

RETRACTABLE TECHNOLOGIES INC
Form 10-Q
August 14, 2017
[Table of Contents](#)

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended June 30, 2017

or

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.

Edgar Filing: RETRACTABLE TECHNOLOGIES INC - Form 10-Q

(Exact name of registrant as specified in its charter)

Texas
(State or other jurisdiction of
incorporation or organization)

75-2599762
(I.R.S. Employer Identification No.)

511 Lobo Lane
Little Elm, Texas
(Address of principal executive offices)

75068-5295
(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 No

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 No

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

Accelerated filer

Non-accelerated filer
(Do not check if a smaller reporting company)

Smaller reporting company
Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

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 No

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: 31,666,454 shares of Common Stock, no par value, outstanding as of August 1, 2017.

Table of Contents

RETRACTABLE TECHNOLOGIES, INC.

FORM 10-Q

For the Quarterly Period Ended June 30, 2017

TABLE OF CONTENTS

<u>PART I FINANCIAL INFORMATION</u>	1	
<u>Item 1.</u>	<u>Financial Statements</u>	1
<u>CONDENSED BALANCE SHEETS</u>		1
<u>CONDENSED STATEMENTS OF OPERATIONS</u>		2
<u>CONDENSED STATEMENTS OF CASH FLOWS</u>		3
<u>NOTES TO CONDENSED FINANCIAL STATEMENTS</u>		4
<u>Item 2.</u>	<u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	12
<u>Item 3.</u>	<u>Quantitative and Qualitative Disclosures About Market Risk</u>	16
<u>Item 4.</u>	<u>Controls and Procedures</u>	16
<u>PART II OTHER INFORMATION</u>		16
<u>Item 1.</u>	<u>Legal Proceedings</u>	16
<u>Item 1A.</u>	<u>Risk Factors</u>	16
<u>Item 3.</u>	<u>Defaults Upon Senior Securities</u>	16
<u>Item 5.</u>	<u>Other Information</u>	17
<u>Item 6.</u>	<u>Exhibits</u>	17
<u>SIGNATURES</u>		18

Table of Contents**PART I FINANCIAL INFORMATION****Item 1. Financial Statements.****RETRACTABLE TECHNOLOGIES, INC.****CONDENSED BALANCE SHEETS****(unaudited)**

	June 30, 2017	December 31, 2016
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 15,472,553	\$ 16,199,043
Accounts receivable, net	3,471,523	3,267,838
Inventories, net	8,049,399	7,017,224
Other current assets	448,407	192,548
Total current assets	27,441,882	26,676,653
Property, plant, and equipment, net	11,819,588	12,092,037
Other assets	8,095	10,289
Total assets	\$ 39,269,565	\$ 38,778,979
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities:		
Accounts payable	\$ 4,445,649	\$ 4,471,756
Current portion of long-term debt	440,971	430,393
Accrued compensation	814,604	536,456
Dividends payable	55,113	55,113
Accrued royalties to shareholder	635,554	659,443
Insurance proceeds	1,004,960	
Other accrued liabilities	893,395	1,019,283
Total current liabilities	8,290,246	7,172,444
Long-term debt, net of current maturities	3,270,235	3,498,244
Total liabilities	11,560,481	10,670,688
Commitments and contingencies	see Note 6	
Stockholders' equity:		
Preferred stock, \$1 par value:		
Series I, Class B	98,500	98,500
Series II, Class B	171,200	171,200
Series III, Class B	129,245	129,245
Series IV, Class B	342,500	342,500
Series V, Class B	40,000	40,000

Edgar Filing: RETRACTABLE TECHNOLOGIES INC - Form 10-Q

Common stock, no par value			
Additional paid-in capital		61,430,417	59,290,333
Accumulated deficit		(34,502,778)	(31,963,487)
Total stockholders' equity		27,709,084	28,108,291
Total liabilities and stockholders' equity	\$	39,269,565	\$ 38,778,979

See accompanying notes to condensed unaudited financial statements

Table of Contents**RETRACTABLE TECHNOLOGIES, INC.****CONDENSED STATEMENTS OF OPERATIONS****(unaudited)**

	Three Months Ended		Six Months Ended	
	June 30, 2017	June 30, 2016	June 30, 2017	June 30, 2016
Sales, net	\$ 7,646,117	\$ 7,575,053	\$ 14,569,797	\$ 13,497,035
Cost of sales				
Cost of manufactured product	4,801,495	4,274,010	8,812,408	7,500,607
Royalty expense to shareholders	635,554	682,402	1,223,398	1,187,777
Total cost of sales	5,437,049	4,956,412	10,035,806	8,688,384
Gross profit	2,209,068	2,618,641	4,533,991	4,808,651
Operating expenses:				
Sales and marketing	1,223,842	986,172	2,251,553	1,895,744
Research and development	157,395	146,854	305,844	271,773
General and administrative	2,133,040	2,091,151	4,433,907	4,140,839
Total operating expenses	3,514,277	3,224,177	6,991,304	6,308,356
Loss from operations	(1,305,209)	(605,536)	(2,457,313)	(1,499,705)
Interest and other income	14,173	6,032	24,678	11,213
Interest expense	(58,028)	(56,710)	(106,091)	(106,333)
Net loss before income taxes	(1,349,064)	(656,214)	(2,538,726)	(1,594,825)
Provision for income taxes	282	480	565	960
Net loss	(1,349,346)	(656,694)	(2,539,291)	(1,595,785)
Preferred stock dividend requirements	(176,249)	(176,249)	(352,498)	(352,498)
Loss applicable to common shareholders	\$ (1,525,595)	\$ (832,943)	\$ (2,891,789)	\$ (1,948,283)
Basic loss per share	\$ (0.05)	\$ (0.03)	\$ (0.09)	\$ (0.07)
Diluted loss per share	\$ (0.05)	\$ (0.03)	\$ (0.09)	\$ (0.07)
Weighted average common shares outstanding:				
Basic	31,666,454	29,483,207	31,499,787	29,054,041
Diluted	31,666,454	29,483,207	31,499,787	29,054,041

