RETRACTABLE TECHNOLOGIES INC
Form 10-Q
November 14, 2014
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# 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 September 30, 2014**

**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**<br>**Little Elm, Texas**<br>(Address of principal executive offices) | **75068-5295**<br>(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: 27,480,692 shares of Common Stock, no par value, outstanding on November 3, 2014, excluding treasury shares.

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**RETRACTABLE TECHNOLOGIES, INC.**

**FORM 10-Q**

**For the Quarterly Period Ended September 30, 2014**

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## PART I FINANCIAL INFORMATION

**Item 1. Financial Statements.**

### RETRACTABLE TECHNOLOGIES, INC.

### CONDENSED BALANCE SHEETS

| | September 30, 2014 (unaudited) | December 31, 2013 |
|---|---|---|
| **ASSETS** | | |
| Current assets: | | |
| Cash and cash equivalents | $ 22,073,857 | $ 27,629,359 |
| Restricted cash | 600,594 | |
| Accounts receivable, net | 6,148,782 | 3,476,718 |
| Inventories, net | 4,866,725 | 5,735,589 |
| Other current assets | 604,872 | 1,065,641 |
| Total current assets | 34,294,830 | 37,907,307 |
| Property, plant, and equipment, net | 11,052,128 | 10,910,172 |
| Intangible and other assets, net | 273,011 | 279,965 |
| Total assets | $ 45,619,969 | $ 49,097,444 |
| **LIABILITIES AND STOCKHOLDERS EQUITY** | | |
| Current liabilities: | | |
| Accounts payable | $ 6,020,752 | $ 5,107,778 |
| Litigation proceeds subject to stipulation | 7,724,826 | 7,724,826 |
| Current portion of long-term debt | 159,916 | 247,064 |
| Accrued compensation | 576,661 | 815,044 |
| Dividends payable | | 57,613 |
| Accrued royalties to shareholders | 843,730 | 602,209 |
| Other accrued liabilities | 872,854 | 1,975,018 |
| Income taxes payable | 5,739 | 90,972 |
| Total current liabilities | 16,204,478 | 16,620,524 |
| Long-term debt, net of current maturities | 3,463,839 | 3,576,932 |
| Total liabilities | 19,668,317 | 20,197,456 |
| Commitments and contingencies see Note 6 | | |
| Stockholders equity: | | |
| Preferred stock $1 par value: | | |
| Series I, Class B | 103,500 | 103,500 |
| Series II, Class B | 178,700 | 178,700 |
| Series III, Class B | 130,245 | 130,245 |
| Series IV, Class B | 542,500 | 542,500 |
| Series V, Class B | 40,000 | 40,000 |
| Common stock, no par value | | |
| Additional paid-in capital | 59,091,620 | 58,983,166 |
| Retained deficit | (33,038,304) | (29,981,514) |
| Common stock in treasury at cost | (1,096,609) | (1,096,609) |
| Total stockholders equity | 25,951,652 | 28,899,988 |

| | | |
|---|---|---|
| Total liabilities and stockholders equity | $ 45,619,969 | $ 49,097,444 |

See accompanying notes to condensed financial statements

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**RETRACTABLE TECHNOLOGIES, INC.**

**CONDENSED STATEMENTS OF OPERATIONS**

**(unaudited)**

| | Three Months Ended September 30, 2014 | Three Months Ended September 30, 2013 | Nine Months Ended September 30, 2014 | Nine Months Ended September 30, 2013 |
|---|---|---|---|---|
| Sales, net | $ 10,886,680 | $ 9,160,278 | $ 23,803,420 | $ 23,240,623 |
| Cost of sales | | | | |
| Cost of manufactured product | 6,191,232 | 5,094,432 | 14,109,159 | 13,534,753 |
| Royalty expense to shareholders | 843,730 | 748,044 | 1,941,267 | 1,872,553 |
| Total cost of sales | 7,034,962 | 5,842,476 | 16,050,426 | 15,407,306 |
| Gross profit | 3,851,718 | 3,317,802 | 7,752,994 | 7,833,317 |
| Operating expenses: | | | | |
| Sales and marketing | 919,842 | 1,092,505 | 3,079,361 | 3,235,528 |
| Research and development | 129,189 | 267,991 | 506,150 | 648,224 |
| General and administrative | 2,381,799 | 2,782,623 | 7,076,688 | 8,527,295 |
| Total operating expenses | 3,430,830 | 4,143,119 | 10,662,199 | 12,411,047 |
| Income (loss) from operations | 420,888 | (825,317) | (2,909,205) | (4,577,730) |
| Interest and other income | 7,598 | 6,551 | 26,430 | 27,149 |
| Interest expense, net | (55,185) | (59,533) | (168,388) | (172,236) |
| Income (loss) before income taxes | 373,301 | (878,299) | (3,051,163) | (4,722,817) |
| Provision for income taxes | 1,876 | 62,085 | 5,627 | 65,836 |
| Net income (loss) | 371,425 | (940,384) | (3,056,790) | (4,788,653) |
| Preferred stock dividend requirements | (228,999) | (228,999) | (686,997) | (687,066) |
| Income (loss) applicable to common shareholders | $ 142,426 | $ (1,169,383) | $ (3,743,787) | $ (5,475,719) |
| Basic earnings (loss) per share | $ 0.01 | $ (0.04) | $ (0.14) | $ (0.20) |
| Diluted earnings (loss) per share | $ 0.00 | $ (0.04) | $ (0.14) | $ (0.20) |
| Weighted average common shares outstanding: | | | | |
| Basic | 27,394,061 | 26,719,608 | 27,326,966 | 27,000,158 |
| Diluted | 29,173,359 | 26,719,608 | 27,326,966 | 27,000,158 |

