RETRACTABLE TECHNOLOGIES INC
Form 10-Q
May 16, 2016
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, 2016

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	**75-2599762**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
511 Lobo Lane **Little Elm, Texas**	**75068-5295**
(Address of principal executive offices)	(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

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: 29,649,874 shares of Common Stock, no par value, issued and outstanding on May 2, 2016.

Table of Contents

RETRACTABLE TECHNOLOGIES, INC.

FORM 10-Q

For the Quarterly Period Ended March 31, 2016

TABLE OF CONTENTS

PART I FINANCIAL INFORMATION

PART II - OTHER INFORMATION

Table of Contents

PART I FINANCIAL INFORMATION

Item 1. Financial Statements.

RETRACTABLE TECHNOLOGIES, INC.

CONDENSED BALANCE SHEETS

	March 31, 2016 (unaudited)	December 31, 2015
ASSETS		
Current assets:		
Cash and cash equivalents	$ 18,095,633	$ 18,045,044
Accounts receivable, net	3,163,139	4,900,997
Inventories, net	6,342,992	6,296,625
Other current assets	1,071,625	1,568,032
Total current assets	28,673,389	30,810,698
Property, plant, and equipment, net	11,341,026	11,468,061
Intangible and other assets, net	261,276	262,105
Total assets	$ 40,275,691	$ 42,540,864
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities:		
Accounts payable	$ 4,369,285	$ 5,697,518
Current portion of long-term debt	252,633	249,349
Accrued compensation	942,867	763,576
Dividends payable	55,113	55,414
Accrued royalties to shareholders	505,375	631,145
Other accrued liabilities	729,247	690,535
Income taxes payable	9,932	8,176
Total current liabilities	6,864,452	8,095,713
Long-term debt, net of current maturities	3,348,562	3,417,471
Total liabilities	10,213,014	11,513,184
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	58,242,124	58,268,036
Retained deficit	(28,960,892)	(28,021,801)
Total stockholders equity	30,062,677	31,027,680

Total liabilities and stockholders equity	$ 40,275,691	$ 42,540,864

See accompanying notes to condensed financial statements

Table of Contents

RETRACTABLE TECHNOLOGIES, INC.

CONDENSED STATEMENTS OF OPERATIONS

(unaudited)

	Three Months Ended March 31, 2016	Three Months Ended March 31, 2015
Sales, net	$ 5,921,982	$ 6,178,576
Cost of sales		
Cost of manufactured product	3,226,597	3,262,007
Royalty expense to shareholders	505,375	518,282
Total cost of sales	3,731,972	3,780,289
Gross profit	2,190,010	2,398,287
Operating expenses:		
Sales and marketing	909,572	859,164
Research and development	124,919	116,306
General and administrative	2,049,688	2,317,914
Total operating expenses	3,084,179	3,293,384
Loss from operations	(894,169)	(895,097)
Interest and other income	5,181	6,606
Interest expense, net	(49,623)	(53,810)
Loss before income taxes	(938,611)	(942,301)
Provision for income taxes	480	2,044
Net loss	(939,091)	(944,345)
Preferred stock dividend requirements	(176,249)	(227,749)
Loss applicable to common shareholders	$ (1,115,340)	$ (1,172,094)
Basic loss per share	$ (0.04)	$ (0.04)
Diluted loss per share	$ (0.04)	$ (0.04)
Weighted average common shares outstanding:		
Basic	28,624,874	27,663,500
Diluted	28,624,874	27,663,500

See accompanying notes to condensed financial statements

Table of Contents

RETRACTABLE TECHNOLOGIES, INC.

CONDENSED STATEMENTS OF CASH FLOWS

(unaudited)

	Three Months Ended March 31, 2016	Three Months Ended March 31, 2015
Cash flows from operating activities		
Net loss	$ (939,091)	$ (944,345)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Provision for doubtful accounts	22,000	100,000
Depreciation and amortization	204,266	225,834
(Increase) decrease in assets:		
Inventories	(46,367)	(977,205)
Accounts receivable	1,715,858	2,120,322
Other current assets	496,407	305,608
Other assets	(750)	
Increase (decrease) in liabilities:		
Accounts payable	(1,328,233)	(188,786)
Other accrued liabilities	92,233	(85,261)
Income taxes payable	1,756	62
Net cash provided by operating activities	218,079	556,229
Cash flows from investing activities		
Purchase of property, plant, and equipment	(75,650)	(363,177)
Change in restricted cash		(295)
Net cash used by investing activities	(75,650)	(363,472)
Cash flows from financing activities		
Repayments of long-term debt and notes payable	(65,626)	(37,064)
Proceeds from the exercise of stock options	29,200	60,583
Payment of Preferred Stock dividends	(55,414)	
Net cash provided (used) by financing activities	(91,840)	23,519
Net increase in cash and cash equivalents	50,589	216,276
Cash and cash equivalents at:		
Beginning of period	18,045,044	22,128,977
End of period	$ 18,095,633	$ 22,345,253
Supplemental schedule of cash flow information:		
Interest paid	$ 49,623	$ 53,810
Income taxes paid	$	$ 1,981
Supplemental schedule of noncash investing and financing activities:		
Preferred dividends declared, not paid	$ 55,113	$ 170,817

