RETRACTABLE TECHNOLOGIES INC
Form 10QSB
November 15, 2004
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-QSB

(Mark One)

x **QUARTERLY REPORT UNDER SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the quarterly period ended September 30, 2004

¨ **TRANSITION REPORT UNDER SECTION 13 OR 15(D) OF THE EXCHANGE ACT**

For the transition period from ______ to ______

Commission file number 000-30885

Retractable Technologies, Inc.

(Exact name of small business issuer as specified in its charter)

Texas	**75-2599762**
(State or other jurisdiction of incorporation or organization)	**(IRS Employer Identification No.)**

511 Lobo Lane

Little Elm, Texas 75068-0009

(Address of principal executive offices)

(972) 294-1010

(Issuer s telephone number)

(Former name, former address, and former fiscal year, if changed since last report)

Check whether the issuer: (1) filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act during the past 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 ¨

APPLICABLE ONLY TO ISSUERS INVOLVED IN BANKRUPTCY

PROCEEDINGS DURING THE PRECEDING FIVE YEARS

Check whether the registrant filed all documents and reports required to be filed by Section 12, 13, or 15(d) of the Exchange Act after the distribution of securities under a plan confirmed by a court. Yes ¨ No ¨

APPLICABLE ONLY TO CORPORATE ISSUERS

State the number of shares outstanding of each of the issuer s classes of common equity, as of the latest practicable date: 23,201,998 shares of Common Stock, no par value, issued and outstanding on November 1, 2004.

Transitional Small Business Disclosure Format (Check one): Yes ¨ No x

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PART I

FINANCIAL INFORMATION

Item 1. Financial Statements.

RETRACTABLE TECHNOLOGIES, INC.

CONDENSED BALANCE SHEETS

	September 30, 2004	December 31, 2003
	(unaudited)	
ASSETS		
Current assets:		
Cash and cash equivalents	$ 67,361,437	$ 8,155,621
Accounts receivable, net	2,367,475	1,170,231
Inventories, net	3,983,195	3,976,584
Other current assets	487,039	194,310
Total current assets	74,199,146	13,496,746
Property, plant, and equipment, net	10,031,855	9,678,826
Intangible assets, net	361,261	394,369
Other assets	45,112	60,565
Total assets	$ 84,637,374	$ 23,630,506
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities:		
Accounts payable	$ 2,084,284	$ 2,335,389
Current portion of long-term debt	211,239	210,681
Accrued compensation	388,255	231,959
Marketing fees payable	1,419,760	1,419,760
Accrued royalties	604,344	1,156,633
Other accrued liabilities	309,895	152,800
Income taxes payable	13,135,908	265,473
Total current liabilities	18,153,685	5,772,695
Long-term debt, net of current maturities	2,587,338	2,723,001
Stockholders equity		
Preferred stock $1 par value:		
Series I, Class B	199,400	229,400
Series II, Class B	289,000	418,500
Series III, Class B	137,745	145,245
Series IV, Class B	556,000	1,066,000
Series V, Class B	1,389,971	1,732,071

Common Stock, no par value		
Additional paid-in capital	46,115,511	51,448,561
Retained earnings (deficit)	15,208,724	(39,904,967)
Total stockholders equity:	63,896,351	15,134,810
Total liabilities and stockholders equity	$ 84,637,374	$ 23,630,506

See accompanying notes to condensed financial statements.

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RETRACTABLE TECHNOLOGIES, INC.

CONDENSED STATEMENTS OF OPERATIONS

(unaudited)