See accompanying notes to condensed financial statements

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**RETRACTABLE TECHNOLOGIES, INC.**

**CONDENSED STATEMENTS OF CASH FLOWS**

**(unaudited)**

| | Nine Months Ended September 30, 2014 | Nine Months Ended September 30, 2013 |
|---|---|---|
| **Cash flows from operating activities** | | |
| Net loss | $ (3,056,790) | $ (4,788,653) |
| Adjustments to reconcile net loss to net cash provided by (used by) operating activities: | | |
| Depreciation and amortization | 835,163 | 957,090 |
| Share based compensation | | 52,775 |
| Provision for doubtful accounts | | 50,000 |
| Gain on disposal of assets | | (1,000) |
| (Increase) decrease in assets: | | |
| Inventories | 868,864 | (1,122,194) |
| Accounts receivable | (2,672,064) | (1,167,368) |
| Other current assets | 460,769 | 460,253 |
| Increase (decrease) in liabilities: | | |
| Accounts payable | 912,974 | 101,609 |
| Litigation proceeds subject to stipulation | | 7,724,826 |
| Other accrued liabilities | (1,099,026) | 527,466 |
| Income taxes payable | (85,233) | 63,328 |
| Net cash provided by (used by) operating activities | (3,835,343) | 2,858,132 |
| **Cash flows from investing activities** | | |
| Purchase of property, plant, and equipment | (970,170) | (204,514) |
| Changes in restricted cash | (600,594) | |
| Proceeds from sale of assets | | 1,000 |
| Net cash used by investing activities | (1,570,764) | (203,514) |
| **Cash flows from financing activities** | | |
| Repayments of long-term debt and notes payable | (200,236) | (236,255) |
| Proceeds from the exercise of stock options | 223,680 | 37,325 |
| Repurchase of Common Stock | | (974,407) |
| Payment of Preferred Stock dividends | (172,839) | (172,839) |
| Net cash provided by (used by) financing activities | (149,395) | (1,346,176) |
| Net increase (decrease) in cash and cash equivalents | (5,555,502) | 1,308,442 |
| Cash and cash equivalents at: | | |
| Beginning of period | 27,629,359 | 25,963,313 |
| End of period | $ 22,073,857 | $ 27,271,755 |
| Supplemental schedule of cash flow information: | | |
| Interest paid | $ 168,388 | $ 182,711 |
| Income taxes paid | $ 94,029 | $ 7,988 |

See accompanying notes to condensed financial statements

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**RETRACTABLE TECHNOLOGIES, INC.**

**NOTES TO CONDENSED FINANCIAL STATEMENTS**

**(unaudited)**

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

### Business of the Company

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

### Basis of presentation

The accompanying condensed financial statements are unaudited and, in the opinion of Management, reflect all adjustments that are necessary for a fair presentation of the financial position and results of operations for the periods presented. All such adjustments are of a normal and recurring nature. The results of operations for the periods presented are not necessarily indicative of the results to be expected for the entire year. The condensed financial statements should be read in conjunction with the financial statement disclosures contained in the Company s audited financial statements incorporated into its Form 10-K filed on March 31, 2014 for the year ended December 31, 2013.

## 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, the proceeds subject to a stipulation (discussed elsewhere herein), money market accounts, and investments with original maturities of three months or less.

**Restricted cash**

Amounts pledged as collateral for an underlying letter of credit for equipment is classified as restricted cash. Changes in restricted cash have been presented as investing activities in the Condensed Statements of Cash Flows.

**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

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off when there is certainty as to their being uncollectible. Trade receivables are considered delinquent when payment has not been made within contract terms.

The Company requires certain customers to make a prepayment prior to beginning production or shipment of their order. Customers may apply such prepayments to their outstanding invoices or pay the invoice and continue to carry forward the deposit for future orders. Such amounts are included in Other accrued liabilities on the Condensed Balance Sheets and are shown in Note 5, Other Accrued Liabilities.

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

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that could be realized in a current market exchange. Short-term financial instruments, including cash and cash equivalents, accounts receivable, accounts payable, and other liabilities, consist primarily of instruments without extended maturities, the fair value of which, based on Management s estimates, equals their recorded values. The fair value of long-term liabilities, based on Management s estimates, approximates their reported values.