See accompanying notes to condensed unaudited financial statements

Table of Contents**RETRACTABLE TECHNOLOGIES, INC.****CONDENSED STATEMENTS OF CASH FLOWS****(unaudited)**

	Six Months Ended June 30, 2017	Six Months Ended June 30, 2016
Cash flows from operating activities		
Net loss	\$ (2,539,291)	\$ (1,595,785)
Adjustments to reconcile loss to net cash used by operating activities:		
Provision for doubtful accounts		77,000
Share-based compensation	470,309	
Depreciation and amortization	405,102	446,798
(Increase) decrease in assets:		
Inventories	(1,032,175)	18,003
Accounts receivable	(203,685)	(84,228)
Other current assets	(255,859)	986,438
Other assets		(750)
Increase (decrease) in liabilities:		
Accounts payable	(26,107)	(677,846)
Accrued liabilities	128,371	322,807
Insurance proceeds	1,004,960	
Net cash used by operating activities	(2,048,375)	(507,563)
Cash flows from investing activities		
Purchase of property, plant, and equipment	(130,459)	(928,180)
Net cash used by investing activities	(130,459)	(928,180)
Cash flows from financing activities		
Repayments of long-term debt and notes payable	(217,431)	(124,163)
Proceeds from the sale of common stock	1,780,000	
Proceeds from the exercise of stock options		839,200
Payment of Preferred Stock dividends	(110,225)	(110,528)
Net cash provided by financing activities	1,452,344	604,509
Net decrease in cash and cash equivalents	(726,490)	(831,234)
Cash and cash equivalents at:		
Beginning of period	16,199,043	18,045,044
End of period	\$ 15,472,553	\$ 17,213,810
Supplemental schedule of cash flow information:		
Interest paid	\$ 106,090	\$ 106,332
Income taxes paid	\$	\$ 2,000
Supplemental schedule of noncash investing and financing activities:		
Preferred dividends declared, not paid	\$ 55,113	\$ 55,113

See accompanying notes to condensed unaudited financial statements

Table of Contents

RETRACTABLE TECHNOLOGIES, INC.

NOTES TO CONDENSED FINANCIAL STATEMENTS

(unaudited)

1. BUSINESS OF THE COMPANY AND BASIS OF PRESENTATION

Business of the Company

Retractable Technologies, Inc. (the Company) was incorporated in Texas on May 9, 1994, and designs, develops, manufactures, and markets safety syringes and other safety medical products for the healthcare profession. The Company began to develop its manufacturing operations in 1995. The Company's manufacturing and administrative facilities are located in Little Elm, Texas. The Company's products are the VanishPoint® 0.5mL insulin syringe; 1mL tuberculin, insulin, and allergy antigen syringes; 0.5mL, 1mL, 2mL, 3mL, 5mL, and 10mL syringes; the blood collection tube holder; the small diameter tube adapter; the allergy tray; the IV safety catheter; the Patient Safe® syringes; the Patient Safe® Luer Cap; the VanishPoint® Blood Collection Set; and the EasyPoint® needle. The Company also sells VanishPoint® autodisable syringes in the international market in addition to the Company's other products.

Basis of presentation

The accompanying condensed financial statements are unaudited and, in the opinion of Management, reflect all adjustments that are necessary for a fair presentation of the financial position and results of operations for the periods presented. All such adjustments are of a normal and recurring nature. The results of operations for the periods presented are not necessarily indicative of the results to be expected for the entire year. The condensed financial statements should be read in conjunction with the financial statement disclosures contained in the Company's audited financial statements incorporated into its Form 10-K filed on March 31, 2017 for the year ended December 31, 2016.

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

Accounts receivable

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

The Company requires certain customers to make a prepayment prior to beginning production or shipment of their order. Customers may apply such prepayments to their outstanding invoices or pay the invoice and continue to carry forward the deposit for future orders. Such amounts are included in Other accrued liabilities on the Condensed Balance Sheets and are shown in Note 5, Other Accrued Liabilities. The Company records an allowance for estimated returns as a reduction to Accounts receivable and Gross sales. Historically, returns have been immaterial.

Table of Contents

Inventories

Inventories are valued at the lower of cost or net realizable value, with cost being determined using actual average cost. The Company compares the average cost to the net realizable value 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.

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

Long-lived assets

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

Financial instruments

The Company estimates the fair 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 fair value and, accordingly, amounts are not necessarily indicative of the amounts that could be realized in a current market exchange. Short-term financial instruments, including cash and cash equivalents, accounts receivable, accounts payable, and other liabilities, consist primarily of instruments without extended maturities, the fair value of which, based on Management's estimates, equals their recorded values. The fair value of long-term liabilities, based on Management's estimates, approximates their reported values.