	Three Months ended September 30, 2004	Three Months ended September 30, 2003	Nine Months ended September 30, 2004	Nine Months ended September 30, 2003
Sales, net	$ 6,990,773	$ 4,143,807	$ 15,591,370	$ 13,059,115
Reimbursed discounts	186,032		217,418	
Total sales	7,176,805	4,143,807	15,808,788	13,059,115
Cost of sales	5,557,957	3,487,691	11,464,118	9,838,884
Gross profit	1,618,848	656,116	4,344,670	3,220,231
Operating expenses:				
Sales and marketing	1,013,206	827,461	2,700,972	2,980,850
Research and development	135,572	125,309	379,619	385,539
General and administrative	1,631,330	1,582,392	7,043,363	4,502,785
Total operating expenses	2,780,108	2,535,162	10,123,954	7,869,174
Loss from operations	(1,161,260)	(1,879,046)	(5,779,284)	(4,648,943)
Interest income	199,989	16,208	231,963	31,160
Interest expense, net	(64,539)	(68,073)	(202,127)	(235,067)
Litigation settlements, net	65,150,304		74,201,554	13,879,511
Net income (loss) before income taxes	64,124,494	(1,930,911)	68,452,106	9,026,661
Provision for income taxes	(13,275,982)		(13,338,415)	
Net income (loss)	50,848,512	(1,930,911)	55,113,691	9,026,661
Preferred stock dividend requirements	(479,490)	(627,233)	(1,611,707)	(1,954,002)
Earnings (loss) applicable to common shareholders	$ 50,369,022	$ (2,558,144)	$ 53,501,984	$ 7,072,659
Earnings (loss) per share basic	$ 2.21	$ (0.12)	$ 2.39	$ 0.34
Earnings (loss) per share - diluted	$ 1.91	$ (0.12)	$ 2.10	$ 0.30
Weighted average common shares outstanding	22,803,452	21,504,353	22,399,555	20,781,379

See accompanying notes to condensed financial statements.

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RETRACTABLE TECHNOLOGIES, INC.

CONDENSED STATEMENTS OF CASH FLOWS

(unaudited)

	Nine Months ended September 30, 2004	Nine Months ended September 30, 2003
Cash flows from operating activities		
Net Income	$ 55,113,691	$ 9,026,661
Adjustments to reconcile net income to net cash provided by (used by) operating activities:		
Depreciation and amortization	975,599	981,317
Capitalized interest	(11,144)	(20,769)
Stock option compensation	602,693	286,931
Provision for doubtful accounts	51,378	62,807
Accreted interest	75,840	75,839
(Increase) decrease in inventories	(6,611)	(2,058,377)
(Increase) decrease in accounts and note receivable	(1,248,622)	1,395,518
(Increase) decrease in other current assets	(277,276)	3,013
Increase (decrease) in accounts payable	(251,105)	(1,729,677)
Increase (decrease) in marketing fees payable		(45,838)
Increase (decrease) in other accrued liabilities	(238,900)	58,060
Increase (decrease) in income taxes payable	12,870,435	
Net cash provided by operating activities	67,655,978	8,035,485
Cash flows from investing activities		
Purchase of property, plant, and equipment	(1,260,223)	(210,005)
Acquisition of patents, trademarks, licenses, and intangibles		(24,713)
Net cash used by investing activities	(1,260,223)	(234,718)
Cash flows from financing activities		
Repayments of long-term debt and notes payable	(71,357)	(348,477)
Payment of dividends on Series A Convertible Preferred Stock		(459,088)
Payment of dividends on Series I and II Class B Convertible Preferred Stock	(7,118,582)	
Net cash used by financing activities	(7,189,939)	(807,565)
Net increase in cash	59,205,816	6,993,202
Cash and cash equivalents at:		
Beginning of period	8,155,621	1,342,117
End of period	$ 67,361,437	$ 8,335,319
Supplemental disclosures of cash flow information:		
Interest paid	$ 148,414	$ 224,107
Income taxes paid	$ 415,223	$

Supplemental schedule of noncash financing activities:				
Debt assumed to acquire assets	$		$	16,294
Closing costs rolled into long-term debt	$	24,154	$	
Conversion of long-term debt into Common Stock	$	163,740	$	249,998

See accompanying notes to condensed financial statements.

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RETRACTABLE TECHNOLOGIES, INC.

NOTES TO CONDENSED FINANCIAL STATEMENTS

(unaudited)

1. BUSINESS OF THE COMPANY AND BASIS OF PRESENTATION

Business of the Company

Retractable Technologies, Inc. (the Company) was incorporated in Texas on May 9, 1994, 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 and blood collection tube holders. 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 of 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 for the year ended December 31, 2003.

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.

Restricted cash

Restricted cash represents funds fully collateralizing letters of credit the Company provides from time to time.

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. Provision is made for any excess or obsolete inventories.

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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. For the nine months ended September 30, 2004 and 2003, the Company capitalized interest of approximately $11,144 and $20,769, respectively. 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
Building	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.

Reclassifications

Certain prior year amounts have been reclassified to conform with the current period s presentation.

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.