**Concentration risks**

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

The following table reflects our significant customers for the first three and nine months of 2014 and 2013:

| | Three Months ended September 30, 2014 | Three Months ended September 30, 2013 | Nine Months ended September 30, 2014 | Nine Months ended September 30, 2013 |
|---|---|---|---|---|
| Number of significant customers | 3 | 3 | 2 | 2 |
| Aggregate dollar amount of net sales to significant customers | $6.0 million | $4.3 million | $9.0 million | $7.6 million |
| Percentage of net sales to significant customers | 55.0% | 47.4% | 37.6% | 32.9% |

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 70.8% and 73.1% of its finished products in the first nine months of 2014 and 2013, respectively, from a Chinese manufacturer. Purchases from a Chinese manufacturer aggregated 78.3% and 75.6% of finished products in the three month periods ended September 30, 2014 and 2013, respectively. In the event that the Company becomes unable to purchase products from its 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 and deducted from revenues in the Statements of Operations. Accounts payable included estimated contractual allowances for $4,953,253 and $3,611,692 as of September 30, 2014 and December 31, 2013, respectively. The terms and conditions of contractual pricing allowances are governed by contracts between the Company and its distributors. Revenue

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for shipments directly to end-users is recognized when title and risk of ownership pass from the Company. Any product shipped or distributed for evaluation purposes is expensed.

Certain distributors have taken rebates to which they are not entitled, such as utilizing a rebate for products not purchased directly from the Company. Major customers said they have ceased the practices resulting in claiming non-contractual rebates. Rebates can only be claimed on purchases made directly from the Company. The Company has established a reserve for the collectability of these non-contractual rebate amounts. The expense for the reserve is recorded in Operating expense, General and administrative. The reserve for such non-contractual deductions is included in the allowance for doubtful accounts. There has been no change to the reserve for contractual rebates in the periods currently presented.

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

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

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

**Litigation proceeds and settlements**

Proceeds from litigation are recognized when realizable. Generally, realization is not reasonably assured and expected until proceeds are collected; however, see Note 6, COMMITMENTS AND CONTINGENCIES, for a discussion of proceeds received from Becton Dickinson and Company ( BD ) pursuant to a stipulation in the patent infringement case *Retractable Technologies, Inc. and Thomas Shaw* v. *Becton Dickinson and Company*, Civil Action No. 2:07-cv-250, in the U.S. District Court for the Eastern District of Texas, Marshall Division.

**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 utilized some of its net operating loss carry forwards in 2013 and paid Alternative Minimum Tax on its taxable income. 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 and convertible debt. The calculation of diluted EPS excluded

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1,853,154 and 1,076,523 shares of Common Stock underlying issued and outstanding stock options as of the nine months ended September 30, 2014 and September 30, 2013, respectively, as their effect was antidilutive. The potential dilution, if any, is shown on the following schedule:

| | Three Months Ended September 30, 2014 | Three Months Ended September 30, 2013 | Nine Months Ended September 30, 2014 | Nine Months Ended September 30, 2013 |
|---|---|---|---|---|
| Net income (loss) | $ 371,425 | $ (940,384) | $ (3,056,790) | $ (4,788,653) |
| Preferred dividend requirements | (228,999) | (228,999) | (686,997) | (687,065) |
| Income (loss) applicable to common shareholders after assumed conversions | $ 142,426 | $ (1,169,383) | $ (3,743,787) | $ (5,475,718) |
| Average common shares outstanding | 27,394,061 | 26,719,608 | 27,326,966 | 27,000,158 |
| Average common and common equivalent shares outstanding assuming dilution | 29,173,359 | 26,719,608 | 27,326,966 | 27,000,158 |
| Basic earnings (loss) per share | $ 0.01 | $ (0.04) | $ (0.14) | $ (0.20) |
| Diluted earnings (loss) per share | $ 0.00 | $ (0.04) | $ (0.14) | $ (0.20) |

**Shipping and handling costs**

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

**Research and development costs**

Research and development costs are expensed as incurred.

**Share-based compensation**

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

**Recent pronouncement**

In May 2014, the Financial Accounting Standards Board issued Accounting Standards Update ( 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. The ASU will be effective commencing with the Company s quarter ending March 31, 2017. The Company is currently assessing the potential impact of this ASU on its financial statements.

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**3. INVENTORIES**

Inventories consist of the following:

| | September 30, 2014 | December 31, 2013 |
|---|---|---|
| Raw materials | $ 1,544,944 | $ 1,666,525 |
| Finished goods | 4,003,176 | 4,750,459 |
| | 5,548,120 | 6,416,984 |
| Inventory reserve | (681,395) | (681,395) |
| | $ 4,866,725 | $ 5,735,589 |

**4. INCOME TAXES**

The Company s effective tax rate on the net loss before income taxes was (0.2)% and (1.4)% for the nine months ended September 30, 2014 and September 30, 2013, respectively. For the three months ended September 30, 2014 and September 30, 2013, the Company s effective tax rate on the net income (loss) before income taxes was 0.5% and (7.1)%, respectively.

