RETRACTABLE TECHNOLOGIES INC
Form 10-Q
May 15, 2017
Table of Contents

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended March 31, 2017

or

o 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)

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)	**75068-5295** (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 x No o

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 x No o

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 o	Accelerated filer o
Non-accelerated filer o (Do not check if a smaller reporting company)	Smaller reporting company x Emerging growth company o

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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

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 o No o

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: 31,666,454 shares of Common Stock, no par value, issued and outstanding on May 1, 2017.

Table of Contents

RETRACTABLE TECHNOLOGIES, INC.

FORM 10-Q

For the Quarterly Period Ended March 31, 2017

TABLE OF CONTENTS

Table of Contents

PART I FINANCIAL INFORMATION

Item 1. Financial Statements.

RETRACTABLE TECHNOLOGIES, INC.

CONDENSED BALANCE SHEETS

(unaudited)

	March 31, 2017	December 31, 2016
ASSETS		
Current assets:		
Cash and cash equivalents	$ 16,816,193	$ 16,199,043
Accounts receivable, net	3,186,640	3,267,838
Inventories, net	7,288,087	7,017,224
Other current assets	443,768	192,548
Total current assets	27,734,688	26,676,653
Property, plant, and equipment, net	11,903,278	12,092,037
Other assets	9,188	10,289
Total assets	$ 39,647,154	$ 38,778,979
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities:		
Accounts payable	$ 4,461,249	$ 4,471,756
Current portion of long-term debt	435,649	430,393
Accrued compensation	906,451	536,456
Dividends payable	55,113	55,113
Accrued royalties to shareholder	587,844	659,443
Other accrued liabilities	932,582	1,008,699
Income taxes payable	10,842	10,584
Total current liabilities	7,389,730	7,172,444
Long-term debt, net of current maturities	3,379,292	3,498,244
Total liabilities	10,769,022	10,670,688
Commitments and contingencies see Note 6		
Stockholders equity:		
Preferred stock, $1 par value:		
Series I, Class B	98,500	98,500
Series II, Class B	171,200	171,200
Series III, Class B	129,245	129,245
Series IV, Class B	342,500	342,500
Series V, Class B	40,000	40,000

Common stock, no par value				
Additional paid-in capital		61,250,119		59,290,333
Accumulated deficit		(33,153,432)		(31,963,487)
Total stockholders equity		28,878,132		28,108,291
Total liabilities and stockholders equity	$	39,647,154	$	38,778,979

See accompanying notes to condensed unaudited financial statements

Table of Contents

RETRACTABLE TECHNOLOGIES, INC.

CONDENSED STATEMENTS OF OPERATIONS

(unaudited)

	Three Months Ended March 31, 2017	Three Months Ended March 31, 2016
Sales, net	$ 6,923,680	$ 5,921,982
Cost of sales		
Cost of manufactured product	4,010,913	3,226,597
Royalty expense to shareholders	587,844	505,375
Total cost of sales	4,598,757	3,731,972
Gross profit	2,324,923	2,190,010
Operating expenses:		
Sales and marketing	1,027,711	909,572
Research and development	148,449	124,919
General and administrative	2,300,867	2,049,688
Total operating expenses	3,477,027	3,084,179
Loss from operations	(1,152,104)	(894,169)
Interest and other income	10,505	5,181
Interest expense	(48,063)	(49,623)
Loss before income taxes	(1,189,662)	(938,611)
Provision for income taxes	283	480
Net loss	(1,189,945)	(939,091)
Preferred stock dividend requirements	(176,249)	(176,249)
Loss applicable to common shareholders	$ (1,366,194)	$ (1,115,340)
Basic loss per share	$ (0.04)	$ (0.04)
Diluted loss per share	$ (0.04)	$ (0.04)
Weighted average common shares outstanding:		
Basic	31,333,121	28,624,874
Diluted	31,333,121	28,624,874

See accompanying notes to condensed unaudited financial statements

Table of Contents

RETRACTABLE TECHNOLOGIES, INC.

