RETRACTABLE TECHNOLOGIES INC
Form 10-Q
November 14, 2007

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, 2007

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 000-30885

Retractable Technologies, Inc.

(Exact name of registrant as specified in its charter)

Texas	**75-2599762**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
511 Lobo Lane **Little Elm, Texas**	**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 is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer o	Accelerated filer o	Non-accelerated filer 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: 23,755,414 shares of Common Stock, no par value, issued and outstanding on November 1, 2007.

RETRACTABLE TECHNOLOGIES, INC.

FORM 10-Q

For the quarterly period ended September 30, 2007

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PART I-FINANCIAL INFORMATION

Item 1. Financial Statements.

RETRACTABLE TECHNOLOGIES, INC.

CONDENSED BALANCE SHEETS

	September 30, 2007 (unaudited)	December 31, 2006
ASSETS		
Current assets:		
Cash and cash equivalents	$38,592,760	$46,814,689
Accounts receivable, net	3,238,764	1,956,756
Inventories, net	7,170,482	6,385,780
Income taxes receivable	3,850,144	2,355,732
Other current assets	761,934	267,707
Total current assets	53,614,084	57,780,664
Property, plant, and equipment, net	11,637,647	12,212,140
Intangible assets, net	378,656	279,846
Other assets	506,897	522,294
Total assets	$66,137,284	$70,794,944
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities:		
Accounts payable	$4,522,151	$4,247,630
Current portion of long-term debt	347,303	261,905
Accrued compensation	616,786	472,573
Marketing fees payable	1,419,760	1,419,760
Accrued royalties to shareholders	624,967	2,755
Other accrued liabilities	443,331	440,253
Current deferred tax liability	26,619	45,697
Total current liabilities	8,000,917	6,890,573
Long-term debt, net of current maturities	3,865,245	4,137,231
Long-term deferred tax liability	40,972	56,828
Total liabilities	11,907,134	11,084,632
Stockholders equity:		
Preferred stock $1 par value:		
Series I, Class B	144,000	164,000
Series II, Class B	224,700	224,700
Series III, Class B	130,245	135,245
Series IV, Class B	553,500	553,500
Series V, Class B	1,282,471	1,363,721
Common stock, no par value		

Additional paid-in capital	53,803,223	54,709,108
Retained earnings (deficit)	(1,907,989)	2,560,038
Total stockholders equity	54,230,150	59,710,312
Total liabilities and stockholders equity	$66,137,284	$70,794,944

See accompanying notes to condensed financial statements

RETRACTABLE TECHNOLOGIES, INC.

CONDENSED STATEMENTS OF OPERATIONS

(unaudited)

	Three Months Ended September 30, 2007	Three Months Ended September 30, 2006	Nine Months Ended September 30, 2007	Nine Months Ended September 30, 2006
Sales, net	$8,040,127	$5,331,748	$19,088,932	$14,514,997
Reimbursed discounts		651,225		4,427,312
Total sales	8,040,127	5,982,973	19,088,932	18,942,309
Cost of sales				
Cost of manufactured product	5,228,549	3,989,549	12,031,550	11,471,875
Royalty expense to shareholders	624,967	660,076	1,468,292	1,501,742
Total cost of sales	5,853,516	4,649,625	13,499,842	12,973,617
Gross profit	2,186,611	1,333,348	5,589,090	5,968,692
Operating expenses:				
Sales and marketing	1,334,680	1,379,260	4,025,682	3,957,205
Research and development	375,264	249,204	796,979	745,607
General and administrative	2,906,156	1,843,059	7,894,510	5,409,883
Total operating expenses	4,616,100	3,471,523	12,717,171	10,112,695
Loss from operations	(2,429,489)	(2,138,175)	(7,128,081)	(4,144,003)
Interest and other income	521,226	512,828	1,511,121	1,463,904
Interest expense, net	(86,235)	(127,950)	(257,427)	(366,642)
Net loss before income taxes	(1,994,498)	(1,753,297)	(5,874,387)	(3,046,741)
Benefit for income taxes	(1,406,360)	(530,587)	(1,406,360)	(1,020,786)
Net loss	(588,138)	(1,222,710)	(4,468,027)	(2,025,955)
Preferred stock dividend requirements	(348,147)	(361,381)	(1,052,398)	(1,092,563)
Loss applicable to common shareholders	$(936,285)	$(1,584,091)	$(5,520,425)	$(3,118,518)
Loss per share basic and diluted	$(0.04)	$(0.07)	$(0.23)	$(0.13)
Weighted average common shares outstanding	23,745,206	23,618,164	23,717,845	23,577,944

See accompanying notes to condensed financial statements

RETRACTABLE TECHNOLOGIES, INC.

