RETRACTABLE TECHNOLOGIES INC
Form 10-Q
May 13, 2011

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, 2011

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**	**75068-0009**
(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 o 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: 24,000,914 shares of Common Stock, no par value, issued and outstanding on May 2, 2011.

RETRACTABLE TECHNOLOGIES, INC.

FORM 10-Q

For the Quarterly Period Ended March 31, 2011

TABLE OF CONTENTS

PART I FINANCIAL INFORMATION

Item 1. Financial Statements.

RETRACTABLE TECHNOLOGIES, INC.

CONDENSED BALANCE SHEETS

	March 31, 2011 (unaudited)	December 31, 2010
ASSETS		
Current assets:		
Cash and cash equivalents	$ 24,599,805	$ 23,266,039
Accounts receivable, net	7,611,042	7,582,062
Inventories, net	6,995,668	8,682,191
Income taxes receivable	12,031	12,031
Other current assets	249,607	681,244
Total current assets	39,468,153	40,223,567
Property, plant, and equipment, net	12,443,917	12,560,592
Intangible and other assets, net	396,050	406,910
Total assets	$ 52,308,120	$ 53,191,069
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities:		
Accounts payable	$ 3,142,406	$ 3,847,966
Current portion of long-term debt	529,406	519,611
Accrued compensation	493,488	603,484
Accrued royalties to shareholders	797,288	949,619
Other accrued liabilities	2,471,372	3,910,428
Income taxes payable	60,182	155,000
Total current liabilities	7,494,142	9,986,108
Long-term debt, net of current maturities	4,167,812	4,304,460
Total liabilities	11,661,954	14,290,568
Commitments and contingencies see Note 6		
Stockholders equity:		
Preferred stock $1 par value:		
Series I, Class B	144,000	144,000
Series II, Class B	219,700	219,700
Series III, Class B	130,245	130,245
Series IV, Class B	552,500	552,500
Series V, Class B	1,232,571	1,232,571
Common stock, no par value		
Additional paid-in capital	57,696,445	57,674,737
Retained deficit	(19,329,295)	(21,053,252)
Total stockholders equity	40,646,166	38,900,501
Total liabilities and stockholders equity	$ 52,308,120	$ 53,191,069

See accompanying notes to condensed financial statements

RETRACTABLE TECHNOLOGIES, INC.

CONDENSED STATEMENTS OF OPERATIONS

(unaudited)

	Three Months Ended March 31, 2011	Three Months Ended March 31, 2010
Sales, net	$ 9,747,632	$ 8,465,617
Cost of sales		
Cost of manufactured product	5,759,837	4,409,571
Royalty expense to shareholders	697,288	605,242
Total cost of sales	6,457,125	5,014,813
Gross profit	3,290,507	3,450,804
Operating expenses:		
Sales and marketing	758,377	850,016
Research and development	190,280	182,208
General and administrative	2,441,755	4,439,240
Impairment of assets		163,039
Total operating expenses	3,390,412	5,634,503
Loss from operations	(99,905)	(2,183,699)
Interest and other income	15,977	5,680
Interest expense, net	(56,933)	(90,852)
Litigation settlements, net	1,900,000	
Income (loss) before income taxes	1,759,139	(2,268,871)
Provision for income taxes	35,182	2,625
Net income (loss)	1,723,957	(2,271,496)
Preferred stock dividend requirements	(342,217)	(342,717)
Earnings (loss) applicable to common shareholders	$ 1,381,740	$ (2,614,213)
Basic earnings (loss) per share	$ 0.06	$ (0.11)
Diluted earnings (loss) per share	$ 0.05	$ (0.11)
Weighted average common shares outstanding:		
Basic	23,986,114	23,825,149
Diluted	26,664,597	23,825,149

See accompanying notes to condensed financial statements

RETRACTABLE TECHNOLOGIES, INC.

