

RETRACTABLE TECHNOLOGIES INC
Form 10-K
March 31, 2014
[Table of Contents](#)

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

(Mark One)

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

For the fiscal year ended December 31, 2013

or

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

For the transition period from _____ to _____

Commission file number 001-16465

Retractable Technologies, Inc.

(Exact name of registrant as specified in its charter)

Edgar Filing: RETRACTABLE TECHNOLOGIES INC - Form 10-K

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)

75068-0009
(Zip Code)

972-294-1010

Registrant's telephone number, including area code

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

Title of each class
Common

Name of each exchange on which registered
NYSE MKT LLC

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

Preferred Stock

(Title of class)

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

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

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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

Edgar Filing: RETRACTABLE TECHNOLOGIES INC - Form 10-K

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

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

State the aggregate market value of the voting and non-voting common equity held by non-affiliates computed by reference to the price at which the common equity was last sold, or the average bid and asked price of such common equity, as of the last business day of the registrant's most recently completed second fiscal quarter. The aggregate market value of the common equity held by non-affiliates as of June 30, 2013 was \$19,581,725, assuming a closing price of \$1.44 and outstanding shares held by non-affiliates of 13,598,420.

APPLICABLE ONLY TO REGISTRANTS INVOLVED IN BANKRUPTCY

PROCEEDINGS DURING THE PRECEDING FIVE YEARS:

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

(APPLICABLE ONLY TO CORPORATE REGISTRANTS)

Indicate the number of shares outstanding of each of the registrant's classes of common stock, as of the latest practicable date. As of March 3, 2014, there were 27,296,312 shares of our Common Stock outstanding, excluding treasury shares.

DOCUMENTS INCORPORATED BY REFERENCE

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

None except exhibits.

Table of Contents

RETRACTABLE TECHNOLOGIES, INC.

FORM 10-K

For the Fiscal Year Ended December 31, 2013

TABLE OF CONTENTS

PART I

<u>Item 1. Business</u>	1
<u>Item 1A. Risk Factors</u>	8
<u>Item 1B. Unresolved Staff Comments</u>	10
<u>Item 2. Properties</u>	10
<u>Item 3. Legal Proceedings</u>	11
<u>Item 4. Mine Safety Disclosures</u>	12

PART II

<u>Item 5. Market for Registrant's Common Equity, Related Stockholder Matters, and Issuer Purchases of Equity Securities</u>	12
<u>Item 6. Selected Financial Data</u>	13
<u>Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operation</u>	14
<u>Item 7A. Quantitative and Qualitative Disclosures About Market Risk</u>	21
<u>Item 8. Financial Statements and Supplementary Data</u>	F-1
<u>Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure</u>	22
<u>Item 9A. Controls and Procedures</u>	22
<u>Item 9B. Other Information</u>	22

PART III

<u>Item 10. Directors, Executive Officers and Corporate Governance</u>	23
<u>Item 11. Executive Compensation</u>	27
<u>Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters</u>	37
<u>Item 13. Certain Relationships and Related Transactions, and Director Independence</u>	40
<u>Item 14. Principal Accounting Fees and Services</u>	40

PART IV

<u>Item 15. Exhibits, Financial Statement Schedules</u>	41
<u>SIGNATURES</u>	44

Table of Contents

PART I

FORWARD-LOOKING STATEMENT WARNING

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

Item 1. Business.

DESCRIPTION OF BUSINESS

General Development of Business

On May 9, 1994, our company was incorporated in Texas to design, develop, manufacture, and market innovative patented safety medical products for the healthcare industry. Our goal is to become a leading provider of safety medical products. Advantages of our safety products include protection from needlestick injuries, prevention of cross contamination through reuse, and reduction of disposal and other associated costs.

We have designed, developed, and currently market the VanishPoint® and PatientSafe® products. Our VanishPoint® safety products currently consist of 1mL tuberculin, insulin, and allergy antigen VanishPoint® syringes; 0.5mL, 2mL, 3mL, 5mL, and 10mL VanishPoint® syringes; the VanishPoint® autodisable syringe; the VanishPoint® IV catheter; the VanishPoint® blood collection tube holder; and the VanishPoint® blood collection set. The VanishPoint® products are designed specifically to prevent needlestick injuries and to prevent reuse. The patented designs permit the automated retraction of the needle directly from the patient after completion of the procedure. Our PatientSafe® syringe products currently consist of 3mL, 5mL, 10mL, 20mL, 30mL, 60mL PatientSafe® syringes and the PatientSafe® luer cap. The PatientSafe® syringe offers a unique patented design designed to protect patients by reducing the risk of bloodstream infections resulting from catheter hub contamination.

We have additional safety product designs that add to or build upon our current product line offering. These product designs include: retractable needle syringe designs, retractable needle designs, glass syringe designs, retractable needle dental syringe designs, retractable needle IV catheter

Edgar Filing: RETRACTABLE TECHNOLOGIES INC - Form 10-K

designs, and retractable needle blood collection product designs. These designs are in various stages of development.

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 Becton, Dickinson and Company (BD) which dominates our market. We initiated a lawsuit in 2007 against BD. The suit was for patent infringement, antitrust practices, and false advertising. The court severed the patent claims from the other claims pending resolution of the patent dispute. The Federal Circuit determined that BD 's 1mL Integra syringe violated our patents but that BD 's 3mL Integra did not infringe our patents. Oral argument on BD 's appeal has been set for May 9, 2014. On September 30, 2013, we received payment of \$7,724,826 (the Judgment Amount) from BD pursuant to a stipulation in the patent infringement portion of the suit. The stipulation provides that if, as a result of BD 's appeal of the District Court 's denial of BD 's Rule 60(B)(5) motion, it is judicially determined that BD owes an amount less than the Judgment Amount, BD shall be entitled to restitution by us of any excess payment, with interest. Otherwise, the payment of the Judgment

Table of Contents

Amount shall constitute satisfaction of the patent infringement judgment and BD shall owe no further money damages to us in the patent infringement case. The Judgment Amount is included as cash on the balance sheet and shown as a liability on the balance sheet under Litigation proceeds subject to stipulation . The Judgment Amount is only related to the patent infringement portion of the claims against BD. On September 19, 2013, a Texas jury returned a verdict in the portion of the suit regarding antitrust and other claims, finding that BD illegally engaged in anticompetitive conduct with the intent to acquire or maintain monopoly power in the safety syringe market and engaged in false advertising under the Lanham Act. The jury awarded us \$113,508,014 in damages for the antitrust claim, which is subject to being trebled pursuant to statute. A final judgment in this matter has not been entered by the Court yet. We have not received the \$113,508,014 or any other amounts pursuant to the verdict in the aforementioned antitrust litigation against BD.

We continue to attempt to gain access to the market through our sales efforts, our innovative technology, introduction of new products, and, when necessary, litigation.

Our loss per share for 2012 and 2013 were materially different than 2011 predominantly because of the litigation settlements received in 2011, as described herein.

On September 12, 2011, we commenced the 2011 Exchange Offer and also engaged in private purchases with three Preferred Stockholders on the same terms and conditions as the 2011 Exchange Offer. As of December 31, 2011, Preferred Stockholders had tendered a total of 1,277,464 shares of Preferred Stock. A total of \$1,357,275 was paid and 1,277,464 shares of Common Stock were issued as consideration to these Preferred Stockholders. These Preferred Stockholders agreed to waive all unpaid dividends in arrears associated with their tendered Preferred Stock, which resulted in a waiver of a total of \$3,592,659 in unpaid dividends in arrears.

On July 10, 2012, the Company authorized a Common Stock repurchase plan structured to comply with Rules 10b5-1 and 10b-18 under the Securities Exchange Act of 1934. The plan was terminated effective August 30, 2013. Under the plan, the Company purchased a total of 722,920 shares of its Common Stock, 655,818 of which were purchased in 2013.

Section 4191 of the Internal Revenue Code, enacted by the Health Care and Education Reconciliation Act of 2010 in conjunction with the Patient Protection and Affordable Care Act, provides for an excise tax of 2.3% on medical devices. At the present time the excise tax is applicable to domestic sales of our products, except those sold to exempt organizations. The majority of our sales are domestic and not in the retail market. The tax is imposed on sales, not profits. The impact of this tax was \$758,000 in 2013.

Financial Information

Please see the financial statements in **Item 8. Financial Statements and Supplementary Data** for information about our revenues, profits, and losses for the last three years and total assets, liabilities, and stockholder equity for the last two years.

Principal Products

Our products with Notice of Substantial Equivalence to the U.S. Food and Drug Administration (FDA) and which are currently sold include the 1mL tuberculin; insulin; allergy antigen VanishPoint® syringes; 3mL, 5mL, and 10mL VanishPoint® syringes; the VanishPoint® blood collection tube holder; the VanishPoint® IV safety catheter; small diameter tube adapter; the Patient Safe® syringe; the Patient Safe® Luer Cap; and the VanishPoint® Blood Collection Set. We are also selling VanishPoint® autodisable syringes in the international market in addition to our other products.

Syringe sales comprised 97.2%, 99.1%, and 98.6% of revenues in 2011, 2012, and 2013, respectively.

Principal Markets

Our products are sold to and used by healthcare providers primarily in the U.S. (with 19.4% of revenues in 2013 generated from sales outside the U.S.) which include, but are not limited to, acute care hospitals, alternate care

Table of Contents

facilities, doctors' offices, clinics, emergency centers, surgical centers, convalescent hospitals, Veterans Administration facilities, military organizations, public health facilities, and prisons.

The need to change to safety devices is due to the risk that is carried with each needlestick injury which includes the potential transmission of over 20 bloodborne pathogens, including the human immunodeficiency virus (HIV, which causes AIDS), hepatitis B, and hepatitis C. Because of the occupational and public health hazards posed by conventional disposable syringes, public health policy makers, domestic organizations, and government agencies have been involved in the effort to get more effective safety needle products to healthcare workers. Federal legislation was signed into law on November 6, 2000, by former President William Jefferson Clinton. This legislation, which became effective for most states on April 12, 2001, now requires safety needle products be used for the vast majority of procedures. However, even with this requirement, some hospitals are neglecting to follow the law intended to protect healthcare workers.

Methods of Marketing and Distribution

Under the current supply chain system in the U.S. acute care market, the vast majority of decisions relating to the contracting for and purchasing of medical supplies are made by the representatives of group purchasing organizations (GPOs) and purchasing representatives rather than the end-users of the product (nurses, doctors, and testing personnel). The GPOs and larger manufacturers often enter into contracts which can prohibit or limit entry in the marketplace by competitors.

We distribute our products throughout the U.S. and its territories through general line and specialty distributors. We also use international distributors. We have developed a national direct marketing network in order to market our products to health care customers and their purchaser representatives. Our marketers make contact with all of the departments that affect the decision-making process for safety products, including the purchasing agents. They call on acute care and alternate care sites and speak directly with the decision-makers of these facilities. We employ trained clinicians, including nurses and/or medical technologists that educate healthcare providers and healthcare workers on the use of safety devices through on-site clinical training, exhibits at related tradeshows, and publications of relevant articles in trade journals and magazines. These employees provide clinical support to customers. In addition to marketing our products, the network demonstrates the safety and cost effectiveness of the VanishPoint® automated retraction products to customers.

In the needle and syringe market, the market share leader, BD, has utilized, among other things, contracts which have restricted the entry of VanishPoint® syringes into the market. Other products manufactured by us that are being denied market access as a result of BD's anti-competitive actions include the IV safety catheters and Patient Safe® syringes.

We have numerous agreements with organizations for the distribution of our products in foreign markets. In Canada, the provinces of Alberta, Manitoba, Ontario, and Saskatchewan have passed laws or regulations regarding healthcare worker safety and the use of safe needle products. In Europe, the European Council adopted a directive requiring the use of safe needle products in EU countries to prevent needlestick injuries. Brazil is the only country in Latin America that has initiated a regulation requiring the use of safe needle products to prevent needlestick injuries. The Australian states of New South Wales, Queensland, and Victoria have guidelines or directives regarding the prevention of needlestick injuries.

Edgar Filing: RETRACTABLE TECHNOLOGIES INC - Form 10-K

Key components of our strategy to increase our market share are to: (a) defeat monopolistic practices through litigation; (b) focus on methods of upgrading our manufacturing capability and efficiency in order to enable us to reduce costs and improve profit margins; (c) continue marketing emphasis in the U.S.; (d) continue to add Veterans Administration facilities, health departments, emergency medical services, federal prisons, long-term care, and home healthcare facilities as customers; (e) educate healthcare providers, insurers, healthcare workers, government agencies, government officials, and the general public on the reduction of risk and the cost effectiveness afforded by our products; (f) supply product through GPOs and Integrated Delivery Networks where possible; (g) consider possibilities for future licensing agreements and joint venture agreements for the manufacture and distribution of safety products in the U.S. and abroad; (h) introduce new products; and (i) increase international sales.

Table of Contents

Status of Publicly Announced New Products

We have applied for patent protection and are in the process of developing additional safety medical products.

