RETRACTABLE TECHNOLOGIES INC
Form 10-K/A
June 09, 2011
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K/A

Amendment No. 1

(Mark One)

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

For the fiscal year ended December 31, 2010

or

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

For the transition period from to

Commission file number 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** (Address of principal executive offices)	**75068-0009** (Zip Code)

972-294-1010

Registrant s telephone number, including area code

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

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

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

Preferred Stock

(Title of class)

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

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x No o

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes o No o

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant s knowledge, in definitive proxy or information statements incorporated by reference in Part III of the Form 10-K or any amendment to the Form 10-K. 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 Act). Yes o No x

State the aggregate market value of the voting and non-voting common equity held by non-affiliates computed by reference to the price at which the common equity was last sold, or the average bid and asked price of such common equity, as of the last business day of the registrant s most recently completed second fiscal quarter. The aggregate market value of the common equity held by non-affiliates as of June 30, 2010 was $18,574,972.50, assuming a closing price of $1.61 and outstanding shares held by non-affiliates of 11,537,250.

APPLICABLE ONLY TO REGISTRANTS INVOLVED IN BANKRUPTCY

PROCEEDINGS DURING THE PRECEDING FIVE YEARS:

Indicate by check mark whether the registrant has filed all documents and reports required to be filed by Section 12, 13, or 15(d) of the Securities Exchange Act of 1934 subsequent to the distribution of securities under a plan confirmed by a court. Yes o No o

(APPLICABLE ONLY TO CORPORATE REGISTRANTS)

Indicate the number of shares outstanding of each of the registrant s classes of common stock, as of the latest practicable date. As of May 25, 2011, there were 24,000,914 shares of our Common Stock issued and outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

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

None except exhibits.

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Explanatory Note

We are filing this Amendment No. 1 to our Annual Report on Form 10-K for the year ended December 31, 2010 which was filed with the U.S. Securities and Exchange Commission on March 31, 2011. The primary purposes of this Amendment No. 1 are to: 1) reclassify royalties of $116,671 paid in connection with litigation settlement payments as a reduction to Litigation settlements, net and a reduction to Royalty expense to shareholders shown under Cost of Sales to conform to the presentation used in our previous filings as well as our Form 10-Q for the quarter ended March 31, 2011; 2) correct the values for raw materials and finished goods (which values were inadvertently substituted for one another) in Note 3 to the financial statements in Item 8 of Part II; and 3) correct the dates on which the Directors terms expire in Item 10 of Part III. No other material changes have been made. The complete text of Items 7 and 8 of Part II and Item 10 of Part III are set forth herein. Certain exhibits and signatures are also provided.

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RETRACTABLE TECHNOLOGIES, INC.

FORM 10-K/A

For the Fiscal Year Ended December 31, 2010

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

FORWARD-LOOKING STATEMENT WARNING

Certain statements included by reference in this filing containing the words could, may, believes, anticipates, intends, expects, and simila words constitute forward-looking statements within the meaning of the Private Securities Litigation Reform Act. Any forward-looking statements involve known and unknown risks, uncertainties, and other factors that may cause our actual results, performance, or achievements to be materially different from any future results, performance, or achievements expressed or implied by such forward-looking statements. Such factors include, among others, our ability to maintain liquidity, our maintenance of patent protection, the impact of current litigation, 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 BD, in providing devices to the safety market, and other factors referenced in **Item 1A. Risk Factors** of the Form 10-K. Given these uncertainties, undue reliance should not be placed on forward-looking statements.

OVERVIEW

We have been manufacturing and marketing our products into the marketplace since 1997. We currently provide other safety medical products in addition to safety syringe products. One such product is the Patient Safe® syringe, which is uniquely designed to reduce the risk of bloodstream infections resulting from catheter hub contamination. Safety syringes comprised 97.3% of our sales in 2010.

Historically, unit sales have increased in the latter part of the year due, in part, to the demand for syringes during the flu season. In 2009, we had a contract to provide DHHS with syringes to be used in the U.S. efforts to provide swine flu vaccinations. This contract was material for 2009 and affects comparability to 2009 financial data.