**5. OTHER ACCRUED LIABILITIES**

Other accrued liabilities consist of the following:

| | September 30, 2014 | December 31, 2013 |
|---|---|---|
| Prepayments from customers | $ 378,839 | $ 1,720,896 |
| Accrued property taxes | 322,710 | |
| Accrued professional fees | 58,912 | 169,125 |
| Other accrued expenses | 112,393 | 84,997 |
| | $ 872,854 | $ 1,975,018 |

**6. COMMITMENTS AND CONTINGENCIES**

On May 19, 2010, final judgment was entered in the U.S. District Court for the Eastern District of Texas, Marshall Division for the Company which ordered that the Company recover $5,000,000 plus prejudgment and post-judgment interest, and ordered a permanent injunction for BD s 1mL and 3mL Integra syringes until the expiration of certain patents. The permanent injunction was stayed for the longer of the exhaustion of the appeal of the district court s case or twelve months from May 19, 2010. In June 2010, BD filed an appeal in the U.S. Court of Appeals for the Federal Circuit appealing the final judgment entered on May 19, 2010. In July 2011, a three-judge panel of the U.S. Court of Appeals for the Federal Circuit reversed the district court s judgment that BD s 3mL Integra infringed the Company s 224 patent and 077 patent. The U.S. Court

of Appeals for the Federal Circuit affirmed the district court s judgment that the 1mL Integra infringes the Company s 244 and 733 patents. The U.S. Court of Appeals for the Federal Circuit also affirmed the district court s judgment that the 077 patent is not invalid for anticipation or obviousness. The Company had petitioned for a rehearing by all the judges of the U.S. Court of Appeals for the Federal Circuit as to whether the three-judge panel properly construed the Company s patent claim language in finding that the 3mL Integra did not infringe. The Company s petition for rehearing by all of the judges of the U.S. Court of Appeals of the Federal Circuit was denied with two dissents being issued. The Company filed a petition for certiorari asking the Supreme Court to review the matter. That petition was denied in January of 2013. BD filed a Rule 60(b)(5) motion to Conform Judgment to Federal Circuit Mandate in the U.S. District Court for the Eastern District of Texas which sought to modify the damages award. On August 7, 2013, the U.S. District Court for the Eastern District of Texas issued an order adopting the Magistrate Judge s Report and Recommendation and denying BD s Rule 60(b)(5) motion. On October 29, 2013, BD filed its Notice of Appeal of the August 7, 2013 order denying BD s Rule 60(b)(5) motion to the U.S. Court of Appeals of the Federal Circuit. Oral argument for this appeal occurred on May 9, 2014. On July 7, 2014, the U.S. Court of Appeals for the Federal Circuit affirmed the U.S. District Court for the Eastern District of Texas decision denying BD s Rule 60(b)(5) motion to modify the damages award. On August 6, 2014, BD filed a combined

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petition for panel rehearing and rehearing en banc in the U.S. Court of Appeals for the Federal Circuit. On September 19, 2014, BD s combined petition was denied in all respects and the mandate issued on September 24, 2014. BD has until approximately December 18, 2014 to petition the Supreme Court for certiorari. On September 30, 2013, the Company received payment of $7,724,826 (the Judgment Amount ) from BD pursuant to a stipulation in this case. The stipulation provides that if, as a result of BD s appeal of the District Court s denial of BD s Rule 60(b)(5) motion, it is judicially determined that BD owes an amount less than the Judgment Amount, BD shall be entitled to restitution by the Company of any excess payment, with interest. The Judgment Amount has been reflected as a current liability in the Balance Sheets since the proceeds are not yet realizable.

In May 2010, the Company and an officer s suit against BD in the U.S. District Court for the Eastern District of Texas, Marshall Division alleging violations of antitrust acts, false advertising, product disparagement, tortious interference, and unfair competition was reopened. The Company and an officer filed a Second Amended Complaint on July 23, 2010 setting forth additional detail regarding the allegations of BD s illegal conduct. BD filed a motion to dismiss and the U.S. District Court for the Eastern District of Texas, Marshall Division denied that motion in part and granted it in part, granting the Company the right to re-plead certain allegations by May 13, 2011. The Company and an officer filed a Third Amended Complaint in May 2011, setting forth additional detail regarding the alleged illegal conduct by BD. Trial was initially set for February 2012. However, in January 2012 the parties agreed to a continuance to allow the petition for certiorari to be considered. As stated above, the petition was denied in January of 2013. A hearing to re-set a trial date in light of BD s motion for continuance was held May 3, 2013. The trial commenced on September 9, 2013 in the U.S. District Court for the Eastern District of Texas, Tyler Division, and the jury returned its verdict on September 19, 2013, finding 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 for the antitrust claim, which is subject to being trebled pursuant to statute. The Court conducted a hearing for post-trial motions in early 2014. The Court issued an order on September 30, 2014 denying BD s Renewed Motion for Judgment as a Matter of Law, or Alternatively, for New Trial or Remittitur, ruling that there was sufficient evidence for the jury to: find that BD had attempted to monopolize the safety syringe market, find that BD had engaged in false advertising under the Lanham Act, and award the Company $113,508,014 in antitrust damages. Pursuant to federal statute, antitrust damages are subject to being trebled. On November 10, 2014, the Court issued an order dealing with relief under the Lanham Act. The Court found that the remedy of disgorgement of a portion of BD s profits was appropriate but that the antitrust damages of $340 million was a sufficient disgorgement. The Court also granted injunctive relief to take effect January 15, 2015. In doing so, the Court found that BD s business practices limited innovation, including false advertisements that suppressed sales of the VanishPoint®. 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. The Court further awarded attorneys fees, but ordered the amount to be recalculated to meet the Court s guidelines. BD is expected to appeal this ruling upon entry of a final judgment which has not yet occurred. On November 10, 2014, a separate Court Order was issued directing the parties to attend mediation by January 15, 2015.