Sources and Availability of Raw Materials

We purchase most of our product components from single suppliers, including needle adhesives and packaging materials. There are multiple sources of these materials. We own the molds that are used to manufacture the plastic components of our products in the U.S. Our current suppliers include Channel Prime Alliance, PolyOne Corporation, Sterigenics, and Kovacmed.

Patents, Trademarks, Licenses, and Proprietary Rights

We and Thomas J. Shaw, our Founder and CEO, entered into a Technology License Agreement dated effective as of the 23rd day of June 1995 (the Technology License Agreement), whereby Mr. Shaw granted us a worldwide exclusive license and right under the Licensed Patents and Information, to manufacture, market, sell and distribute Licensed Products and Improvements without right to sublicense and subject to such nonexclusive rights as may be possessed by the Federal Government. Licensed Patents, Information, Licensed Products, and Improvements all defined extensively in the Technology License Agreement. We may enter into sublicensing arrangements with Mr. Shaw's written approval of the terms and conditions of the licensing agreement. The Licensed Products include all retractable syringes and retractable fluid sampling devices and components thereof, assembled or unassembled, which comprise an invention described in Licensed Patents, and improvements thereto including any and all Products which employ the inventive concept disclosed or claimed in the Licensed Patents. We and Mr. Shaw entered into the First Amendment to Technology Agreement July 3, 2008, whereby we amended the Technology License Agreement in order to include certain additional patent applications (addressing non-syringe patents) owned by Mr. Shaw to the definition of Patent Properties as set forth in the Technology License Agreement so that such additional patent applications would be covered by the license granted by Mr. Shaw to us. Throughout this Annual Report on Form 10-K, we may refer to the Licensed Patents or Licensed Products as our patents or products. Such references are not intended to diminish Mr. Shaw's ownership rights to the patents and products.

In exchange for the Technology License Agreement, we negotiated a licensing fee and agreed to pay a 5% royalty on gross sales after returns. The license terminates upon expiration of the last licensed patents unless sooner terminated under certain circumstances.

The Technology License Agreement was further amended as of September 7, 2012 to clarify and set forth the calculation and amount of the royalty due to Mr. Shaw, including in the event that we have sublicensed our products.

We have the right and obligation to obtain protection of the inventions, including prosecution of patent properties. Mr. Shaw has the right to unilaterally change the license to a nonexclusive license in the event of a hostile takeover. Also, if Mr. Shaw involuntarily loses control of the Company, Mr. Shaw may downgrade the license to a nonexclusive license and a right to information.

Edgar Filing: RETRACTABLE TECHNOLOGIES INC - Form 10-K

We hold numerous patents and have applications pending related to the technology we currently market, as well as technology that is in development. These include patents and applications that are related to designs for retractable syringes, interchangeable needle syringes, syringes, retractable needles, retractable dental syringes, fixed dose syringes, glass syringes with retractable needles, retractable fluid collection devices, blood draw devices with retractable needles, fluid flow control device with retractable cannula, blood collection sets, IV catheters, and self-retracting catheter introducers. These patents have varying expiration dates. While there are retractable syringe patents which cover aspects of our syringe products that will expire in 2015 and 2016, we have additional patents and applications which apply to aspects of our syringe products with later expiration dates.

We have also registered the following trade names and trademarks: VanishPoint®, Patient Safe®, VanishPoint® logos, RT with a circle mark, the Spiral Logo used in packaging our VanishPoint® products, and the color coded spots on the ends of our VanishPoint® syringes and others. We also have trademark protection for the phrase The New Standard for Safety.

Table of Contents

We are involved in patent litigation detailed in **Item 3. Legal Proceedings**. We have decided, on the advice of patent counsel, not to purchase patent insurance because it would require inappropriate disclosure of information that is currently proprietary and confidential.

Seasonality

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

Working Capital Practices

Cash and cash equivalents include unrestricted cash, the proceeds subject to a stipulation (discussed elsewhere herein), money market accounts, and investments with original maturities of three months or less.

We record trade receivables when revenue is recognized. No product has been consigned to customers. Our allowance for doubtful accounts is primarily determined by review of specific trade receivables. Those accounts that are doubtful of collection are included in the allowance. 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.

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

Receivables are established for federal and state taxes where we have determined we are entitled to a refund for overpayments of estimated taxes or loss carrybacks.

Accounts payable and other short-term liabilities include amounts that we believe we have an obligation for at the end of year. These included charges for goods or services received in 2013 but not billed to us at the end of the year. It also included estimates of potential liabilities such as rebates and other fees.

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

Our domestic return policy also 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 upon the following terms: i) an overstocked product is that portion of distributor's inventory of the product which exceeds distributor's sales volume for the product during the preceding four months; ii) distributor must not have taken delivery of the product which is overstocked during the preceding four months; iii) overstocked product held by distributor in excess of 12 months from the date of original invoice will not be eligible for return; iv) the product must have an expiration date of at least 24 months from the date of return; v) the overstocked product must be returned to us in our saleable case cartons which are unopened and untampered, with no broken or re-taped seals; vi) distributor will be granted a credit which may be used only to purchase other products from us, the credit to be in the amount of the invoice price of the returned product less a 10% restocking fee which will be assessed against distributor's subsequent purchase of product; vii) distributor must obtain an authorization code from our distribution department and affix the code to the returned product; and viii) distributor shall bear the cost of shipping the returned products to us. All product overstocks and returns are subject to inspection and acceptance by us.

Our international contracts generally do not provide for any returns.

Table of Contents

Dependence on Major Customers

Two customers accounted for an aggregate of 30.2% of our revenue in 2013. We have numerous other customers and distributors that sell our products in the U.S. and internationally.

Backlog Orders

Order backlog is not material to our business inasmuch as orders for our products generally are received and filled on a current basis, except for items temporarily out of stock.

Government Funding of Research and Right to License

Thomas J. Shaw received grants from the federal government for his initial 1991 version of a safety syringe, which may give the federal government the right to allow others to manufacture that syringe. However, we believe the government has no right to allow others to manufacture the current version of the VanishPoint® syringe.

Government Approval and Government Regulations

For all products manufactured for sale in the domestic market we have given notice of intent to market to the FDA and the devices were shown to be substantially equivalent to the predicate devices for the stated intended use.

For all products manufactured for sale in the foreign market, we hold a certificate of Quality System compliance with ISO 13485. We also have approval to label products for sale into European Union countries with a CE Mark. We will continue to comply with applicable regulations of all countries in which our products are registered for sale.

Competitive Conditions

Our products are sold to and used by healthcare providers primarily in the U.S. (with 19.4% of revenues in 2013 generated from sales outside the U.S.) which include, but are not limited to, acute care hospitals, alternate care facilities, doctors' offices, clinics, emergency centers, surgical centers, convalescent hospitals, Veterans Administration facilities, military organizations, public health facilities, and prisons.

Edgar Filing: RETRACTABLE TECHNOLOGIES INC - Form 10-K

We compete primarily on the basis of product performance and quality. We believe our competitive advantages include, but are not limited to, our leadership in quality and innovation. We believe our products continue to be the most effective safety devices in today's market. Our syringe products include passive safety activation, require less disposal space, and are activated while in the patient, reducing exposure to the contaminated needle. Our price per unit is competitive or even lower than the competition once all the costs incurred during the life cycle of a syringe are considered. Such life cycle costs include disposal costs, testing and treatment costs for needlestick injuries, and treatment for contracted illnesses through needlestick injuries.

Major domestic competitors include BD and Covidien Ltd. (Covidien). Terumo Medical Corp. (Terumo), Smiths Medical, and B Braun are additional competitors with smaller market shares.

Founded in 1897, BD is headquartered in New Jersey. BD's safety-engineered device sales accounted for approximately 25.9% of BD's total 2013 sales. BD's classification of safety-engineered devices include the SafetyLok syringe, which features a tubular plastic sheath that must be manually slid over the needle after removal from the patient, and the SafetyGlide hypodermic needle which utilizes a manually activated hinged lever to cover the needle tip after removal from the patient. BD markets the SafetyGlide blood collection set that has a manually activated cover designed to extend over the needle after use. The BD Eclipse safety blood collection needle and hypodermic needle is also designed to manually cover the needle after removal from the patient. BD manufactures the Integra 3mL retracting needle and syringe product, as well as a spring activated Vacutainer® Passive Shielding Blood Collection Needle and spring activated retracting Vacutainer® blood collection set. BD's Vacutainer® brand name is commonly used as industry jargon to refer to blood collection products in general.

Table of Contents

Covidien offers the Monoject® safety syringe, which, like the BD SafetyLok™, requires the use of two hands to manually extend the tubular plastic shield to cover the needle after removal from the patient. Covidien also markets the Magellan™ needle, similar to BD's SafetyGlide™ needle, which has a manually activated hinged lever to cover the needle tip after removal from the patient.

Many of BD's and Covidien's products result in exposure to the contaminated needle or allow for needle removal and potential syringe reuse.

In contrast, VanishPoint® syringes can be used without significant changes in injection technique. The automated needle retraction is activated when the plunger handle is fully depressed, in conjunction with the delivery of the complete medication dose, while the needle is still in the patient. This pre-removal activation virtually eliminates exposure to the contaminated needle, reducing the risk of needlestick injuries. Activation is easily accomplished in one step, using one hand. Upon activation of the retraction mechanism, VanishPoint® syringes are rendered unusable, reducing the risk of disposal-related injuries or reuse.

Our safety needle products have several advantages over non-retracting safety needles, including, but not limited to: pre-removal activation; automated needle retraction; integrated safety mechanism; reuse prevention; ease of use; and minimal training.

BD and Covidien have controlling U.S. market share; greater financial resources; larger and more established sales, marketing, and distribution organizations; and greater market influence, including long-term and/or exclusive contracts. The current conditions have restricted competition in the needle and syringe market. BD may be able to use its resources to improve its products through research or acquisitions or develop new products, which may compete with our products.

Several factors could materially and beneficially affect the marketability of our products. Demand could be increased by existing legislation and other legislative and investigative efforts. Licensing agreements could provide entry into new markets and generate additional revenue. Further, outsourcing arrangements could increase our manufacturing capacity with little or no capital outlay and provide a competitive cost. Litigation could also provide more access to the market.

Our competitive position is weakened by the method that providers use for making purchasing decisions and the fact that our initial price per unit for our safety needle products may be higher than some of the less effective safety needle products that are on the market.

Research and Development

We spent \$815,018; \$871,851; and \$837,073 in 2011, 2012, and 2013, respectively, on research and development. Costs in 2013 were primarily for compensation and related benefits, along with engineering samples and testing. Our ongoing research and development activities are performed by an internal research and development staff and includes developing process improvements for current and future automated machines. Our limited access to the market has slowed the introduction of products.

Possible future products include safety medical devices and other needle devices to which automated retraction can be applied. We have additional safety product designs that add to or build upon our current product line offering. These product designs include: retractable needle syringe designs, retractable needle designs, glass syringe designs, retractable needle dental syringe designs, retractable needle IV catheter designs, and retractable needle blood collection product designs. While these product designs are in various stages of development, we have recently focused on the design of our next generation of needle products which are needle-based retractable safety products intended for use with devices to inject fluids, aspirate fluids, and obtain blood collection. These retractable needle-based products are designed to offer effective sharps injury prevention by: being easily operated using one-handed activation; keeping the user's hands behind the needle at all times; having a low manufacturing cost; and having new applications and uses that expand into markets in addition to those already addressed by VanishPoint® and Patient Safe® products, such as prefilled syringes, fluid aspiration, partial injection, blood collection, and dental injections.

Environmental Compliance

We believe that we do not incur material costs in connection with compliance with environmental laws. We are considered a Conditionally Exempt Small Quantity Generator because we generate less than 100 kilograms (220 lbs.) of hazardous waste per month. Therefore, we are exempt from the reporting requirements set forth by the Texas Commission on Environmental Quality. The waste that is generated at our facility is primarily made up of flammable liquids and paint-related waste and is sent for fuel blending by Safety Kleen. This fuel blending process completely destroys our waste and satisfies our cradle-to-grave responsibility.

Table of Contents

Other nonhazardous production waste includes clean polypropylene regrind that is recycled. All other nonhazardous waste produced is considered municipal solid waste and sent to a sanitary landfill by CWD.

We also produce small amounts of regulated biohazardous waste from contaminated sharps and laboratory wastes. This waste is sent for incineration by Stericycle.

Employees

As of March 3, 2014, we had 156 employees. 154 of such employees were full time employees.

Financial Information About Geographic Areas

We have minimal long-lived assets in foreign countries. Shipments to international customers generally require a prepayment either by wire transfer or an irrevocable confirmed letter of credit. We do 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. If customers designate a specific destination for its order, we attribute sales to countries based on the destination of shipment.