Our products have been and continue to be distributed nationally through numerous distributors. However, we have been blocked from access to the market by exclusive marketing practices engaged in by BD, which dominates the market. We believe that its monopolistic business practices continue despite: (i) its paying $100 million in 2004 to settle a prior lawsuit with us for anticompetitive practices, business disparagement, and tortious interference and (ii) the fact that its Integra products were found to infringe our products in May 2010. The Court s injunction in this case was stayed pending appeal. Although we have made limited progress in some areas, such as the alternate care and international markets, our volumes are not as high as they should be given the nature and quality of our products and the federal and state legislation requiring the use of safe needle devices.

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

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 DHHS, 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 certain salary reductions remain in place, we granted payments to our employees to offset such salary reductions in 2010. As a result of the cost cutting measures, compensation costs for 2010 included in Operating expenses were reduced by $800,000.

Our litigation costs for 2010 were approximately $5.1 million less than the prior year. Additional reductions in expenses in 2010 as compared to 2009 include reductions of $771,000 for stock option expense, $178,000 for travel and entertainment, $173,000 for consulting, $77,000 in 401(k) expense, and $48,000 for marketing expense.

We are bringing additional molding operations to Little Elm as a cost saving measure. 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. Pursuant to this settlement agreement, we received $6 million in the third quarter of 2010 and Abbott waived its rights to a

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marketing fee of $1,419,760 and any Series IV Class B preferred stock dividends. Additionally, 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 have received from Hospira two payments of $2 million each in the fourth quarter of 2010 and first quarter of 2011 and expect another two payments of $2 million each in the second and third quarters of 2011, for a total of $8 million. In the third quarter of 2010, we granted bonuses to certain officers and employees in recognition of work leading to the Abbott settlement.

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 2010, Double Dove manufactured approximately 64.1% of the units we produced. The cost of production per unit has generally declined as volumes increased. We believe we could make up any long-term disruption in these supplies by utilizing more of the capacity at the Little Elm facility, except for the 0.5mL insulin syringe, the 5mL and 10mL syringes, and the autodisable syringe which altogether comprised about 8.4% of our 2010 revenues.

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

RESULTS OF OPERATIONS

The following discussion contains trend information and other forward-looking statements that involve a number of risks and uncertainties. Our actual future results could differ materially from our historical results of operations and those discussed in the forward-looking statements. All period references are to our fiscal years ended December 2010, 2009, or 2008. Dollar amounts have been rounded for ease of reading.

Comparison of Year Ended

December 31, 2010 and Year Ended December 31, 2009

Revenues decreased 7.1%, due principally to the effect of the DHHS contract in 2009. Domestic sales were 81.7% of revenues with international sales comprising the remainder. Unit sales decreased 7.4%. Domestic unit sales decreased 16.8% and average sales prices increased 3.2%. International unit sales increased 31.2% and average international selling prices increased.

Cost of sales decreased due to lower volume of product sold. Royalty expenses increased due to higher gross sales as well as net litigation proceeds.

As a result, gross profit margins decreased slightly from 34.7% in 2009 to 34.6% in 2010.

Operating expenses decreased 28.4% from the prior year due to lower litigation costs, lower compensation costs ($800,000), lower stock option expense ($771,000), and lower travel and entertainment costs ($178,000). Our litigation costs for 2010 were approximately $5.1 million less than the prior year. Lower litigation costs are the result of an agreement between us and our counsel to cap certain litigation fees. Additional reductions in expenses in 2010 as compared to 2009 include reductions of $173,000 for consulting, $77,000 in 401(k) expense, and $48,000 for marketing expense.

In 2010, we recognized impairment charges of $365,295 for costs associated with research and development activities compared to impairment charges of $2.6 million in 2009 associated with catheter production equipment.

Operating loss was $6.7 million in 2010 compared to an operating loss in 2009 of $13.3 million.

Interest income decreased due to lower interest rates. Interest expense increased due to higher average loan balances and a reduction in capitalized interest.