CONDENSED STATEMENTS OF CASH FLOWS

(unaudited)

	Three Months Ended March 31, 2017	Three Months Ended March 31, 2016
Cash flows from operating activities		
Net loss	$ (1,189,945)	$ (939,091)
Adjustments to reconcile net loss to net cash provided (used) by operating activities:		
Provision for doubtful accounts		22,000
Share based compensation	234,898	
Depreciation and amortization	206,992	204,266
(Increase) decrease in assets:		
Inventories	(270,863)	(46,367)
Accounts receivable	81,198	1,715,858
Other current assets	(251,220)	496,407
Other assets		(750)
Increase (decrease) in liabilities:		
Accounts payable	(10,507)	(1,328,233)
Other accrued liabilities	222,279	92,233
Income taxes payable	258	1,756
Net cash provided (used) by operating activities	(976,910)	218,079
Cash flows from investing activities		
Purchase of property, plant, and equipment	(17,131)	(75,650)
Net cash used by investing activities	(17,131)	(75,650)
Cash flows from financing activities		
Repayments of long-term debt and notes payable	(113,696)	(65,626)
Proceeds from the sale of common stock	1,780,000	
Proceeds from the exercise of stock options		29,200
Payment of Preferred Stock dividends	(55,113)	(55,414)
Net cash provided (used) by financing activities	1,611,191	(91,840)
Net increase in cash and cash equivalents	617,150	50,589
Cash and cash equivalents at:		
Beginning of period	16,199,043	18,045,044
End of period	$ 16,816,193	$ 18,095,633
Supplemental schedule of cash flow information:		
Interest paid	$ 48,064	$ 49,623
Income taxes paid	$	$
Supplemental schedule of noncash investing and financing activities:		
Preferred dividends declared, not paid	$ 55,113	$ 55,113

See accompanying notes to condensed unaudited financial statements

Table of Contents

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 products are the VanishPoint® 0.5mL insulin syringe; 1mL tuberculin, insulin, and allergy antigen syringes; 0.5mL, 1mL, 2mL, 3mL, 5mL, and 10mL syringes; the blood collection tube holder; the small diameter tube adapter; the allergy tray; the IV safety catheter; the Patient Safe® syringes; the Patient Safe® Luer Cap; the VanishPoint® Blood Collection Set; and the EasyPoint® needle. The Company also sells VanishPoint® autodisable syringes in the international market in addition to the Company s other products.

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, 2017 for the year ended December 31, 2016.

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

For purposes of reporting cash flows, cash and cash equivalents include 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. This provision is 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 customers to make a prepayment prior to beginning production or shipment of their order. Customers may apply such prepayments to their outstanding invoices or pay the invoice and continue to carry forward 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.

Table of Contents

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 net realizable value, with cost being determined using actual average cost. The Company compares the average cost to the net realizable value 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.

The Company s property, plant, and equipment primarily consist of buildings, land, assembly equipment, molding machines, molds, office equipment, furniture, and fixtures. 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

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 fair value determined using a discounted cash flow analysis of the underlying assets.

Financial instruments

The Company estimates the fair 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 fair 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. The fair value of long-term liabilities, based on Management s estimates, approximates their reported 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.

Table of Contents

The following table reflects our significant customers for the first quarters of 2017 and 2016:

	Three Months Ended March 31, 2017	Three Months Ended March 31, 2016
Number of significant customers	3	3
Aggregate dollar amount of net sales to significant customers	$3.7 million	$3.1 million
Percentage of net sales to significant customers	53.2%	52.6%

The Company manufactures some of its products 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 90.5% and 58.4% of its VanishPoint® syringes in the first three months of 2017 and 2016, respectively, from its primary Chinese manufacturer. In the event that the Company becomes unable to purchase products from its Chinese manufacturers, the Company would need to find an alternate manufacturer for its blood collection set, IV catheter, Patient Safe® syringe, 0.5mL insulin syringe, 0.5mL autodisable syringe, and 2mL, 5mL, and 10mL syringes and would increase domestic production for the 1mL and 3mL syringes.

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 for which 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 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 included in Accounts payable in the Balance Sheets and deducted from revenues in the Statements of Operations. Accounts payable included estimated contractual allowances for $3,294,192 and $3,591,534 as of March 31, 2017 and December 31, 2016, respectively. 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. 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 included in the allowance for doubtful accounts. There has been no change to the reserve for contractual rebates in the periods currently presented.

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.

Table of Contents

The Company s domestic return policy also generally 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 generally do not provide for any returns.

Litigation proceeds

Proceeds from litigation are recognized when realizable. Generally, realization is not reasonably assured and expected until proceeds are collected and the legal proceeding has concluded.