Concentrations of credit risk

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 the 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.

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. Revenues on sales to distributors are recorded net of contractual pricing allowances. 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.

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Litigation proceeds

Proceeds from litigation settlements with Becton Dickinson & Co., Premier Inc.; Premier Purchasing Partners, L.P.; VHA, Inc.; Novation, L.L.C.; Tyco International (US) Inc. and Tyco Healthcare Group L.P. in the Company s federal antitrust lawsuit, Retractable Technologies, Inc. v. Becton Dickinson & Co. (BD) et al. are recognized when realizable. Generally, realization is not reasonably assured and expected until proceeds are collected. Such amounts are net of attorneys fees, court costs, legal expenses and amounts payable under the Covenant Not to Sue. Liability for attorneys fees is not incurred until proceeds are collected.

Payments under the discount reimbursement program are recognized upon delivery of the product, provided collection is reasonably assured. Such amounts are presented in the Condensed Statements of Operations as a separate component of revenues. Discount reimbursements under the settlement agreement were $186,032 and $217,418 for the three and nine months ended September 30, 2004, respectively.

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.

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. Valuation allowances are recorded when realizability of deferred tax assets is not likely.

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 are computed by dividing net earnings for the period (adjusted for any cumulative preferred dividends for the period) by the weighted average number of common shares outstanding during the period. The Company has potentially dilutive Common Stock equivalents consisting of convertible preferred stock, options, and convertible debt. The potential dilution, if any, is shown on the following schedule.

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	Three Months Ended September 30, 2004	Three Months Ended September 30, 2003	Nine Months Ended September 30, 2004	Nine Months Ended September 30, 2003
Net income	$ 50,848,512	$ (1,930,911)	$ 55,113,691	$ 9,026,661
Preferred dividend requirements	(479,490)	(627,233)	(1,611,707)	(1,954,002)
Income available to common shareholders	50,369,022	(2,558,144)	53,501,984	7,072,659
Effect of dilutive securities:				
Conversion of preferred stock	479,490		1,611,707	
Convertible debt interest and loan fees	(499,725)		(429,402)	(441,334)
Income available to common shareholders after assumed conversions	$ 50,348,787	$ (2,558,144)	$ 54,684,289	$ 6,631,325
Average common shares outstanding	22,803,452	21,504,353	22,399,555	20,781,379
Dilutive stock equivalents from stock options	287,438		313,271	288,548
Shares issuable upon conversion of preferred stock	2,572,116		2,572,116	
Shares issuable upon conversion of convertible debt	703,235		703,235	750,000
Average common and common equivalent shares outstanding assuming dilution	26,366,241	21,504,353	25,988,176	21,819,927
Basic earnings per share	$ 2.21	$ (0.12)	$ 2.39	$ 0.34
Diluted earnings per share	$ 1.91	$ (0.12)	$ 2.10	$ 0.30

Research and development costs

Research and development costs are expensed as incurred.

Stock-based compensation

The Company has three stock-based director, officer, and employee compensation plans. Prior to 2002, the Company accounted for those plans under the recognition and measurement provisions (intrinsic value method) of APB Opinion No. 25, *Accounting for Stock Issued to Employees,* and related Interpretations. Effective January 1, 2002, the Company adopted the fair value recognition provisions of SFAS No. 123, *Accounting for Stock-Based Compensation,* prospectively to all director, officer, and employee awards granted, modified, or settled after December 31, 2001. The prospective method is one of three alternative methods of transition under SFAS No. 148, *Accounting for Stock Based Compensation* *and Disclosure on Amendment of FASB Statement No. 123*. Awards under the Company s plans vest over periods up to three years. Therefore, the cost related to stock-based compensation included in the determination of net income for 2003 is less than what would have been recognized if the fair value method had been applied to all awards since the original effective date of SFAS No. 123. SFAS No. 123 indicates that the fair value method is the