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

**7. BUSINESS SEGMENTS**

| | Three Months Ended September 30, 2014 | Three Months Ended September 30, 2013 | Nine Months Ended September 30, 2014 | Nine Months Ended September 30, 2013 |
|---|---|---|---|---|
| U.S. sales | $ 8,264,437 | $ 7,350,342 | $ 18,372,109 | $ 17,855,657 |
| North and South America sales (excluding U.S.) | 2,479,666 | 456,712 | 4,477,311 | 2,946,631 |
| Other international sales | 142,577 | 1,353,224 | 954,000 | 2,438,335 |

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| | Three Months Ended September 30, 2014 | Three Months Ended September 30, 2013 | Nine Months Ended September 30, 2014 | Nine Months Ended September 30, 2013 |
|---|---|---|---|---|
| Total sales | $ 10,886,680 | $ 9,160,278 | $ 23,803,420 | $ 23,240,623 |

| | September 30, 2014 | December 31, 2013 |
|---|---|---|
| Long-lived assets | | |
| U.S. | $ 10,837,957 | $ 10,676,053 |
| International | $ 214,171 | $ 234,119 |

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. STOCK REPURCHASE PROGRAM**

On July 10, 2012, the Company authorized a Common Stock repurchase plan structured to comply with Rules 10b5-1 and 10b-18 under the Securities Exchange Act of 1934. Under the plan, the Company purchased 316,909 and 655,818 shares in the three and nine months ended September 30, 2013, respectively. The plan was terminated effective August 30, 2013.

Pursuant to the Certificates of Designation, Preferences, Rights And Limitations of the Series I Class B and Series II Class B Convertible Preferred Stock, the Company would have been prohibited from purchasing its Common Stock while dividends were in arrears. Therefore, to facilitate the Common Stock repurchase plan, the Company paid dividends on the Series I Class B Preferred Stock in the amount of $12,938 at each date on January 21, April 22, and July 22, 2013. The Company paid dividends to Series II Class B Preferred Stockholders in the amount of $44,675 on each of the same dates listed in the preceding sentence.

**9. DIVIDENDS**

On December 20, 2013, April 1, 2014, and June 25, 2014, the Board of Directors announced dividends on the Series I Class B Preferred Stock in the amount of $12,938 on each date which were paid on January 20, 2014, April 21, 2014, and July 21, 2014. The Company also announced and paid dividends to Series II Class B Preferred Stockholders in the amount of $44,675 on the same dates. See Note 8 for information about dividends paid during the term of the Stock Repurchase Program.

**10. SUBSEQUENT EVENTS**

See Note 6 regarding Orders issued on November 10, 2014 in the Company s and an officer s suit against BD alleging violations of antitrust acts, false advertising, and other claims.

**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.

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

*Overview*

We have been manufacturing and marketing our products since 1997. Safety syringes comprised 97.3% of our sales in the first nine months of 2014. 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.

On June 17, 2014, we received notice of substantial equivalence from the Food and Drug Administration for 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 obtain blood collection. We have not yet begun manufacturing the EasyPoint needle.

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, and physician services.

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 exclusive marketing practices engaged in by BD, the dominant maker and seller of disposable syringes. On November 10, 2014, we received an Order in our litigation against BD alleging anticompetitive conduct and false advertising. The Court found that the remedy of disgorgement of a portion of BD s profits was appropriate but that the antitrust damages of $340 million was a sufficient disgorgement. This disgorgement has not yet been received. The Order also granted injunctive relief requiring BD to engage in corrective advertising and comprehensive training programs by January 15, 2015. The Court further awarded attorneys fees, but ordered the amount to be recalculated to meet the Court s guidelines. BD is expected to appeal this ruling upon entry of a final judgment which has not yet occurred. On November 10, 2014, a separate Court Order was issued directing the parties to attend mediation by January 15, 2015.