	2013		2012		2011
U.S. sales	\$ 24,843,200	\$	25,363,814	\$	26,655,781
North and South America sales (excluding U.S.)	4,453,151		4,668,550		4,736,356
Other international sales	1,488,776		3,612,139		710,159
Total sales	\$ 30,785,127	\$	33,644,503	\$	32,102,296
Long-lived assets					
U.S.	\$ 10,676,053	\$	11,679,592	\$	12,412,502
International	\$ 234,119	\$	220,058	\$	241,354

Most international sales are filled by production from Double Dove. In the event that we become unable to purchase such product from Double Dove, we would need to find an alternate manufacturer for the 0.5mL insulin syringe, the 0.5mL autodisable syringe, and the 5mL and 10mL syringes and we would increase domestic production for the 1mL and 3mL syringes.

Available Information

Edgar Filing: RETRACTABLE TECHNOLOGIES INC - Form 10-K

We make available, free of charge on our website (www.vanishpoint.com), our Form 10-K Annual Report and Form 10-Q Quarterly reports and current reports on Form 8-K (and any amendments to such reports) as soon as reasonably practical after such reports are filed.

Item 1A. Risk Factors.

We could be subject to complex and costly regulatory activities. Our business could suffer if we or our suppliers encounter manufacturing problems. We could be subject to risks associated with doing business outside of the U.S. Current or worsening economic conditions may adversely affect our business and financial condition.

You should carefully consider the following material risks facing us. If any of these risks occur, our business, results of operations, or financial condition could be materially affected.

We Compete in a Monopolistic Marketplace

We operate in an environment that is dominated by BD, the major syringe manufacturer in the U.S. We initiated a lawsuit in 2007 against BD. The suit was for patent infringement, antitrust practices, and false advertising. The court severed the patent claims from the other claims pending resolution of the patent dispute. On

Table of Contents

September 19, 2013, a Texas jury returned a verdict in the portion of the suit regarding antitrust and other claims, finding that BD illegally engaged in anticompetitive conduct with the intent to acquire or maintain monopoly power in the safety syringe market and engaged in false advertising under the Lanham Act. The jury awarded us \$113,508,014 in damages for the antitrust claim, which is subject to being trebled pursuant to statute. A final judgment in this matter has not been entered by the Court yet. We have not received the \$113,508,014 or any other amounts pursuant to the verdict in the aforementioned antitrust litigation against BD.

Although we have made limited progress in some areas, such as the alternate care and some international markets, our volumes are not as high as they should be given the nature and quality of our products and the federal and state legislation requiring the use of safe needle devices.

We Have Generally Been Unable to Gain Sufficient Market Access to Achieve Profitable Operations

We have a history of incurring net operating losses. We may experience operating losses in the future. If we are unable to gain sufficient market access and market share, we may be unable to continue to finance research and development as well as support operations and expansion of production.

We Are Dependent on Our Patent Protection

Our main competitive strength is our technology. We are dependent on patent rights, and if the patent rights are invalidated or circumvented, our business would be adversely affected. Patent protection is considered, in the aggregate, to be of material importance in the design, development, and marketing of products.

We hold numerous patents and have applications pending related to the technology we currently market, as well as technology that is in development. These include patents and applications that are related to designs for retractable syringes, interchangeable needle syringes, syringes, retractable needles, retractable dental syringes, fixed dose syringes, glass syringes with retractable needles, retractable fluid collection devices, blood draw devices with retractable needles, fluid flow control device with retractable cannula, blood collection sets, IV catheters, and self-retracting catheter introducers. These patents have varying expiration dates. While there are retractable syringe patents which cover aspects of our syringe products that will expire in 2015 and 2016, we have additional patents and applications which apply to aspects of our syringe products with later expiration dates. Patent life may be extended, not through the original patents, but through related improvements. As our technology ages (and the associated patent life expires), our competitive position in the marketplace could weaken. The patent protection may decrease and make us vulnerable to other competitors utilizing our technology.

Our Patents Are Subject to Litigation

We have been sued by BD and MDC Investment Holdings, Inc. for patent infringement. This case is currently stayed and no trial date is set. Patent litigation and challenges involving our patents are costly and unpredictable and may deprive us of market exclusivity for a patented product or, in some cases, third party patents may prevent us from marketing and selling a product in a particular geographic area.

We Are Vulnerable to New Technologies

Because we have a narrow focus on particular product lines and technology (currently predominantly retractable needle products), we are vulnerable to the development of superior competing products and to changes in technology which could eliminate or reduce the need for our products. If a superior technology is created, the demand for our products could greatly diminish.

Our Competitors Have Greater Resources

Our competitors have greater financial resources, larger and more established sales and marketing and distribution organizations, and greater market influence, including long-term contracts. These competitors may be able to use these resources to improve their products through research and acquisitions or develop new products, which may compete more effectively with our products. If our competitors choose to use their resources to create products superior to ours, we may be unable to sell our products and our ability to continue operations would be weakened.

Table of Contents

The Majority of Our Sales Are Filled Using One Third Party Manufacturer

Most international syringe sales, as well as a substantial portion of domestic sales, are filled by production from Double Dove. In the event that we become unable to purchase such product from Double Dove, we would need to find an alternate manufacturer for the 0.5mL insulin syringe, the 0.5mL autodisable syringe, and the 2mL, 5mL, and 10mL syringes and we would increase domestic production for the 1mL and 3mL syringes. Even with increased domestic production, we may not be able to avoid a disruption in supply. In 2013, the 1mL and 3mL syringes made up 94.8% of our unit sales and 94.0% of our revenues.

Fluctuations in Supplies of Inventory Could Temporarily Increase Costs

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

We Are Controlled by One Shareholder

Thomas J. Shaw, our President and Chief Executive Officer, would have investment or voting power over a total of 51.8% of the outstanding Common Stock if he exercised his options as of March 3, 2014. Mr. Shaw will, therefore, have the ability to direct our operations and financial affairs and to substantially influence the election of members of our Board of Directors. His interests may not always coincide with our interests or the interests of other stockholders. This concentration of ownership, for example, may have the effect of delaying, deferring, or preventing a change in control, impeding a merger, consolidation, takeover, or other business combination involving us, or discouraging a potential acquirer from making a tender offer or otherwise attempting to obtain control of us, which in turn could materially adversely affect the market price of our Common Stock. Mr. Shaw's rights under the Technology License Agreement, as the owner of the technology we produce, present similar conflicts of interest.

Current Economic Conditions May Decrease Collectability of Accounts

Although we believe that we have granted credit to credit-worthy firms, current economic conditions may affect the timing and/or collectability of some accounts.

We Face Inherent Product Liability Risks

As a manufacturer and provider of safety needle products, we face an inherent business risk of exposure to product liability claims. If a product liability claim is made and damages are in excess of our product liability coverage, our competitive position could be weakened by the amount

of money we could be required to pay to compensate those injured by our products. In the event of a recall, we do not have recall insurance.

Item 1B. Unresolved Staff Comments.

Not applicable and none.

Item 2. Properties.

Our headquarters is located at 511 Lobo Lane, on 35 acres, which we own, overlooking Lake Lewisville in Little Elm, Texas. The headquarters are in good condition and house our administrative offices and manufacturing facility. The manufacturing facility produced approximately 26.3% of the units that were manufactured in 2013. In the event that we become unable to purchase product from Double Dove, we would need to find an alternate manufacturer for the 0.5mL insulin syringe, the 0.5mL autodisable syringe, and the 5mL and 10mL syringes and we would increase domestic production for the 1mL and 3mL syringes. The 5mL and 10mL syringes are sold principally in the international market. In 2013, we used approximately 29.8% of our current U.S. productive capacity for VanishPoint® syringes.

A loan in the original principal amount of \$4,210,000 is secured by our land and buildings. See Note 7 to our financial statements for more information.

Table of Contents

In the opinion of Management, the property and equipment are suitable for their intended use and are adequately covered by an insurance policy.

Item 3. Legal Proceedings.

On May 19, 2010, final judgment was entered for us in the U.S. District Court for the Eastern District of Texas, Marshall Division which ordered that we recover \$5,000,000 plus prejudgment and post-judgment interest, and ordered a permanent injunction for BD's 1mL and 3mL Integra syringes until the expiration of certain patents. The permanent injunction was stayed for the longer of the exhaustion of the appeal of the district court's case or twelve months from May 19, 2010. In June 2010, BD filed an appeal in the U.S. Court of Appeals for the Federal Circuit appealing the final judgment entered on May 19, 2010. In July 2011, a three-judge panel of the U.S. Court of Appeals for the Federal Circuit reversed the district court's judgment that BD's 3mL Integra infringed our 224 patent and 077 patent. The U.S. Court of Appeals for the Federal Circuit affirmed the district court's judgment that the 1mL Integra infringes our 244 and 733 patents. The U.S. Court of Appeals for the Federal Circuit also affirmed the district court's judgment that the 077 patent is not invalid for anticipation or obviousness. We had petitioned for a rehearing by all the judges of the Federal Circuit as to whether the three-judge panel properly construed our patent claim language in finding that the 3mL Integra did not infringe. Our petition for rehearing by all of the judges of the Federal Circuit was denied with two dissents being issued. We filed a petition for certiorari asking the Supreme Court to review the matter. That petition was denied in January of 2013. On August 7, 2013, the U.S. District Court for the Eastern District of Texas issued an order adopting the Magistrate Judge's Report and Recommendation and denying BD's Rule 60 motion seeking a reduction in damages. On October 29, 2013, BD filed its Notice of Appeal of the August 7, 2013 order to the Federal Circuit. Oral argument for this appeal has been set for May 9, 2014. On September 30, 2013, we received payment of \$7,724,826 (the Judgment Amount) from BD pursuant to a stipulation in this case. The stipulation provides that if, as a result of BD's appeal of the District Court's denial of BD's Rule 60 motion, it is judicially determined that BD owes an amount less than the Judgment Amount, BD shall be entitled to restitution by us of any excess payment, with interest. Otherwise, the payment of the Judgment Amount shall constitute satisfaction of the patent infringement judgment and BD shall owe no further money damages to us in this case. The Judgment Amount has been reflected as a current liability in the Balance Sheets since the proceeds are not yet realizable.

In May 2010, our and Mr. Shaw's suit against BD in the U.S. District Court for the Eastern District of Texas, Marshall Division alleging violations of antitrust acts, false advertising, product disparagement, tortious interference, and unfair competition was reopened. We and Mr. Shaw filed a Second Amended Complaint on July 23, 2010 setting forth additional detail regarding the allegations of BD's illegal conduct. BD filed a motion to dismiss and the U.S. District Court for the Eastern District of Texas, Marshall Division denied that motion in part and granted it in part, granting us the right to re-plead certain allegations by May 13, 2011. We and Mr. Shaw filed a Third Amended Complaint in May 2011, setting forth additional detail regarding the alleged illegal conduct by BD. Trial was initially set for February 2012. However, in January 2012 the parties agreed to a continuance to allow the petition for certiorari to be considered. As stated above, the petition was denied in January of 2013. A hearing to re-set a trial date in light of BD's motion for continuance was held May 3, 2013. The trial commenced on September 9, 2013 in Tyler, Texas, and the jury returned its verdict on September 19, 2013, finding that BD illegally engaged in anticompetitive conduct with the intent to acquire or maintain monopoly power in the safety syringe market and engaged in false advertising under the Lanham Act. The jury awarded us \$113,508,014 in damages for the antitrust claim, which is subject to being trebled pursuant to statute. The Court conducted a hearing for post-trial motions on February 7, 2014. An order has not yet issued. BD has stated that it plans to appeal the verdict.

In September 2007, BD and MDC Investment Holdings, Inc. (MDC) sued us in the United States District Court for the Eastern District of Texas, Texarkana Division, initially alleging that we are 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. We 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 we subsequently dropped our counterclaims for unenforceability of the asserted patents. The United States District Court for the Eastern District of Texas, Texarkana Division conducted a claims construction hearing on September 25, 2008 and issued its claims construction order on November 14, 2008. The case has been stayed pending resolution of our first filed case against BD described above. As of March 27, 2014, there has been no activity in this case since the stay.

Table of Contents

Item 4. Mine Safety Disclosures.

Not applicable.

PART II

Item 5. Market for Registrant's Common Equity, Related Stockholder Matters, and Issuer Purchases of Equity Securities.

MARKET INFORMATION

Our Common Stock has been listed on the NYSE MKT (or its predecessor entities) under the symbol "RVP" since May 4, 2001. Our closing price on March 3, 2014, was \$3.52 per share. Shown below are the high and low sales prices of our Common Stock as reported by the NYSE MKT for each quarter of the last two fiscal years:

2013	High	Low
Fourth Quarter	\$3.31	\$2.30
Third Quarter	\$4.10	\$1.36
Second Quarter	\$1.55	\$0.91
First Quarter	\$1.29	\$0.78

2012	High	Low
Fourth Quarter	\$1.23	\$0.75
Third Quarter	\$1.40	\$0.90
Second Quarter	\$1.60	\$0.90
First Quarter	\$1.65	\$1.00

SHAREHOLDERS

As of March 3, 2014, there were 27,296,312 shares of Common Stock held by 229 shareholders of record not including shareholders who beneficially own Common Stock held in nominee or street name. The previous sentence excluded 2,920 shares of treasury stock.