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preferable method of accounting. The following table indicates the effect on net income and earnings per share if the fair value method had been applied to all outstanding and unvested awards in each period.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2004	2003	2004	2003
Net income, as reported	$ 50,848,512	$ (1,930,911)	$ 55,113,691	$ 9,026,661
Add: Stock-based employee compensation expense included in reported net income, net of related tax effects	209,907	171,393	602,693	286,931
Deduct: Total stock-based employee compensation expense determined by fair value based method for all awards, net of related tax effects	(209,907)	(199,352)	(602,693)	(387,545)
Pro forma net income	$ 50,848,512	$ (1,958,871)	$ 55,113,691	$ 8,926,047
Earnings (loss) per share (basic)-as reported	$ 2.21	$ (0.12)	$ 2.39	$ 0.34
Earnings (loss) per share (diluted)-as reported	$ 1.91	$ (0.12)	$ 2.10	$ 0.30
Earnings (loss) per share (basic)-pro forma	$ 2.21	$ (0.12)	$ 2.39	$ 0.34
Earnings (loss) per share (diluted)-pro forma	$ 1.91	$ (0.12)	$ 2.10	$ 0.30

On May 11, 2004, the Board of Directors approved issuance of stock options to employees and directors under the 1999 Stock Option Plan. Employees, except for Thomas J. Shaw, will be issued incentive stock options for 115,775 shares of Common Stock. Vesting will occur over a three-year period and the option exercise period will be ten years. The number of options or the exercise price, or a combination of both, will be adjusted if their fair value exceeds $232,000. Independent Directors were issued nonqualified options for the purchase of Common Stock aggregating 25,000 shares. These options vested immediately and be exercisable over a five-year period.

3. INCOME TAX

The provision for income taxes for the three and nine month periods ended September 30, 2004 consists of Federal and state income taxes, net of the benefit of net operating losses carried forward. Income taxes for the three and nine month periods ended September 30, 2004 and 2003 were reduced by the benefit of applicable net operating losses carried forward.

4. DIVIDENDS

On July 20, 2004 the Board of Directors declared a dividend payable August 27, 2004 to shareholders of record as of August 17, 2004. The dividend paid the arrearage of $2,550,338 on the Series I Class B stock and arrearage of $4,568,245 on the Series II Class B stock from date of original issue to conversion or June 30, 2004, whichever is appropriate.

5. LITIGATION PROCEEDS

Effective July 2, 2004, the Company entered into a Settlement Agreement and Release with BD (the Settlement Agreement) in its Federal anti-trust lawsuit, Retractable Technologies, Inc. v. Becton Dickinson & Co. et al. Pursuant to the Settlement Agreement, BD paid One Hundred Million Dollars ($100,000,000.00) into the registry of the Court. This amount was received on July 7, 2004. The Company received $65.1 million of the proceeds which is net of attorney fees and expenses estimated not to exceed $31.5 million and approximately $3.4 million paid to Thomas J. Shaw, President and CEO, under a Covenant Not to Sue.

In the second quarter of 2003 the Company reached settlement agreements with Premier Inc.; Premier Purchasing Partners, L.P.; VHA, Inc.; Novation, L.L.C.; Tyco International (US) Inc.; and Tyco Healthcare Group L.P. in its federal antitrust lawsuit, Retractable Technologies, Inc. v. Becton Dickinson & Co. et al. As part of the settlements, the litigation against Premier, VHA, Novation, and Tyco has been dismissed.

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Although specific terms are confidential, the agreements include cash payments and other financial consideration as well as provisions that are intended to facilitate the sale of our VanishPoint® products to Premier and Novation member facilities. In exchange for the settlement provisions, we have agreed to give up our claims against these companies.

The initial cash payment of $29,125,000 was paid in 2003. The Company received net cash payments of $13,879,511 of the cash payment in 2003. These proceeds were net of attorneys fees, court costs, legal expenses, and amounts paid to Mr. Shaw.

Pursuant to a Covenant Not to Sue agreement entered into on September 19, 2001, between the Company and Thomas J. Shaw, individually, Mr. Shaw received $728,609 of the initial cash payment in 2003.

Total attorneys fees, court costs, and legal expenses were $14,516,880 paid in May 2003 and $4,250,000 paid in December 2003.

As part of the settlement agreements, a discount reimbursement program of $8,000,000, which is net of legal fees, was established whereby the Company shall be provided quarterly reimbursements for certain discounts given to participating facilities. The Company will offer certain discounts to participating facilities and will be reimbursed for such discounts. These payments will be recognized upon delivery of products provided collection is reasonably assured.