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 related to income tax are classified as General and administrative expense and Interest expense, respectively, in the Condensed Statements of Operations. Such expenses are not material.

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. The calculation of diluted EPS excluded 148 thousand and 1.4 million shares of Common Stock underlying issued and outstanding stock options at March 31, 2017 and March 31, 2016, respectively, as their effect was antidilutive. The potential dilution, if any, is shown on the following schedule:

	Three Months Ended March 31, 2017	Three Months Ended March 31, 2016
Net loss	$ (1,189,945)	$ (939,091)
Preferred dividend requirements	(176,249)	(176,249)
Loss applicable to common shareholders after assumed conversions	$ (1,366,194)	$ (1,115,340)
Average common shares outstanding	31,333,121	28,624,874
Average common and common equivalent shares outstanding assuming dilution	31,333,121	28,624,874
Basic loss per share	$ (0.04)	$ (0.04)
Diluted loss per share	$ (0.04)	$ (0.04)

Table of Contents

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 Ended March 31, 2017	Three Months Ended March 31, 2016
Cost of sales	$ 97,761	$
Sales and marketing	52,684	
Research and development	16,308	
General and administrative	68,145	
	$ 234,898	$

Recent pronouncements

In July 2015, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2015-11, Inventory (Topic 330) Simplifying the Measurement of Inventory, which is part of the FASB s Simplification Initiative. Inventory, including inventory measured at average cost, would be valued at the lower of cost or net realizable value. Net realizable value is the estimated selling prices in the ordinary course of business, less reasonably predictable costs of completion, disposal, and transportation. ASU 2015-11 is effective for the Company s annual periods and interim periods within those annual periods beginning January 1, 2017. Amendments in this ASU should be applied prospectively with earlier application permitted at the beginning of an interim or annual reporting period. The adoption of this pronouncement had no impact on the Company s Balance Sheet, Results of Operations, or Cash Flows in the period of adoption.

In November 2016, the FASB issued ASU 2016-18, Statement of Cash Flows (Topic 230): Restricted Cash . These amendments require that a statement of cash flows explain the change during the period in the total of cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents. As a result, amounts generally described as restricted cash and restricted cash equivalents should be included

with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the statement of cash flows. The amendments do not provide a definition of restricted cash or restricted cash equivalents. The updated guidance is effective for the Company s quarter ending March 31, 2018, with early adoption permitted. The Company is currently assessing the impact that adoption of this guidance will have on its financial statements and related disclosures.

In June 2016, the FASB issued Accounting Standards Update 2016-13, Financial Instruments Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments . Among other things, these amendments require the measurement of all expected credit losses for financial assets held at the reporting date based on historical experience, current conditions, and reasonable and supportable forecasts. Many of the loss estimation techniques applied today will still be permitted, although the inputs to those techniques will change to reflect the full amount of expected credit losses. This ASU is effective for the Company s quarter ending March 31, 2020 with early application permitted for the Company s quarter ending March 31, 2019. The Company is currently assessing the impact that adoption of this guidance will have on its financial statements and related disclosures.

Table of Contents

In February 2016, the FASB issued ASU No. 2016-02, Leases (topic 842). Under the new ASU, lessees will be required to recognize the following for all leases (with the exception of short-term leases) at the commencement date: (1) a lease liability, which is a lessee s obligation to make lease payments arising from a lease, measured on a discounted basis; and (2) a right-of-use asset, which is an asset that represents the lessee s right to use, or control the use of, a specified asset for the lease term. Under the new guidance lessor accounting is largely unchanged. The new lease guidance simplified the accounting for sale and leaseback transactions primarily because lessees must recognize lease assets and lease liabilities. Lessees (for capital and operating leases) and lessors (for sales-type, direct financing, and operating leases) must apply a modified retrospective transition approach for leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements. The modified retrospective approach would not require any transition accounting for leases that expired before the earliest comparative period presented. This ASU is effective for the Company s quarter ending March 31, 2019, with early adoption permitted. The Company is currently evaluating the impact of this standard.

