of Cash Flow Items*

Our balance sheet remains strong with cash making up 50.3% of total assets. Working capital was \$34.1 million at September 30, 2011, an increase of \$3.8 million from December 31, 2010.

We expect to continue moving the manufacturing of piece parts to Little Elm as a cost saving measure. Finished goods inventory decreased 12.6% since December 31, 2010.

Approximately \$5.0 million in cash flow in the nine months ended September 30, 2011 was provided by operating activities. Uses of cash were primarily for the purchase of property, plant, and equipment, repayment of long-term debt, and payment of dividends.

Accrued liabilities, other declined \$2.7 million due principally to application of prepayments to orders received during the period.

**LIQUIDITY**

Historical Sources of Liquidity

We have historically funded operations primarily from the proceeds from revenues, private placements, loans, and litigation settlements.

Internal Sources of Liquidity

*Margins and Market Access*

To routinely achieve break even quarters, we need minimal access to hospital markets which has been difficult to obtain due to the monopolistic marketplace which was the subject of our initial lawsuit and now also included in our second antitrust lawsuit against BD. We will continue to attempt to gain access to the market through our sales efforts, innovative technology, the introduction of new products, and, when necessary, litigation.

We continue to focus on methods of upgrading our manufacturing capability and efficiency in order to reduce costs.

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Fluctuations in the cost and availability of raw materials and inventory and our ability to maintain favorable supplier arrangements and relationships could result in the need to manufacture all (as opposed to 30.7%) of our products in the U.S. This could temporarily increase unit costs as we ramp up domestic production.

The mix of domestic and international sales affects the average sales price of our products. Generally, the higher the ratio of domestic sales to international sales, the higher the average sales price will be. Typically international sales are shipped directly from China to the customer. Purchases of product manufactured in China, if available, usually decrease the average cost of manufacture for all units. Domestic costs, such as indirect labor and overhead, remain relatively constant. The number of units produced by us versus manufactured in China can have a significant effect on the carrying costs of inventory as well as Cost of sales. We will continue to evaluate the appropriate mix of products manufactured domestically and those manufactured in China to achieve economic benefits as well as to maintain our domestic manufacturing capability.

Fluctuations in the cost of oil (since our products are petroleum based) and transportation and the volume of units purchased from Double Dove may have an impact on the unit costs of our product. Increases in such costs may not be recoverable through price increases of our products. Reductions in oil prices may not quickly affect petroleum product prices.

### *Seasonality*

Historically, unit sales have increased in the latter part of the year due, in part, to the demand for syringes during the flu season.

*Licensing Agreement*

Pursuant to a settlement agreement among us, Abbott, and Hospira effective July 12, 2010 (the Effective Date ), Hospira was granted an exclusive one-year option to negotiate a licensing agreement to produce and market our Patient Safe® syringe for certain uses. This option expired unexercised in July 2011. In exchange for the option, Hospira paid us \$2 million per quarter for four quarters, beginning three months from the Effective Date and every three months thereafter, for a total of \$8 million. We have received the total \$8 million, including the final payment in the third quarter of 2011. As part of the settlement, in the third quarter of 2010, Hospira paid us \$6.0 million and forgave a marketing fee of \$1.4 million. The settlement was reduced by an outstanding invoice due to us in the amount of \$144 thousand.

*Cash Requirements*

Due to funds received from prior litigation settlements and income, we have sufficient cash reserves and intend to rely on operations, cash reserves, and debt financing as the primary ongoing sources of cash. In the event we continue to have only limited market access and cash generated from operations becomes insufficient to support operations, we would take additional cost cutting measures to reduce cash requirements. Such measures could result in the reduction of units being produced, the reduction of workforce, the reduction of salaries of officers and other nonhourly employees, and the deferral of royalty payments.

External Sources of Liquidity

We have obtained several loans from our inception, which have, together with the proceeds from the sales of equities and litigation efforts, enabled us to pursue development and production of our products. Given the current economic conditions, our ability to obtain additional funds through loans is uncertain. Furthermore, the shareholders previously authorized an additional 5,000,000 shares of a Class C Preferred Stock that could, if necessary, be designated and used to raise funds through the sale of equity. Due to the current market price of our Common Stock, it is unlikely we would choose to raise funds by the sale of equity.

Pursuant to a settlement agreement among us, Abbott, and Hospira, Hospira was granted an exclusive one-year option to negotiate a licensing agreement to produce and market our Patient Safe® syringe for certain uses. This option expired unexercised in July 2011. In exchange for the option, Hospira paid us \$2 million per quarter for four quarters, for a total of \$8 million. We have received the total \$8 million, including the final payment in the third quarter of 2011. As part of the settlement, in the third quarter of 2010, Hospira paid us \$6.0 million and forgave a marketing fee of \$1.4 million. The settlement was reduced by an outstanding invoice due to us in the amount of \$144 thousand.