In April 2004 $14,125,000 was paid into the registry of the court under the terms of settlement agreements reached in the second quarter of 2003 with Premier Inc; Premier Purchasing Partners, L.P.; VHA, Inc.; Novation, L.L.C.; Tyco International (US) Inc; and Tyco Healthcare Group L.P. in the Company s federal antitrust lawsuit, Retractable Technologies, Inc. v. Becton Dickinson & Co. et al. The Company received $8,051,250 in connection with this payment. The amount received by the Company is net of attorneys fees, court costs, legal expenses, and the amount paid to Mr. Shaw.

Pursuant to a Covenant Not to Sue agreement, Mr. Shaw received $423,750 as a result of this payment to the Company under the settlement agreements.

The Company s litigation attorneys received $5,650,000 of the April payment.

Effective as of April 27, 2004, the Company and Thomas J. Shaw entered into a Settlement Agreement and Release (the NMT Settlement Agreement) with New Medical Technology, Inc.; New Medical Technology, LTD. and NMT Group PLC (collectively NMT). Pursuant to the NMT Settlement Agreement NMT and all parties acting in concert with them are enjoined from importing the NMT Safety Syringe into the United States and from making, using, selling, or offering to sell the NMT Safety Syringe within the United States until the lapse or expiration of the subject patents. In addition NMT paid One Million Dollars ($1,000,000.00) to the Company.

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Item 2. Management s Discussion and Analysis or Plan of Operation.

OVERVIEW

We have been marketing our products into the market place since 1997. In May 2000 we signed a National Marketing and Distribution Agreement with Abbott. We terminated this agreement in October 2003. 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. As a result of the anticompetitive practices of BD and others we entered into litigation. This litigation resulted in settlements with all parties. We continue to attempt to gain access to the market through our sales efforts and innovative technology. We are focusing on methods of upgrading our manufacturing capability and efficiency in order to enable us to offer our technology at a reduced price. We believe our current capitalization provides the resources necessary to implement these changes and greatly improve our manufacturing capacity and efficiency, thereby reducing our unit cost.

FORWARD-LOOKING STATEMENT WARNING

Certain statements included by reference in this Form 10-QSB containing the words believes, anticipates, intends, expects, and similar such 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 actual results, performance, or achievements of the Company to be materially different from any future results, performance, or achievements expressed or implied by such forward-looking statements. Such factors include, among others, the impact of dramatic increases in demand, our ability to quickly increase our capacity in the event of a dramatic increase in demand, our ability to access the market, our ability to decrease production costs, our ability to continue to finance research and development as well as operations and expansion of production, and the increased interest of larger market players, specifically BD, in providing safety needle devices. 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, 2004, or September 30, 2003.

Comparison of Three Months Ended

September 30, 2004, and September 30, 2003

Total sales were $7,176,805 and $4,143,807 for the three months ended September 30, 2004 and 2003, respectively. Unit sales increased 84.6 percent and net sales revenues increased $3,032,998, or 73.2 percent, due to significant increases in international and domestic sales. The average sales price decreased due principally to the increase in international sales which has a lower unit sales price. In 2004, two distributors each accounted for more than 10 percent of units sold.

Cost of sales increased from $3,487,691 in 2003 to $5,557,957 in 2004, an increase of $2,070,266, or 59.4 percent. The increase is principally due to additional product sales. Royalty expense increased $239,000. Decreases in expenses were reduction in repairs of $136,000, samples of $46,000, sterilization costs of $34,000 and other costs of $57,000.

Gross profit increased from $656,116 in 2003 to $1,618,948 in 2004, an increase of $962,732. Gross profit as a percentage of net sales was 15.8 percent and 22.6 percent for the three months ended September 30, 2003 and 2004, respectively.

Sales and marketing expense increased from $827,461 in 2003 to $1,013,206 in 2004, an increase of $185,745. The increase is principally due to increased labor costs of the sales force of $106,000, increases in expenses related to travel and entertainment expense of $76,000, consulting costs of $56,000, and marketing fees of

$25,000. Decreases in expenses include marketing fees to Abbott of $93,000 and meetings and trade show expense of $22,000

Research and development costs were relatively flat with an increase in labor of $25,000 offset by a decrease in samples for testing of $16,000.

General and administrative costs decreased slightly with increases in property and franchise taxes of $86,000 offset by a decrease in legal fees of $106,000.

Interest income increased $183,781 due to higher invested cash balances.

The Company received $65,150,304 in litigation settlements. See note 5 to the condensed financial statements.