In May 2014, FASB issued ASU No. 2014-09, Revenue from Contracts with Customers , which provides guidance for revenue recognition. This ASU s core principle is that a company will recognize revenue when it transfers promised goods or services to customers in an amount that reflects consideration to which the company expects to be entitled in exchange for those goods or services. This ASU also requires additional disclosure about the nature, amount, timing and uncertainty of revenue and cash flows arising from customer contracts, including significant judgments and changes in judgments, and assets recognized from costs incurred to obtain or fulfill a contract. ASU No. 2014-09 allows for either full retrospective or modified retrospective adoption. In July 2015, the FASB voted to delay the effective date of this ASU by one year. The ASU will now be effective commencing with the Company s quarter ending March 31, 2018. Early adoption of this ASU is allowed no sooner than the original effective date. The Company is currently assessing the potential impact of this ASU on its financial statements.

3. INVENTORIES

Inventories consist of the following:

	March 31, 2017	December 31, 2016
Raw materials	$ 1,393,920	$ 1,303,278
Finished goods	6,489,690	6,309,469
	7,883,610	7,612,747
Inventory reserve	(595,523)	(595,523)
	$ 7,288,087	$ 7,017,224

4. INCOME TAXES

The Company s effective tax rate on the net loss before income taxes was 0.0% and (0.1)% for the three months ended March 31, 2017 and March 31, 2016, respectively.

5. OTHER ACCRUED LIABILITIES

Other accrued liabilities consist of the following:

	March 31, 2017	December 31, 2016
Prepayments from customers	$ 435,832	$ 692,922
Accrued property taxes	111,856	
Accrued professional fees	351,537	266,747
Other accrued expenses	33,357	49,030
	$ 932,582	$ 1,008,699

Table of Contents

6. COMMITMENTS AND CONTINGENCIES

In May 2010, the Company and an officer s suit against Becton, Dickinson and Company (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 trial commenced on September 9, 2013, in the U.S. District Court for the Eastern District of Texas, Tyler Division, and the jury found that BD illegally engaged in anticompetitive conduct with the intent to acquire or maintain monopoly power in the safety syringe market and engaged in false advertising under the Lanham Act. The jury awarded the Company $113,508,014 in damages, which was trebled pursuant to statute. The Court granted injunctive relief to take effect January 15, 2015. In doing so, the Court found that BD s business practices limited innovation, including false advertisements that suppressed sales of the VanishPoint® syringes. The specific injunctive relief includes: (1) enjoining BD s use of World s Sharpest Needle or any similar assertion of superior sharpness; (2) requiring notification to all customers who purchased BD syringe products from July 2, 2004 to date that BD wrongfully claimed that its syringe needles were sharper and that its statement that it had data on file was false and misleading; (3) requiring notification to employees, customers, distributors, GPOs, and government agencies that the deadspace of the VanishPoint® has been within ISO standards since 2004 and that BD overstated the deadspace of the VanishPoint® to represent that it was higher than some of BD s syringes when it was actually less, and that BD s statement that it had data on file was false and misleading, and, in addition, posting this notice on its website for a period of three years; (4) enjoining BD from advertising that its syringe products save medication as compared to VanishPoint® products for a period of three years; (5) requiring notification to all employees, customers, distributors, GPOs, and government agencies that BD s website, cost calculator, printed materials, and oral representations alleging BD s syringes save medication as compared to the VanishPoint® were based on false and inaccurate measurement of the VanishPoint®, and, in addition, posting this notice on its website for a period of three years; and (6) requiring the implementation of a comprehensive training program for BD employees and distributors that specifically instructs them not to use old marketing materials and not to make false representations regarding VanishPoint® syringes. Final judgment was entered on January 15, 2015, awarding the Company $340,524,042 in damages and $11,722,823 in attorneys fees, as well as granting injunctive relief consistent with the orders as indicated above. The parties stipulated that the amount of litigation costs recoverable by the Company is $295,000. On January 14, 2015, the District Court stayed the portion of the injunctive relief that requires BD to notify end-user customers but also ordered BD to comply with internal correction activities as well as mandatory disclosures as set out above to its employees, customers, distributors and Group Purchasing Organizations. BD filed an appeal of that ruling with the 5th Circuit Court of Appeals and that appeal was denied on February 3, 2015. On February 12, 2015, BD filed a motion to amend the judgment directed most specifically to the issue of award of prejudgment interest. On April 23, 2015, the Court entered an Amended Final Judgment that removed prejudgment interest but kept all other monetary and injunctive relief the same as was granted in the original Final Judgment. BD filed its brief in the appeal on July 20, 2015. Oral argument occurred on Monday, February 29, 2016. On December 2, 2016, the 5th Circuit Court of Appeals overturned the antitrust damages. The finding of false advertising liability was affirmed and the case was remanded to the Eastern District of Texas for a redetermination as to the amount of damages to which the Company is entitled. The Eastern District of Texas trial date was May 11, 2017. No judgment has been issued. The Company s petition for certiorari to the U.S. Supreme Court was denied on March 20, 2017.