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.

Table of Contents

The following table reflects our significant customers for the first three and six months of 2017 and 2016:

	Six Months ended June 30, 2017	Six Months ended June 30, 2016	Three Months ended June 30, 2017	Three Months ended June 30, 2016
Number of significant customers	1	2	2	1
Aggregate dollar amount of net sales to significant customers	\$4.1 million	\$6.1 million	\$3.1 million	\$2.8 million
Percentage of net sales to significant customers	28.0%	44.9%	40.2%	37.3%

The Company manufactures some of its products 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 89.1% and 78.2% of its VanishPoint® syringes in the first six months of 2017 and 2016, respectively, from its primary Chinese manufacturer. Purchases from this Chinese manufacturer aggregated 90.1% and 91.8% of VanishPoint® syringes in the three month periods ended June 30, 2017 and 2016, respectively. In the event that the Company becomes unable to purchase products from its Chinese manufacturers, the Company would need to find an alternate manufacturer for its blood collection set, IV catheter, Patient Safe® syringe, 0.5mL insulin syringe, 0.5mL autodisable syringe, and 2mL, 5mL, and 10mL syringes and would increase domestic production for the 1mL and 3mL syringes.

Revenue recognition

Revenue is recognized for sales when title and risk of ownership passes to the customer, generally upon shipment. Under certain contracts, revenue is recorded on the basis of sales price to distributors, less contractual pricing allowances. Contractual pricing allowances consist of: (i) rebates granted to distributors who provide tracking reports which show, among other things, the facility that purchased the products, and (ii) a provision for estimated contractual pricing allowances for products for which the Company has not received tracking reports. Rebates are recorded when issued and are applied against the customer's receivable balance. Distributors receive a rebate for the difference between the Wholesale Acquisition Cost and the appropriate contract price as reflected on a tracking report provided by the distributor to the Company. If product is sold by a distributor to an entity that has no contract, there is a standard rebate (lower than a contracted rebate) given to the distributor. One of the purposes of the rebate is to encourage distributors to submit tracking reports to the Company. The provision for contractual pricing allowances is reviewed at the end of each quarter and adjusted for changes in levels of products for which there is no tracking report. Additionally, if it becomes clear that tracking reports will not be provided by individual distributors, the provision is further adjusted. The estimated contractual allowance is included in Accounts payable in the Balance Sheets and deducted from revenues in the Statements of Operations. Accounts payable included estimated contractual allowances for \$3,479,252 and \$3,591,534 as of June 30, 2017 and December 31, 2016, respectively. The terms and conditions of contractual pricing allowances are governed by contracts between the Company and its distributors. Revenue for shipments directly to end-users is recognized when title and risk of ownership pass from the Company. Any product shipped or distributed for evaluation purposes is expensed.

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.

Edgar Filing: RETRACTABLE TECHNOLOGIES INC - Form 10-Q

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

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

Table of Contents**Litigation proceeds**

Proceeds from litigation are recognized when realizable. Generally, realization is not reasonably assured and expected until proceeds are collected and the legal proceeding has concluded.

Income taxes

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

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

Loss per share

The Company computes basic loss per share by dividing net loss for the period (adjusted for any cumulative dividends for the period) by the weighted average number of common shares outstanding during the period. Diluted loss per share includes the determinants of basic loss per share and, in addition, reflects the dilutive effect, if any, of the common stock deliverable pursuant to stock options or common stock issuable upon the conversion of convertible preferred stock. The calculation of diluted loss per share excluded 147,775 and 678,349 shares of Common Stock underlying issued and outstanding stock options at June 30, 2017 and June 30, 2016, respectively, as their effect was antidilutive. The potential dilution, if any, is shown on the following schedule:

	Three Months Ended June 30, 2017	Three Months Ended June 30, 2016	Six Months Ended June 30, 2017	Six Months Ended June 30, 2016
Net loss	\$ (1,349,346)	\$ (656,694)	\$ (2,539,291)	\$ (1,595,785)
Preferred dividend requirements	(176,249)	(176,249)	(352,498)	(352,498)
Loss applicable to common shareholders	\$ (1,525,595)	\$ (832,943)	\$ (2,891,789)	\$ (1,948,283)
Average common shares outstanding	31,666,454	29,483,207	31,499,787	29,054,041
Average common and common equivalent shares outstanding - assuming dilution	31,666,454	29,483,207	31,499,787	29,054,041
Basic loss per share	\$ (0.05)	\$ (0.03)	\$ (0.09)	\$ (0.07)
Diluted loss per share	\$ (0.05)	\$ (0.03)	\$ (0.09)	\$ (0.07)

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.

Table of Contents**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 June 30, 2017	Three Months Ended June 30, 2016	Six Months Ended June 30, 2017	Six Months Ended June 30, 2016
Cost of sales	\$ 98,356	\$	\$ 196,117	\$
Sales and marketing	51,993		104,677	
Research and development	16,407		32,715	
General and administrative	68,655		136,800	
	\$ 235,411	\$	\$ 470,309	\$

Insurance Proceeds

Receipts from insurance up to the amount of any loss recognized by the Company are considered recoveries. Any such recoveries are recorded when they are received. Insurance recoveries are not recognized as a component of earnings (loss) from operations until all repairs are made.