DIVIDENDS

Edgar Filing: RETRACTABLE TECHNOLOGIES INC - Form 10-K

We have not ever declared or paid any dividends on the Common Stock. We have no current plans to pay any cash dividends on the Common Stock. We intend to retain all earnings, except those required to be paid to the holders of the Preferred Stock as resources allow, to support operations and future growth. Dividends on Common Stock cannot be paid so long as preferred dividends are unpaid. As of December 31, 2013, there was an aggregate of \$12.1 million in preferred dividends in arrears.

EQUITY COMPENSATION PLAN INFORMATION

See **Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters** for a chart describing compensation plans under which equity securities are authorized.

STOCK PERFORMANCE GRAPH

The following graph compares the cumulative total return for our Common Stock from December 31, 2008 to December 31, 2013, to the total returns for the Russell Microcap® and Becton, Dickinson and Company (or BDX), a peer issuer. The graph assumes an investment of \$100 in the aforementioned equities as of December 31, 2008, and that all dividends are reinvested.

Table of Contents**Item 6. Selected Financial Data.**

The following selected financial data is qualified by reference to, and should be read in conjunction with, our audited financial statements and the notes to those statements and Management's Discussion and Analysis of Financial Condition and Results of Operations appearing elsewhere herein. The selected Statements of Operations data presented below for the years ended December 31, 2010 and 2009 and the Balance Sheet data as of December 31, 2011, 2010, and 2009 have been derived from our audited financial statements, which are not included herein.

(In thousands except for earnings per share, shares, and percentages)*

	As of and for the Years Ended December 31,								
	2013		2012		2011		2010		2009
Sales, net	\$ 30,785	\$	33,644	\$	32,102	\$	36,219	\$	38,982
Cost of sales	20,475		22,468		21,199		23,698		25,466
Gross profit	10,310		11,176		10,903		12,521		13,516
Total operating expenses	16,241		15,115		14,993		19,185		26,812
Loss from operations	(5,931)		(3,939)		(4,090)		(6,664)		(13,296)
Interest income	39		47		63		32		58
Interest expense, net	(231)		(231)		(241)		(302)		(22)
Litigation settlements, net					5,700		9,159		
Income (loss) before income taxes	(6,123)		(4,123)		1,432		2,225		(13,260)
Provision (benefit) for income taxes	91		10		14		(176)		(3,838)
Net income (loss)	(6,214)		(4,133)		1,418		2,401		(9,422)
Preferred Stock dividend requirements	(916)		(918)		(964)		(1,371)		(1,371)
Earnings (loss) applicable to common shareholders	\$ (7,130)	\$	(5,051)	\$	454	\$	1,030	\$	(10,793)

Edgar Filing: RETRACTABLE TECHNOLOGIES INC - Form 10-K

Earnings (loss) per share	basic	\$	(0.26)	\$	(0.19)	\$	0.02	\$	0.04	\$	(0.45)
Earnings (loss) per share	diluted	\$	(0.26)	\$	(0.19)	\$	0.02	\$	0.04	\$	(0.45)
Weighted average shares outstanding	basic		26,999,698		26,219,728		24,171,238		23,872,783		23,806,533

Table of Contents

	As of and for the Years Ended December 31,				
	2013	2012	2011	2010	2009
Weighted average shares outstanding diluted	26,999,698	26,219,728	26,354,786	26,248,874	23,806,533
Current assets	\$ 37,907	\$ 35,441	\$ 35,903	\$ 40,224	\$ 39,262
Current liabilities	\$ 16,621	\$ 8,077	\$ 6,125	\$ 9,986	\$ 13,196
Property, plant, and equipment, net	\$ 10,910	\$ 11,900	\$ 12,654	\$ 12,561	\$ 14,234
Total assets	\$ 49,097	\$ 47,632	\$ 48,920	\$ 53,191	\$ 53,941
Long-term debt, net of current maturities	\$ 3,577	\$ 3,826	\$ 4,143	\$ 4,304	\$ 4,825
Stockholders equity	\$ 28,900	\$ 35,729	\$ 38,651	\$ 38,901	\$ 35,920
Redeemable Preferred Stock (in shares)	994,945	1,001,552	1,001,552	2,279,016	2,285,266
Capital leases					
Cash dividends per common share	\$	\$	\$	\$	\$
Gross profit margin	33.5%	33.2%	34.0%	34.6%	34.7%

* Events that could affect the trends indicated above include continued reductions in manufacturing costs, changing average sales prices, the gaining of market access, protection of our patents, foreign currency exchange rates, the Medical Device Excise Tax, the impact of flu season requirements, and new products. As our products are made from petroleum products, the changing cost of oil and transportation may have an impact on our costs to the extent increases may not be recoverable through price increases of our products and reductions in oil prices may not quickly affect petroleum product prices. Sales to the Department of Health and Human Services (DHHS) comprised 24.4% of our revenues for the twelve months ended December 31, 2009, which affects comparability between 2009 and other years. Receipt of settlement proceeds and option payments from Abbott and Hospira positively affected 2010 and 2011 results. An agreement reached in the second quarter of 2010 with our litigation counsel to cap certain legal fees has contributed to a lower level of expenses thereafter. Our purchase in 2011 of a total of 1,277,464 shares of our Preferred Stock (which purchase required the selling Preferred Stockholder to waive all unpaid dividends in arrears) in exchange for our Common Stock and cash have reduced our Preferred Stock Dividend Requirements. The receipt of \$7,724,826 from BD pursuant to litigation and subject to stipulation (discussed elsewhere herein) affects both the current assets and current liabilities in 2013. The introduction of the Medical Device Excise Tax in 2013 will affect comparability between 2013 and prior years.

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operation.**FORWARD-LOOKING STATEMENT WARNING**

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

Table of Contents

Overview

We have been manufacturing and marketing our products since 1997. Safety syringes comprised 98.6% of our sales in 2013. 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 resulting from catheter hub contamination.

Historically, unit sales have increased in the latter part of the year due, in part, to the demand for syringes during the flu season. The decrease in these sales for 2013 compared to 2012 was likely attributable to the timing of the release of national flu vaccination information.

Our products have been and continue to be distributed nationally and internationally through numerous distributors. Although we have made limited progress in some areas, such as the alternate care market, our volumes are not as high as they should be given the nature and quality of our products and the federal and state legislation requiring the use of safe needle devices. The alternate care market is composed of alternate care facilities that provide long-term nursing and out-patient surgery, emergency care, and physician services.

We have reported in the past that our progress is limited principally due to exclusive marketing practices engaged in by BD, the dominant maker and seller of disposable syringes. On September 19, 2013, a Texas jury returned a verdict in our litigation against BD, finding that BD illegally engaged in anticompetitive conduct with the intent to acquire or maintain monopoly power in the safety syringe market and engaged in false advertising under the Lanham Act. The jury awarded us \$113,508,014 in damages for the antitrust claim, which is subject to being trebled pursuant to statute. The Court conducted a hearing for post-trial motions on February 7, 2014. An order has not yet issued. BD has stated that it plans to appeal the verdict. We have not received the \$113,508,014 or any other amounts pursuant to the verdict in the aforementioned antitrust litigation against BD.

The verdict in the antitrust case against BD likely contributed to our increased stock price over recent months.

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

In the event we continue to have only limited market access and the cash provided by operations becomes insufficient, we would take additional cost cutting measures to reduce cash requirements. Such measures could result in the reduction of units being produced, the reduction of workforce, the reduction of salaries of officers and other employees, and the deferral of royalty payments. We took such actions at the end of the second quarter of 2009. All employees affected by the salary reduction had their salaries increased by the amount of the reduction. Such increase was effective for most employees on August 6, 2012 and was effective for four of our executive officers on October 28, 2013.

On September 30, 2013, we received payment of \$7,724,826 (the Judgment Amount) from BD pursuant to a stipulation in the patent infringement case *Retractable Technologies, Inc. and Thomas Shaw v. Becton Dickinson and Company*, Civil Action No. 2:07-cv-250, in the U.S. District Court for the Eastern District of Texas, Marshall Division. The stipulation provides that if, as a result of BD's appeal of the District

Edgar Filing: RETRACTABLE TECHNOLOGIES INC - Form 10-K

Court's denial of BD's Rule 60(B)(5) motion, it is judicially determined that BD owes an amount less than the Judgment Amount, BD shall be entitled to restitution by us of any excess payment, with interest. Otherwise, the payment of the Judgment Amount shall constitute satisfaction of the patent infringement judgment and BD shall owe no further money damages to us in the patent infringement case. The Judgment Amount is included as cash on the balance sheet and shown as a liability on the balance sheet under Litigation proceeds subject to stipulation. The Judgment Amount is only related to the patent infringement portion of the claims against BD. We have determined not to use the Judgment Amount to fund operations until a final judgment is obtained on appeal.

Section 4191 of the Internal Revenue Code, enacted by the Health Care and Education Reconciliation Act of 2010 in conjunction with the Patient Protection and Affordable Care Act provides for an excise tax of 2.3% on

Table of Contents

medical devices. At the present time the excise tax is applicable to domestic sales of our products, except those which are sold to exempt organizations. The majority of our sales are domestic and not in the retail market. The tax is imposed on sales, not profits. There is no assurance this tax can be passed along to our customers. The impact of this tax was \$758,000 in 2013.

On July 10, 2012, the Company authorized a Common Stock repurchase plan structured to comply with Rules 10b5-1 and 10b-18 under the Securities Exchange Act of 1934. The plan was terminated effective August 30, 2013. Under the plan, the Company purchased a total of 722,920 shares of its Common Stock, 655,818 of which were purchased in 2013.

Pursuant to the Certificates of Designation, Preferences, Rights And Limitations of the Series I Class B and Series II Class B Convertible Preferred Stock, we would be prohibited from purchasing our Common Stock while dividends were in arrears. Therefore, to facilitate the Common Stock repurchase plan, we paid quarterly dividends on the Series I Class B and Series II Class B Preferred Stock during the term of the repurchase plan. Notwithstanding the termination of the repurchase plan, the Board of Directors have authorized dividends to be paid to the Series I Class B and Series II Class B Preferred Stockholders in successive quarters. Dividends were paid on November 11, 2013 and January 20, 2014, each in the cumulative amount of \$57,613. These dividends may be suspended at any time by the Board of Directors.

Product purchases from Double Dove, a Chinese manufacturer, have enabled us to increase manufacturing capacity with little capital outlay and have provided a competitive manufacturing cost. In 2013, Double Dove manufactured approximately 72.9% of the units we produced. In the event that we become unable to purchase product from Double Dove, we would need to find an alternate manufacturer for the 0.5mL insulin syringe, the 0.5mL autodisable syringe, and the 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.

Our loss per share for 2013 and 2012 were materially different than in 2011 predominantly because of funds received in 2011 in connection with a settlement agreement pursuant to which we received quarterly option payments totaling \$8 million from Hospira for a one-year option to negotiate a licensing agreement for certain uses of the Patient Safe® syringe. This option expired unexercised in July 2011.

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

RESULTS OF OPERATIONS

The following discussion contains trend information and other forward-looking statements that involve a number of risks and uncertainties. Our actual future results could differ materially from our historical results of operations and those discussed in the forward-looking statements. All

Edgar Filing: RETRACTABLE TECHNOLOGIES INC - Form 10-K

period references are to our fiscal years ended December 2013, 2012, or 2011. Dollar amounts have been rounded for ease of reading.

Comparison of Year Ended

December 31, 2013 and Year Ended December 31, 2012

Domestic sales accounted for 80.7% and 75.4% of the revenues in 2013 and 2012, respectively. Domestic revenues decreased 2.1% principally due to lower average sales prices and lower volumes. Domestic unit sales decreased 0.8%. Domestic unit sales were 71.8% of total unit sales for 2013. International revenues decreased from \$8.3 million in 2012 to \$5.9 million in 2013, primarily due to lower sales volumes. Overall unit sales decreased

Table of Contents

11.5%. Our international orders may be subject to significant fluctuation over time. Such orders may fluctuate due to health initiatives at various times, as well as economic conditions.

Cost of sales decreased \$2.0 million due to fewer units sold, mitigated by an increase in our inventory reserve. Royalty expenses decreased \$217 thousand due to lower gross sales. Gross profit margins increased from 33.2% in 2012 to 33.5% in 2013.

Operating expenses increased 7.4% from the prior year due to the effect of the Medical Device Excise Tax, restoration of a previous company-wide wage cut, and additional sales personnel. We increased our reserve for valuation of inventory by \$530,000 primarily due to the likelihood that we will not use certain raw materials in production. Our legal costs increased in 2013 due to increased patent expense mitigated by lower litigation costs.

Loss from operations was \$5.9 million in 2013 compared to an operating loss of \$3.9 million in 2012.

Cash flow from operations was \$2.9 million for 2013 due primarily to litigation proceeds subject to a stipulation (discussed elsewhere herein).