CONDENSED STATEMENTS OF CASH FLOWS

(unaudited)

	Three Months Ended March 31, 2011	Three Months Ended March 31, 2010
Cash flows from operating activities		
Net income (loss)	$ 1,723,957	$ (2,271,496)
Adjustments to reconcile net income (loss) to net cash provided by (used by) operating activities:		
Depreciation and amortization	327,577	429,365
Stock option compensation		673,293
Provisions for doubtful accounts	167,000	
Provision for inventory valuation	52,835	
Accreted interest	5,695	8,917
Impairment of assets		163,039
(Increase) decrease in assets		
Inventories	1,633,688	(1,594,570)
Accounts receivable	(195,980)	4,781,859
Other current assets	431,637	(117,690)
Increase (decrease) in liabilities		
Accounts payable	(705,560)	(910,575)
Other accrued liabilities	(1,701,383)	216,567
Income taxes payable	(94,818)	
Net cash provided by operating activities	1,644,648	1,378,709
Cash flows from investing activities		
Purchase of property, plant, and equipment	(200,042)	(36,842)
Net cash used by investing activities	(200,042)	(36,842)
Cash flows from financing activities		
Repayments of long-term debt and notes payable	(132,548)	(151,609)
Proceeds from the exercise of stock options	21,708	
Net cash used by financing activities	(110,840)	(151,609)
Net increase in cash and cash equivalents	1,333,766	1,190,258
Cash and cash equivalents at:		
Beginning of period	23,266,039	18,126,084
End of period	$ 24,599,805	$ 19,316,342
Supplemental disclosures of cash flow information:		
Interest paid	$ 69,229	$ 100,429
Income taxes paid	$ 130,000	$ 12,278

See accompanying notes to condensed financial statements

RETRACTABLE TECHNOLOGIES, INC.

NOTES TO CONDENSED FINANCIAL STATEMENTS

(unaudited)

1. BUSINESS OF THE COMPANY AND BASIS OF PRESENTATION

Business of the Company

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

Basis of presentation

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Accounting estimates

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

Cash and cash equivalents

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

Accounts receivable

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

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

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

The Company records an allowance for estimated returns as a reduction to Accounts receivable and Gross sales. Historically, returns have been less than 0.5% of net sales.

Inventories

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

Property, plant, and equipment

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

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

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

Long-lived assets

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

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

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

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

Intangible assets

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

Financial instruments

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

Concentration risks

The Company s financial instruments exposed to concentrations of credit risk consist primarily of cash, cash equivalents, and accounts receivable. Cash balances, some of which exceed federally insured limits, are maintained in financial institutions; however, Management believes the institutions are of high credit quality. The majority of accounts receivable are due from companies which are well-established entities. As a consequence, Management considers any exposure from concentrations of credit risks to be limited. The Company had a high concentration of sales with three significant customers accounting for approximately $4.2 million, or 43.1% of net sales in the first quarter of 2011.

The Company manufactures syringes in Little Elm, Texas as well as utilizing manufacturers in China. The Company purchases most of its product components from single suppliers, including needle adhesives and packaging materials. There are multiple sources of these materials. The Company obtained roughly 64% of its finished products in the first three months of 2011 from Double Dove, a Chinese manufacturer. In the event that the Company becomes unable to purchase such product from Double Dove, the Company would need to find an alternate supplier for its 0.5mL insulin syringe, its 5mL and 10mL syringes and its autodisable syringe and increase domestic production for 1mL and 3mL syringes to avoid a disruption in supply.

Revenue recognition

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

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

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

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

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

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

Litigation settlements

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

Income taxes

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

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

Earnings per share

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

	Three Months Ended March 31, 2011	Three Months Ended March 31, 2010
Net income (loss)	$ 1,723,957	$ (2,271,496)
Preferred dividend requirements	(342,217)	(342,717)
Earnings (loss) available to common shareholders after assumed conversions	$ 1,381,740	$ (2,614,213)
Average common shares outstanding	23,986,114	23,825,419
Dilutive stock equivalents from stock options	2,678,483	
Average common and common equivalent shares outstanding - assuming dilution	26,664,597	23,825,419
Basic earnings per share	$ 0.06	$ (0.11)
Diluted earnings per share	$ 0.05	$ (0.11)

Shipping and handling costs

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

Research and development costs

Research and development costs are expensed as incurred.

Share-based compensation

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

	Three Months Ended March 31, 2011	Three Months Ended March 31, 2010
Cost of sales	$	$ 91,446
Sales and marketing		42,315
Research and development		14,129
General and administrative		525,403
	$	$ 673,293

All stock options were fully vested at June 30, 2010; therefore, all stock option expense was fully recognized at June 30, 2010.