CONDENSED STATEMENTS OF CASH FLOWS

(unaudited)

	Nine Months Ended September 30, 2007	Nine Months Ended September 30, 2006
Cash flows from operating activities		
Net loss	$(4,468,027)	$(2,025,955)
Adjustments to reconcile net loss to net cash provided by (used by) operating activities:		
Depreciation and amortization	1,077,370	1,089,654
Capitalized interest	(132,930)	(40,382)
Stock option compensation	6,478	349,103
Provision for doubtful accounts	2,242	54,969
Accreted interest	92,103	105,214
Deferred income taxes		(221,525)
(Increase) decrease in assets:		
Inventories	(784,702)	(1,699,952)
Accounts receivable	(1,284,247)	1,772,357
Income taxes receivable	(1,494,412)	(834,377)
Other current assets	(494,227)	(91,923)
Increase in liabilities:		
Accounts payable	274,521	1,073,422
Other accrued liabilities	769,501	276,845
Net cash used by operating activities	(6,436,330)	(192,550)
Cash flows from investing activities		
Purchase of property, plant, and equipment	(321,961)	(1,329,179)
Acquisitions of patents, trademarks, licenses, and intangibles	(131,400)	(4,576)
Net cash used by investing activities	(453,361)	(1,333,755)
Cash flows from financing activities		
Repayments of long-term debt and notes payable	(278,694)	(302,624)
Proceeds from the exercise of stock options		74,780
Payment of dividends on Series I and II Class B Convertible Preferred Stock	(1,053,544)	
Net cash used by financing activities	(1,332,238)	(227,844)
Net decrease in cash	(8,221,929)	(1,754,149)
Cash and cash equivalents at:		
Beginning of period	46,814,689	52,513,935
End of period	$38,592,760	$50,759,786
Supplemental disclosures of cash flow information:		
Interest paid	$298,250	$318,381
Income taxes paid	$-	$83,194

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, to design, develop, manufacture and market 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® syringe in the 1cc, 3cc, 5cc and 10cc sizes, blood collection tube holders, allergy trays, and IV catheters. The Company has conducted preliminary clinical evaluations and worked with national distributors to encourage healthcare facilities to transition from the use of standard syringes to the VanishPoint® 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 filed in its Form 10-K on April 2, 2007, for the year ended December 31, 2006.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Accounting estimates

The preparation of financial statements in conformity with United States generally accepted accounting principles 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 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.

Inventories

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

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.

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 fair value of financial instruments is determined by reference to various market data and other valuation techniques as appropriate. The Company believes that the fair value of financial instruments approximates 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 manufactures syringes in Little Elm, Texas as well as utilizing a manufacturer in China. During the first nine months of 2007, approximately 73.8% of the total syringes produced by or for the Company were produced in China.

Revenue recognition

Revenue is recognized for sales to distributors when title and risk of ownership passes to the distributor, generally upon shipment. Revenue is recorded on the basis of sales price to distributors, less contractual pricing allowances. Contractual pricing allowances consist of (i) rebates granted to distributors who provide tracking reports which show, among other things, the facility that purchased the products, and (ii) a provision for estimated contractual pricing allowances for products that the Company has not received tracking reports. Rebates are recorded when issued and are applied against the customer s receivable balance. The provision for contractual pricing allowances is reviewed at the end of each quarter and adjusted for changes in levels of products for which there is no tracking report. Additionally, if it becomes clear that tracking reports will not be provided by individual distributors, the provision is further adjusted. The estimated contractual allowance is netted against individual distributors accounts receivable balances for financial reporting purposes. The resulting net balance is reflected in accounts receivable or accounts payable, as appropriate. The terms and conditions of contractual pricing allowances are governed by contracts between the Company and its distributors. Revenue for shipments directly to end-users is recognized when title and risk of ownership passes from the Company. Any product shipped or distributed for evaluation purposes is expensed.