Income tax expense reflects the federal and state current tax expense after taking into effect the Company s net operation loss carry forwards.

Preferred stock dividend requirements were $479,490 for 2004 compared to $627,233 in 2003, a decrease of $147,743. The decrease is due to a reduction in the outstanding Preferred Stock, principally the Series IV and V Class B Stock.

Basic earnings (loss) per share were $(0.12) and $2.21, in 2003 and 2004, respectively. Diluted earnings (loss) per share were $(0.12) and $1.91, in 2003 and 2004, respectively.

Comparison of Nine Months Ended

September 30, 2004, and September 30, 2003

Total sales were $15,808,788 and $13,059,115 for the nine months ended September 30, 2004 and 2003, respectively. Unit sales increased 35.0 percent. Total sales revenues increased $2,749,673, or 21.1 percent, due to increases in international and domestic sales, mitigated by lower average sales prices in the international market and the decrease of sales to Abbott, which had a higher unit sales price. The decrease related to the higher unit sales price to Abbott in revenues was $980,000 and was offset by a similar decrease in Abbott marketing fees. In 2004, two distributors each accounted for more than 10 percent of units sold.

Cost of sales increased from $9,838,884 in 2003 to $11,464,118 in 2004, an increase of $1,625,234, or 16.5 percent. The increase is principally due to additional product sales. Royalty expense increased $380,000. Decreases in expenses were reduction in repairs of $219,000, insurance costs of $54,000, samples of $30,000, sterilization costs of $40,000, testing costs of $24,000 and other costs of $57,000.

Gross profit increased from $3,220,231 in 2003 to $4,344,670 in 2004, an increase of $1,124,439. Gross profit margins were 24.7 and 27.5 percent for 2003 and 2004, respectively.

Sales and marketing expense decreased from $2,980,850 in 2003 to $2,700,972 in 2004, a decrease of $279,878. The decrease is principally due to reduced marketing fees to Abbott of $980,000. Increases in expenses related to labor costs were $354,000 reduced by 2003 bonuses of 108,000, and administrative fees of $58,000 which reduced the favorable variance. Other increased expenses related to the marketing and sales efforts were meetings and trade show expense of $46,000, travel and entertainment expense of $123,000, samples and promotional materials of $78,000, and advertising expense of $55,000.

Research and development costs were relatively flat with an increase in labor of $78,000 offset by decreases in bonus expense of $25,000, experimental parts of $27,000, and consulting of $24,000.

General and administrative costs increased from $4,502,785 in 2003 to $7,043,363 in 2004, an increase of $2,540,578. Legal expenses increased $2,200,000, due principally to litigation costs involving the antitrust suit, the patent infringement suit and patent cost. There will be no further material expense regarding these two matters. Franchise and property tax increased $251,000. Compensation expense increased $290,000, bonus expense decreased from $240,000 in 2003 to zero in 2004, stock option expense increased 118,000, and accounting fees increased $48,000.

Consulting expense decreased $32,000, insurance costs decreased $51,000, and bad debt expense decreased $61,000.

Interest income increased $200,803 due to higher invested cash balances.

The Company received $74,201,554 and $13,879,511 in litigation settlements for the nine months ended September 30, 2004 and 2003, respectively. See note 5 to the condensed financial statements.

Income tax expense reflects federal and state current tax expense after taking into effect the Company s net operating loss carry forwards.

Preferred stock dividend requirements were $1,611,707 for 2004 compared to $1,954,002 in 2003, a decrease of $342,295. The decrease is due to a reduction in the outstanding Preferred Stock, principally the Series IV and Series V Class B Stock.

Basic earnings per share were $0.34 and $2.39 in 2003 and 2004 respectively. Diluted earnings per share were $0.30 and $2.10 in 2003 and 2004 respectively.

Cash flow increased from $8,035,485 for the nine months ended September 30, 2003, to $67,655,978 for the nine months ended September 30, 2004 an increase of $59,620,493. The increase in cash flow was due to settlement proceeds reached in litigation, reduced by losses from operations, and increases in accounts receivable. The Company paid dividends of $459,088 and $7,118,582 in 2003 and 2004, respectively.

Cash used in investing activities was $1,260,223 in 2004 due principally to capital expenditures incurred in constructing the warehouse.

Over 1,000,000 Shares of Class B Convertible Preferred Stock have been converted into Common Stock of the Company in 2004.