Litigation settlements, net reflects cash proceeds of $8.0 million from Hospira and a waiver of $1.4 million in marketing fees payable to Abbott. A receivable from Abbott for $144 thousand was also waived. Royalties of $116,671 were paid as a result of the settlement.

Benefit for income taxes consists principally of additional refunds due for our 2009 federal tax return reduced by $130 thousand due in Alternative Minimum Tax for 2010.

Cash flow from operations was $8.7 million for 2010 due principally to litigation settlements and improved results from operations.

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Comparison of Year Ended

December 31, 2009 and Year Ended December 31, 2008

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

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

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

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

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

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

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

In the fourth quarter of 2009, we recognized an impairment charge of $2,594,602 associated with catheter production equipment.

Interest income decreased due to lower interest rates and lower cash balances. Interest expense decreased due to capitalized interest.

The Company recognized a tax benefit in 2009 primarily due to a federal tax carryback related to 2009.

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

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

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.

Our cash position has improved $5.1 million, or 28.4%, over 2009. The improvement is directly related to the litigation proceeds paid in 2010 and the effect of cost reduction measures taken in 2009 and 2010. Reduction in litigation costs, particularly from the second quarter of 2010 through the end of the year, were significant. We expect these lower litigation costs and the effect of the cost reductions to continue.

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

We 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 33.4%) 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. 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. In 2009, we had a contract to provide DHHS with syringes to be used in the U.S. efforts to provide swine flu vaccinations. This contract was material for 2009 and affects comparability to 2009 financial data.

Cash Requirements

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

External Sources of Liquidity

We have obtained several loans from our inception, which have, together with the proceeds from the sales of equities and litigation efforts, enabled us to pursue development and production of our products. Given the

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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. Pursuant to this settlement agreement, we received $6 million in the third quarter of 2010 and Abbott waived its rights to a marketing fee of $1,419,760 and any Series IV Class B preferred stock dividends. Additionally, 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 have received from Hospira two payments of $2 million each in the fourth quarter of 2010 and first quarter of 2011 and expect another two payments of $2 million each in the second and third quarters of 2011, for a total of $8 million.

CAPITAL RESOURCES

Material Commitments for Expenditures

In 2011, we purchased molding machines to expand our in-house molding capability and further reduce costs. Financing was completed in the second quarter of 2011 for three molding machines. The purchase and financing for a fourth molding machine is expected to be completed in 2011.

Trends in Capital Resources

Interest expense may 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.

OFF-BALANCE SHEET ARRANGEMENTS

None.

CONTRACTUAL OBLIGATIONS

Contractual Obligations and Commercial Commitments

The following chart summarizes our material obligations and commitments to make future payments under contracts for long-term debt as of December 31, 2010:

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

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SIGNIFICANT ACCOUNTING POLICIES

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

Accounts Receivable

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

We require 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 Balance Sheets and are shown in Note 6, Other Accrued Liabilities.

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

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 we have 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 us. 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 us. 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 us and our distributors. Revenue for shipments directly to end-users is recognized when title and risk of ownership passes from us. Any product shipped or distributed for evaluation purposes is expensed.

Certain distributors have taken rebates to which they are not entitled, such as utilizing a rebate for products not purchased directly from us. We have 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 us. Rebates can only be claimed on purchases made directly from us. We have 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.

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

Our 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 us.

Our international distribution agreements do not provide for any returns.

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Inventories

Inventories are valued at the lower of cost or market, with cost being determined using actual average cost. We compare the average cost to the market price and record 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.

Marketing Fees

In prior periods, Marketing fees payable to Abbott were included in current liabilities in the Balance Sheets. In connection with the settlement with Abbott, Marketing fees payable recorded in previous periods will not have to be paid. The reversal of this accrual is included in Litigation settlements, net on the Statements of Operations.

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Item 8. Financial Statements and Supplementary Data.

RETRACTABLE TECHNOLOGIES, INC.

FINANCIAL STATEMENTS AND

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

DECEMBER 31, 2010 AND 2009

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RETRACTABLE TECHNOLOGIES, INC.