Recent pronouncements

In July 2015, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2015-11, Inventory (Topic 330) Simplifying the Measurement of Inventory, which is part of the FASB's Simplification Initiative. Inventory, including inventory measured at average cost, would be valued at the lower of cost or net realizable value. Net realizable value is the estimated selling prices in the ordinary course of business, less reasonably predictable costs of completion, disposal, and transportation. ASU 2015-11 is effective for the Company's annual periods and interim periods within those annual periods beginning January 1, 2017. Amendments in this ASU should be applied prospectively with earlier application permitted at the beginning of an interim or annual reporting period. The adoption of this pronouncement had no impact on the Company's Balance Sheet, Results of Operations, or Cash Flows in the period of adoption.

In November 2016, the FASB issued ASU 2016-18, Statement of Cash Flows (Topic 230): Restricted Cash. These amendments require that a statement of cash flows explain the change during the period in the total of cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents. As a result, amounts generally described as restricted cash and restricted cash equivalents should be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the statement of cash flows. The amendments do not provide a definition of restricted cash or restricted cash equivalents. The updated guidance is effective for the Company's quarter ending March 31, 2018, with early adoption permitted. The Company is currently assessing the impact that adoption of this guidance will have on its financial statements and related disclosures.

Edgar Filing: RETRACTABLE TECHNOLOGIES INC - Form 10-Q

In June 2016, the FASB issued Accounting Standards Update 2016-13, Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments. Among other things, these amendments require the measurement of all expected credit losses for financial assets held at the reporting date based on historical experience, current conditions, and reasonable and supportable forecasts. Many of the loss estimation techniques applied today will still be permitted, although the inputs to those techniques will change to reflect the full amount of expected credit losses. This ASU is effective for the Company's quarter ending March 31, 2020 with early application permitted for the Company's quarter ending March 31, 2019. The Company is currently assessing the impact that adoption of this guidance will have on its financial statements and related disclosures.

In February 2016, the FASB issued ASU No. 2016-02, Leases (topic 842). Under the new ASU, lessees will be required to recognize the following for all leases (with the exception of short-term leases) at the commencement date: (1) a lease liability, which is a lessee's obligation to make lease payments arising from a lease, measured on a discounted basis; and (2) a right-of-use asset, which is an asset that represents the lessee's right to use, or control the use of, a specified asset for the lease term. Under the new guidance lessor accounting is largely unchanged. The new lease guidance simplified the accounting for sale and leaseback transactions primarily because lessees must recognize lease assets and lease liabilities. Lessees (for capital and

Table of Contents

operating leases) and lessors (for sales-type, direct financing, and operating leases) must apply a modified retrospective transition approach for leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements. The modified retrospective approach would not require any transition accounting for leases that expired before the earliest comparative period presented. This ASU is effective for the Company's quarter ending March 31, 2019, with early adoption permitted. The Company is currently evaluating the impact of this standard.

In May 2014, FASB issued ASU No. 2014-09, Revenue from Contracts with Customers, which provides guidance for revenue recognition. This ASU's core principle is that a company will recognize revenue when it transfers promised goods or services to customers in an amount that reflects consideration to which the company expects to be entitled in exchange for those goods or services. This ASU also requires additional disclosure about the nature, amount, timing and uncertainty of revenue and cash flows arising from customer contracts, including significant judgments and changes in judgments, and assets recognized from costs incurred to obtain or fulfill a contract. ASU No. 2014-09 allows for either full retrospective or modified retrospective adoption. In July 2015, the FASB voted to delay the effective date of this ASU by one year. The ASU will now be effective commencing with the Company's quarter ending March 31, 2018. Early adoption of this ASU is allowed no sooner than the original effective date. The Company is currently assessing the potential impact of this ASU on its financial statements.

3. INVENTORIES

Inventories consist of the following:

		June 30, 2017	December 31, 2016
Raw materials	\$	1,489,305	\$ 1,303,278
Finished goods		7,155,617	6,309,469
		8,644,922	7,612,747
Inventory reserve		(595,523)	(595,523)
	\$	8,049,399	\$ 7,017,224

4. INCOME TAXES

The Company's effective tax rate on the net loss before income taxes was 0.0% and (0.1) for the six months ended June 30, 2017 and June 30, 2016, respectively. For the three months ended June 30, 2017 and June 30, 2016, the Company's effective tax rate on the net loss before income taxes was 0.0% and (0.1)%, respectively.

5. OTHER ACCRUED LIABILITIES

Other accrued liabilities consist of the following:

Edgar Filing: RETRACTABLE TECHNOLOGIES INC - Form 10-Q

		June 30, 2017	December 31, 2016
Prepayments from customers	\$	457,398	\$ 692,922
Accrued property taxes		242,050	
Accrued professional fees		127,808	266,747
Other accrued expenses		66,139	59,614
	\$	893,395	\$ 1,019,283

6. COMMITMENTS AND CONTINGENCIES

In May 2010, the Company and an officer's suit against Becton, Dickinson and Company (BD) in the U.S. District Court for the Eastern District of Texas, Marshall Division alleging violations of antitrust acts, false advertising, product disparagement, tortious interference, and unfair competition was reopened. The trial commenced on September 9, 2013, in the U.S. District Court for the Eastern District of Texas, Tyler Division, and the jury found that BD illegally engaged in anticompetitive conduct with the intent to acquire or maintain

