RETRACTABLE TECHNOLOGIES INC
Form 10-K/A
April 07, 2010
Table of Contents

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K/A

Amendment No. 1

(Mark One)

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

For the fiscal year ended December 31, 2009

or

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

For the transition period from to

Commission file number 000-30885

Retractable Technologies, Inc.

(Exact name of registrant as specified in its charter)

Texas	**75-2599762**
(State or other jurisdiction of incorporation or organization)	(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

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

Title of each class	**Name of each exchange on which registered**
Common	NYSE Amex LLC

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

Preferred Stock

(Title of class)

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

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

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 o No o

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

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

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

State the aggregate market value of the voting and non-voting common equity held by non-affiliates computed by reference to the price at which the common equity was last sold, or the average bid and asked price of such common equity, as of the last business day of the registrant s most recently completed second fiscal quarter. The aggregate market value of the common equity held by non-affiliates as of June 30, 2009 was $11,059,334.10, assuming a closing price of $0.90 and outstanding shares held by non-affiliates of 12,288,149.

APPLICABLE ONLY TO REGISTRANTS 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 Section 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 REGISTRANTS)

Indicate the number of shares outstanding of each of the registrant s classes of common stock, as of the latest practicable date. As of March 1, 2010, there were 23,825,149 shares of our Common Stock issued and outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

List hereunder the following documents if incorporated by reference and the Part of the Form 10-K (e.g., Part I, Part II, etc.) into which the document is incorporated: (1) Any annual report to security holders; (2) Any proxy or information statement; and (3) Any prospectus filed pursuant to Rule 424(b) or (c) under the Securities Act of 1933. The listed documents should be clearly described for identification purposes (e.g., annual report to security holders for fiscal year ended December 24, 1980).

None except exhibits.

Table of Contents

Explanatory Note

We are filing this Amendment No. 1 to our Annual Report on Form 10-K for the year ended December 31, 2009 which was filed with the U.S. Securities and Exchange Commission on March 31, 2010 (the Original Filing). The primary purposes of this Amendment No. 1 are to insert the following: (i) information with regard to the impact of certain nonrecurring charges on our Net earnings (see Item 7 of Part II of this Form 10-K/A); and (ii) additional information with regard to an impairment charge of $2,594,602 recognized in the fourth quarter of 2009 (see Items 7 and 8 of Part II of this Form 10-K/A). No other material changes have been made. The complete text of Items 7 and 8 of Part II are set forth herein. Certain exhibits and signatures are also provided.

Table of Contents

RETRACTABLE TECHNOLOGIES, INC.

FORM 10-K/A

Amendment No. 1

For the Fiscal Year Ended December 31, 2009

TABLE OF CONTENTS

PART II

PART IV

Table of Contents

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

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 litigation (as it affects our costs as well as market access), our ability to maintain favorable supplier arrangements and relationships, our ability to receive royalties from BTMD, 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 BD, in providing devices to the safety market, and other factors referenced in **Item 1A. Risk Factors** of the Form 10-K. Given these uncertainties, undue reliance should not be placed on forward-looking statements.

OVERVIEW

We have been manufacturing and marketing our products into the marketplace since 1997. We currently provide other safety medical products in addition to safety syringe products. One such product is the Patient Safe® syringe, which is uniquely designed to reduce the risk of bloodstream infections resulting from catheter hub contamination. Patient Safe® s unique luer guard reduces the risk of luer tip contact contamination and the risk of contamination of intravenous fluid. Safety syringes comprised 98.9% of our sales in 2009.

Historically, unit sales have increased in the latter part of the year due, in part, to the demand for syringes during the flu season. We expect the Swine Flu to have a longer worldwide immunization duration than the seasonal flu. In the third quarter of 2009, we were awarded a contract by the DHHS to supply a portion of the safety engineered syringes to be used in the U.S. efforts to vaccinate the U.S. population against the Swine Flu. The impact on us was material. Sales to the DHHS comprised 52.0% and 24.4% of our revenues for the three months and twelve months ended December 31, 2009, respectively. This program, which was estimated to run from August 2009 through March 2010, ended in December 2009. Our revenue increased 142.1% in the fourth quarter principally due to the DHHS contract. We do not know if there will be a similar program in 2010.

Our products have been and continue to be distributed nationally through numerous distributors. However, we have been blocked from access to the market by exclusive marketing practices engaged in by BD, which dominates the market. We believe that its monopolistic business practices continue despite: (i) its paying $100 million in 2004 to settle a prior lawsuit with us for anticompetitive practices, business disparagement, and tortious interference and (ii) the fact that a jury returned a verdict in November 2009 finding that all three patents asserted by us against BD are valid and infringed by BD (with regard to its IntegraTM product). Although we have made limited progress in some areas, such as the alternate care and international markets, 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.