3. INVENTORIES

Inventories consist of the following:

	March 31, 2011	December 31, 2010
Raw materials	$ 1,371,551	$ 1,401,930
Finished goods	5,882,552	7,485,861
	7,254,103	8,887,791
Inventory reserve	(258,435)	(205,600)
	$ 6,995,668	$ 8,682,191

4. INCOME TAXES

The Company s effective tax rate on the net income (loss) before income taxes was 2.0% and 0.1% for the three months ended March 31, 2011 and March 31, 2010, respectively.

5. OTHER ACCRUED LIABILITIES

Other accrued liabilities consist of the following:

	March 31, 2011	December 31, 2010
Prepayments from customers	$ 2,106,997	$ 3,555,272
Accrued property taxes	118,409	
Accrued professional fees	167,806	288,942
Other accrued expenses	78,160	66,214
	$ 2,471,372	$ 3,910,428

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

6. COMMITMENTS AND CONTINGENCIES

In June 2010, Becton Dickinson and Company (BD) filed an appeal in the U.S. Court of Appeals for the Federal Circuit appealing a final judgment entered on May 19, 2010 for the Company and against BD s counterclaims in patent litigation. Such final judgment ordered that the Company recover $5,000,000 plus prejudgment interest, and ordered a permanent injunction for BD s 1mL and 3mL Integra syringes until the expiration of certain patents. The permanent injunction was stayed for the longer of the exhaustion of the appeal of the district court s case or twelve months from May 19, 2010. Briefing for the appeal has been completed and oral argument took place March 10, 2011. At this time, a final decision by the appellate court is anticipated to occur in 2011.

In May 2010, the Company and an officer s suit against BD in the U.S. District Court for the Eastern District of Texas, Marshall Division alleging violations of antitrust acts, false advertising, product disparagement, tortious interference, and unfair competition was reopened. The Company and an officer filed a Second Amended Complaint on July 23, 2010 setting forth additional detail regarding the allegations of BD s illegal conduct. BD filed a motion to dismiss and the Court denied that motion in part and granted it in part, granting the Company the right to re-plead certain allegations by May 13, 2011. A scheduling conference was held on January 31, 2011 and a trial date was set for January 10, 2012.

In September 2007, BD and MDC Investment Holdings, Inc. (MDC) sued the Company in the United States District Court for the Eastern District of Texas, Texarkana Division, initially alleging that the Company is infringing two U.S. patents of MDC (6,179,812 and 7,090,656) that are licensed to BD. BD and MDC seek injunctive relief and unspecified damages. The Company counterclaimed for declarations of

non-infringement, invalidity, and unenforceability of the asserted patents. The plaintiffs subsequently dropped allegations with regard to patent no. 7,090,656 and the Company subsequently dropped its counterclaims for unenforceability of the asserted patents. The Court conducted a claims construction hearing on September 25, 2008 and issued its claims construction order on November 14, 2008. A trial date has been set for February 14, 2012.

7. BUSINESS SEGMENTS

		March 31, 2011		**March 31, 2010**
U.S. sales	$	7,303,238	$	7,459,400
North and South America sales (excluding U.S.)		2,259,320		562,741
Other international sales		185,074		443,476
Total sales	$	9,747,632	$	8,465,617

	March 31, 2011	December 31, 2010
Long-lived assets		
U.S.	$ 12,186,591	$ 12,297,942
International	$ 257,326	$ 262,650

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

8. SUBSEQUENT EVENTS

The Company purchased three molding machines in the second quarter of 2011 for $327,726. The purchase was financed by Deutsche Leasing U.S.A. The loan is for 36 months at 5.6%. The monthly payments are $9,510.

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

FORWARD-LOOKING STATEMENT WARNING

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

MATERIAL CHANGES IN FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Overview

We have been manufacturing and marketing our products into the marketplace since 1997. Safety syringes comprised 92.6% of our sales in the first three months of 2011. We currently provide other safety medical products in addition to safety syringe products. One such product is the

Patient Safe® syringe, which is uniquely designed to reduce the risk of bloodstream infections resulting from catheter hub contamination.

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

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

We believe that BD s monopolistic business practices continue despite a prior settlement in 2004 for anticompetitive practices and a patent infringement verdict in 2010. A suit against BD is currently pending alleging violations of state and federal antitrust acts and false advertising.