LIQUIDITY AND FUTURE CAPITAL REQUIREMENTS

Historical Sources of Liquidity

We have historically funded operations primarily from proceeds from private placements and loans. We were capitalized with approximately $52,600,000 raised from six separate private placement offerings. We obtained $3,910,000 in 2000 from bank loans of which $3,435,000 has been repaid and $475,000 was refinanced with the new note with 1st International as discussed below. Additionally, we received a Small Business Administration loan of $1,000,000 in 1996 to pay for portions of automated assembly equipment, multi-cavity molds, and other equipment. This loan has been repaid. Furthermore, we borrowed $5,000,000 in 2000 under our Credit Agreement with Abbott. In October 2002 we repaid the Abbott note with proceeds from a new note from Katie Petroleum for $3,000,000 and a portion of the proceeds from a Series V

Class B offering.

Internal Sources of Liquidity

In early 2004 we began to receive shipment of product under our agreement with Double Dove, a Chinese manufacturer. We believe as we receive greater quantities our profit margins could increase. To achieve our break even quarter 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 lawsuit against BD. We will continue to attempt to gain access to the market through our sales efforts and innovative technology. We are focusing on methods of upgrading our manufacturing capability and efficiency in order to enable us to offer our technology at a reduced price. We believe our current capitalization provides the resources necessary to implement these changes and greatly improve our manufacturing capacity and efficiency, thereby reducing our unit cost.

Due to the recent litigation settlements, we have sufficient cash reserves and intend to rely on operations as the primary ongoing source of cash.

Sales revenues increased 73.2 percent from 2003 to 2004 due to increases in domestic and international sales.

In the event we continue to have only limited market access and cash generated from operations becomes insufficient to support operations, the Company would take cost cutting measures to reduce cash requirements. Such

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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 to Thomas Shaw.

External Sources of Liquidity

We have obtained several loans over the past six years, which have, together with the proceeds from sales of equities, 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 have authorized an additional 5,000,000 shares of a Class C stock that could, if necessary, be used to raise funds through the sale of equity.

Contractual Obligations and Commercial Commitments

The following chart summarizes all of our material obligations and commitments to make future payments under contracts such as debt and lease agreements as of September 30, 2004:

	Payments Due by Period				
Contractual Obligations	**Total**	**2004**	**2005-2006**	**2007-2008**	**Thereafter**
Long-Term Debt	$ 3,312,090	$ 72,457	$ 642,243	$ 709,099	$ 1,888,291
Capital Lease Obligations	21,373	4,245	17,128		
Operating Lease Obligations	95,700	8,700	69,600	17,400	
Total Contractual Cash Obligations	$ 3,429,163	$ 85,402	$ 728,971	$ 726,499	$ 1,888,291

Material Commitments for Expenditures

Assuming we are able to access the market, we may obtain additional capital to fund capital expenditures and working capital needs. Management may fund these expenditures through debt and equity offerings. Capital expenditures could include additional assembly lines, manufacturing space, warehousing, and related infrastructure. The expansion could include those products that have been developed but not yet marketed, as well as expanding manufacturing capacity for existing products.

We had $1,260,223 in capital expenditures for the nine months ended September 30, 2004. We anticipate capital expenditures of approximately $3,000,000 in 2004 primarily for the construction of a warehouse.

Off Balance Sheet Transactions

We have no off-balance sheet transactions.

Item 3. 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, 2004, 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) and determined that, as of September 30, 2004, and based on the evaluation of these controls and procedures as required by paragraph (b) of Rule 13a-15 or Rule 15d-15 there were no significant deficiencies in these procedures. The CEO and CFO determined that our disclosure controls and procedures are effective.

There have been no material changes during the third quarter of 2004 in our internal controls over financial reporting or in any other factor 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.

On August 16, 2004, we filed a Form 10-QSB for the period ended June 30, 2004, where we reported our settlements with BD and NMT and affiliates. We also announced an additional payment of funds under the GPO settlement agreements.

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

The following discussion outlines all securities sold by us for cash or services rendered during the third quarter of 2004. All of the shares sold or granted were issued pursuant to the authority granted by the private offering exemption outlined in Section 4(2) and/or Rule 506 of Regulation D under the Securities Act to a limited number of persons and without a view toward distribution.