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 are also marketing more products internationally.

We sued OMI in April 2008 and separately sued BD in June 2007 for claims of patent infringement (see **Item 3. Legal Proceedings** of the Form 10-K), and in December 2009 and November 2009, respectively, such companies were found to infringe our patents. These judgments could increase demand for our product. However, there is no assurance when or if such increase will occur.

Beginning in 2004, we were given an award (from PATH) to supply syringes to various African countries under the President s Emergency Plan for AIDS relief (PEPFAR). Awards increased significantly from 2004 to 2007. The continuation of PEPFAR has been reauthorized by Congress through 2013. However, funding for the procurement of safety syringes in this program has not occurred to date.

As a result of the introduction of VanishPoint® syringes through the PEPFAR initiative, African countries have begun to procure products outside of the U.S.-funded program. In 2007, the Director General of Nigeria s National Agency for Food and Drug Administration and Control (NAFDAC), endorsed automated retraction syringes for use throughout Nigeria. We are currently selling syringes to a Nigerian distributor for use in that country. At the end of 2008, the Deputy Prime Minister of Namibia also publically endorsed automated retraction syringes as a public intervention that would protect health workers and save their patient s lives .

Table of Contents

The number of international distributors continues to increase.

In the event we continue to have only limited market access, the cash provided by the litigation settlements and generated from operations becomes insufficient, and royalties from BTMD are not forthcoming, 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.

At the end of the second quarter of 2009, we announced that in the interest of the long-term survival of the Company we would reorganize some of the Company s functions and implement staff reductions, all in order to minimize our cash expenditures and conserve our resources. Our workforce was reduced by 16% on July 1, 2009. However, due to the expected increase in production from sales to DHHS, we increased the workforce at the Little Elm facility beginning in the latter part of the third quarter of 2009. The rehiring only slightly affected our prior estimate that annual compensation costs and related expenses would be reduced by $2.1 million annually due to the layoffs. An anticipated reduction of inventory was estimated (at the time of the announcement) to result in a minimum of $1.0 million reduction in cash outlays over the subsequent twelve months. However, due to the orders from the DHHS, that particular initiative is on hold. Our President and CEO, Thomas J. Shaw, waived future royalty payments beginning July 1, 2009, for an aggregate savings of $1.0 million which affected royalty payments (not expenses) in the third and fourth quarter of 2009. Salaries for all personnel above a certain salary level were cut by 10% in 2009 (subject to contract rights). Such reduction, along with discontinuing the 401(k) matching, was estimated to save $600,000. We expect to save an additional $1.6 million by the following actions: moving most, if not all, of the molding of piece parts back to Little Elm; reducing professional fees; and various other cost cutting measures. Professional fees have been reduced and we have begun additional molding in Little Elm. These measures will remain in place as long as Management deems them necessary.

We recorded a $200,000 charge in the second quarter of 2009 for severance pay offered to the terminated employees. All severance payments were paid in the third quarter of 2009. We incurred a noncash expense of $2.1 million related to the issuance of stock options. The remaining stock option expense will be fully amortized by the end of the second quarter of 2010. We wrote off approximately $2.6 million of catheter production equipment.

We are focusing on methods of upgrading our manufacturing capability and efficiency in order to reduce costs. We believe our current capitalization provides the resources necessary to implement some of these changes and improve our manufacturing capacity and efficiency, thereby reducing our unit cost.

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 2009, Double Dove manufactured approximately 67.5% of the units we produced. The cost of production per unit has generally declined as volumes increased. We believe we could make up any long-term disruption in these supplies 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 3.8% of our 2009 revenues.

We previously entered into a License Agreement with BTMD as of May 13, 2005. That license expired on May 13, 2008 (prior to the manufacture and delivery of any products). Nevertheless, BTMD continued to work toward completing the facility and gaining the necessary approvals in order to manufacture and sell products. The facility has been completed and BTMD has met Chinese Government requirements. BTMD received a Registration Certificate for Medical Device on August 24, 2009. Production efforts are currently underway and are being tested. We entered into a new agreement (effective as of July 1, 2009) with BTMD along similar terms as the prior agreement. This agreement expires on July 1, 2010 which may automatically extend under certain conditions. Such terms include granting to BTMD a limited exclusive

license to manufacture and a limited exclusive right to sell syringes in the PRC having retractable needles that incorporate our technology. This License Agreement is subject to the Technology License Agreement dated June 23, 1995 between Mr. Thomas J. Shaw, our founder and CEO, as licensor, and the Company, as licensee (as amended). Accordingly, Mr. Shaw will receive 5% of the licensing proceeds we receive. BTMD has agreed to manufacture and sell these products in the PRC and to pay us a quarterly royalty of two and one-half cents per unit on 3mL and 5mL syringes and a royalty of three and one-half cents per unit on 0.5mL, 1mL, and 10mL syringes. The obligation to pay the royalties continues even if

Table of Contents

any and all of our patent rights in the PRC are found to be invalid or unenforceable for any reason. We still continue to expect royalty payments although we are unable to predict the date we will begin to receive such royalties.