Table of Contents

monopoly power in the safety syringe market and engaged in false advertising under the Lanham Act. The jury awarded the Company \$113,508,014 in damages, which was trebled pursuant to statute. The Court granted injunctive relief to take effect January 15, 2015. In doing so, the Court found that BD's business practices limited innovation, including false advertisements that suppressed sales of the VanishPoint® syringes. The specific injunctive relief includes: (1) enjoining BD's use of World's Sharpest Needle or any similar assertion of superior sharpness; (2) requiring notification to all customers who purchased BD syringe products from July 2, 2004 to date that BD wrongfully claimed that its syringe needles were sharper and that its statement that it had data on file was false and misleading; (3) requiring notification to employees, customers, distributors, GPOs, and government agencies that the deadspace of the VanishPoint® has been within ISO standards since 2004 and that BD overstated the deadspace of the VanishPoint® to represent that it was higher than some of BD's syringes when it was actually less, and that BD's statement that it had data on file was false and misleading, and, in addition, posting this notice on its website for a period of three years; (4) enjoining BD from advertising that its syringe products save medication as compared to VanishPoint® products for a period of three years; (5) requiring notification to all employees, customers, distributors, GPOs, and government agencies that BD's website, cost calculator, printed materials, and oral representations alleging BD's syringes save medication as compared to the VanishPoint® were based on false and inaccurate measurement of the VanishPoint®, and, in addition, posting this notice on its website for a period of three years; and (6) requiring the implementation of a comprehensive training program for BD employees and distributors that specifically instructs them not to use old marketing materials and not to make false representations regarding VanishPoint® syringes. Final judgment was entered on January 15, 2015, awarding the Company \$340,524,042 in damages and \$11,722,823 in attorneys' fees, as well as granting injunctive relief consistent with the orders as indicated above. The parties stipulated that the amount of litigation costs recoverable by the Company is \$295,000. On January 14, 2015, the District Court stayed the portion of the injunctive relief that requires BD to notify end-user customers but also ordered BD to comply with internal correction activities as well as mandatory disclosures as set out above to its employees, customers, distributors and Group Purchasing Organizations. BD filed an appeal of that ruling with the 5th Circuit Court of Appeals and that appeal was denied on February 3, 2015. On February 12, 2015, BD filed a motion to amend the judgment directed most specifically to the issue of award of prejudgment interest. On April 23, 2015, the Court entered an Amended Final Judgment that removed prejudgment interest but kept all other monetary and injunctive relief the same as was granted in the original Final Judgment. BD filed its brief in the appeal on July 20, 2015. Oral argument occurred on Monday, February 29, 2016. On December 2, 2016, the 5th Circuit Court of Appeals overturned the antitrust damages. The finding of false advertising liability was affirmed and the case was remanded to the Eastern District of Texas for a redetermination as to the amount of damages to which the Company is entitled. The Company's petition for certiorari to the U.S. Supreme Court was denied on March 20, 2017. The Eastern District of Texas trial date was May 11, 2017. The Court announced that it will issue its decision within three months of May 11, 2017. No decision has been issued.

In September 2007, BD and MDC Investment Holdings, Inc. (MDC) sued the Company in the United States District Court for the Eastern District of Texas, Texarkana Division, initially alleging that the Company is infringing two U.S. patents of MDC (6,179,812 and 7,090,656) that are licensed to BD. BD and MDC seek injunctive relief and unspecified damages. The Company counterclaimed for declarations of non-infringement, invalidity, and unenforceability of the asserted patents. The plaintiffs subsequently dropped allegations with regard to patent no. 7,090,656 and the Company subsequently dropped its counterclaims for unenforceability of the asserted patents. On June 30, 2015, the Court ordered that further proceedings in this matter be stayed and that this case remain administratively closed until resolution of all appeals in the case detailed in the preceding paragraph. The case remains stayed as a result of the ongoing proceedings regarding the Lanham Act claims in the separate proceeding described above.

Table of Contents**7. BUSINESS SEGMENT**

The Company does not operate in separate reportable segments. 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. Revenues by geography are as follows:

	Three Months Ended June 30, 2017	Three Months Ended June 30, 2016	Six Months Ended June 30, 2017	Six Months Ended June 30, 2016
U.S. sales	\$ 6,055,144	\$ 6,944,479	\$ 12,003,000	\$ 12,447,489
North and South America sales (excluding U.S.)	1,331,029	304,210	1,827,560	651,874
Other international sales	259,944	326,364	739,237	397,672
Total sales, net	\$ 7,646,117	\$ 7,575,053	\$ 14,569,797	\$ 13,497,035

Long-lived assets by geography are as follows:

	June 30, 2017	December 31, 2016
Long-lived assets		
U.S.	\$ 11,669,906	\$ 11,930,293
International	\$ 149,682	\$ 161,744

8. DIVIDENDS

The Company declared dividends in the first quarter of 2016 in the amounts of \$12,313 and \$42,800 paid to Series I Class B and Series II Class B Preferred Stockholders, respectively, on April 21, 2016. The Company declared dividends in the second quarter of 2016 in the amounts of \$12,313 and \$42,800 paid to Series I Class B and Series II Class B Preferred Stockholders, respectively, on July 28, 2016. The Company declared dividends in the first quarter of 2017 in the amounts of \$12,313 and \$42,800 paid to Series I Class B and Series II Class B Preferred Stockholders, respectively, on April 27, 2017. The Company declared dividends in the second quarter of 2017 in the amounts of \$12,313 and \$42,800 paid to Series I Class B and Series II Class B Preferred Stockholders, respectively, on July 20, 2017.