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Report of Independent Registered Public Accounting Firm

To the Board of Directors and Stockholders

of Retractable Technologies, Inc.

We have audited the accompanying balance sheets of Retractable Technologies, Inc. as of December 31, 2010 and 2009, and the related statements of operations, changes in stockholders equity, and cash flows for each of the three years in the period ended December 31, 2010. Our audits also included the financial statement schedule of Retractable Technologies, Inc., listed in Item 15(a) of the Form 10-K. These financial statements and financial statement schedule are the responsibility of the Company s management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform an audit of its internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company s internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Retractable Technologies, Inc. as of December 31, 2010 and 2009, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2010, in conformity with U.S. generally accepted accounting principles. Also, in our opinion, the related financial statement schedule, when considered in relation to the basic financial statements taken as a whole, presents fairly in all material respects the information set forth therein.

/s/ CF & Co., L.L.P.
CF & Co., L.L.P.

Dallas, Texas
March 31, 2011

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RETRACTABLE TECHNOLOGIES, INC.

BALANCE SHEETS

	December 31,	
	2010	**2009**
ASSETS		
Current assets:		
Cash and cash equivalents	$ 23,266,039	$ 18,126,084
Accounts receivable, net of allowance for doubtful accounts of $780,900 and $681,966, respectively	7,582,062	9,948,210
Inventories, net	8,682,191	6,907,369
Income taxes receivable	12,031	3,655,637
Other current assets	681,244	624,393
Total current assets	40,223,567	39,261,693
Property, plant, and equipment, net	12,560,592	14,234,181
Intangible and other assets, net	406,910	445,425
Total assets	$ 53,191,069	$ 53,941,299
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities:		
Accounts payable	$ 3,847,966	$ 6,997,310
Current portion of long-term debt	519,611	2,628,652
Accrued compensation	603,484	561,484
Marketing fees payable		1,419,760
Accrued royalties to shareholders	949,619	843,327
Other accrued liabilities	3,910,428	745,460
Income taxes payable	155,000	
Total current liabilities	9,986,108	13,195,993
Long-term debt, net of current maturities	4,304,460	4,824,833
Total liabilities	14,290,568	18,020,826
Commitments and Contingencies - See Note 8		
Stockholders equity:		
Preferred Stock $1 par value:		
Class B; authorized: 5,000,000 shares		
Series I, Class B; outstanding: 144,000 and 144,000 shares, respectively (liquidation preference of $900,000 and $900,000 respectively)	144,000	144,000
Series II, Class B; outstanding: 219,700 and 219,700, respectively (liquidation preference of $2,746,250 and $2,746,250, respectively)	219,700	219,700
Series III, Class B; outstanding: 130,245 and 130,245 shares, respectively (liquidation preference of $1,628,063 and $1,628,063, respectively)	130,245	130,245
Series IV, Class B; outstanding: 552,500 and 552,500 shares (liquidation preference of $6,077,500 and $6,077,500, respectively)	552,500	552,500
Series V, Class B; outstanding: 1,232,571 and 1,238,821 shares, respectively (liquidation preference of $5,423,312 and $5,450,812, respectively)	1,232,571	1,238,821
Common Stock, no par value; authorized: 100,000,000 shares; issued and outstanding: 23,974,114 and 23,825,149 shares, respectively		
Additional paid-in capital	57,674,737	57,089,153
Retained deficit	(21,053,252)	(23,453,946)
Total stockholders equity	38,900,501	35,920,473
Total liabilities and stockholders equity	$ 53,191,069	$ 53,941,299

See accompanying notes to financial statements

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RETRACTABLE TECHNOLOGIES, INC.