Marketing fees

The Company paid Abbott Laboratories, Inc. (Abbott) marketing fees for services they provided. The contracted services were to include participation in promotional activities, development of educational and promotional materials, representation at trade shows, clinical demonstrations, inservicing and training, and tracking reports detailing the placement of the Company s products to end-users. Marketing fees were accrued at the time of the sale of product to Abbott. These fees were paid after Abbott provided the Company a tracking report of product sales to end-users. These costs were included in Sales and marketing expense in the Condensed Statements of Operations. No marketing fees have been accrued since October 15, 2003, the date the National Marketing and Distribution Agreement with Abbott was terminated. The amount of the marketing fees owed will be determined by the final results of our litigation.

Reimbursed discounts

The Company received reimbursed discounts from one of the settlement agreements reached in its federal antitrust lawsuit, Retractable Technologies, Inc. v. Becton Dickinson & Co. (BD) et al. Payments under the discount reimbursement program were recognized upon invoicing of amounts due under the agreement provided collection was reasonably assured. Such amounts are presented in the Condensed Statements of Operations as a separate component of revenues. All funds available under the discount reimbursement program were recognized by the third quarter of 2006.

Income taxes

The Company provides for deferred income taxes in accordance with Statement of Financial Accounting Standard No. 109, *Accounting for Income Taxes* (SFAS 109). SFAS 109 requires an asset and liability approach for financial accounting and reporting for income taxes 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 basis 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 assets as future taxable income cannot be reasonably assured.

Earnings per share

The Company has adopted Statement of Financial Accounting Standards No. 128, *Earnings Per Share*, which establishes standards for computing and presenting earnings per share. Basic earnings per share is computed 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. The Company s potentially dilutive Common Stock equivalents consist of options, convertible debt and convertible Preferred Stock and are all antidilutive for the three and nine months ended September 30, 2007 and 2006. Accordingly, basic loss per share is equal to diluted loss per share.

Research and development costs

Research and development costs are expensed as incurred.

Share-based compensation

The Company has issued options under three stock-based director, officer and employee compensation plans as well as several individual option agreements. The two 1996 plans have terminated; however, the options continue until their expected maturity dates. The Company adopted the fair value recognition provisions of Statement of Financial Accounting Standards No. 123, *Accounting for Stock-Based Compensation*, to all awards granted, modified, or settled after December 31, 2001. Awards generally vest over periods up to three years.

The Company adopted the provisions of Statement of Financial Accounting Standards No. 123 (Revised 2004) (SFAS No. 123 R), *Share-Based Payment*, effective January 1, 2006. It did not have a material impact on the financial statements of the Company. In accordance with the disclosure requirements of SFAS No. 123 R, the Company incurred the following share-based compensation costs:

	Three Months Ended September 30, 2007	Three Months Ended September 30, 2006	Nine Months Ended September 30, 2007	Nine Months Ended September 30, 2006
Cost of sales	$	$894	$6,648	$55,510
Sales and marketing		4,486	3,086	97,122
Research and development		1,584	(7,863)	10,834
General and administrative		5,073	4,607	185,637
	$	$12,037	$6,478	$349,103

3. INVENTORIES

Inventories consist of the following:

	September 30, 2007	December 31, 2006
Raw materials	$1,442,457	$1,546,288
Finished goods	5,778,025	4,889,492

	7,220,482	6,435,780
Inventory reserve	(50,000)	(50,000)
	$7,170,482	$6,385,780

4. INCOME TAXES

The Company s effective tax rates (a benefit) for the three and nine months ended September 30, 2007 were 70.5% and 23.9%, respectively. The Company s effective tax rates for the comparable periods last year were 30.3% and 33.5%. The tax benefit for 2007 is the net effect of a state tax refund for prior years that had not been previously recognized. The effective rates in 2006 differed from the expected rates due to a reduction in the 2006 valuation allowance for a deferred tax liability attributable to stock options and accreted interest. All other tax benefits for 2007 are fully reserved.

In June 2006, the Financial Accounting Standards Board (FASB) issued Financial Interpretation No. 48, *Accounting for Income Tax Uncertainties* (FIN 48). FIN 48 is effective for years beginning after December 15, 2006. FIN 48 prescribes a recognition threshold and measurement attribute for financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. FIN 48 requires that a company evaluate 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 adopted FIN 48 on January 1, 2007. FIN 48 had no material effect on the financial statements upon adoption.