9. PRIVATE PURCHASE

The Company approved three of its executive officers to purchase shares directly from the Company. Thomas J. Shaw, CEO, exercised a portion of such right on January 12, 2017, buying two million shares at market price for an aggregate purchase price of \$1.78 million. Mr. Shaw has one million additional shares authorized for purchase at market price any time prior to September 9, 2018. Mr. Cowan, CFO, and Ms. Larios, Vice President and General Counsel, are authorized to purchase 500,000 shares each at market price any time prior to September 9, 2018. The approximate dollar value of these potential future purchases cannot be predicted.

10. BONUSES

In February of 2017, Mr. Cowan and Ms. Larios were each granted cash bonuses of \$250,000. Ms. Larios received her bonus in the first quarter of 2017. Mr. Cowan will receive his bonus later this year. Bonuses payable are included in accrued compensation in the Condensed Balance Sheets.

11. STORM DAMAGE AND INSURANCE PROCEEDS

On March 26, 2017 a hail storm passed through Little Elm, TX, resulting in damage to the Company's two buildings. During April, the Company performed an inspection of its facilities and determined that possible roof damage had been sustained. In late April, the Company's insurance carrier inspected the two buildings and confirmed that damage occurred from the hail storm. This damage was principally to the roofs of the buildings but also many of the HVAC units and a wall alongside one of the buildings sustained damage.

The Company's insurance carrier has assessed the damages at approximately \$1 million and the Company's deductible is less than \$25,000. The Company has received these funds from its carrier. At this time, the Company does not expect the cost of repairs to the roofs, the wall, and to the HVAC units to exceed its coverage. The Company expects repairs to commence during the third quarter of 2017 and to be completed by the end of the year. The Company does not currently anticipate that these repairs will result any significant disruption to its operations or interruption to its production.

Table of Contents

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 and future Court decisions regarding current litigation, our ability to maintain favorable third party manufacturing and supplier arrangements and relationships, foreign trade risk, 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 impact 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 since 1997. Safety syringes comprised 93.3% of our sales in the first six months of 2017. We also manufacture and market the blood collection tube holder, IV safety catheter, and VanishPoint® Blood Collection Set. We currently provide other safety medical products in addition to safety products utilizing retractable technology. One such product is the Patient Safe® syringe, which is uniquely designed to reduce the risk of bloodstream infections associated with catheter hub contamination.

In the second quarter of 2016, we began selling a new product, the EasyPoint® needle. No EasyPoint® needles were sold in the first quarter of 2017. EasyPoint® needle sales made up approximately 3% of our second quarter revenues. The EasyPoint® is a retractable needle that can be used with Luer lock syringes, Luer slip syringes, and prefilled syringes to give injections. The EasyPoint® needle can also be used to aspirate fluids and collect blood.

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

Edgar Filing: RETRACTABLE TECHNOLOGIES INC - Form 10-Q

our products and the federal and state legislation requiring the use of safe needle devices. The alternate care market is composed of facilities that provide long-term nursing and out-patient surgery, emergency care, physician services, health clinics, and retail pharmacies.

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

We have reported in the past that our progress is limited principally due to the practices engaged in by BD, the dominant maker and seller of disposable syringes. We initiated a lawsuit in 2007 against BD. As previously reported, on December 2, 2016, the Fifth Circuit Court of Appeals overturned a district court judgment that had previously awarded us \$340 million in antitrust damages from BD, but affirmed a finding of false advertising liability against BD and remanded the case to the Eastern District of Texas for a redetermination as to the amount of damages to which we are entitled. The Eastern District of Texas trial date was on May 11, 2017. No judgment has been issued.

Table of Contents

We have taken steps to reduce our future litigation expenses and expect such expenses to continue to be significantly less in 2017. We have expanded our sales and marketing staff in an effort to gain market share. Our stock option expense for grants in 2016 will require future amortization of \$206 thousand, of which approximately \$190 thousand will be expensed in the third quarter of 2017.

The Consolidated Appropriations Act, 2016 (Pub. L. 114-113), signed into law on December 18, 2015, includes a two year moratorium on the 2.3% medical device excise tax imposed by Internal Revenue Code section 4191. Thus, the medical device excise tax was suspended beginning on January 1, 2016 and ending on December 31, 2017.

We reevaluated several compensation strategies in late 2016 and early 2017. We also approved three of our executive officers to purchase shares directly from the Company. Thomas J. Shaw exercised a portion of such right on January 12, 2017, buying two million shares at market price for an aggregate purchase price of \$1.78 million.

As discussed in Note 11 to the financial statements, we received \$1,004,960 from our insurance carrier in the second quarter of 2017 and we expect to effect building repairs using these funds beginning in the third quarter.

Product purchases from our Chinese manufacturers have enabled us to increase manufacturing capacity with little capital outlay and have provided a competitive manufacturing cost. In the first six months of 2017, our primary Chinese manufacturer produced approximately 89.1% of our VanishPoint® syringes. In the event that we become unable to purchase products from our Chinese manufacturers, we would need to find an alternate manufacturer for the blood collection set, IV catheter, Patient Safe® syringe, 0.5mL insulin syringe, 0.5mL autodisable syringe, and 2mL, 5mL, and 10mL syringes and we would increase domestic production for the 1mL and 3mL syringes.