On September 30, 2013, we received payment of $7,724,826 (the Judgment Amount ) from BD pursuant to a stipulation in the patent infringement case *Retractable Technologies, Inc. and Thomas Shaw* v. *Becton Dickinson and Company*, Civil Action No. 2:07-cv-250, in the U.S. District Court for the Eastern District of Texas, Marshall Division. The stipulation provides that if, as a result of BD s appeal of the District Court s denial of BD s Rule 60(B)(5) motion, it is judicially determined that BD owes an amount less than the Judgment Amount, BD shall be

entitled to restitution by us of any excess payment, with interest. Otherwise, the payment of the Judgment Amount shall constitute satisfaction of the patent infringement judgment and BD shall owe no further money damages to us in the patent infringement case. The Judgment Amount is included as cash on the balance sheet and shown as a liability on the balance sheet under Litigation proceeds subject to stipulation . The Judgment Amount is only related to the patent infringement portion of the claims against BD. We have determined not to use the Judgment Amount to fund operations yet.

In the first nine months of 2014, we took steps to decrease our non-litigation legal costs. We expect such costs to remain lower in the future. For the first nine months of 2014, our non-litigation legal costs were reduced by approximately $1.1 million. Additionally, effective May 9, 2014, we reduced our workforce by 13.7% in an effort to cut costs. We paid $206 thousand in severance costs in the second and third quarters of 2014. In May and July of 2014, we reduced all executive officers salaries by at least 10%. In the future, if such cost cutting measures prove

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insufficient, we may reduce the number of units being produced, further reduce the workforce, further reduce the salaries of officers as well as other employees, and/or defer royalty payments.

Section 4191 of the Internal Revenue Code, enacted by the Health Care and Education Reconciliation Act of 2010 in conjunction with the Patient Protection and Affordable Care Act provides for an excise tax of 2.3% on medical devices. At the present time, the excise tax is applicable to domestic sales of our products, except those which are sold to exempt organizations. The majority of our sales are domestic and not in the retail market. The tax is imposed on sales, not profits. We have not passed this tax along to our customers. We expect the impact of this tax to be approximately $750,000 in 2014.

On July 10, 2012, the Company authorized a Common Stock repurchase plan structured to comply with Rules 10b5-1 and 10b-18 under the Securities Exchange Act of 1934. The plan was terminated effective August 30, 2013. Under the plan, we purchased a total of 722,920 shares of our Common Stock.

Pursuant to the Certificates of Designation, Preferences, Rights And Limitations of the Series I Class B and Series II Class B Convertible Preferred Stock, we would be prohibited from purchasing our Common Stock while dividends were in arrears. Therefore, to facilitate the Common Stock repurchase plan, we paid quarterly dividends on the Series I Class B and Series II Class B Preferred Stock during the term of the repurchase plan. Notwithstanding the termination of the repurchase plan, the Board of Directors authorized dividends to be paid to the Series I Class B and Series II Class B Preferred Stockholders in certain successive quarters. Dividends were paid on November 11, 2013, January 20, 2014, April 21, 2014, and July 21, 2014 each in the cumulative amount of $57,613.

Product purchases from our Chinese manufacturer have enabled us to increase manufacturing capacity with little capital outlay and have provided a competitive manufacturing cost. In the nine months ended September 30, 2014, our Chinese manufacturer produced approximately 70.8% of our units. In the event that we become unable to purchase products from our Chinese manufacturer, we would need to find an alternate manufacturer for the 0.5mL insulin 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.

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

The following discussion may contain trend information and other forward-looking statements that involve a number of risks and uncertainties. Our actual future results could differ materially from our historical results of operations and those discussed in any forward-looking statements. Dollar amounts have been rounded for ease of reading. All period references are to the periods ended September 30, 2014 or 2013.

**RESULTS OF OPERATIONS**

The following table contains selected information from our condensed statements of operations, expressed as a percentage of revenue:

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| | **2014** | **2013** | **2014** | **2013** |
| Cost of sales | | | | |
| Cost of manufactured product | 56.9% | 55.6% | 59.3% | 58.2% |
| Gross profit | 35.4 | 36.2 | 32.6 | 33.7 |

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| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| | 2014 | 2013 | 2014 | 2013 |
| Operating expenses: | | | | |
| Sales and marketing | 8.4 | 11.9 | 12.9 | 13.9 |
| Research and development | 1.2 | 2.9 | 2.1 | 2.8 |
| General and administrative | 21.9 | 30.4 | 29.8 | 36.7 |
| Total operating expenses | 31.5 | 45.2 | 44.8 | 53.4 |
| Income (loss) from operations | 3.9 | (9.0) | (12.2) | (19.7) |
| Net interest expense | (0.5) | (0.6) | (0.6) | (0.7) |
| Provision for income taxes | 0.0 | 0.6 | 0.0 | 0.3 |
| Net income (loss) | 3.4% | (10.3) | (12.8)% | (20.6)% |

*Comparison of Three Months Ended September 30, 2014 and September 30, 2013*

Sales

Domestic sales accounted for 75.9% and 80.2% of the revenues for the three months ended September 30, 2014 and 2013, respectively. Domestic revenues increased 12.4% principally due to increased overall demand domestically and higher average sales prices. Domestic unit sales increased 3.3%. Domestic unit sales were 63.7% of total unit sales for the three months ended September 30, 2014. International revenue and unit sales increased 44.9% and 54.6%, respectively, due to increased demand from a small number of existing customers. The timing of our international sales can be quite volatile. Overall unit sales increased 17.4%.