Comparison of Year Ended

December 31, 2012 and Year Ended December 31, 2011

Domestic sales accounted for 75.4% and 83.0% of the revenues in 2012 and 2011, respectively. Domestic revenues decreased 4.8% principally due to a decrease in unit sales and a lower average price. Domestic unit sales decreased 2.1%. Domestic unit sales were 64.0% of total unit sales for 2012. International revenues increased from \$5.4 million in 2011 to \$8.3 million in 2012, primarily due to higher volumes mitigated by lower average prices. Overall unit sales increased 14.7%. Our international orders may be subject to significant fluctuation over time. Such orders may fluctuate due to health initiatives at various times, as well as economic conditions.

Cost of sales increased \$2.7 million due to greater sales volumes mitigated by a decrease of \$1.5 million due to lower unit costs of manufacture. Royalty expenses increased \$49 thousand due to higher gross sales. Gross profit margins decreased from 34.0% in 2011 to 33.2% in 2012.

Operating expenses increased 0.8% from the prior year due to higher compensation in our Sales and marketing department attributable to increasing sales and marketing staff and bonus pay as well as increased travel and entertainment expense. Our litigation costs were higher in 2012. These increases in costs were reduced by lower costs of patents and bad debt expense.

Loss from operations was \$3.9 million in 2012 compared to an operating loss of \$4.1 million in 2011.

In 2011, Litigation settlements, net reflected cash proceeds of \$6.0 million net of a \$300 thousand royalty payment.

Cash flow from operations was \$158 thousand for 2012 due primarily to decreases in current assets and increases in current liabilities. The effect of the net loss was mitigated by non-cash charges, principally depreciation.

LIQUIDITY

At the present time, Management does not intend to raise equity capital. Due to the funds received from prior litigation settlements, we have sufficient cash reserves and intend to rely on operations, cash reserves, and debt financing as the primary ongoing sources of cash.

Our note to Katie Petroleum was paid in full in September 2012. Our payments were approximately \$37,000 per month. The notes in the original principal amounts of \$327,726 and \$207,260 payable to Deutsche Leasing USA, Inc. will be paid in full in April 2014 and November 2014, respectively.

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 break even quarters, we need minimal 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 26.3%) of our products in the U.S. This could temporarily increase unit costs as we ramp up domestic production.

The mix of domestic and international sales affects the average sales price of our products. Generally, the higher the ratio of domestic sales to international sales, the higher the average sales price will be. Typically international sales are shipped directly from China to the customer. Purchases of product manufactured in China, if available, usually decrease the average cost of manufacture for all units. Domestic costs, such as indirect labor and overhead, remain relatively constant. The number of units produced by 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 Double Dove may have an impact on the unit costs of our product. Increases in such costs may not be recoverable through price increases of our products. Reductions in oil prices may not quickly affect petroleum product prices.

Seasonality

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

Cash Requirements

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

External Sources of Liquidity

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

Table of Contents

In 2010 and 2011, in connection with a settlement agreement, the Company received quarterly option payments, totaling \$8 million, from Hospira, Inc. for a one-year option to negotiate a licensing agreement for certain uses of the Patient Safe® syringe. This option expired unexercised in July 2011.

On July 10, 2012, Thomas J. Shaw, our Chief Executive Officer, exercised a portion of his stock option. The Company issued 2,000,000 shares of Common Stock to him at an exercise price of \$0.81 (aggregate consideration of \$1,620,000). In 2013, we received consideration of \$536,925 from various other employees exercising stock options.

On September 30, 2013, we received payment of \$7,724,826 from BD pursuant to a stipulation (discussed elsewhere herein) in the patent infringement case *Retractable Technologies, Inc. and Thomas Shaw v. Becton Dickinson and Company*, Civil Action No. 2:07-cv-250, in the U.S. District Court for the Eastern District of Texas, Marshall Division. Such amount is included as cash on the balance sheet and shown as a liability on the balance sheet under Litigation proceeds subject to stipulation .

On September 19, 2013, a Texas jury returned a verdict in our litigation against BD, finding that BD illegally engaged in anticompetitive conduct with the intent to acquire or maintain monopoly power in the safety syringe market and engaged in false advertising under the Lanham Act. The jury awarded us \$113,508,014 in damages for the antitrust claim, which is subject to being trebled pursuant to statute. The Court conducted a hearing for post-trial motions on February 7, 2014. An order has not yet issued. BD has stated that it plans to appeal the verdict. We have not received the \$113,508,014 or any other amounts pursuant to the verdict in the aforementioned antitrust litigation against BD.

CAPITAL RESOURCES

Repurchase of Common Stock

On July 10, 2012, the Company authorized a Common Stock repurchase plan structured to comply with Rules 10b5-1 and 10b-18 under the Securities Exchange Act of 1934. The plan was terminated effective August 30, 2013. Under the plan, the Company purchased a total of 722,920 shares of its Common Stock, 655,818 of which were purchased in 2013 at a total cost in 2013 of \$974,407.

OFF-BALANCE SHEET ARRANGEMENTS

None.

CONTRACTUAL OBLIGATIONS

Edgar Filing: RETRACTABLE TECHNOLOGIES INC - Form 10-K

Contractual Obligations and Commercial Commitments

The following chart summarizes our material obligations and commitments to make future payments under contracts for long-term debt as of December 31, 2013:

Payments Due by Period

	Total	Less Than 1 Year	1-3 Years	3-5 Years	More Than 5 Years
Contractual Obligations					
Long-term debt	\$ 3,823,996	\$ 247,064	\$ 308,926	\$ 349,078	\$ 2,918,928
Operating leases	122,779	62,813	59,966		
Total	\$ 3,946,775	\$ 309,877	\$ 368,892	\$ 349,078	\$ 2,918,928

Table of Contents

SIGNIFICANT ACCOUNTING POLICIES

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

Accounts Receivable

We record trade receivables when revenue is recognized. No product has been consigned to customers. Our allowance for doubtful accounts is primarily determined by review of specific trade receivables. Those accounts that are doubtful of collection are included in the allowance. 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.

We require certain distributors to make a prepayment prior to beginning production or shipment of their order. Distributors may apply such prepayments to their outstanding invoices or pay the invoice and continue to carryforward the deposit for future orders. Such amounts are included in Other accrued liabilities on the Balance Sheets and are shown in Note 6, Other Accrued Liabilities.

We record an allowance for estimated returns as a reduction to accounts receivable and gross sales. Historically, returns have been immaterial.

Revenue Recognition

Revenue is recognized for sales when title and risk of ownership passes to the customer, generally upon shipment. Under certain contracts, revenue is recorded on the basis of sales price to distributors, less contractual pricing allowances. Contractual pricing allowances consist of (i) rebates granted to distributors who provide tracking reports which show, among other things, the facility that purchased the products, and (ii) a provision for estimated contractual pricing allowances for products that we have not received tracking reports. Rebates are recorded when issued and are applied against the customer's receivable balance. Distributors receive a rebate for the difference between the Wholesale Acquisition Cost and the appropriate contract price as reflected on a tracking report provided by the distributor to us. If product is sold by a distributor to an entity that has no contract, there is a standard rebate (lower than a contracted rebate) given to the distributor. One of the purposes of the rebate is to encourage distributors to submit tracking reports to us. The provision for contractual pricing allowances is reviewed at the end of each quarter and adjusted for changes in levels of products for which there is no tracking report. Additionally, if it becomes clear that tracking reports will not be provided by individual distributors, the provision is further adjusted. The estimated contractual allowance is included in Accounts payable in the Balance Sheets and deducted from revenues in the Statements of Operations. Accounts payable included estimated contractual allowances for \$3,611,692 and \$3,036,564 for 2013 and 2012, respectively. The terms and conditions of contractual pricing allowances are governed by contracts between us and our distributors. Revenue for shipments directly to end-users is recognized when title and risk of ownership passes from us. Any product shipped or distributed for evaluation purposes is expensed.

Certain distributors have taken rebates to which they are not entitled, such as utilizing a rebate for products not purchased directly from us. Major customers said they have ceased the practices resulting in claiming non-contractual rebates. Rebates can only be claimed on purchases

Edgar Filing: RETRACTABLE TECHNOLOGIES INC - Form 10-K

made directly from us. We have established a reserve for the collectability of these non-contractual rebate amounts. The expense for the reserve is recorded in Operating expense, General and administrative. The reserve for such non-contractual deductions is included in the allowance for doubtful accounts.

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

Table of Contents

Our 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 us.

Our international distribution agreements generally do not provide for any returns.

Inventories

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

Recent Pronouncement

In July 2013, the Financial Accounting Standards Board issued Accounting Standards Update (ASU) No. 2013-11, Income Taxes (Topic 740): Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists (ASU 2013-11). ASU 2013-11 requires, unless certain conditions exist, an unrecognized tax benefit, or a portion of an unrecognized tax benefit, to be presented in the financial statements as a reduction to a deferred tax asset for a net operating loss carryforward, similar tax loss, or a tax credit carryforward. ASU 2013-11 is effective prospectively for reporting periods beginning after December 15, 2013, with early adoption permitted. Retrospective application is also permitted. The adoption of ASU 2013-11, effective with the reporting period beginning January 1, 2014, is not expected to have an impact on our financial statements.

Item 7A. Quantitative and Qualitative Disclosures About Market Risk.

We believe that our market risk exposures regarding our cash and cash equivalents are immaterial as we do not have instruments for trading purposes. Additionally, reasonable, possible near-term changes in market rates or prices will not result in material changes in near-term earnings.

Table of Contents

Item 8. Financial Statements and Supplementary Data.

RETRACTABLE TECHNOLOGIES, INC.

FINANCIAL STATEMENTS AND

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

DECEMBER 31, 2013 AND 2012

F-1

Table of Contents

RETRACTABLE TECHNOLOGIES, INC.

INDEX TO FINANCIAL STATEMENTS

	Page
<u>Report of Independent Registered Public Accounting Firm</u>	F-3
Financial Statements:	
<u>Balance Sheets as of December 31, 2013 and 2012</u>	F-4
<u>Statements of Operations for the years ended December 31, 2013, 2012 and 2011</u>	F-5
<u>Statements of Changes in Stockholders' Equity for the years ended December 31, 2013, 2012 and 2011</u>	F-6
<u>Statements of Cash Flows for the years ended December 31, 2013, 2012 and 2011</u>	F-8
<u>Notes to Financial Statements</u>	F-9
<u>Selected Quarterly Financial Data - Unaudited</u>	F-24
Financial Statement Schedule:	
<u>Schedule II: Schedule of Valuation and Qualifying Accounts for the years ended December 31, 2013, 2012 and 2011</u>	41

Table of Contents

Report of Independent Registered Public Accounting Firm

To the Board of Directors and Stockholders

of Retractable Technologies, Inc.

We have audited the accompanying balance sheets of Retractable Technologies, Inc. as of December 31, 2013 and 2012, and the related statements of operations, changes in stockholders' equity, and cash flows for each of the three years in the period ended December 31, 2013. Our audits also included the financial statement schedule of Retractable Technologies, Inc., listed in Item 15(a). These financial statements and financial statement schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and schedule based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Retractable Technologies, Inc. as of December 31, 2013 and 2012, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2013, in conformity with U.S. generally accepted accounting principles. Also, in our opinion, the related financial statement schedule, when considered in relation to the basic financial statements taken as a whole, presents fairly in all material respects the information set forth therein.