5. COMMITMENTS AND CONTINGENCIES

BD and MDC Investment Holdings, Inc. filed a complaint against the Company on September 6, 2007, in the United States District Court for the Eastern District of Texas, Texarkana Division. Plaintiffs allege that the Company s VanishPoint® product line infringes U.S. patent nos. 6,179,812 and 7,090,656. Plaintiffs seek a declaration of infringement, an injunction against further infringement, compensatory damages (with interest), the costs of the litigation, and such other relief as the Court deems just and proper. The Company believes that it has meritorious defenses to such allegations and intends to defend this lawsuit vigorously.

6. SUBSEQUENT EVENT

The Board of Directors has approved a $4.5 million capital project to expand the warehouse and build a Clean Room. The Board also approved the Company s obtaining a loan for the project. The Company is in the process of finalizing the financing.

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, the impact of dramatic increases in demand, our ability to quickly increase capacity in the event of a dramatic 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 & Co. (BD), in providing safety needle devices, and other factors listed in **Item 1A Risk Factors**. Given these uncertainties, undue reliance should not be placed on forward-looking statements.

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. Variances have been rounded for ease of reading. All period references are to the periods ended September 30, 2007 or 2006.

OVERVIEW

We have been manufacturing and marketing our products since 1997. 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, who dominates the market. We believe that its monopolistic business practices continue despite its paying $100 million to settle a prior lawsuit with us for anticompetitive practices, business disparagement, and tortious interference. 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 product, the federal and state legislation requiring use of safe needle devices, and various Senate Subcommittee hearings on Group Purchasing Organizations (GPOs). 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 and innovative technology. 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 cost cutting measures to reduce cash requirements including, but not limited to, a reduction of units being produced, reduction of workforce, reduction of salaries of officers and other nonhourly employees, and deferral of royalty payments.

We have several products under development. We anticipate that such development may be completed by year end.

We are marketing more product internationally. In 2004, 2005 and 2006, we were awarded a federal contract to supply syringes to various African countries. The first award from PATH was for 1,530,000 units. The second award was for 11,700,000 units. For the third year, we were awarded a contract for 16,400,000 units. Shipments of the products are generally filled over multiple quarters due principally to logistical requirements for the orders. We are hopeful that these awards will continue to increase under this program.

Product purchases from Double Dove, a Chinese manufacturer, have enabled us to increase manufacturing capacity with little capital outlay and provided a competitive manufactured cost. Double Dove manufactured, in the first nine months of 2007, approximately 73.8% of the total syringes produced by or for us. The cost of production per unit has generally declined as volumes increased.

We also have a license agreement with BTMD, a Chinese company. The factory, assembly equipment, and the related infrastructure are substantially complete for some products. However, there are still manufacturing processes being addressed, and, therefore, we do not believe the required government approvals will be obtained before the end of the year. Accordingly, we now do not expect the payment of royalties to begin any earlier than 2008.

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

RESULTS OF OPERATIONS

Comparison of Three Months Ended

September 30, 2007, and September 30, 2006

Domestic sales accounted for 89.7% and 87.8% of the revenues for the three months ended September 30, 2007 and 2006, respectively. International sales accounted for the remaining revenues. Domestic revenues increased 37.3%, principally due to higher average selling prices, mitigated slightly by lower volumes. The average selling price in the third quarter of 2006 was lower due to the discount program in effect at the time. International revenues increased 13.4% due primarily to higher volumes. The average selling price of international products decreased 17.2%. Overall, unit sales decreased 3.5% due to the timing of PATH orders. Domestic unit sales decreased 9.4% and international unit sales increased 37.0% primarily due to the timing of the PATH shipments, which fluctuates from period to period. Domestic unit sales were 81.8% of total unit sales for the three months ended September 30, 2007.

Gross profit increased 64.0% primarily due to higher average selling prices in domestic markets. The average cost of manufactured product sold per unit increased by 39.0% due principally to lower production in the third quarter of 2007. Profit margins can fluctuate depending upon, among other things, the cost of product manufactured and the capitalized cost of product recorded in inventory, as well as product sales mix. The unit cost in ending inventory at September 30, 2007, should have a continuing positive effect on profit margins for the fourth quarter. Royalty expense decreased due to lower gross sales.