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. On June 30, 2015, the Court ordered that further proceedings in this matter be stayed and that this case remain administratively closed until resolution of all appeals in

the case detailed in the preceding paragraph. The case remains stayed as a result of the ongoing proceedings regarding the Lanham Act claims in the separate proceeding described above.

Table of Contents

7. BUSINESS SEGMENT

The Company does not operate in separate reportable segments. 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. Revenues by geography are as follows:

	Three Months Ended March 31, 2017	Three Months Ended March 31, 2016
U.S. sales	$ 5,947,856	$ 5,503,010
North and South America sales (excluding U.S.)	496,531	347,664
Other international sales	479,293	71,308
Total sales, net	$ 6,923,680	$ 5,921,982

Long-lived assets by geography are as follows:

	March 31, 2017	December 31, 2016
Long-lived assets		
U.S.	$ 11,747,565	$ 11,930,293
International	$ 155,713	$ 161,744

8. DIVIDENDS

The Company declared dividends in 2016 in the amounts of $12,313 and $42,800 paid to Series I Class B and Series II Class B Preferred Stockholders, respectively, on April 21, 2016. The Company declared dividends in 2017 in the amounts of $12,313 and $42,800 paid to Series I Class B and Series II Class B Preferred Stockholders, respectively, on April 27, 2017.

9. PRIVATE PURCHASE

The Company approved three of its executive officers to purchase shares directly from the Company. Thomas J. Shaw, CEO, exercised a portion of such right on January 12, 2017, buying two million shares at market price for an aggregate purchase price of $1.78 million. Mr. Shaw has one million additional shares authorized for purchase at market price any time prior to September 9, 2018. Mr. Cowan, CFO, and Ms. Larios, Vice President and General Counsel, are authorized to purchase 500,000 shares each at market price any time prior to September 9, 2018. The approximate dollar value of these potential future purchases cannot be predicted.

10. BONUSES

In February of 2017, Mr. Cowan and Ms. Larios were each granted cash bonuses of $250,000. Ms. Larios received her bonus in the first quarter of 2017. Mr. Cowan will receive his bonus later this year.

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 simila 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 and future Court decisions regarding current litigation, our ability to maintain

Table of Contents

favorable third party manufacturing and supplier arrangements and relationships, foreign trade risk, 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 impact 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 since 1997. Safety syringes comprised 94.2% of our sales in the first quarter of 2017. We also manufacture and market the blood collection tube holder, IV safety catheter, and VanishPoint® Blood Collection Set. 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 associated with catheter hub contamination.

In the second quarter of 2016, we began selling a new product, the EasyPoint® needle. No EasyPoint® needles were sold in the first quarter of 2017. We do have purchase orders for EasyPoint® for delivery later this year. The EasyPoint® is a retractable needle that can be used with Luer lock syringes, Luer slip syringes, and prefilled syringes to give injections. The EasyPoint® needle can also be used to aspirate fluids and collect blood.

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 facilities that provide long-term nursing and out-patient surgery, emergency care, physician services, health clinics, and retail pharmacies.

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.

We have reported in the past that our progress is limited principally due to the practices engaged in by BD, the dominant maker and seller of disposable syringes. We initiated a lawsuit in 2007 against BD. As previously reported, on December 2, 2016, the Fifth Circuit Court of Appeals overturned a district court judgment that had previously awarded us $340 million in antitrust damages from BD, but affirmed a finding of false advertising liability against BD and remanded the case to the Eastern District of Texas for a redetermination as to the amount of

damages to which we are entitled. The Eastern District of Texas trial date was on May 11, 2017. No judgment has been issued.

We have taken steps to reduce our future litigation expenses and expect such expenses to be significantly less in 2017. We have expanded our sales and marketing staff in an effort to gain market share. Our stock option expense for grants in 2016 will be amortized over the next two quarters at $235,000 per quarter.