On July 1, 2004, Katie Petroleum, Inc. exchanged $23,492 of debt principal owed by the Company pursuant to the $3,000,000 Note payable for 5,873 shares of Common Stock at an exchange rate of $4 of indebtedness per share.

On August 1, 2004, Katie Petroleum exchanged $23,588 of debt principal by the Company pursuant to the $3,000,000 Note payable for 5,897 shares of Common Stock at an exchange rate of $4 of indebtedness per share.

On September 1, 2004, Katie Petroleum exchanged $23,688 of debt principal by the Company pursuant to the $3,000,000 Note payable for 5,922 shares of Common Stock at an exchange rate of $4 of indebtedness per share.

Working Capital Restrictions

The Company maintains cash for use as collateral for letters of credit the Company provides from time to time to enable, among other things, the purchase of product from China. As of September 30, 2004, the Company 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 $3,000,000.00.

Item 3. Defaults Upon Senior Securities.

Series I Class B Convertible Preferred Stock

For the nine months ended September 30, 2004, $25,288 in dividends is in arrears. The total arrearage is $25,288.

Series II Class B Convertible Preferred Stock

For the nine months ended September 30, 2004, $94,732 in dividends is in arrears. The total arrearage is $94,732.

Series III Class B Convertible Preferred Stock

For the nine months ended September 30, 2004, $107,557 in dividends is in arrears. The total arrearage is $2,547,218.

Series IV Class B Convertible Preferred Stock

For the nine months ended September 30, 2004, $740,972 in dividends is in arrears. The total arrearage is $4,673,471.

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Series V Class B Convertible Preferred Stock

For the nine months ended September 30, 2004, $388,016 is in arrears. The total arrearage is $1,486,168.

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

The 2004 Annual Meeting of Stockholders (the Annual Meeting) of the Company was held on September 17, 2004, at 10:00 a.m., CST. The purposes of the meeting were to: (1) elect five Class 2 Directors and (2) to authorize the deletion of Section (b) of Article X of the Company s Second Amended and Restated Articles of Incorporation.

Of the 22,578,179 shares of Common Stock of the Company entitled to vote, 21,165,952 shares were represented in person or by proxy at the Annual Meeting, which is more than the 11,289,090 required to constitute a quorum. Accordingly, the following matters were submitted to a vote.

1. The election of five Class 2 Directors was put to a vote and the results were as follows:

NOMINEES	FOR	WITHHELD
Thomas J. Shaw	20,940,940	225,012
Steven R. Wisner	20,958,540	207,412
Douglas W. Cowan	20,958,540	207,412
Marwan Saker	21,061,225	104,727
Clarence Zierhut	21,061,225	104,727

Accordingly, Thomas J. Shaw, Steven R. Wisner, Douglas W. Cowan, Marwan Saker, and Clarence Zierhut were elected as Class 2 Directors to serve until the Company s 2006 Annual Meeting.

2. The proposal to authorize the deletion of Section (b) of Article X of the Company s Second Amended and Restated Articles of Incorporation was put to a vote and the result was as follows:

FOR	AGAINST	ASBTENTIONS	BROKER NON-VOTES
17,365,519	29,007	103,100	3,668,326

Accordingly, the common stockholders authorized the deletion of Section (b) of Article X of the Company s Second Amended and Restated Articles of Incorporation.

As of the adjournment of the September 17, 2004, Annual Meeting of Stockholders, the Board of Directors consisted of the following members:

Thomas J. Shaw	Class 2 Director
Steven R. Wisner	Class 2 Director
Russell B. Kuhlman	Class 1 Director
Douglas W. Cowan	Class 2 Director
Clarence Zierhut	Class 2 Director
Marwan Saker	Class 2 Director

At a Board meeting held on September 17, 2004, after the shareholders meeting the remaining Directors elected John J. McDonald, Jr. as a Class 1 Director to serve until the 2005 annual meeting.

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Item 6. Exhibits.

Exhibit No.	Description of Document
3	Third Amended and Restated Articles of Incorporation
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

In accordance with the requirements of the Exchange Act, the registrant caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

DATE: November 15, 2004

RETRACTABLE TECHNOLOGIES, INC.
(Registrant)

BY: /s/ Douglas W. Cowan

DOUGLAS W. COWAN
VICE PRESIDENT AND
CHIEF FINANCIAL OFFICER