We had offered certain discounts to participating facilities through December 31, 2006. We were reimbursed up to a cumulative amount of $8.0 million under a litigation settlement agreement. Cumulative reimbursements of $8.0 million were recorded through September 30, 2006. We continued offering such discounts to participating facilities through the end of the year. The discount program ended December 31, 2006. Accordingly, no reimbursements of discounts were received for the three months ended September 30, 2007.

Operating expenses increased 33.0% principally due to increased legal costs. There were other increases in General and administrative costs due to increases in compensation costs and travel and entertainment expenses, but these were offset by lower franchise taxes and a decrease in products sent for humanitarian purposes. Sales and marketing expense was slightly lower due to a reduction in trade show and marketing expense. The increases in Research and development costs were attributable to costs associated with new product development.

Loss from operations increased due principally to higher operating expenses mitigated by higher gross profits.

Our effective tax rates (a benefit for the three months ended September 30, 2007 and 2006) on the net loss before income taxes were 70.5% and 30.3% for the three months ended September 30, 2007 and 2006, respectively. The effective tax rate for the three months ended September 30, 2007, was 70.5% due to the settlement in our favor of a state tax audit. Loss per share declined principally due to the larger benefit for income taxes in 2007 as compared to 2006.

Comparison of Nine Months Ended

September 30, 2007, and September 30, 2006

Domestic sales accounted for 83.6% and 86.9% of the revenues for the nine months ended September 30, 2007 and 2006, respectively. International sales accounted for the remaining revenues. Domestic revenues decreased 3.1%, principally due to lower volumes, and international revenues increased 26.7%, due to increased volumes and due to the timing of prior PATH shipments, which fluctuates from period to period. Overall, unit sales increased 3.9%. Domestic unit sales decreased 4.8% and international unit sales increased 34.1%. Domestic unit sales were 71.3% of total unit sales for the nine months ended September 30, 2007.

Gross profit decreased 6.4% primarily due to higher cost of goods sold mitigated by slightly higher revenues. The average cost of manufactured product sold per unit increased slightly due principally to fixed costs being spread over fewer units produced. Profit margins can fluctuate depending upon, among other things, the cost of product manufactured and the capitalized cost of product recorded in inventory, as well as product sales mix. The lower unit cost in ending inventory at September 30, 2007, should have a continuing positive effect on profit margins for the fourth quarter. Royalty expense decreased due to lower gross sales.

We had offered certain discounts to participating facilities through December 31, 2006. We were reimbursed up to a cumulative amount of $8.0 million under a litigation settlement agreement. Cumulative reimbursements of $8.0 million were recorded through September 30, 2006. We continued offering such discounts to participating facilities through the end of the year. The discount program ended December 31, 2006 and no reimbursements of discounts were received for the nine months ended September 30, 2007.

Operating expenses increased 25.8% principally due to increased legal costs. Increased compensation and benefit costs in General and administrative expense were negated by reductions in stock option expense, reduced

franchise tax expense, and a decrease in products sent for humanitarian purposes. Sales and marketing expense was slightly higher due to increased compensation and benefits and consulting costs which were reduced by stock option expense and lower trade show and marketing expense. The increase in Research and development costs was principally attributable to higher compensation costs.

Loss from operations increased principally due to higher operating expenses and lower gross profit.

Our effective tax rates (a benefit for the nine months ended September 30, 2007 and 2006) on the net loss before income taxes were 23.9% and 33.5% for the nine months ended September 30, 2007 and 2006, respectively. The effective tax rate for the nine months ended September 30, 2007, was attributable to the net effect of a state tax refund for prior years that had not been previously recognized.

Our balance sheet remains strong with cash making up 58.4% of total assets. Working capital was $45.6 million at September 30, 2007, a decrease of $5.3 million from December 31, 2006. The current ratio was 8.4 at December 31, 2006, and 6.7 at September 30, 2007. The quick ratio decreased from 7.5 at December 31, 2006, to 5.8 at September 30, 2007. These indicators continue to demonstrate a strong financial position. The liability for Accrued royalties paid to a shareholder was lower at the end of the year due to the payment of the fourth quarter royalties before the end of the year. This allowed us to include that payment as a loss carryback in 2006.

Approximately $6.4 million in cash flow was used by operating activities. $2.8 million of that amount was due to increases in accounts receivable and income taxes receivable. The remaining uses of cash were for payment of dividends and capital costs incurred for the acquisition of plant, property and equipment and intangible assets, and the repayment of long-term debt.