In 1995, we entered into a license agreement with Thomas J. Shaw for the exclusive right to manufacture, market, and distribute products utilizing automated retraction technology. This technology is the subject of various patents and patent applications owned by Mr. Shaw. The license agreement generally provides for quarterly payments of a 5% royalty fee on gross sales.

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

The following discussion may contain trend information and other forward-looking statements that involve a number of risks and uncertainties. Our actual future results could differ materially from our historical results of operations and those discussed in any forward-looking statements. Dollar amounts have been rounded for ease of reading. All period references are to the periods ended June 30, 2017 or 2016.

RESULTS OF OPERATIONS

Comparison of Three Months Ended June 30, 2017 and June 30, 2016

Domestic sales accounted for 79.2% and 91.7% of the revenues for the three months ended June 30, 2017 and 2016, respectively. Domestic revenues decreased 12.8% principally due to decreases in sales of 1mL and 3mL syringes and the EasyPoint® needle. Domestic unit sales decreased 14.1%. Domestic unit sales were 69.8% of total unit sales for the three months ended June 30, 2017. International revenue and unit sales increased 152.3% and 225.5%, respectively, due to the timing of several large orders. Our international orders may be subject to significant fluctuation over time. Overall unit sales increased 10.5%.

Gross profit decreased 15.6% primarily due to lower domestic sales volumes.

The Cost of manufactured product increased by 12.5% principally due to larger volumes sold. Profit margins can fluctuate depending upon, among other things, the cost of manufactured product and the capitalized cost of product recorded in inventory, as well as product sales mix. Royalty expense decreased 6.9% due to lower gross sales.

Table of Contents

Operating expenses increased 9.0% or \$290 thousand. The increase was due to stock option expense and increased staffing in sales and marketing. Our legal expenses declined.

Our operating loss was \$1.3 million compared to an operating loss for the same period last year of \$605 thousand due primarily to lower gross profit and higher operating expenses.

Our effective tax rate on the net loss before income taxes was 0.0% and (0.1)% for the three months ended June 30, 2017 and June 30, 2016, respectively.

Comparison of Six Months Ended June 30, 2017 and June 30, 2016

Domestic sales accounted for 82.4% and 92.2% of the revenues for the six months ended June 30, 2017 and 2016, respectively. Domestic revenues decreased 3.6% principally due to lower volume. Domestic unit sales decreased 5.4%. Domestic unit sales were 75.2% of total unit sales for the six months ended June 30, 2017. International revenue and unit sales increased 144.6% and 183.4%, respectively, due to the timing of several large orders. Our international orders may be subject to significant fluctuation over time. Overall unit sales increased 13.3%.

Gross profit decreased 5.7% primarily due to higher per unit cost of manufacture.

The Cost of manufactured product increased 17.5% due to larger volumes and higher manufacturing cost per unit. Profit margins can fluctuate depending upon, among other things, the cost of manufactured product and the capitalized cost of product recorded in inventory, as well as product sales mix. Royalty expense increased 3.0% due to higher gross sales.

Operating expenses increased 10.8% or \$683 thousand. The increase was due to stock option expense and increased staffing in sales and marketing. We also awarded bonuses to two officers in the first quarter. Our legal expenses declined.

Our operating loss was \$2.5 million compared to an operating loss for the same period last year of \$1.5 million due primarily to higher operating expenses and lower gross profit.

Our effective tax rate on the net loss before income taxes was 0.0% and (0.1)% for the six months ended June 30, 2017 and June 30, 2016, respectively.

Discussion of Balance Sheet and Statement of Cash Flow Items

Cash comprises 39.4% of total assets. Working capital was \$19.2 million at June 30, 2017, a decrease of \$350 thousand from December 31, 2016.

Cash flow from operations was negative \$2.0 million for the six months ended June 30, 2017 due primarily to our Net loss and increased inventory levels. The decrease in cash was mitigated by noncash expenses of share-based compensation and depreciation and amortization. We also received \$1.0 million from our insurance carrier which will be used for repairing damage to our buildings from a hail storm, as discussed herein.

LIQUIDITY

At the present time, Management does not intend to publicly raise equity capital. Due to the funds received from prior litigation and direct purchases of our stock, we have sufficient cash reserves and intend to rely on operations, cash reserves, and debt financing, when available, as the primary ongoing sources of cash. Our ability to obtain additional funds through loans is uncertain. We cannot predict any recovery of damages in our litigation against BD at this time. The ultimate outcome of this suit could have a material effect on our financial condition.

Table of Contents

Historical Sources of Liquidity

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

Internal Sources of Liquidity

Margins and Market Access

To routinely achieve positive or break even quarters, we need increased access to hospital markets which has been difficult to obtain. We will continue to attempt to gain access to the market through our sales efforts, innovative technology, the introduction of new products, and, when necessary, litigation.

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

Fluctuations in the cost and availability of raw materials and inventory and our ability to maintain favorable manufacturing arrangements and relationships could result in the need to manufacture all (as opposed to 17.4%) 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. Some international sales of our products are shipped directly from China to the customer. The number of units produced by us versus manufactured in China can have a significant effect on the carrying costs of inventory as well as Cost of sales. We will continue to evaluate the appropriate mix of products manufactured domestically and those manufactured in China to achieve economic benefits as well as to maintain our domestic manufacturing capability.

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

Seasonality

Historically, unit sales have increased during the flu season.