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.

We completed the expansion of an existing warehouse in the first quarter of 2009. This expansion increased our warehouse area, provided for additional office space, and added a second Controlled Environment. The additional Controlled Environment will enable us to do more molding in-house.

LIQUIDITY

At the present time, Management does not intend to raise equity capital. Due to the funds received from prior litigation settlements, we have sufficient cash reserves and intend to rely on operations, cash reserves, and debt financing as the primary ongoing sources of cash.

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 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 are focusing on methods of upgrading our manufacturing capability and efficiency in order to reduce costs. We believe our current capitalization provides the resources necessary to implement some of these changes and improve our manufacturing capacity and efficiency, thereby reducing our unit cost.

In the third quarter of 2009, we were awarded a contract by the DHHS to supply a portion of the safety engineered syringes to be used in the U.S. efforts to vaccinate the U.S. population against the Swine Flu. The impact on us was material. Sales to the DHHS comprised 52.0% and 24.4% of our revenues for the three months and twelve months ended December 31, 2009, respectively. This program, which was estimated to run from August 2009 through March 2010, ended in December 2009. Our revenue increased 142.1% in the fourth quarter principally due to the DHHS contract. We do not know if there will be a similar program in 2010.

Beginning in early 2004, we began to receive shipment of product from Double Dove which enabled us to lower our unit costs. 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 32.0%) 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 as domestic costs, such as indirect labor and overhead, remain relatively constant. The number of units produced by the Company 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

Table of Contents

benefits as well as to maintain our domestic manufacturing capability. Currently, approximately 32.0% of our products are produced domestically.

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. We expect the Swine Flu to have a longer worldwide immunization duration than the seasonal flu.

Licensing Agreement

We previously entered into a License Agreement with BTMD as of May 13, 2005. That license expired on May 13, 2008 (prior to the manufacture and delivery of any products). Nevertheless, BTMD continued to work toward completing the facility and gaining the necessary approvals in order to manufacture and sell products. The facility has been completed and BTMD has met Chinese government requirements. BTMD received a Registration Certificate for Medical Device on August 24, 2009. Production efforts are currently underway and are being tested. We entered into a new agreement (effective as of July 1, 2009) with BTMD along similar terms as the prior agreement. This agreement expires on July 1, 2010 which may automatically extend under certain conditions. Such terms include granting to BTMD a limited exclusive license to manufacture and a limited exclusive right to sell syringes in the PRC having retractable needles that incorporate our technology. This License Agreement is subject to the Technology License Agreement dated June 23, 1995 between Mr. Thomas J. Shaw, our founder and CEO, as licensor, and the Company, as licensee (as amended). Accordingly, Mr. Shaw will receive 5% of the licensing proceeds we receive. BTMD has agreed to manufacture and sell these products in the PRC and to pay us a quarterly royalty of two and one-half cents per unit on 3mL and 5mL syringes and a royalty of three and one-half cents per unit on 0.5mL, 1mL, and 10mL syringes. The obligation to pay the royalties continues even if any and all of our patent rights in the PRC are found to be invalid or unenforceable for any reason. We still continue to expect royalty payments although we are unable to predict the date we will begin to receive such royalties.

Cash Requirements

Due to funds received from prior litigation settlements, 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. We obtained a loan from 1st International for $2,500,000, secured by the land and existing buildings, which provided funding for the construction of the 47,250 square foot warehouse placed in service in 2005. This loan had a maturity date in late March 2010. We anticipate refinancing this loan.

Table of Contents

CAPITAL RESOURCES

Material Commitments for Expenditures

On August 29, 2008, we obtained a $4,210,000 interim construction loan from Lewisville State Bank, a division of 1st International Bank. The purpose of the loan was to expand the warehouse, including additional office space, and construct a new Controlled Environment. The interest rate was WSJPR plus 0.25%. The loan was renewed on December 10, 2009 with a 20 year amortization and 10 year maturity. The interest rate is 5.968%. The construction project has been completed.