**CAPITAL RESOURCES**

In 2011, we purchased molding machines to expand our in-house molding capability and further reduce costs. Financing was completed in the second quarter of 2011 for three molding machines in the amount of \$327,725. The purchase and financing for a fourth molding machine for \$207,260 is expected to be completed in the fourth quarter of 2011.



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

No update.

**Item 4. Controls and Procedures.**

Disclosure Controls and Procedures

Pursuant to Rule 13a-15(b) of the Securities Exchange Act of 1934, Management, with the participation of our President, Chairman, and Chief Executive Officer, Thomas J. Shaw (the "CEO"), and our Vice President and Chief Financial Officer, Douglas W. Cowan (the "CFO"), acting in their capacities as our principal executive and

principal financial officers, evaluated the effectiveness of our disclosure controls and procedures, as defined in Rule 13a-15(e) under the Securities Exchange Act of 1934. The term disclosure controls and procedures means controls and other procedures that are designed to ensure that information required to be disclosed by us in our periodic reports is: i) recorded, processed, summarized and reported, within the time periods specified in the Securities and Exchange Commission's rules and forms; and ii) accumulated and communicated to our Management, including our principal executive and principal financial officers, as appropriate to allow timely decisions regarding required disclosure. Based upon this evaluation, the CEO and CFO concluded that, as of September 30, 2011, our disclosure controls and procedures were effective.

Changes in Internal Control Over Financial Reporting

There have been no changes during the third quarter of 2011 or subsequent to September 30, 2011 in our internal control over financial reporting that has materially affected or is reasonably likely to materially affect our internal control over financial reporting. We are implementing an upgrade to Oracle eBusiness Suite. We do not expect it will materially affect our internal control over financial reporting.

**PART II OTHER INFORMATION**

**Item 1. Legal Proceedings.**

Please refer to Note 6 to the financial statements for a complete description of all legal proceedings.

**Item 1A. Risk Factors.**

There were no material changes in the Risk Factors applicable to the Company as set forth in our Form 10-K annual report for 2010 which was filed on March 31, 2011, and which is available on EDGAR.

**Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.**

Working Capital Restrictions and Limitations on the Payment of Dividends

The Board of Directors declared a dividend to the Series I Class B and Series II Class B Convertible Preferred Shareholders in the aggregate amount of \$72,925. This dividend was paid on October 17, 2011.

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The certificates of designation for each of the outstanding series of Class B Convertible Preferred Stock each currently provide that, if a dividend upon any shares of Preferred Stock is in arrears, no dividends may be paid or declared upon any stock ranking junior to such stock and generally no junior preferred stock may be redeemed. However, under certain conditions, and for certain Series of Class B Convertible Preferred Stock, we may purchase junior stock when dividends are in arrears. In accordance with the certificates of designation, we offered to purchase all outstanding Preferred Stock pursuant to an exchange offer which expired on November 4, 2011. 1,246,964 shares of Preferred Stock were exchanged for Common Stock and cash pursuant to this exchange offer.

### **Item 3. Defaults Upon Senior Securities.**

#### Series III Class B Convertible Preferred Stock

As of the nine months ended September 30, 2011, the amount of dividends in arrears was \$97,684 and the total arrearage was \$3,473,717.

#### Series IV Class B Convertible Preferred Stock

As of the nine months ended September 30, 2011, the amount of dividends in arrears was \$414,375 and the total arrearage was \$6,396,051. \$58,110 of the total dividend arrearage was waived by Series IV Class B Convertible Preferred Stockholders as of November 4, 2011 pursuant to our exchange offer.

Series V Class B Convertible Preferred Stock

As of the nine months ended September 30, 2011, the amount of dividends in arrears was \$295,817 and the total arrearage was \$4,385,373. \$3,476,504 of the total dividend arrearage was waived by Series V Class B Convertible Preferred Stockholders as of November 4, 2011 pursuant to our exchange offer.

**Item 6. Exhibits.**

<u>Exhibit No.</u>	<u>Description of Document</u>
31.1	Certification of Principal Executive Officer *
31.2	Certification of Principal Financial Officer *
32	Certification Pursuant to 18 U.S.C. Section 1350 *
101	The following materials from Retractable Technologies, Inc. s Form 10-Q for the quarter ended September 30, 2011, formatted in XBRL (eXtensible Business Reporting Language); (i) Condensed Balance Sheets as of September 30, 2011 and December 31, 2010, (ii) Condensed Statements of Operations for the nine months and three months ended September 30, 2011 and 2010, (iii) Condensed Statements of Cash Flows for the nine months ended September 30, 2011 and 2010, and (iv) Notes to Condensed Financial Statements**
*	Filed herewith
**	Furnished herewith

**SIGNATURES**

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

DATE: November 18, 2011

RETRACTABLE TECHNOLOGIES, INC.

(Registrant)

BY: /s/ Douglas W. Cowan  
DOUGLAS W. COWAN

VICE PRESIDENT, CHIEF FINANCIAL OFFICER, AND

CHIEF ACCOUNTING OFFICER