The Consolidated Appropriations Act, 2016 (Pub. L. 114-113), signed into law on December 18, 2015, includes a two year moratorium on the 2.3% medical device excise tax imposed by Internal Revenue Code section 4191. Thus, the medical device excise tax was suspended beginning on January 1, 2016 and ending on December 31, 2017.

We reevaluated several compensation strategies in late 2016 and early 2017. We also approved three of our executive officers to purchase shares directly from the Company. Thomas J. Shaw exercised a portion of such right on January 12, 2017, buying two million shares at market price for an aggregate purchase price of $1.78 million.

Table of Contents

Product purchases from our Chinese manufacturers have enabled us to increase manufacturing capacity with little capital outlay and have provided a competitive manufacturing cost. In the first quarter of 2017, our primary Chinese manufacturer produced approximately 90.5% of our VanishPoint® syringes. In the event that we become unable to purchase products from our Chinese manufacturers, we would need to find an alternate manufacturer for the blood collection set, IV catheter, Patient Safe® syringe, 0.5mL insulin syringe, 0.5mL autodisable syringe, and 2mL, 5mL, and 10mL syringes and we would increase domestic production for the 1mL and 3mL syringes.

In 1995, we entered into a license agreement with Thomas J. Shaw for the exclusive right to manufacture, market, and distribute products utilizing automated retraction technology. This technology is the subject of various patents and patent applications owned by Mr. Shaw. The license agreement generally provides for quarterly payments of a 5% royalty fee on gross sales.

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.

RESULTS OF OPERATIONS

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 March 31, 2017 or 2016.

Comparison of Three Months Ended March 31, 2017 and March 31, 2016

Domestic sales accounted for 85.9% and 92.9% of our revenues for the three months ended March 31, 2017 and 2016, respectively. Domestic revenues increased 8.1% principally due to increased sales of the 0.5 mL and 3mL syringes. Domestic unit sales increased 6.7%. Domestic unit sales were 82.5% of total unit sales for the three months ended March 31, 2017. International unit sales and revenues increased 118.3% and 132.9%, respectively, due to increased sales in South America, Australia, the European Union, and Africa. Our international orders may be subject to significant fluctuation over time. Overall unit sales increased 17.2%.

Gross profit increased 6.2% primarily due to higher revenues.

The average cost of manufactured products sold per unit increased by 6.1% due to the increased volume of syringes produced in China. 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 increased 16.3% due to increased gross sales.

Operating expenses increased 12.7% or $393 thousand. The increase was primarily due to bonuses granted to two officers and stock option expense, mitigated by a reduction in litigation costs.

Our operating loss was $1.2 million compared to an operating loss for the same period last year of $894 thousand. The increase was due primarily to bonus expense for officers and stock option expense, mitigated by a reduction in litigation costs.

Our effective tax rate on the net loss before income taxes was 0.0% and (0.1)% for the three months ended March 31, 2017 and March 31, 2016, respectively.

Table of Contents

Discussion of Balance Sheet and Statement of Cash Flow Items

Our balance sheet remains strong with cash making up 42.4% of total assets. Working capital was $20.3 million at March 31, 2017, an increase of $841 thousand from December 31, 2016.

Cash flow from operations was a negative $977 thousand for the three months ended March 31, 2017 due primarily to the loss from operations and changes in working capital, namely increased inventories and other current assets, mitigated by an increase in other accrued liabilities. Noncash expenses such as share based compensation and depreciation and amortization also reduced the cash flow impact of the net loss.

LIQUIDITY

At the present time, Management does not intend to publicly raise equity capital. Due to the funds received from prior litigation and direct purchases of our stock, we have sufficient cash reserves and intend to rely on operations, cash reserves, and debt financing, when available, as the primary ongoing sources of cash. Our ability to obtain additional funds through loans is uncertain. Purchases of Common Stock directly from the Company in the first quarter of 2017 by Mr. Shaw resulted in additional capital of $1,780,000. We cannot predict any recovery of damages in our litigation against BD at this time. The ultimate outcome of this suit could have a material effect on our financial condition.

Historical Sources of Liquidity

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

Internal Sources of Liquidity

Margins and Market Access

To routinely achieve positive or break even quarters, we need increased access to hospital markets which has been difficult to obtain. 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.

Fluctuations in the cost and availability of raw materials and inventory and our ability to maintain favorable manufacturing arrangements and relationships could result in the need to manufacture all (as opposed to 20.1%) 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. Some international sales of our products are shipped directly from China to the customer. 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 our Chinese manufacturers 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 during the flu season.