Trends in Capital Resources

Interest expense will increase due to the recent loan of approximately $4.2 million, but will be somewhat mitigated by lower borrowing rates if current conditions in the credit markets continue. Interest income may be negatively affected by lower interest rates and our prior movement of cash to U.S. Treasury bills and other U.S. government backed securities. Although we believe that we have granted credit to credit-worthy firms, current economic conditions may affect the timing and/or collectability of some accounts.

RESULTS OF OPERATIONS

The following discussion contains 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 the forward-looking statements. All period references are to our fiscal years ended December 2009, 2008, or 2007. Dollar amounts have been rounded for ease of reading.

Comparison of Year Ended

December 31, 2009, and Year Ended December 31, 2008

Revenues increased 39.7%, due principally to sales under the DHHS contract. Domestic sales were 88.4% of revenues with international sales comprising the remainder. Without the DHHS contract, our revenues would have increased 5.6%, with domestic revenues increasing 7.3% and international revenues declining 3.0%. Unit sales of the 1mL syringe increased 17.1% and 3mL unit sales increased 54.3%. Unit sales of all products increased 27.3%. Domestic unit sales as well as average sales prices increased. International unit sales decreased slightly and average selling prices increased. Sales to two customers accounted for 38.4% of our revenues in 2009. Only one of these two customers was a customer in 2008, and such customer accounted for 17.1% of our revenues in 2008.

Cost of sales increased due to greater volumes. Royalty expenses were higher due to higher gross sales.

As a result, gross profit margins increased from 29.5% in 2008 to 34.7% in 2009.

Operating expenses increased from the prior year due to litigation costs and stock option expense mitigated by the cost cutting measures beginning in the third quarter of 2009.

Sales and marketing expenses decreased due primarily to lower compensation due to staff reduction and reduction in pay, lower advertising expenses and reduced travel costs. Stock option expense and consulting costs increased.

Research and development costs were lower. We had decreases in engineering costs due principally to reduction in staff and pay as well as lower consulting cost. Stock option expense increased.

General and administrative costs increased due principally to litigation costs and stock option expense. Compensation costs decreased due to staff reductions and reductions in pay.

In the fourth quarter of 2009, we recognized an impairment charge of $2,594,602 associated with catheter production equipment. See Note 2, **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Long-lived assets** for a further discussion.

Preferred Stock dividend requirements decreased slightly due to conversion of preferred stock in the first quarter of 2008. The dividend arrearage at December 31, 2009, on all classes of Preferred Stock was approximately $15.3 million.

Table of Contents

Interest income decreased due to lower interest rates and lower cash balances. Interest expense decreased due to capitalized interest. Interest expense is expected to increase in 2010 due to completion of significant capital projects in 2009 for which interest was being capitalized.

There are several charges to our Statement of Operations in 2009 that are nonrecurring or are not typical of a manufacturing company. These charges include litigation costs, stock option expense (a noncash charge which will be fully amortized at the end of the second quarter of 2010), and an impairment of assets. Additionally we recognized an income tax benefit attributable to recent tax legislation which allows us to carry back our net operating losses to a prior period. Were it not for the charges and the tax benefit described above, our Net earnings applicable to common shareholders for the year would have been slightly above breakeven. The removal of the same items, applicable to the fourth quarter of 2009, would have provided a Net earnings applicable to common shareholders exceeding $4.0 million. There would be no federal income tax impact since we have net operating loss carryforwards which would eliminate our tax obligation. Based on the current status of legal matters, our litigation costs should decline sometime prior to the end of the second quarter of 2010.

Cash flow from operations was a negative $12.3 million for 2009 due principally to operating losses and increases in receivables. Most of the increase in receivables was related to billings in December 2009 to DHHS and collected in January 2010. The increase in income taxes receivable is related to a refund for carryback of our 2009 net operating loss. We will file for this refund early in the second quarter of 2010. The effect of non-cash expenses and the change in working capital was a negative $2.9 million. Investing activities utilized $2.4 million in cash.

Comparison of Year Ended

December 31, 2008, and Year Ended December 31, 2007

Revenues increased 6.1%, due principally to higher average sales prices and greater volumes. Domestic sales were 83.3% of revenues with international sales comprising the remainder. Unit sales of the 1mL syringe increased 22.7% and 3mL unit sales decreased 4.0%. Unit sales of all products increased 3.1%. Domestic unit sales as well as average sales prices increased. International unit sales and average selling prices declined. Sales to one distributor accounted for 17.1% and 13.7% of our revenues in 2008 and 2007, respectively.