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

Dallas, Texas
March 31, 2014

Table of Contents**RETRACTABLE TECHNOLOGIES, INC.****BALANCE SHEETS**

	December 31,	
	2013	2012
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 27,629,359	\$ 25,963,313
Accounts receivable, net of allowance for doubtful accounts of \$1,698,506 and \$2,186,190, respectively	3,476,718	3,694,307
Inventories, net	5,735,589	4,990,253
Income taxes receivable		9,431
Other current assets	1,065,641	783,760
Total current assets	37,907,307	35,441,064
Property, plant, and equipment, net	10,910,172	11,899,650
Intangible and other assets, net	279,965	291,444
Total assets	\$ 49,097,444	\$ 47,632,158
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 5,107,778	\$ 5,099,884
Litigation proceeds subject to stipulation	7,724,826	
Current portion of long-term debt	247,064	315,086
Accrued compensation	815,044	809,592
Dividends payable	57,613	57,613
Accrued royalties to shareholders	602,209	129,107
Other accrued liabilities	1,975,018	1,665,670
Income taxes payable	90,972	
Total current liabilities	16,620,524	8,076,952
Long-term debt, net of current maturities	3,576,932	3,826,210
Total liabilities	20,197,456	11,903,162
Commitments and contingencies	See Note 8	
Stockholders' equity:		
Preferred Stock \$1 par value:		
Class B; authorized: 5,000,000 shares		
Series I, Class B; outstanding: 103,500 shares (liquidation preference of \$646,875)	103,500	103,500
Series II, Class B; outstanding: 178,700 shares (liquidation preference of \$2,233,750)	178,700	178,700
Series III, Class B; outstanding: 130,245 shares (liquidation preference of \$1,628,063)	130,245	130,245
Series IV, Class B; outstanding: 542,500 shares (liquidation preference of \$5,967,500)	542,500	542,500
Series V, Class B; outstanding: 40,000 and 46,607 shares, respectively (liquidation preference of \$176,000 and \$205,071, respectively)	40,000	46,607
Common Stock, no par value; authorized: 100,000,000 shares; outstanding: 27,187,702 and 27,252,463 shares, respectively		
Additional paid-in capital	58,983,166	58,617,308
Retained deficit	(29,981,514)	(23,767,662)
Common stock in treasury - at cost; 722,920 and 67,102 shares, respectively	(1,096,609)	(122,202)
Total stockholders' equity	28,899,988	35,728,996
Total liabilities and stockholders' equity	\$ 49,097,444	\$ 47,632,158

See accompanying notes to financial statements

Table of Contents**RETRACTABLE TECHNOLOGIES, INC.****STATEMENTS OF OPERATIONS**

	Years Ended December 31,		
	2013	2012	2011
Sales, net	\$ 30,785,127	\$ 33,644,503	\$ 32,102,296
Cost of Sales			
Costs of manufactured product	18,000,408	19,776,198	18,556,257
Royalty expense to shareholders	2,474,762	2,691,887	2,643,209
Total cost of sales	20,475,170	22,468,085	21,199,466
Gross profit	10,309,957	11,176,418	10,902,830
Operating expenses:			
Sales and marketing	4,414,339	4,220,809	3,439,535
Research and development	837,073	871,851	815,018
General and administrative	10,989,790	10,022,621	10,738,110
Total operating expenses	16,241,202	15,115,281	14,992,663
Loss from operations	(5,931,245)	(3,938,863)	(4,089,833)
Interest and other income	38,943	46,999	62,596
Interest expense, net	(230,578)	(231,210)	(240,484)
Litigation settlements, net			5,700,000
Income (loss) before income taxes	(6,122,880)	(4,123,074)	1,432,279
Provision for income taxes	90,972	9,818	13,797
Net income (loss)	(6,213,852)	(4,132,892)	1,418,482
Preferred Stock dividend requirements	(916,065)	(918,108)	(964,047)
Earnings (loss) applicable to common shareholders	\$ (7,129,917)	\$ (5,051,000)	\$ 454,435
Basic earnings (loss) per share	\$ (0.26)	\$ (0.19)	\$ 0.02
Diluted earnings (loss) per share	\$ (0.26)	\$ (0.19)	\$ 0.02
Weighted average common shares outstanding:			
Basic	26,999,698	26,219,728	24,171,238
Diluted	26,999,698	26,219,728	26,354,786

See accompanying notes to financial statements

Table of Contents**RETRACTABLE TECHNOLOGIES, INC.****STATEMENTS OF CHANGES IN STOCKHOLDERS EQUITY**

	<u>Series I Class B</u>		<u>Series II Class B</u>		<u>Series III Class B</u>		<u>Series IV Class B</u>		<u>Series V Class B</u>		<u>Common</u>	
	<u>Shares</u>	<u>Amount</u>	<u>Shares</u>	<u>Amount</u>	<u>Shares</u>	<u>Amount</u>	<u>Shares</u>	<u>Amount</u>	<u>Shares</u>	<u>Amount</u>	<u>Shares</u>	<u>Amount</u>
Balance as of December 31, 2010	144,000	\$ 144,000	219,700	\$ 219,700	130,245	\$ 130,245	552,500	\$ 552,500	1,232,571	\$ 1,232,571	23,974,114	\$
Exchange of Preferred Stock for Common Stock	(40,500)	(40,500)	(41,000)	(41,000)			(10,000)	(10,000)	(1,185,964)	(1,185,964)	1,277,464	
Purchase of Preferred Stock												
Recognition of stock option exercise												67,122
Dividends												
Net income												
Balance as of December 31, 2011	103,500	103,500	178,700	178,700	130,245	130,245	542,500	542,500	46,607	46,607	25,318,700	
Recognition of stock option exercise												2,000,865
Dividends												
Repurchase of Common Stock												(67,102)
Net loss												
Balance as of December 31, 2012	103,500	103,500	178,700	178,700	130,245	130,245	542,500	542,500	46,607	46,607	27,252,463	
Conversion of Preferred Stock into Common Stock									(6,607)	(6,607)	6,607	
Recognition of stock option compensation												
Recognition of stock option exercise												584,450
Dividends												(655,818)

Edgar Filing: RETRACTABLE TECHNOLOGIES INC - Form 10-K

Repurchase of
Common Stock

Net loss

Balance as of
December 31,
2013

103,500	\$	103,500	178,700	\$	178,700	130,245	\$	130,245	542,500	\$	542,500	40,000	\$	40,000	27,187,702	\$
---------	----	---------	---------	----	---------	---------	----	---------	---------	----	---------	--------	----	--------	------------	----

See accompanying notes to financial statements

F-6

Table of Contents**RETRACTABLE TECHNOLOGIES, INC.****STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY**

	Additional Paid-in Capital		Retained Deficit		Treasury Stock		Total
Balance as of December 31, 2010	\$ 57,674,737	\$	(21,053,252)	\$		\$	38,900,501
Exchange of Preferred Stock for Common Stock	1,277,464						
Purchase of Preferred Stock	(1,357,275)						(1,357,275)
Recognition of stock option exercise	54,369						54,369
Dividends	(364,625)						(364,625)
Net income			1,418,482				1,418,482
Balance as of December 31, 2011	57,284,670		(19,634,770)				38,651,452
Recognition of stock option exercise	1,620,701						1,620,701
Dividends	(288,063)						(288,063)
Repurchase of Common Stock					(122,202)		(122,202)
Net loss			(4,132,892)				(4,132,892)
Balance as of December 31, 2012	58,617,308		(23,767,662)		(122,202)		35,728,996
Conversion of Preferred Stock into Common Stock	6,607						
Recognition of stock option compensation	52,775						52,775
Recognition of stock option exercise	536,925						536,925
Dividends	(230,449)						(230,449)
Repurchase of Common Stock					(974,407)		(974,407)
Net loss			(6,213,852)				(6,213,852)
Balance as of December 31, 2013	\$ 58,983,166	\$	(29,981,514)	\$	(1,096,609)	\$	28,899,988

See accompanying notes to financial statements

Table of Contents**RETRACTABLE TECHNOLOGIES, INC.****STATEMENTS OF CASH FLOWS**

	Years Ended December 31,		
	2013	2012	2011
Cash flows from operating activities:			
Net income (loss)	\$ (6,213,852)	\$ (4,132,892)	\$ 1,418,482
Adjustments to reconcile net income (loss) to net cash provided by (used by) operating activities:			
Depreciation and amortization	1,284,249	1,335,858	1,311,746
Share based compensation	52,775		
Provision for doubtful accounts	50,000	107,246	1,298,044
Provision for inventory valuation	530,000	120,000	52,835
Gain on disposal of assets	(1,000)		
Accreted interest		3,773	17,610
(Increase) decrease in assets:			
Inventories	(1,275,336)	1,127,166	2,391,937
Accounts receivable	167,589	(66,867)	1,305,379
Income taxes receivable	9,431	30,054	(27,454)
Other current assets	(281,881)	(565,231)	462,715
Increase (decrease) in liabilities:			
Accounts payable	7,895	1,441,308	1,054,563
Litigation proceeds subject to stipulation	7,724,826		
Other accrued liabilities	787,902	787,393	(3,646,555)
Income taxes payable	90,971	(29,471)	(125,529)
Net cash provided by operating activities	2,933,569	158,337	5,513,773
Cash flows from investing activities:			
Purchase of property, plant, and equipment	(283,289)	(510,117)	(826,091)
Proceeds from sale of assets	1,000		
Net cash used by investing activities	(282,289)	(510,117)	(826,091)
Cash flows from financing activities:			
Repayments of long-term debt and notes payable	(317,303)	(626,219)	(612,927)
Repurchase of Preferred Stock			(1,357,275)
Proceeds from the exercise of stock options	536,925	1,620,701	54,369
Repurchase of Common Stock	(974,407)	(122,202)	
Payment of Preferred Stock dividends	(230,449)	(230,450)	(364,625)
Net cash provided (used) by financing activities	(985,234)	641,830	(2,280,458)
Net increase in cash and cash equivalents	1,666,046	290,050	2,407,224
Cash and cash equivalents at:			
Beginning of period	25,963,313	25,673,263	23,266,039
End of period	\$ 27,629,359	\$ 25,963,313	\$ 25,673,263
Supplemental schedule of cash flow information:			
Interest paid	\$ 241,052	\$ 264,033	\$ 279,691
Income taxes paid	\$ 7,988	\$ 3,474	\$ 188,754
Supplemental schedule of noncash investing and financing activities:			
Preferred dividends declared, not paid	\$ 57,613	\$ 57,613	\$
Debt assumed for the purchase of molding machines	\$	\$	\$ 534,986

See accompanying notes to financial statements

F-8

Table of Contents

NOTES TO FINANCIAL STATEMENTS

1. BUSINESS OF THE COMPANY AND BASIS OF PRESENTATION

Business of the Company

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Accounting estimates

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

Cash and cash equivalents

For purposes of reporting cash flows, cash and cash equivalents include unrestricted cash, the proceeds subject to a stipulation (discussed elsewhere herein), 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 Balance Sheets and are shown in Note 6, 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.

Inventories

Inventories are valued at the lower of cost or market, with cost being determined using actual average cost. The Company compares the average cost to the market price and records the lower value. Management considers such factors as the amount of inventory on hand and in the distribution channel, estimated time to sell such inventory, the shelf life of inventory, and current market conditions when determining excess or

Table of Contents

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. For the years ended December 31, 2013, 2012, and 2011, the Company capitalized interest of approximately \$10,474; \$36,596; and \$57,000. Gains or losses from property disposals are included in income.

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

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

Long-lived assets

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

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

Intangible assets

Intangible assets are stated at cost and consist primarily of intellectual property which is amortized using the straight-line method over 17 years.

Financial instruments

Edgar Filing: RETRACTABLE TECHNOLOGIES INC - Form 10-K

The Company estimates the fair market value of financial instruments through the use of public market prices, quotes from financial institutions, and other available information. Judgment is required in interpreting data to develop estimates of market value and, accordingly, amounts are not necessarily indicative of the amounts that could be realized in a current market exchange. Short-term financial instruments, including cash and cash equivalents, accounts receivable, accounts payable, and other liabilities, consist primarily of instruments without extended maturities, the fair value of which, based on Management's estimates, equals their recorded values. 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 in 2013, 2012, and 2011:

	Years Ended December 31,		
	2013	2012	2011
Number of significant customers	2	3	4
Aggregate dollar amount of net sales to significant customers	\$9.3 million	\$13.7 million	\$16.2 million
Percentage of net sales to significant customers	30.2%	40.6%	50.6%

Considering the current economic climate, the Company increased its allowance for doubtful accounts by approximately \$50,000 this year.

The Company manufactures syringes in Little Elm, Texas as well as utilizing manufacturers in China. The Company purchases most of its product components from single suppliers, including needle adhesives and packaging materials. There are multiple sources of these materials. The Company obtained roughly 72.9% of its finished products in 2013 from Double Dove, a Chinese manufacturer. Purchases from Double Dove aggregated 72.0% and 67.1% of finished products in 2012 and 2011, respectively. In the event that the Company becomes unable to purchase such product from Double Dove, the Company would need to find an alternate manufacturer for its 0.5mL insulin syringe, its 2mL, 5mL, and 10mL syringes and its autodisable syringe and increase domestic production for 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 that the Company has not received tracking reports. Rebates are recorded when issued and are applied against the customer's receivable balance. Distributors receive a rebate for the difference between the Wholesale Acquisition Cost and the appropriate contract price as reflected on a tracking report provided by the distributor to the Company. If product is sold by a distributor to an entity that has no contract, there is a standard rebate (lower than a contracted rebate) given to the distributor. One of the purposes of the rebate is to encourage distributors to submit tracking reports to the Company. The provision for contractual pricing allowances is reviewed at the end of each quarter and adjusted for changes in levels of products for which there is no tracking report. Additionally, if it becomes clear that tracking reports will not be provided by individual distributors, the provision is further adjusted. The estimated contractual allowance is included in Accounts payable and deducted from revenues in the Statements of Operations. Accounts payable included estimated contractual allowances for \$3,611,692 and \$3,036,564 for 2013 and 2012, 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.

Certain distributors have taken rebates to which they are not entitled, such as utilizing a rebate for products not purchased directly from the Company. Major customers said they have ceased the practices resulting in claiming non-contractual rebates. Rebates can only be claimed on purchases made directly from the Company. The Company has established a reserve for the collectability of these non-contractual rebate amounts. The expense for the reserve is recorded in Operating expense, General and administrative. The reserve for such non-contractual deductions is included in the allowance for doubtful accounts. There has been no change to the reserve contractual rebates in the periods currently presented.

Edgar Filing: RETRACTABLE TECHNOLOGIES INC - Form 10-K

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

F-11

Table of Contents

code to the returned product. The Company will not accept returned goods without a returned goods authorization number. The Company may refund the customer's money or replace the product.