Gross Profit and Cost of Sales

Gross profit increased 16.1% primarily due to increased sales volume. Gross profit as a percentage of net sales was 35.4% in the three months ended September 30, 2014 as compared to 36.2% in 2013 due to higher average sales prices.

The average cost of manufactured products sold per unit increased by 3.5%. Profit margins can fluctuate depending upon, among other things, the cost of manufactured product and the capitalized cost of product recorded in inventory, as well as product sales mix. Royalty expense increased 12.8% due to higher gross sales.

Operating Expenses

Operating expenses decreased 17.2% or $712 thousand. The decrease was due to a reduction of legal expenses, a reduction of compensation costs due to layoffs and salary reductions, and a reduction in engineering costs.

Gain from Operations

We had a gain from operations of $421 thousand compared to an operating loss for the same period last year of $825 thousand due primarily to improved sales volumes.

Income Taxes

Our effective tax rate on the net loss before income taxes was 0.5% and (7.1)% for the three months ended September 30, 2014 and September 30, 2013, respectively.

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*Comparison of Nine Months Ended September 30, 2014 and September 30, 2013*

Sales

Domestic sales accounted for 77.2% and 76.8% of the revenues for the nine months ended September 30, 2014 and 2013, respectively. Domestic revenues increased 2.9%. Domestic unit sales increased 1.6%. Domestic unit sales were 67.9% of total unit sales for the nine months ended September 30, 2014. International revenue increased 0.9% and international unit sales decreased 3.2%. The timing of our international sales can be quite volatile. Overall unit sales were flat.

Gross Profit and Cost of Sales

Gross profit decreased 1.0% primarily due to higher average sales prices. Gross profit as a percentage of net sales was 32.6% in the nine months ended September 30, 2014 as compared to 33.7% in 2013 due to higher volumes mitigated by higher manufacturing costs.

The average cost of manufactured products sold per unit increased by 4.3% principally due to scrapped product. Profit margins can fluctuate depending upon, among other things, the cost of manufactured product and the capitalized cost of product recorded in inventory, as well as product sales mix. Royalty expense increased 3.7% due to higher gross sales.

Operating Expenses

Operating expenses decreased 14.1% or $1.7 million. The decrease was due to a reduction in legal expenses, a reduction of compensation costs due to layoffs and salary reductions, lower levels of donated product, and a reduction in engineering costs.

Loss from Operations

Our operating loss was $2.9 million compared to an operating loss for the same period last year of $4.6 million due primarily to reduced expenses.

Income Taxes

Our effective tax rate on the net loss before income taxes was (0.2)% and (1.4)% for the nine months ended September 30, 2014 and September 30, 2013, respectively.

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

Our balance sheet remains strong with cash making up 48.4% of total assets. Working capital was $18.1 million at September 30, 2014, a decrease of $3.2 million from December 31, 2013.

Approximately $3.9 million in cash flow in the nine months ended September 30, 2014 was used by operating activities. Our cash balance was positively affected in the third quarter of 2013 by the receipt of litigation proceeds subject to a stipulation (discussed elsewhere herein).

For the six months ended June 30, 2014, net cash used by operating activities was $3.7 million. For the nine months ended September 30, 2014, net cash used by operating activities was $3.8 million, an increase of cash used by operations of $100 thousand. This third quarter improvement in cash flows over the previous two quarters is the result of improved gross profit and lower operating expenses attributable to cost cutting measures discussed earlier.

**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.

The note payable to Deutsche Leasing USA, Inc. in the original principal amount of $327,726 was paid in full in April 2014 and the note payable to Deutsche Leasing USA, Inc. in the original principal amount of $207,260 will be paid in full by the end of November 2014. The monthly payment for the loan which matured in April was $9,900 and the monthly payment for the loan which will mature by the end of November is $6,300.

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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 break even quarters, we need minimal 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 26.4%) 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. 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 manufacturer 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 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 first nine months of 2014, we took steps to decrease our non-litigation legal costs and we expect such costs to remain lower in the future. Additionally, effective May 9, 2014, we reduced our workforce by 13.7% in an effort to cut costs. In May and July of 2014, we also reduced all executive officers salaries by at least 10%. 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.

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.