Cost of sales increased due to higher manufacturing costs and higher volumes. Royalty expenses were higher due to an increase in gross revenues.

As a result, gross profit margins declined from 30.4% in 2007 to 29.5% in 2008.

Operating expenses increased from the prior year due to higher general and administrative expenses mitigated by lower Sales and marketing and Research and development costs.

Sales and marketing expenses decreased due primarily to reduced travel and entertainment, trade shows and market expense, compensation and office supplies. Consulting expense also decreased.

Research and development costs were flat. We had decreases in engineering costs due principally to higher costs of validation and engineering samples offset by higher compensation costs.

General and administrative costs increased due principally to increased legal costs (including a settlement of litigation whereby we obtained a patent license/assignment), office expenses, compensation, property taxes and freight costs. Travel and entertainment costs and fees to distributors decreased.

Preferred Stock dividend requirements decreased due to conversion of Preferred Stock to Common Stock. The dividend arrearage at December 31, 2008, on all classes of Preferred Stock was approximately $13.9 million.

Interest income decreased due to lower interest rates and cash balances. Interest expense decreased due to lower interest rates mitigated by higher debt balances and capitalized interest, principally due to the construction of the warehouse.

Other accrued liabilities increased due to prepayments from international customers.

Cash flow from operations was a negative $5.7 million for 2008 due principally to our losses. The effect of non-cash expenses and the change in working capital was a positive $4.0 million. Investing activities utilized $2.2 million in cash.

OFF-BALANCE SHEET ARRANGEMENTS

None.

Table of Contents

CONTRACTUAL OBLIGATIONS

Contractual Obligations and Commercial Commitments

The following chart summarizes our material obligations and commitments to make future payments under contracts for long-term debt as of December 31, 2009:

	Payments Due by Period				
Contractual Obligations	**Total**	**Less Than 1 Year**	**1-3 Years**	**3-5 Years**	**More Than 5 Years**
Long-term debt, including current maturities	$ 7,505,789	$ 2,659,573	$ 988,749	$ 273,366	$ 3,584,101

These amounts do not reflect the effect of the beneficial conversion feature and therefore will be greater than the amounts in the financial statements.

SIGNIFICANT ACCOUNTING POLICIES

We consider the following to be our most significant accounting policies. Careful consideration and review is given to these and all accounting policies on a routine basis to ensure that they are accurately and consistently applied.

Accounts Receivable

We record trade receivables when revenue is recognized. No product has been consigned to customers. Our 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.

Revenue Recognition

Revenue is recognized for sales to distributors when title and risk of ownership passes to the distributor, generally upon shipment. 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 we have not received tracking reports. Rebates are recorded when issued and are applied against the customer s receivable balance. 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 netted against individual distributors 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 us and our distributors. Revenue for shipments directly to end-users is recognized when title and risk of ownership passes from us. Any product shipped or distributed for evaluation purposes is expensed.

Our domestic return policy is set forth in our 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 us and affix the code to the returned product. We will not accept returned goods without a returned goods authorization number. We may refund the customer s money or replace the product minus a 10% restocking fee and all applicable freight charges.

Our 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 manufacturer.

Table of Contents

Our international Distribution Agreements do not provide for any returns.

We record an allowance for estimated returns as a reduction to accounts receivable and gross sales. Historically, returns have been less than 0.5% of net sales.

Inventories

Inventories are valued at the lower of cost or market, with cost being determined using actual average cost. A reserve is established for any excess or obsolete inventories.

Marketing Fees

Under a sales and marketing agreement with Abbott, we paid marketing fees until we terminated the contract for breach. The contracted services were to include participation in promotional activities, development of educational and promotional materials, representation at trade shows, clinical demonstrations, inservicing and training, and tracking reports detailing the placement of our products to end-users. Marketing fees were accrued at the time of the sale of product to Abbott. These fees were paid after Abbott provided us a tracking report of product sales to end-users. These costs were included in Sales and marketing expense in the Statements of Operations. No marketing fees have been accrued since October 15, 2003, the date the National Marketing and Distribution Agreement with Abbott was terminated. We filed suit against Abbott in August 2005 for breach of contract and trial is scheduled for May 2010. We do not expect the eventual liability for marketing fees, if any, to exceed the amount accrued.

Table of Contents

Item 8. Financial Statements and Supplementary Data.

RETRACTABLE TECHNOLOGIES, INC.

FINANCIAL STATEMENTS AND

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

DECEMBER 31, 2009 AND 2008

Table of Contents

RETRACTABLE TECHNOLOGIES, INC.

INDEX TO FINANCIAL STATEMENTS