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

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

Litigation proceeds and settlements

Proceeds from litigation are recognized when realizable. Generally, realization is not reasonably assured and expected until proceeds are collected; however, see Note 8, COMMITMENTS AND CONTINGENCIES, for a discussion of proceeds received from Becton Dickinson and Company (BD) pursuant to a stipulation in the patent infringement case *Retractable Technologies, Inc. and Thomas Shaw v. Becton Dickinson and Company*, Civil Action No. 2:07-cv-250, in the U.S. District Court for the Eastern District of Texas, Marshall Division.

Pursuant to a settlement agreement among the Company, Abbott, and Hospira, Inc. (Hospira), Hospira delivered \$6 million to the Company in the third quarter of 2010. The Company reduced its litigation settlements by \$144,000 attributable to an unpaid Abbott invoice. Abbott also waived its rights to any Series IV Class B Preferred Stock dividends. Additionally, the Company granted Hospira an exclusive one-year option to negotiate a licensing agreement for certain uses of the Patient Safe® syringe, which option expired unexercised in July 2011. The Company has received the \$8.0 million option payments. The Company recognizes proceeds from litigation settlements, net of any associated royalty expense.

Income taxes

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

The Company provides for deferred income taxes through utilizing an asset and liability approach for financial accounting and reporting based on the tax effects of differences between the financial statement and tax bases of assets and liabilities, based on enacted rates expected to be in effect when such differences reverse in future periods. Deferred tax assets are periodically reviewed for realizability. The Company utilized some of its net operating loss carry forwards in 2011 and 2013 and paid Alternative Minimum Tax on its taxable income. 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 Statements of Operations.

Earnings per share

The Company computes basic earnings per share (EPS) by dividing net earnings for the period (adjusted for any cumulative dividends for the period) by the weighted average number of common shares outstanding during the period. Diluted EPS includes the determinants of basic EPS and, in addition, reflects the dilutive effect, if any, of the common stock deliverable pursuant to stock options or common stock issuable upon the conversion of convertible preferred stock and convertible debt. The calculation of diluted EPS excluded 1,305,847 and 1,373,345 shares of Common Stock underlying issued and outstanding stock options at December 31, 2013 and 2012, respectively, as their effect was antidilutive. The potential dilution, if any, is shown on the following schedule:

F-12

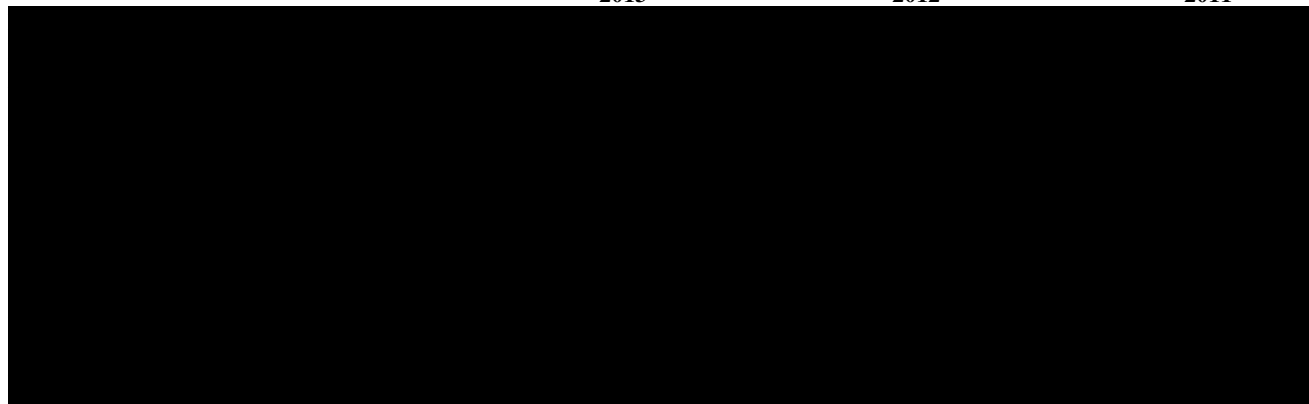
Table of Contents

Years Ended December 31,

2013

2012

2011



Shipping and handling costs

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

Research and development costs

Research and development costs are expensed as incurred.

Share-based compensation

The Company's share-based payments are accounted for using the fair value method. The Company records share-based compensation expense on a straight-line basis over the requisite service period. The Company incurred \$52,775 in General and administrative cost related to share-based compensation in 2013. No other departments or years incurred share-based compensation costs.

All stock options are fully vested; therefore, all stock option expense has been fully recognized.

Recent Pronouncement

Edgar Filing: RETRACTABLE TECHNOLOGIES INC - Form 10-K

In July 2013, the Financial Accounting Standards Board issued Accounting Standards Update (ASU) No. 2013-11, Income Taxes (Topic 740): Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists (ASU 2013-11). ASU 2013-11 requires, unless certain conditions exists, an unrecognized tax benefit, or a portion of an unrecognized tax benefit, to be presented in the financial statements as a reduction to a deferred tax asset for a net operating loss carryforward, similar tax loss, or a tax credit carryforward. ASU 2013-11 is effective prospectively for reporting periods beginning after December 15, 2013, with early adoption permitted. Retrospective application is also permitted. The adoption of ASU 2013-11, effective with the reporting period beginning January 1, 2014, is not expected to have an impact on the Company s financial statements.

3. INVENTORIES

Inventories consist of the following:

	Year Ended December 31,	
	2013	2012
Raw materials	\$ 1,666,525	\$ 1,692,133
Finished goods	4,750,459	3,537,872

F-13

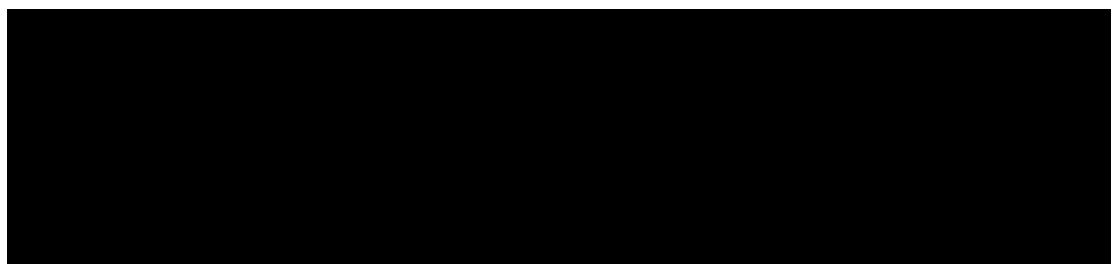
Table of Contents

	2013		2012
Inventory reserve	6,416,984		5,230,005
	(681,395)		(239,752)
	\$ 5,735,589	\$	4,990,253

4. PROPERTY, PLANT, AND EQUIPMENT

Property, plant, and equipment consist of the following:

	December 31,	
	2013	2012



Depreciation expense for the years ended December 31, 2013, 2012, and 2011 was \$1,272,770; \$1,264,326; and \$1,267,813, respectively.

5. INTANGIBLE ASSETS

Intangible assets consist of the following:

	December 31,	
	2013	2012
Intellectual property	\$ 494,399	\$ 494,399
Accumulated amortization	(219,358)	(207,879)
	\$ 275,041	\$ 286,520

In 1995, the Company entered into a license agreement with the Chief Executive Officer of the Company for the exclusive right to manufacture, market, and distribute products utilizing automated retraction technology, which agreement has been amended twice. This technology is the subject of various patents and patent applications owned by such officer of the Company. The initial licensing fee of \$500,000 was amortized over 17 years. The license agreement also provides for quarterly payments of a 5% royalty fee on gross sales. The royalty fee expense is recognized in the period in which it is earned. Royalty fees of \$2,474,762; \$2,691,887; and \$2,643,209 are included in Cost of sales for the years ended December 31, 2013, 2012, and 2011, respectively. Royalties payable under this agreement aggregated \$602,209 and \$129,107 at December 31, 2013 and 2012, respectively. Gross sales upon which royalties are based were \$49,495,232; \$53,837,732; and \$52,864,158 for 2013, 2012, and 2011, respectively.

Amortization expense for the years ended December 31, 2013, 2012, and 2011, was \$11,479; \$71,532; and \$43,934, respectively. Future amortization expense for the years 2014 through 2018 is estimated to be \$11,479 per year.

Table of Contents**6. OTHER ACCRUED LIABILITIES**

Other accrued liabilities consist of the following:

	2013	December 31, 2012

7. LONG-TERM DEBT

Long-term debt consists of the following:

Loan from American First National Bank. It has a 20 year amortization and 10 year maturity from December 10, 2009. The loan provided funding for the expansion of the warehouse, additional office space, and a new Controlled Environment. The loan is secured by the Company's land and buildings. The interest rate is 5.968%.

	December 31, 2013	2012
	\$ 3,717,795	\$ 3,852,512

Note payable to Deutsche Leasing USA, Inc. The interest rate is 5.57%. The original amount of the note was \$327,726 with a 36 month maturity ending in April 2014. In May 2011, the loan became payable in equal installments of principal and interest of approximately \$9,900. Collateralized by three molding machines. It has a purchase option of \$1.00 at the end of the term.

39,169	152,415
--------	---------

Note payable to Deutsche Leasing USA, Inc. The interest rate is 5.57%. The original amount of the note was \$207,260 with a 36 month maturity ending in November 2014. Beginning December 2011, the loan became payable in equal installments of principal and interest of approximately \$6,300. Collateralized by a molding machine. It has a purchase option of \$1.00 at the end of the term.

67,032	136,369
3,823,996	4,141,296

Less: current portion

(247,064)	(315,086)
\$ 3,576,932	\$ 3,826,210

The fair value of long-term liabilities, based on Management's estimates, approximates their reported values.

The aggregate maturities of long-term debt as of December 31, 2013, are as follows:

2014	\$ 247,064
2015	149,742

Edgar Filing: RETRACTABLE TECHNOLOGIES INC - Form 10-K

2016		159,182
2017		169,211
2018		179,868
Thereafter		2,918,929
	\$	3,823,996

8. COMMITMENTS AND CONTINGENCIES

On May 19, 2010, final judgment was entered in the U.S. District Court for the Eastern District of Texas, Marshall Division for the Company which ordered that the Company recover \$5,000,000 plus prejudgment and post-judgment interest, and ordered a permanent injunction for BD s 1mL and 3mL Integra syringes until

Table of Contents

the expiration of certain patents. The permanent injunction was stayed for the longer of the exhaustion of the appeal of the district court's case or twelve months from May 19, 2010. In June 2010, BD filed an appeal in the U.S. Court of Appeals for the Federal Circuit appealing the final judgment entered on May 19, 2010. In July 2011, a three-judge panel of the U.S. Court of Appeals for the Federal Circuit reversed the district court's judgment that BD's 3mL Integra infringed the Company's 224 patent and 077 patent. The U.S. Court of Appeals for the Federal Circuit affirmed the district court's judgment that the 1mL Integra infringes the Company's 244 and 733 patents. The U.S. Court of Appeals for the Federal Circuit also affirmed the district court's judgment that the 077 patent is not invalid for anticipation or obviousness. The Company had petitioned for a rehearing by all the judges of the Federal Circuit as to whether the three-judge panel properly construed the Company's patent claim language in finding that the 3mL Integra did not infringe. The Company's petition for rehearing by all of the judges of the Federal Circuit was denied with two dissents being issued. The Company filed a petition for certiorari asking the Supreme Court to review the matter. That petition was denied in January of 2013. On August 7, 2013, the U.S. District Court for the Eastern District of Texas issued an order adopting the Magistrate Judge's Report and Recommendation and denying BD's Rule 60 motion seeking a reduction in damages. On October 29, 2013, BD filed its Notice of Appeal of the August 7, 2013 order to the Federal Circuit. Oral argument for this appeal has been set for May 9, 2014. On September 30, 2013, the Company received payment of \$7,724,826 (the Judgment Amount) from BD pursuant to a stipulation in this case. The stipulation provides that if, as a result of BD's appeal of the District Court's denial of BD's Rule 60 motion, it is judicially determined that BD owes an amount less than the Judgment Amount, BD shall be entitled to restitution by the Company of any excess payment, with interest. Otherwise, the payment of the Judgment Amount shall constitute satisfaction of the patent infringement judgment and BD shall owe no further money damages to the Company in this case. The Judgment Amount has been reflected as a current liability in the Balance Sheets since the proceeds are not yet realizable.