See accompanying notes to condensed 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 commercially available 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 small diameter tube adapter; the blood collection tube holder; the allergy tray; the IV safety catheter; the Patient Safe® syringes; the Patient Safe® Luer Cap; and the VanishPoint® Blood Collection Set. 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 30, 2016 for the year ended December 31, 2015.

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 unrestricted cash, money market accounts, and investments with original maturities of three months or less.

Accounts receivable

The Company records trade receivables when revenue is recognized. No product has been consigned to customers. The Company s allowance for doubtful accounts is primarily determined by review of specific trade receivables. Those accounts that are doubtful of collection are included in the allowance. 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

Table of Contents

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.

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

Inventories

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

Property, plant, and equipment

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

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

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

Long-lived assets

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

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

Intangible assets

Intangible assets are stated at cost and consist primarily of intellectual property which is amortized using the straight-line method over 17 years.

Financial instruments

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

Table of Contents

Concentration risks

The Company s financial instruments exposed to concentrations of credit risk consist primarily of cash, cash equivalents, and accounts receivable. Cash balances, some of which exceed federally insured limits, are maintained in financial institutions; however, Management believes the institutions are of high credit quality. The majority of accounts receivable are due from companies which are well-established entities. As a consequence, Management considers any exposure from concentrations of credit risks to be limited.

The following table reflects our significant customers for the first quarters of 2016 and 2015:

	Three Months ended March 31, 2016	Three Months ended March 31, 2015
Number of significant customers	3	3
Aggregate dollar amount of net sales to significant customers	$3.1 million	$3.5 million
Percentage of net sales to significant customers	52.6%	57.4%

The Company manufactures syringes in Little Elm, Texas as well as utilizing manufacturers in China. The Company purchases most of its product components from single suppliers, including needle adhesives and packaging materials. There are multiple sources of these materials. The Company obtained roughly 58.4% and 73.9% of its VanishPoint® syringes in the first three months of 2016 and 2015, respectively, from its primary Chinese manufacturer. In the event that the Company becomes unable to purchase products from its primary Chinese manufacturer, the Company would need to find an alternate manufacturer for its 0.5mL insulin syringe, its 2mL, 5mL, and 10mL syringes and its autodisable syringe, and increase domestic production for 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 $3,164,457 and $3,733,199 as of March 31, 2016 and December 31, 2015, 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.

Table of Contents

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

The Company s domestic return policy also 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.

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.

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 1.4 million and 1.8 million shares of Common Stock underlying issued and outstanding stock options at March 31, 2016 and March 31, 2015, respectively, as their effect was antidilutive. The potential dilution, if any, is shown on the following schedule:

	Three Months Ended March 31, 2016	Three Months Ended March 31, 2015
Net loss	$ (939,091)	$ (944,345)

Preferred dividend requirements			(176,249)	(227,749)
Loss applicable to common shareholders after assumed conversions	$		(1,115,340) $	(1,172,094)
Average common shares outstanding			28,624,874	27,663,500
Average common and common equivalent shares outstanding assuming dilution			28,624,874	27,663,500
Basic loss per share	$		(0.04) $	(0.04)
Diluted loss per share	$		(0.04) $	(0.04)

Shipping and handling costs

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

Table of Contents

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.

Recent Pronouncements

In March 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2016-09, Compensation - Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting . This ASU addresses several aspects of the accounting for share-based compensation transactions including: (a) income tax consequences when awards vest or are settled, (b) classification of awards as either equity or liabilities, (c) a policy election to account for forfeitures as they occur rather than on an estimated basis and (d) classification of excess tax impacts on the statement of cash flows. The updated guidance is effective for the Company s quarter ending March 31, 2017, 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 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 public companies for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years, with early adoption permitted. The Company is currently evaluating the impact of this standard.