LIQUIDITY AND FUTURE CAPITAL REQUIREMENTS

Historical Sources of Liquidity

We have historically funded operations primarily from proceeds from private placements, loans, and litigation efforts. We were capitalized with approximately $52.6 million raised from six separate private placement offerings. We also funded operations through loans aggregating over $15.0 million. We received cash payments of $88.5 million and discount reimbursements of $8.0 million from litigation settlements.

Internal Sources of Liquidity

Margins and Market Access

In early 2004 we began to receive shipment of product from Double Dove. We believe as we receive and produce greater quantities our unit cost of goods sold could decrease. We believe, if we have market access, our profit margins, for the long-term, could increase as margins tend to

improve with additional sales and higher production levels. To be profitable from operations we would need minimal access to hospital markets which has been difficult to obtain due to the monopolistic marketplace which was the subject of our prior lawsuit against BD. We will continue to attempt to gain access to the market through our sales efforts and innovative technology.

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. Purchases of product manufactured in China, if available, usually decrease the average cost of manufacture for all units as domestic costs, such as indirect labor and overhead, remain relatively constant. The number of units produced by us and 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. Currently, approximately 26.2% of our syringes are produced domestically.

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

We entered into a License Agreement with BTMD as of May 13, 2005, which was approved by the People s Republic of China (the PRC) on August 1, 2005. We have granted to BTMD a limited exclusive license to manufacture and a limited exclusive right to sell syringes in the PRC having retractable needles that incorporate our technology for a term of three years. This License Agreement is subject to the Technology License Agreement dated June 23, 1995, between Mr. Thomas J. Shaw, our founder and CEO, as licensor and us, as licensee. Accordingly, 5% of the licensing proceeds we receive from BTMD will be paid under the Technology License Agreement. BTMD has agreed to manufacture and sell these products in the PRC and to pay us a quarterly royalty of two and one-half cents per unit on 1/2 cc, 3 cc, and 5 cc syringes and a royalty of three and one-half cents per unit on 1 cc and 10 cc syringes. The factory, assembly equipment, and the related infrastructure are substantially complete for some products. However, there are still manufacturing processes being addressed. The facility should be operational by the end of the year. However, we do not expect the required governmental approvals to be obtained this year. Accordingly, we now do not expect the payment of royalties to begin any earlier than 2008.

The obligation to pay the royalties continues even if any and all of our patent rights in the PRC are found to be invalid or unenforceable for any reason. We have the right, but not the obligation, to terminate the agreement if we have not received certain royalty payments. We had the right to terminate the agreement in 2006 because we did not receive royalty payments for at least 25,000,000 units. We have the right to terminate the agreement if we do not receive royalty payments for at least 50,000,000 units in 2007 or 100,000,000 units per year for each year thereafter. We have not received royalties under this agreement; however, we do not plan to terminate the agreement at this time and will continue to work with BTMD to facilitate production.

Cash Requirements

Due to 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 cost cutting measures to reduce cash requirements. Such measures could result in reduction of units being produced, reduction of workforce, reduction of salaries of officers and other nonhourly employees, and deferral of royalty payments.

External Sources of Liquidity

We have obtained several loans from the inception of the Company, which have, together with the proceeds from sales of equities and litigation efforts, enabled us to pursue development and production of our products. Currently we believe we could obtain additional funds through loans if needed. 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.

CAPITAL RESOURCES

The Board of Directors has approved a $4.5 million capital project to expand the warehouse and build a Clean Room. The Board also approved our obtaining financing for the project. We are in the process of finalizing the financing.

Item 3. Quantitative and Qualitative Disclosures about Market Risk.

None.

Item 4. Controls and Procedures.

Pursuant to paragraph (b) of Rule 13a-15 or Rule 15d-15 of the Securities Exchange Act of 1934 (the Exchange Act) and on November 12, 2007, 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 financial officers, evaluated the effectiveness of our disclosure controls and procedures, as defined in Rule 13a-15(e) or Rule 15d-15(e) under the Exchange Act, and concluded that, as of September 30, 2007, and based on the evaluation of these controls and procedures as required by paragraph (b) of Rule 13a-15 or Rule 15d-15 under the Exchange Act, there were no significant deficiencies in these procedures. The CEO and CFO concluded that our disclosure controls and procedures are effective.