Table of Contents

Cash Requirements

Due to funds received from prior litigation, we have sufficient cash reserves and intend to rely on operations, cash reserves, and debt financing, when available, as the primary ongoing sources of cash. We have taken steps to decrease our legal costs and we continue to evaluate these costs. In the future, if we need to take cost cutting measures, we may reduce the number of units being produced, reduce the workforce, reduce the salaries of officers and other employees, and/or defer royalty payments. Some increases in compensation were made in 2016 and 2017.

External Sources of Liquidity

We have obtained several loans since 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. Our ability to obtain additional funds through loans is uncertain. Due to the current market price of our Common Stock, it is unlikely we would choose to raise funds by the public sale of equity.

We have approved three of our executive officers to engage in private purchases of stock at market prices. Mr. Shaw exercised a portion of his purchase right on January 12, 2017, buying two million shares at market price for an aggregate purchase price of $1.78 million.

CAPITAL RESOURCES

There were no material commitments for capital expenditures in the first quarter of 2017.

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 March 31, 2017, our disclosure controls and procedures were not effective, as discussed below.

We initially reported a material weakness in our Annual Report on Form 10-K for the year ended December 31, 2015, filed on March 30, 2016, in connection with the accounting for raw materials. As disclosed in the Annual Report and in every periodic report since then, we plan to remedy this weakness by transitioning to an improved Oracle inventory accounting system. As such system is not yet in place, we cannot yet state that our disclosure controls and procedures are effective. We expect the Oracle system to be fully operational by June 30, 2017.

Table of Contents

Changes in Internal Control Over Financial Reporting

There have been no changes during the first quarter of 2017 or subsequent to March 31, 2017 in our internal control over financial reporting that has materially affected or is reasonably likely to 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.

The Company s manufacturing facility in Little Elm, TX experienced significant hail damage, necessitating roof replacements. We expect that the cost of such replacements will be predominately covered by insurance. However, we risk incurring unforeseen costs and, possibly, business interruption as a result of the roof replacements and related repair work.

There were no other material changes in the Risk Factors applicable to the Company as set forth in our Form 10-K annual report for 2016 which was filed on March 31, 2017, and which is available on EDGAR.

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

None, other than as previously disclosed in a Current Report on Form 8-K filed January 13, 2017.

Item 3. Defaults Upon Senior Securities.

Working Capital Restrictions and Limitations on the Payment of Dividends

The Company declared a dividend to the Series I Class B and Series II Class B Convertible Preferred Shareholders in the aggregate amount of $55,113. This dividend was paid on April 24, 2017.

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.

Series I Class B Convertible Preferred Stock

For the three months ended March 31, 2017, no dividends were in arrears.

Series II Class B Convertible Preferred Stock

For the three months ended March 31, 2017, no dividends were in arrears.

Series III Class B Convertible Preferred Stock

For the three months ended March 31, 2017, the amount of dividends in arrears was $32,311 and the total arrearage was $4,049,000 as of March 31, 2017.

Series IV Class B Convertible Preferred Stock

For the three months ended March 31, 2017, the amount of dividends in arrears was $85,625 and the total arrearage was $5,884,000 as of March 31, 2017.

Table of Contents

Series V Class B Convertible Preferred Stock

For the three months ended March 31, 2017, the amount of dividends in arrears was $3,200 and the total arrearage was $986,000 as of March 31, 2017.

Item 5. Other Information.

The 2017 annual meeting will be held on September 8, 2017, at 10:00 a.m. Central time at Little Elm Town Hall; 100 West Eldorado Parkway; Little Elm, Texas 75068.

Item 6. Exhibits.

Exhibit No.	Description of Document
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 March 31, 2017, formatted in XBRL (eXtensible Business Reporting Language): (i) Condensed Balance Sheets as of March 31, 2017 and December 31, 2016, (ii) Condensed Statements of Operations for the three months ended March 31, 2017 and 2016, (iii) Condensed Statements of Cash Flows for the three months ended March 31, 2017 and 2016, and (iv) Notes to Condensed Financial Statements

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: May 15, 2017

RETRACTABLE TECHNOLOGIES, INC.
(Registrant)

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

VICE PRESIDENT, CHIEF FINANCIAL OFFICER,
AND CHIEF ACCOUNTING OFFICER