In November 2015, the FASB issued ASU No. 2015-17, Balance Sheet Classification of Deferred Taxes. This ASU amends Topic 740, Income Taxes, requiring deferred tax assets and liabilities to be classified as non-current in the statement of financial position. As required by ASU No. 2015-17, all deferred tax assets and liabilities will be classified as non-current in the Company s consolidated balance sheets. Effective for public business entities for financial statements issued for annual periods beginning after December 15, 2016, and interim periods within those annual periods. The amendments may be applied prospectively to all deferred tax liabilities and assets or retrospectively to all periods presented. The Company is currently evaluating the impact of this standard.

In July 2015, the FASB issued 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 Company is currently assessing the potential impact of this ASU on its financial statements.

Table of Contents

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.

In August 2014, the FASB issued ASU 2014-15, Presentation of Financial Statements Going Concern (Subtopic 205-40) Disclosure of Uncertainties about and Entity s Ability to Continue as a Going Concern . Currently there is no guidance in GAAP about management s responsibility to evaluate whether there is substantial doubt about the entity s ability to continue as a going concern. This ASU requires management to assess the entity s ability to continue as a going concern. This guidance is effective for the Company s annual reporting period ending December 31, 2016, and for subsequent interim periods. Early adoption is permitted. The Company expects to adopt this guidance when effective, and upon adoption, will evaluate going concern based on this guidance.

3. INVENTORIES

Inventories consist of the following:

	March 31, 2016	December 31, 2015
Raw materials	$ 1,711,130	$ 1,664,241
Finished goods	5,313,256	5,313,778
	7,024,386	6,978,019
Inventory reserve	(681,394)	(681,394)
	$ 6,342,992	$ 6,296,625

4. INCOME TAXES

The Company s effective tax rate on the net loss before income taxes was (0.1)% and (0.2)% for the three months ended March 31, 2016 and March 31, 2015, respectively.

5. OTHER ACCRUED LIABILITIES

Other accrued liabilities consist of the following:

	March 31, 2016	December 31, 2015
Prepayments from customers	$ 272,089	$ 395,396
Accrued property taxes	102,124	
Accrued professional fees	329,942	274,252
Other accrued expenses	25,092	20,887
	$ 729,247	$ 690,535

6. COMMITMENTS AND CONTINGENCIES

In May 2010, the Company and an officer s suit against BD in the U.S. District Court for the Eastern District of Texas, Marshall Division alleging violations of antitrust acts, false advertising, product disparagement, tortious interference, and unfair competition was reopened. The 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

Table of Contents

15, 2015. In doing so, the Court found that BD s business practices limited innovation, including false advertisements that suppressed sales of the VanishPoint®. 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. The Company filed its responsive brief on September 18, 2015, and BD filed its brief in reply on October 19, 2015, to complete the briefing. Oral argument occurred on Monday, February 29, 2016. In many cases the 5th Circuit Court of Appeals issues its decision several months after oral argument, but there is no set time limit.

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 first paragraph of this Note 6.

7. BUSINESS SEGMENTS

	Three Months Ended March 31, 2016	Three Months Ended March 31, 2015

U.S. sales	$	5,503,010	$	5,834,591
North and South America sales (excluding U.S.)		347,664		132,803
Other international sales		71,308		211,182
Total sales, net	$	5,921,982	$	6,178,576

		March 31, 2016		**December 31, 2015**
Long-lived assets				
U.S.	$	11,161,188	$	11,282,192
International	$	179,838	$	185,869

Table of Contents

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

8. DIVIDENDS

The Company declared dividends in 2015 in the amounts of $12,313 and $43,101 paid to Series I Class B and Series II Class B Preferred Stockholders, respectively, on February 1, 2016. The Company declared dividends in the first quarter of 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.

9. SUBSEQUENT EVENTS

On April 5, 2016, the chief executive officer of the Company exercised the remaining portion of his stock option. The Company issued 1,000,000 shares of Common Stock to him at an exercise price of $0.81 (aggregate consideration of $810,000).

In the second quarter of 2016, the Company placed orders for additional injection molding machines and additional molds for use in the manufacture of the EasyPoint needle. The expenditure for this equipment is expected to be $1.4 million.

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 litigation, our ability to maintain favorable third party manufacturing and supplier arrangements and relationships, our ability to quickly increase capacity in response to an increase in demand, our ability to access the market, our ability to maintain or lower production costs, our ability to continue to finance research and development as well as operations and expansion of production, the continuing interest of larger market players, specifically 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 97.9% of our sales in the first quarter of 2016. 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 resulting from catheter hub contamination.

In the second quarter of 2016, we began selling a new product, the EasyPoint needle. The EasyPoint is a retractable needle that can be used with Luer lock syringes, Luer slip syringes, and prefill syringes to give injections. The EasyPoint needle can also be used to aspirate fluids and blood collection.