There have been no changes in our internal controls over financial reporting identified in connection with the evaluation required by paragraph (d) of Rule 13a-15 or Rule 15d-15 under the Exchange Act that occurred during the third fiscal quarter that has materially affected, or is reasonably likely to materially affect, our internal controls over financial reporting.

PART II-OTHER INFORMATION

Item 1. Legal Proceedings.

We filed a lawsuit against BD on June 15, 2007. Please see Exhibit No. 99 to our Form 8-K filed on June 19, 2007.

BD and MDC Investment Holdings, Inc. filed a complaint against us on September 6, 2007, in the United States District Court for the Eastern District of Texas, Texarkana Division. Plaintiffs allege that our VanishPoint® product line infringes U.S. patent nos. 6,179,812 and 7,090,656. Plaintiffs seek a declaration of infringement, an injunction against further infringement, compensatory damages (with interest), the costs of the litigation, and such other relief as the Court deems just and proper. We believe that we have meritorious defenses to such allegations and we intend to defend this lawsuit vigorously.

Item 1A. Risk Factors.

There were no material changes in risk factors applicable to the Company as set forth in our Form 10-K annual report for 2006 which was filed on April 2, 2007, and which is available on EDGAR, other than the following:

Most international sales are filled by production from Double Dove. In the event that we were unable to purchase such product from Double Dove, we would need to find an alternative supplier to avoid a disruption in supply. For the first nine months of 2007, approximately 73.8% of our total syringe production was provided by Double Dove.

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

Unregistered Sales of Equity Securities and Use of Proceeds

One non-accredited investor converted 6,250 shares of Series V Class B Convertible Preferred Stock on a one for one basis for no additional consideration.

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 provide that, if a dividend upon any shares of Preferred Stock is in arrears, no dividends may be paid or declared or any other distribution made upon any stock ranking junior to such stock, and generally no such junior stock may be redeemed. Currently, the dividends on all outstanding Preferred Stock are in arrears.

We maintain cash for use as collateral for letters of credit we provide from time to time to enable, among other things, the purchase of product from China. As of September 30, 2007, we had no funds held as restricted cash for such purposes. The Board of Directors has authorized management to borrow and incur indebtedness in the form of letters of credit in an aggregate amount, at any one time, of $5,000,000.

Item 3. Defaults Upon Senior Securities.

Series I Class B Convertible Preferred Stock

As of the nine months ended September 30, 2007, the amount of dividends in arrears was $55,000 and the total arrearage was $281,000.

Series II Class B Convertible Preferred Stock

As of the nine months ended September 30, 2007, the amount of dividends in arrears was $169,000 and the total arrearage was $847,000.

Series III Class B Convertible Preferred Stock

As of the nine months ended September 30, 2007, the amount of dividends in arrears was $100,000 and the total arrearage was $2,953,000.

Series IV Class B Convertible Preferred Stock

As of the nine months ended September 30, 2007, the amount of dividends in arrears was $415,000 and the total arrearage was $6,339,000.

Series V Class B Convertible Preferred Stock

As of the nine months ended September 30, 2007, the amount of dividends in arrears was $314,000 and the total arrearage was $2,796,000.

Item 4. Submission of Matters to a Vote of Security Holders.

The 2007 Annual Meeting of Stockholders (the Annual Meeting) was held on September 28, 2007, at 10:00 a.m., CST. The purpose of the meeting was to elect two Class 1 Directors.

Of the 23,744,164 shares of Common Stock entitled to vote, 21,667,272 shares were represented in person or by proxy at the Annual Meeting, which is more than the 11,872,082 required to constitute a quorum. Accordingly, the election of two Class 1 Directors was put to a vote and the results were as follows:

Nominees	For	Withheld
Marco Laterza	20,726,511	940,761
Jimmie Shiu	20,696,783	970,489

Accordingly, Mr. Laterza and Dr. Shiu were elected as Class 1 Directors to serve until our 2009 Annual Meeting. As of the adjournment of the Annual Meeting, the Board of Directors consisted of the following members:

Marco Laterza	Class 1 Director
Jimmie Shiu	Class 1 Director
Thomas J. Shaw	Class 2 Director
Steven R. Wisner	Class 2 Director
Douglas W. Cowan	Class 2 Director
Clarence Zierhut	Class 2 Director
Marwan Saker	Class 2 Director

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: November 14, 2007

RETRACTABLE TECHNOLOGIES, INC.
(Registrant)

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