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

In the event we continue to have only limited market access, and the cash provided by the litigation settlements and generated from operations becomes insufficient, we would take additional cost cutting measures to reduce cash requirements. Such measures could result in the reduction of units being produced, the reduction of workforce, the reduction of salaries of officers and other nonhourly employees, and the deferral of royalty payments. We took such actions at the end of the second quarter of 2009.

At the end of the second quarter of 2009, we announced that in the interest of the long-term survival of the Company we would reorganize some of the Company s functions and implement staff reductions, all in order to minimize our cash expenditures and conserve our resources. Our workforce was reduced by 16% on July 1, 2009. However, due to the increase in production from sales to the Department of Health and Human Services, we increased the workforce at the Little Elm facility beginning in the latter part of the third quarter of 2009. Salaries for all personnel above a certain salary level were cut by 10% in 2009. Although salary reductions remain in place, we granted payments to our employees to offset the salary reductions in 2010. Stock option expense also declined as all options vested in the second quarter of 2010 and were fully amortized at that time.

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

Effective July 12, 2010, we entered into a settlement agreement with Abbott and Hospira. In connection with this settlement agreement, we granted Hospira an exclusive one-year option to negotiate a licensing agreement for certain uses of our Patient Safe® syringe. It has not exercised its option. As part of the option fee, we received from Hospira payments of $2 million in the first quarter of 2011 and $2 million in the second quarter of 2011. We expect another payment of $2 million in the third quarter of 2011.

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

Product purchases from Double Dove, a Chinese manufacturer, have enabled us to increase manufacturing capacity with little capital outlay and have provided a competitive manufacturing cost. In the three months ended March 31, 2011, Double Dove manufactured approximately 64% of the units we produced. We believe we could make up any long-term disruption in these purchases by utilizing more of the capacity at the Little Elm facility, except for the 0.5mL insulin syringe, the 5mL and 10mL syringes, and the autodisable syringe which altogether comprised about 3.3% of our revenues for the three months ended March 31, 2011.

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

The following discussion may contain trend information and other forward-looking statements that involve a number of risks and uncertainties. Our actual future results could differ materially from our historical results of operations and those discussed in any forward-looking statements. Variances have been rounded for ease of reading. All period references are to the periods ended March 31, 2011 or 2010.

RESULTS OF OPERATIONS

Comparison of Three Months Ended March 31, 2011 and March 31, 2010

Domestic sales accounted for 74.9% and 88.2% of the revenues for the three months ended March 31, 2011 and 2010, respectively. International sales accounted for the remaining revenues. Domestic revenues decreased 2.1% principally due to lower average prices mitigated by higher volumes. International revenues increased 142.9% due to higher volumes as well as higher prices. Overall, unit sales increased 32.4%. Domestic unit sales increased 9.6%. International unit sales increased 112.6%. Domestic unit sales were 64.6% of total unit sales for the three months ended March 31, 2011.

Gross profit decreased 4.6% primarily due to lower average domestic sales prices. The average cost of manufactured product sold per unit decreased by 1.3%. 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 15.2% due to higher gross sales.

Operating expenses decreased 39.8% or $2.2 million. The decrease in General and administrative expense was the most significant. The decrease of $2.0 million in General and administrative expense was due mainly to the reduction in litigation costs and some decrease in employee expenses, principally stock option expense. Patent maintenance fees increased. Sales and marketing expense decreased $92 thousand due principally to reduced employee expenses. There were no impairment charges in 2011. Research and development costs were flat.

Our operating loss was $100 thousand compared to an operating loss for the same period last year of $2.2 million.

Interest expense decreased due to lower loan balances.

Litigation settlements, net reflects cash proceeds of $2.0 million from Hospira less royalty expense of $100,000.

Our effective tax rate on the net income (loss) before income taxes was 2.0% and 0.1% for the three months ended March 31, 2011 and March 31, 2010, respectively.

Discussion of Balance Sheet and Statement of Cash Flow Items

Our balance sheet remains strong with cash making up 47.0% of total assets. Working capital was $31.9 million at March 31, 2011, an increase of $1.7 million from December 31, 2010.

We expect to continue moving the manufacturing of piece parts to Little Elm as a cost saving measure. Finished goods inventory decreased 21.4% since December 31, 2010 because inventory was sold at a faster rate than production.

Approximately $1.6 million in cash flow in the first quarter of 2011 was provided by operating activities. Uses of cash were primarily for payments of liabilities.