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On September 30, 2013, we received payment of $7,724,826 from BD pursuant to a stipulation (discussed elsewhere herein) in the patent infringement case *Retractable Technologies, Inc. and Thomas Shaw* v. *Becton Dickinson and Company*, Civil Action No. 2:07-cv-250, in the U.S. District Court for the Eastern District of Texas, Marshall Division. Such amount is included as cash on the balance sheet and shown as a liability on the balance sheet under Litigation proceeds subject to stipulation .

On November 10, 2014, we received an Order in our litigation against BD alleging anticompetitive conduct and false advertising. The Court found that the remedy of disgorgement of a portion of BD s profits was appropriate but that the antitrust damages of $340 million was a sufficient disgorgement. This disgorgement has not yet been received. The Order also granted injunctive relief requiring BD to engage in corrective advertising and comprehensive training programs by January 15, 2015. The Court further awarded attorneys fees, but ordered the amount to be recalculated to meet the Court s guidelines. BD is expected to appeal this ruling upon entry of a final judgment which has not yet occurred. On November 10, 2014, a separate Court Order was issued directing the parties to attend mediation by January 15, 2015.

**CAPITAL RESOURCES**

Repurchase of Common Stock

On July 10, 2012, the Company authorized a Common Stock repurchase plan structured to comply with Rules 10b5-1 and 10b-18 under the Securities Exchange Act of 1934. The plan was terminated effective August 30, 2013. Under the plan, we purchased a total of 722,920 shares of our Common Stock.

Purchase of Equipment

We are still in the process of purchasing manufacturing equipment and molds for the manufacture of our EasyPoint™ needle in the amount of $1.5 million. We are funding the purchase with existing funds.

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

No update.

**Item 4. Controls and Procedures.**

Disclosure Controls and Procedures

Pursuant to Rule 13a-15(b) of the Securities Exchange Act of 1934, Management, with the participation of our President, Chairman, and Chief Executive Officer, Thomas J. Shaw (the CEO ), and our Vice President and Chief Financial Officer, Douglas W. Cowan (the CFO ), acting in their capacities as our principal executive and principal financial officers, evaluated the effectiveness of our disclosure controls and procedures, as defined in Rule 13a-15(e) under the Securities Exchange Act of 1934. The term disclosure controls and procedures means controls and other procedures that are designed to ensure that information required to be disclosed by us in our periodic reports is: i) recorded, processed, summarized, and reported, within the time periods specified in the Securities and Exchange Commission s rules and forms; and ii) accumulated and communicated to our Management, including our principal executive and principal financial officers, as appropriate to allow timely decisions regarding required disclosure. Based upon this evaluation, the CEO and CFO concluded that, as of September 30, 2014, our disclosure controls and procedures were effective.

Changes in Internal Control Over Financial Reporting

There have been no changes during the third quarter of 2014 or subsequent to September 30, 2014 in our internal control over financial reporting that has materially affected or is reasonably likely to materially affect our internal control over financial reporting.

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## 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 2013 which was filed on March 31, 2014, and which is available on EDGAR.

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

Working Capital Restrictions and Limitations on the Payment of Dividends

The 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.

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

Series I Class B Convertible Preferred Stock

For the nine months ended September 30, 2014, the amount of dividends in arrears was $13,000 and the total arrearage was $13,000 as of September 30, 2014.

Series II Class B Convertible Preferred Stock

For the nine months ended September 30, 2014, the amount of dividends in arrears was $45,000 and the total arrearage was $45,000 as of September 30, 2014.

Series III Class B Convertible Preferred Stock

For the nine months ended September 30, 2014, the amount of dividends in arrears was $98,000 and the total arrearage was $3,725,000 as of September 30, 2014.

Series IV Class B Convertible Preferred Stock

For the nine months ended September 30, 2014, the amount of dividends in arrears was $407,000 and the total arrearage was $7,831,000 as of September 30, 2014.

Series V Class B Convertible Preferred Stock

For the nine months ended September 30, 2014, the amount of dividends in arrears was $10,000 and the total arrearage was $952,000 as of September 30, 2014.

**Item 6. Exhibits.**

| Exhibit No. | Description of Document |
|---|---|
| 10.1 | First Amended 2008 Stock Option Plan |
| 31.1 | Certification of Principal Executive Officer |
| 31.2 | Certification of Principal Financial Officer |
| 32 | Certification Pursuant to 18 U.S.C. Section 1350 |
| 101 | The following materials from Retractable Technologies, Inc. s Form 10-Q for the quarter ended September 30, 2014, formatted in XBRL (eXtensible Business Reporting Language): (i) Condensed Balance Sheets as of September 30, 2014 and December 31, 2013, (ii) Condensed Statements of Operations for the nine months and three months ended September 30, 2014 and 2013, (iii) Condensed Statements of Cash Flows for the nine months ended September 30, 2014 and 2013, and (iv) Notes to Condensed Financial Statements |

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**SIGNATURES**

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

DATE: November 14, 2014

RETRACTABLE TECHNOLOGIES, INC.
(Registrant)

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

VICE PRESIDENT,

CHIEF FINANCIAL OFFICER, AND
CHIEF ACCOUNTING OFFICER