STATEMENTS OF OPERATIONS

	Years Ended December 31,		
	2010	**2009**	**2008**
Sales, net	$ 36,219,562	$ 38,981,837	$ 27,899,318
Cost of Sales			
Costs of manufactured product	20,757,488	22,659,437	17,504,842
Royalty expense to shareholders	2,940,948	2,806,223	2,168,268
Total cost of sales	23,698,436	25,465,660	19,673,110
Gross profit	12,521,126	13,516,177	8,226,208
Operating expenses:			
Sales and marketing	3,674,168	4,372,163	4,835,272
Research and development	885,445	1,030,622	1,066,068
General and administrative	14,260,151	18,814,392	12,769,774
Impairment of assets	365,295	2,594,602	
Total operating expenses	19,185,059	26,811,779	18,671,114
Loss from operations	(6,663,933)	(13,295,602)	(10,444,906)
Interest and other income	32,324	57,604	855,685
Interest expense, net	(302,843)	(21,892)	(54,359)
Litigation settlements, net	9,159,089		
Income (loss) before income taxes	2,224,637	(13,259,890)	(9,643,580)
Benefit for income taxes	(176,057)	(3,837,590)	
Net income (loss)	2,400,694	(9,422,300)	(9,643,580)
Preferred Stock dividend requirements	(1,370,620)	(1,370,868)	(1,373,019)
Earnings (loss) applicable to common shareholders	$ 1,030,074	$ (10,793,168)	$ (11,016,599)
Basic earnings (loss) per share	$ 0.04	$ (0.45)	$ (0.46)
Diluted earnings (loss) per share	$ 0.04	$ (0.45)	$ (0.46)
Weighted average common shares outstanding:			
Basic	23,872,783	23,806,533	23,794,566
Diluted	26,248,874	23,806,533	23,794,566

See accompanying notes to financial statements

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RETRACTABLE TECHNOLOGIES, INC.

STATEMENTS OF CHANGES IN STOCKHOLDERS EQUITY

	Series I Class B		Series II Class B		Series III Class B		Series IV Class B		Series V Class B		Common	
	Shares	Amount	Shares	Amount	Shares	Amount	Shares	Amount	Shares	Amount	Shares	Amount
Balance as of December 31, 2007	144,000	$ 144,000	219,700	$ 219,700	130,245	$ 130,245	553,500	$ 553,500	1,282,471	$ 1,282,471	23,755,414	$
Conversion of Preferred Stock into Common Stock							(1,000)	(1,000)	(43,650)	(43,650)	44,650	
Recognition of stock option compensation												
Net loss												
Balance as of December 31, 2008	144,000	144,000	219,700	219,700	130,245	130,245	552,500	552,500	1,238,821	1,238,821	23,800,064	
Recognition of stock option compensation												
Recognition of stock option exercise											25,085	
Royalty waiver												
Net loss												
Balance as of December 31, 2009	144,000	144,000	219,700	219,700	130,245	130,245	552,500	552,500	1,238,821	1,238,821	23,825,149	
Conversion of Preferred Stock into Common Stock									(6,250)	(6,250)	6,250	
Recognition of stock option compensation												
Recognition of stock option exercise											142,715	
Payment of dividends												
Net income												
	144,000	$144,000	219,700	$219,700	130,245	$130,245	552,500	$552,500	1,232,571	$ 1,232,571	23,974,114	$

Balance as of
December 31,
2010

See accompanying notes to financial statements

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RETRACTABLE TECHNOLOGIES, INC.

STATEMENTS OF CHANGES IN STOCKHOLDERS EQUITY

	Additional Paid-in Capital	Retained Earnings (Deficit)	Total
Balance as of December 31, 2007	$ 53,818,987	$ (4,388,066)	$ 51,760,837
Conversion of Preferred Stock into Common Stock	44,650		
Recognition of stock option compensation	88,546		88,546
Net loss		(9,643,580)	(9,643,580)
Balance as of December 31, 2008	53,952,183	(14,031,646)	42,205,803
Recognition of stock option compensation	2,111,360		2,111,360
Recognition of stock option exercise	25,610		25,610
Royalty waiver	1,000,000		1,000,000
Net loss		(9,422,300)	(9,422,300)
Balance as of December 31, 2009	57,089,153	(23,453,946)	35,920,473
Conversion of Preferred Stock into Common Stock	6,250		