LIQUIDITY

Historical Sources of Liquidity

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

Internal Sources of Liquidity

Margins and Market Access

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

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

Fluctuations in the cost and availability of raw materials and inventory and our ability to maintain favorable supplier arrangements and relationships could result in the need to manufacture all (as opposed to 35.5%) of our products in the U.S. This could temporarily increase unit costs as we ramp up domestic production.

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

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

Seasonality

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

Licensing Agreement

Pursuant to a settlement agreement among us, Abbott, and Hospira effective July 12, 2010 (the Effective Date), Hospira was granted an exclusive one-year option to negotiate a licensing agreement to produce and market our Patient Safe® syringe for certain uses. In exchange for the option, Hospira shall pay us $2 million per quarter for four quarters, beginning three months from the Effective Date and every three months thereafter, for a total of $8 million. We have received $6 million thus far, including a payment in the second quarter of 2011. In the event a licensing agreement is entered into, any remaining portion of the option fee shall, when paid, be credited against royalties payable by Hospira to the Company.

Cash Requirements

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

External Sources of Liquidity

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

Effective July 12, 2010, we entered into a settlement agreement with Abbott and Hospira. In connection with this settlement agreement, we granted Hospira an exclusive one-year option to negotiate a licensing agreement for certain uses of our Patient Safe® syringe. It has not exercised its option. As part of the option fee, we received from Hospira payments of $2 million in the first quarter of 2011 and $2 million in the second quarter of 2011. We expect another payment of $2 million in the third quarter of 2011.

CAPITAL RESOURCES

Material Commitments for Capital Expenditures

We purchased three molding machines in the second quarter of 2011 for $327,726. The purchase was financed by Deutsche Leasing U.S.A. The loan is for 36 months at 5.6%. The monthly payments are $9,510.

Trends in Capital Resources

Interest expense will increase due to the reduction of capitalized interest at the present time. It may also be affected by additional loans or rising interest rates. Interest income may continue to be negatively affected by lower interest rates and our prior movement of cash to U.S. Treasury bills and other U.S. government backed securities. Although we believe that we have granted credit to credit-worthy firms, current economic conditions may affect the timing and/or collectability of some accounts.

CONTRACTUAL OBLIGATIONS

We purchased three molding machines in the second quarter of 2011 for $327,726. The purchase was financed by Deutsche Leasing U.S.A. The loan is for 36 months at 5.6%. The monthly payments are $9,510.

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, 2011, our disclosure controls and procedures were effective.

Changes in Internal Control Over Financial Reporting

There have been no changes during the first quarter of 2011 or subsequent to March 31, 2011 in our internal control over financial reporting that has materially affected or is reasonably likely to materially affect our internal control over financial reporting.

PART II OTHER INFORMATION

Item 1. Legal Proceedings.

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

Item 1A. Risk Factors.

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

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

Working Capital Restrictions and Limitations on the Payment of Dividends

The 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

As of the three months ended March 31, 2011, the amount of dividends in arrears was $18,000 and the total arrearage was $54,000.

Series II Class B Convertible Preferred Stock

As of the three months ended March 31, 2011, the amount of dividends in arrears was $55,000 and the total arrearage was $165,000.

Series III Class B Convertible Preferred Stock

As of the three months ended March 31, 2011, the amount of dividends in arrears was $33,000 and the total arrearage was $3,409,000.

Series IV Class B Convertible Preferred Stock

As of the three months ended March 31, 2011, the amount of dividends in arrears was $138,000 and the total arrearage was $6,120,000.

Series V Class B Convertible Preferred Stock

As of the three months ended March 31, 2011, the amount of dividends in arrears was $99,000 and the total arrearage was $4,188,000.

Item 5. Other Information.

The 2011 annual meeting shall be held on September 9, 2011, at 10:00 a.m. Central time at Little Elm City Hall; 100 West Eldorado Parkway; Little Elm, Texas 75068.

Item 6. Exhibits.

Exhibit No.	Description of Document
31.1	Certification of Principal Executive Officer
31.2	Certification of Principal Financial Officer
32	Certification Pursuant to 18 U.S.C. Section 1350

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 13, 2011

RETRACTABLE TECHNOLOGIES, INC.
(Registrant)

BY: /s/ Douglas W. Cowan
DOUGLAS W. COWAN
VICE PRESIDENT, CHIEF FINANCIAL OFFICER,
AND CHIEF ACCOUNTING OFFICER