Table of Contents

A recent article published in *Medical Design Technology* details the benefits of the EasyPoint needle as well as the existing VanishPoint® syringe. The article states that when the EasyPoint needle becomes available, for the first time, clinicians will be able to change needles and have the safety of automated needle retraction. The March 7, 2016 article is available on the Article Archives tab of our website at www.vanishpoint.com.

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

Our products have been and continue to be distributed nationally and internationally through numerous distributors. Although we have made limited progress in some areas, such as the alternate care market, our volumes are not as high as they should be given the nature and quality of our products and the federal and state legislation requiring the use of safe needle devices. The alternate care market is composed of alternate care facilities that provide long-term nursing 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 marketing practices engaged in by BD, the dominant maker and seller of disposable syringes. In our litigation against BD alleging anticompetitive conduct and false advertising, a final judgment for $352 million plus post-judgment interest and costs as well as some injunctive relief has been granted by the District Court. We have not received any of the amounts indicated by the District Court in its final judgment. BD is currently under court order to make certain disclosures regarding its exclusionary conduct to a specified class of distributors and customers. BD has appealed to the United States Court of Appeals for the Fifth Circuit. Oral argument was heard on February 29, 2016, and no order has been issued.

In 2014, the Company took steps to decrease non-litigation legal costs by approximately $1.1 million. In 2014 and 2015, the Company reduced its workforce to cut costs. In the future, if such cost cutting measures prove insufficient, we may reduce other operating expenses, further reduce the workforce, further reduce the salaries of officers as well as other employees, and/or defer royalty payments.

The Consolidated Appropriations Act, 2016 (Pub. L. 114-113), signed into law on December 18, 2015, includes a two year moratorium on the 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. The impact of this tax was $360,000 in 2015.

We exchanged 728 thousand shares of our Common Stock for 200 thousand shares of our Series IV Class B Convertible Preferred Stock as of November 30, 2015 pursuant to an agreement with a shareholder. Such shareholder agreed to waive all unpaid dividends in arrears associated with the tendered preferred stock, equaling $3.1 million. Future dividend requirements of $200 thousand per year are avoided as a result of this transaction.

Product purchases from our primary Chinese manufacturer have enabled us to increase manufacturing capacity with little capital outlay and have provided a competitive manufacturing cost. In the first quarter of 2016, our primary Chinese manufacturer produced approximately 58.4% of our VanishPoint® syringes. In the event that we become unable to purchase products from our primary Chinese manufacturer, we would need to find an alternate manufacturer for the 0.5mL insulin syringe, the 0.5mL autodisable syringe, and the 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.

On April 5, 2016, Thomas J. Shaw exercised the remaining portion of his stock option. The Company issued 1,000,000 shares of Common Stock to him at an exercise price of $0.81 (aggregate consideration of $810,000).

Table of Contents

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

The following discussion may contain trend information and other forward-looking statements that involve a number of risks and uncertainties. Our actual future results could differ materially from our historical results of operations and those discussed in any forward-looking statements. Dollar amounts have been rounded for ease of reading. All period references are to the periods ended March 31, 2016 or 2015.

RESULTS OF OPERATIONS

Comparison of Three Months Ended March 31, 2016 and March 31, 2015

Sales

Domestic sales accounted for 92.9% and 94.4% of the revenues for the three months ended March 31, 2016 and 2015, respectively. Domestic revenues decreased 5.7% principally due to lower average sales prices and slightly lower unit sales. Domestic unit sales decreased 1.2%. Domestic unit sales were 90.6% of total unit sales for the three months ended March 31, 2016. International unit sales and revenues increased 14.9% and 21.8%, respectively. Our international orders may be subject to significant fluctuation over time. Overall unit sales increased 0.1%.

Gross Profit and Cost of Sales

Gross profit decreased 8.7% primarily due to lower revenues.

The average cost of manufactured products sold per unit decreased by 1.2%. Profit margins can fluctuate depending upon, among other things, the cost of manufactured product and the capitalized cost of product recorded in inventory, as well as product sales mix. Royalty expense decreased 2.5% due to decreased gross sales.

Operating Expenses

Operating expenses decreased 6.4% or $209 thousand. The decrease was primarily due to lower tax expense, principally, the Medical Device Excise Tax, lower non-litigation legal fees, and lower bad debt accrual. The decrease in expenses was mitigated by an increase in Sales and marketing costs of $50,000 related to compensation and international consulting costs.