Cash Requirements

Due to funds received from prior litigation, we have sufficient cash reserves and intend to rely on operations, cash reserves, and debt financing, when available, as the primary ongoing sources of cash. We have taken steps to decrease our legal costs and we continue to evaluate these costs. In the future, if we need to take cost cutting measures, we may reduce the number of units being produced, reduce the workforce, reduce the salaries of officers and other employees, and/or defer royalty payments. Some increases in compensation were made in 2016 and 2017.

External Sources of Liquidity

We have obtained several loans since our inception, which have, together with the proceeds from the sales of equities and litigation efforts, enabled us to pursue development and production of our products. Our ability to obtain additional funds through loans is uncertain. Due to the current market price of our Common Stock, it is unlikely we would choose to raise funds by the public sale of equity.

We have approved three of our executive officers to engage in private purchases of stock at market prices. Mr. Shaw exercised a portion of his purchase right on January 12, 2017, buying two million shares at market price for an aggregate purchase price of \$1.78 million.

Table of Contents

As discussed in Note 11 to the financial statements, we received \$1,004,960 from our insurance carrier in the second quarter of 2017 and we expect to effect building repairs using these funds beginning in the third quarter.

CAPITAL RESOURCES

There were no material commitments for capital expenditures in the second quarter of 2017.

Item 3. Quantitative and Qualitative Disclosures About Market Risk.

No update.

Item 4. 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 June 30, 2017, our disclosure controls and procedures were effective.

We initially reported a material weakness in our Annual Report on Form 10-K for the year ended December 31, 2015, filed on March 30, 2016, in connection with the accounting for raw materials. We are addressing this weakness by running parallel accounting systems, including the Oracle Periodic Average Costing system, and we have enhanced our review procedures. This approach supports achieving reliable results. We intend to fully implement the Oracle Periodic Average Costing system by the end of 2017.

Changes in Internal Control Over Financial Reporting

We have implemented procedures to address the material weakness identified in our Form 10-K for the year ended December 31, 2015. There have been no further changes during the second quarter of 2017 or subsequent to June 30, 2017 in our internal control over financial reporting that have materially affected or are reasonably likely to materially affect our internal control over financial reporting.

We utilize various analytical tools to ensure an accurate valuation of inventory of our raw materials. We analyze changing prices, ensure accurate physical counts, confirm formulas used in computations, and evaluate the reasonableness of the results. Results that do not fall within a reasonable parameter are investigated. Such investigation may include, but is not limited to, price, quantities, and overall valuation. The major modification we are reviewing and planning is the implementation of the Oracle Periodic Average Costing system by the end of 2017. This system is intended to reduce or eliminate input errors for the purchase price of raw materials.

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 2016.

Item 3. Defaults Upon Senior Securities.

Working Capital Restrictions and Limitations on the Payment of Dividends

The Company declared a dividend to the Series I Class B and Series II Class B Convertible Preferred Shareholders in the aggregate amount of \$55,113. This dividend was paid on July 20, 2017.

Table of Contents

The certificates of designation for each of the outstanding series of Class B Convertible Preferred Stock each currently provide that, if a dividend upon any shares of Preferred Stock is in arrears, no dividends may be paid or declared upon any stock ranking junior to such stock and generally no junior preferred stock may be redeemed. However, under certain conditions, and for certain Series of Class B Convertible Preferred Stock, we may purchase junior stock when dividends are in arrears.

Series I Class B Convertible Preferred Stock

For the six months ended June 30, 2017, no dividends were in arrears.

Series II Class B Convertible Preferred Stock

For the six months ended June 30, 2017, no dividends were in arrears.

Series III Class B Convertible Preferred Stock

For the six months ended June 30, 2017, the amount of dividends in arrears was \$64,622 and the total arrearage was \$4,081,000 as of June 30, 2017.

Series IV Class B Convertible Preferred Stock

For the six months ended June 30, 2017, the amount of dividends in arrears was \$171,250 and the total arrearage was \$5,970,000 as of June 30, 2017.

Series V Class B Convertible Preferred Stock

For the six months ended June 30, 2017, the amount of dividends in arrears was \$6,400 and the total arrearage was \$990,000 as of June 30, 2017.

Item 5. Other Information.

Our annual meeting of shareholders will be held on September 8, 2017 at 10:00 a.m. Central time and we are soliciting the vote of shareholders of Common Stock with regard to the election of Class 1 Directors. The Proxy Statement has been delivered via the notice and access method, meaning most Common Stockholders will generally only receive a short notice notifying them of where they can download copies of the proxy materials. Shareholders desiring paper copies of the proxy materials may request them.

Item 6. Exhibits.

<u>Exhibit No.</u>	<u>Description of Document</u>
31.1	Certification of Principal Executive Officer
31.2	Certification of Principal Financial Officer
32	Certification Pursuant to 18 U.S.C. Section 1350
101	The following materials from Retractable Technologies, Inc.'s Form 10-Q for the quarter ended June 30, 2017, formatted in XBRL (eXtensible Business Reporting Language): (i) Condensed Balance Sheets as of June 30, 2017 and December 31, 2016, (ii) Condensed Statements of Operations for the six months and three months ended June 30, 2017 and 2016, (iii) Condensed Statements of Cash Flows for the six months ended June 30, 2017 and 2016, and (iv) Notes to Condensed Financial Statements

Table of Contents

SIGNATURES

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

DATE: August 14, 2017

RETRACTABLE TECHNOLOGIES, INC.
(Registrant)

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