Loss from Operations

Our operating loss was $894 thousand compared to an operating loss for the same period last year of $895 thousand due primarily to lower operating expenses offset by lower revenues.

Income Taxes

Our effective tax rate on the net loss before income taxes was (0.1)% and (0.2)% for the three months ended March 31, 2016 and March 31, 2015, respectively.

Discussion of Balance Sheet and Statement of Cash Flows

Our balance sheet remains strong with cash making up 44.9% of total assets. Working capital was $21.8 million at March 31, 2016, a decrease of $906 thousand from December 31, 2015.

Approximately $218 thousand in cash flow in the three months ended March 31, 2016 was provided by operating activities.

Table of Contents

LIQUIDITY

At the present time, Management does not intend to raise equity capital. Due to the 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. Our ability to obtain additional funds through loans is uncertain. Our financial statements do not reflect a 2015 judgment in our favor for $352 million plus post-judgment interest.

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 40.1%) 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. Typically, large international sales of VanishPoint® syringes are shipped directly from China to the customer. Purchases of product manufactured in China usually decrease the average cost of manufacture for all units. 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.

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 non-litigation legal costs and we continue to evaluate these costs. Additionally, since the beginning of 2014, we have reduced our workforce. In the future, if such cost cutting measures prove insufficient, we may reduce the number of units being produced, further reduce the workforce, further reduce the salaries of officers and other employees, and/or defer royalty payments.

Table of Contents

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. 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 sale of equity.

In our litigation against BD alleging anticompetitive conduct and false advertising, a final judgment for $352 million plus post-judgment interest and costs as well as some injunctive relief has been granted by the District Court. We have not received any of the amounts indicated by the District Court in its final judgment. BD is currently under court order to make certain disclosures regarding its exclusionary conduct to a specified class of distributors and customers. BD has appealed to the United States Court of Appeals for the Fifth Circuit. Oral argument was heard on February 29, 2016, and no order has been issued.

CAPITAL RESOURCES

There were no material commitments for capital expenditures in the first quarter of 2016. In the second quarter of 2016, we placed orders for additional injection molding machines and additional molds for use in the manufacture of the EasyPoint needle. The expenditure for this equipment is expected to be $1.4 million.

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, 2016, our disclosure controls and procedures were not effective, as discussed below.

We 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, we plan to remedy this weakness by transitioning to an 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 to have the Oracle system fully implemented by the third quarter of 2016.

Changes in Internal Control Over Financial Reporting

There have been no changes during the first quarter of 2016 or subsequent to March 31, 2016 in our internal control over financial reporting that has materially affected or is reasonably likely to materially affect our internal control over financial reporting.

Table of Contents

PART II OTHER INFORMATION

Item 1. Legal Proceedings.

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

Item 1A. Risk Factors.

There were no material changes in the Risk Factors applicable to the Company as set forth in our Form 10-K annual report for 2015 which was filed on March 30, 2016, and which is available on EDGAR.

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 21, 2016.

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, 2016, no dividends were in arrears.

Series II Class B Convertible Preferred Stock

For the three months ended March 31, 2016, no dividends were in arrears.

Series III Class B Convertible Preferred Stock

For the three months ended March 31, 2016, the amount of dividends in arrears was $32,311 and the total arrearage was $3,919,000 as of March 31, 2016.

Series IV Class B Convertible Preferred Stock

For the three months ended March 31, 2016, the amount of dividends in arrears was $85,625 and the total arrearage was $5,542,000 as of March 31, 2016.

Series V Class B Convertible Preferred Stock

For the three months ended March 31, 2016, the amount of dividends in arrears was $3,200 and the total arrearage was $974,000 as of March 31, 2016.

Item 5. Other Information.

The 2016 annual meeting will be held on September 9, 2016, at 10:00 a.m. Central time at Little Elm Town Hall; 100 West Eldorado Parkway; Little Elm, Texas 75068.

Table of Contents

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, 2016, formatted in XBRL (eXtensible Business Reporting Language): (i) Condensed Balance Sheets as of March 31, 2016 and December 31, 2015, (ii) Condensed Statements of Operations for the three months ended March 31, 2016 and 2015, (iii) Condensed Statements of Cash Flows for the three months ended March 31, 2016 and 2015, and (iv) Notes to Condensed Financial Statements

Table of Contents

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 16, 2016

RETRACTABLE TECHNOLOGIES, INC.
(Registrant)

By: /S/ DOUGLAS W. COWAN

DOUGLAS W. COWAN

VICE PRESIDENT, CHIEF FINANCIAL OFFICER,
AND CHIEF ACCOUNTING OFFICER