In May 2010, the Company and an officer's suit against BD in the U.S. District Court for the Eastern District of Texas, Marshall Division alleging violations of antitrust acts, false advertising, product disparagement, tortious interference, and unfair competition was reopened. The Company and an officer filed a Second Amended Complaint on July 23, 2010 setting forth additional detail regarding the allegations of BD's illegal conduct. BD filed a motion to dismiss and the U.S. District Court for the Eastern District of Texas, Marshall Division denied that motion in part and granted it in part, granting the Company the right to re-plead certain allegations by May 13, 2011. The Company and an officer filed a Third Amended Complaint in May 2011, setting forth additional detail regarding the alleged illegal conduct by BD. Trial was initially set for February 2012. However, in January 2012 the parties agreed to a continuance to allow the petition for certiorari to be considered. As stated above, the petition was denied in January of 2013. A hearing to re-set a trial date in light of BD's motion for continuance was held May 3, 2013. The trial commenced on September 9, 2013 in Tyler, Texas, and the jury returned its verdict on September 19, 2013, finding that BD illegally engaged in anticompetitive conduct with the intent to acquire or maintain 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 for the antitrust claim, which is subject to being trebled pursuant to statute. The Court conducted a hearing for post-trial motions on February 7, 2014. An order has not yet issued. BD has stated that it plans to appeal the verdict.

In September 2007, BD and MDC Investment Holdings, Inc. (MDC) sued the Company in the United States District Court for the Eastern District of Texas, Texarkana Division, initially alleging that the Company is infringing two U.S. patents of MDC (6,179,812 and 7,090,656) that are licensed to BD. BD and MDC seek injunctive relief and unspecified damages. The Company counterclaimed for declarations of non-infringement, invalidity, and unenforceability of the asserted patents. The plaintiffs subsequently dropped allegations with regard to patent no. 7,090,656 and the Company subsequently dropped its counterclaims for unenforceability of the asserted patents. The United States District Court for the Eastern District of Texas, Texarkana Division conducted a claims construction hearing on September 25, 2008 and issued its claims construction order on November 14, 2008. The case has been stayed pending resolution of the Company's first filed case against BD described above. As of March 27, 2014, there has been no activity in this case since the stay.

Table of Contents**Operating Leases**

In 2010, the Company entered into a non-cancellable operating lease for additional office space. Rent expense under this lease for the years ended December 31, 2013, 2012, and 2011 was \$61,607; \$60,401; and \$59,195, respectively. Future annual minimum rental payments as of December 31, 2013 are presented below:

2014	\$	62,813
2015		59,966
Total	\$	122,779

9. INCOME TAXES

The provision for income taxes consists of the following:

	For the Years Ended December 31,		
	2013	2012	2011
Current tax provision (benefit)			
Federal	\$ 83,470	\$ 1,785	\$ (29,070)
State	7,502	8,033	42,867
Total current provision (benefit)	90,972	9,818	13,797
Deferred tax provision (benefit)			
Federal			
State			
Total deferred tax provision (benefit)			
Total income tax provision (benefit)	\$ 90,972	\$ 9,818	\$ 13,797

The Company has \$10,072,410 in tax benefits attributable to carry back losses for federal tax purposes. The loss carry forwards will begin to expire in 2028 for federal tax purposes and began to expire for state tax purposes in 2013.

Deferred taxes are provided for those items reported in different periods for income tax and financial reporting purposes. The tax effects of temporary differences that give rise to significant portions of the deferred tax assets and liabilities are presented below:

	December 31,	
	2013	2012
Deferred tax assets		
Net operating loss carry forwards	\$ 3,819,961	\$ 4,873,433
Credit for alternative minimum tax paid	83,470	
Accrued expenses and reserves	1,350,125	1,165,658
Employee stock option expense	315,711	295,696

Edgar Filing: RETRACTABLE TECHNOLOGIES INC - Form 10-K

Inventory	338,253	319,830
Non-employee stock option expense		15,546
Litigation proceeds subject to stipulation	2,929,640	
Deferred tax assets	8,837,160	6,670,163
Deferred tax liabilities		
Property and equipment	(393,343)	(631,109)
Deferred tax liabilities	(393,343)	(631,109)
Net deferred assets	8,443,817	6,039,054
Valuation allowance	(8,443,817)	(6,039,054)
Net deferred tax assets	\$	\$

F-17

Table of Contents

The valuation allowance increased \$2,404,763 and \$1,155,638 for 2013 and 2012, respectively.

A reconciliation of income taxes based on the federal statutory rate and the provision (benefit) for income taxes is summarized as follows:

	2013	December 31, 2012	2011
Income tax (benefit) at the federal statutory rate	35.0%	35.0%	35.0%
State tax (benefit), net of federal (benefit)	2.9	2.9	2.9
Decrease (increase) in valuation allowance	(39.3)	(28.0)	
Permanent differences	(0.3)	1.2	2.0
Return to accrual adjustments			(2.8)
Alternative minimum tax	(1.4)		3.4
Adjustments to temporary differences for stock options		(11.0)	
Release of valuation allowance Net operating loss carry forward			(39.0)
Other	1.6	(0.3)	(0.5)
Effective tax (benefit) rate	(1.5)%	(0.2)%	1.0%

The Company files income tax returns in the U.S. federal jurisdiction and in various state and local jurisdictions. The Company's federal income tax returns for all tax years ended on or after December 31, 2010, remain subject to examination by the Internal Revenue Service. The Company's state and local income tax returns are subject to examination by the respective state and local authorities over various statutes of limitations, most ranging from three to five years from the date of filing.

10. EXCHANGE OF PREFERRED STOCK FOR COMMON STOCK AND CASH

On September 12, 2011, the Company commenced the 2011 Exchange Offer and also engaged in private purchases with three Preferred Stockholders. As of December 31, 2011, Preferred Stockholders had tendered a total of 1,277,464 shares of Preferred Stock. A total of \$1,357,275 was paid and 1,277,464 shares of Common Stock were issued as consideration to these Preferred Stockholders. These Preferred Stockholders agreed to waive all unpaid dividends in arrears associated with their tendered Preferred Stock, which resulted in a waiver of a total of \$3,592,659 in unpaid dividends in arrears.

The 2011 Exchange Offer and private sales are summarized in the table below.

	Number of Preferred Stock Shares Tendered by Preferred Stockholders	Cash Outlay by Company	Number of Common Stock Shares Tendered by Company	Accrued Dividends Eliminated	Amount of Annual Dividend Reduction
Series I Class B Stock	40,500	\$ 60,750	40,500	\$	\$ 20,250
Series II Class B Stock	41,000	123,000	41,000		41,000
Series IV Class B Stock	10,000	35,000	10,000	114,575	10,000
Series V Class B Stock	1,185,964	1,138,525	1,185,964	3,478,084	379,508

Edgar Filing: RETRACTABLE TECHNOLOGIES INC - Form 10-K

Total Class B Stock	1,277,464	\$ 1,357,275	1,277,464	\$ 3,592,659	\$ 450,758
---------------------	-----------	--------------	-----------	--------------	------------

11. STOCK REPURCHASE PROGRAM

On July 10, 2012, the Company authorized a Common Stock repurchase plan structured to comply with Rules 10b5-1 and 10b-18 under the Securities Exchange Act of 1934. Under the plan, the Company purchased 655,818 and 67,102 shares in 2013 and 2012, respectively. The plan was terminated effective August 30, 2013.

F-18

Table of Contents

Pursuant to the Certificates of Designation, Preferences, Rights And Limitations of the Series I Class B and Series II Class B Convertible Preferred Stock, the Company would have been prohibited from purchasing its Common Stock while dividends were in arrears. Therefore, to facilitate the Common Stock repurchase plan, the Company paid dividends on the Series I Class B Preferred Stock in the amount of \$38,813 on July 31, 2012 and in the amount of \$12,938 at each date on October 22, 2012, January 21, 2013, April 22, 2013, and July 22, 2013. The Company paid dividends to Series II Class B Preferred Stockholders in the amount of \$134,025 on July 31, 2012 and in the amount of \$44,675 on each of the same four dates listed in the preceding sentence.

12. STOCK OPTION GRANT

The Compensation and Benefits Committee approved a grant of a non-qualified stock option pursuant to the 2008 Stock Option Plan to Walter O. Bigby, Jr., a Director, for the purchase of 50,000 shares of Common Stock on May 14, 2013. Related share based compensation of \$52,775 is included in general and administrative expense in the accompanying Statements of Operations.

13. DIVIDENDS

On October 21, 2013 and December 20, 2013, the Board of Directors declared dividends on the Series I Class B Preferred Stock in the amount of \$12,938 on each date which were paid on November 11, 2013 and January 20, 2014. The Company also declared and paid dividends to Series II Class B Preferred Stockholders in the amount of \$44,675 on the same dates. See Note 11 for information about dividends paid during the term of the Stock Repurchase Program.

14. STOCK OPTION EXERCISES

On July 10, 2012, the Chief Executive Officer of the Company exercised a portion of his stock option. The Company issued 2,000,000 shares of Common Stock to him at an exercise price of \$0.81 (aggregate consideration of \$1,620,000).

Some employees exercised stock options at various dates in 2013 and, consequently, they were issued a total of 584,450 shares of Common Stock for an aggregate payment of \$536,925 to exercise such options. These options were granted in 2008 and 2009 at exercise prices of \$0.81 and \$1.30.

15. STOCKHOLDERS EQUITY

Preferred Stock

The Company is authorized to issue 5,000,000 shares of Preferred Stock Class A with a par value of One Dollar (\$1.00) per share; 5,000,000 shares of Preferred Stock Class B with a par value of One Dollar (\$1.00) per share; and 5,000,000 shares of Preferred Stock Class C with a par value of One Dollar (\$1.00) per share.

The Company has one class of Preferred Stock outstanding: Class B Convertible Preferred Stock (Class B Stock). The Class B Stock has five series: Series I, Series II, Series III, Series IV, and Series V.

The Class B Stock has been allocated among Series I, II, III, IV, and V in the amounts of 103,500; 178,700; 130,245; 542,500; and 40,000 shares, respectively as of December 31, 2013. The remaining 4,005,055 authorized shares have not been assigned a series.

Series I Class B Stock

There were 103,500 shares of \$1 par value Series I Class B Stock outstanding at December 31, 2013 and 2012. Holders of Series I Class B Stock are entitled to receive a cumulative annual dividend of \$0.50 per share, payable quarterly if declared by the Board of Directors. The Company paid dividends of \$38,814, \$51,751, and \$90,000 in 2013, 2012, and 2011, respectively. At December 31, 2013, approximately \$13,000 of dividends which had not been declared were in arrears. Such arrearage was paid on January 20, 2014.

Series I Class B Stock is redeemable after three years from the date of issuance at the option of the Company at a price of \$7.50 per share, plus all unpaid dividends. Each share of Series I Class B Stock may, at the option of the stockholder, be converted to one share of Common Stock after three years from the date of

Table of Contents

issuance or in the event the Company files an initial registration statement under the Securities Act of 1933. Pursuant to these terms, no shares of Series I Class B Stock were converted into Common Stock in 2013 or 2012. In the event of voluntary or involuntary dissolution, liquidation, or winding up of the Company, holders of Series I Class B Stock then outstanding are entitled to \$6.25 per share, plus all unpaid dividends prior to any distributions to holders of Series II Class B Stock, Series III Class B Stock, Series IV Class B Stock, Series V Class B Stock, or Common Stock.

Series II Class B Stock

There were 178,700 shares of \$1 par value Series II Class B Stock outstanding at December 31, 2013 and 2012. Holders of Series II Class B Stock are entitled to receive a cumulative annual dividend of \$1.00 per share, payable quarterly if declared by the Board of Directors. Holders of Series II Class B Stock generally have no voting rights until dividends are in arrears and unpaid for twelve consecutive quarters. In such case, the holders of Series II Class B Stock have the right to elect one-third of the Board of Directors of the Company. The Company paid dividends of \$134,025, \$178,700, and \$274,625 in 2013, 2012, and 2011, respectively. At December 31, 2013, approximately \$45,000 of dividends which had not been declared were in arrears. Such arrearage was paid on January 20, 2014.

Series II Class B Stock is redeemable after three years from the date of issuance at the option of the Company at a price of \$15.00 per share plus all unpaid dividends. Each share of Series II Class B Stock may, at the option of the stockholder, be converted to one share of Common Stock after three years from the date of issuance or in the event the Company files an initial registration statement under the Securities Act of 1933. Pursuant to these terms, no shares of Series II Class B Stock were converted into Common Stock in 2013 or 2012. In the event of voluntary or involuntary dissolution, liquidation, or winding up of the Company, holders of Series II Class B Stock then outstanding are entitled to \$12.50 per share, plus all unpaid dividends, after distribution obligations to holders of Series I Class B Stock have been satisfied and prior to any distributions to holders of Series III Class B Stock, Series IV Class B Stock, Series V Class B Stock, or Common Stock.

Series III Class B Stock

There were 130,245 shares of \$1 par value Series III Class B Stock outstanding at December 31, 2013 and 2012. Holders of Series III Class B Stock are entitled to receive a cumulative annual dividend of \$1.00 per share, payable quarterly if declared by the Board of Directors. At December 31, 2013 and 2012, approximately \$3,627,000 and \$3,497,000, respectively, of dividends which have not been declared were in arrears.

Series III Class B Stock is redeemable after three years from the date of issuance at the option of the Company at a price of \$15.00 per share, plus all unpaid dividends. Each share of Series III Class B Stock may, at the option of the stockholder, be converted to one share of Common Stock after three years from the date of issuance or in the event the Company files an initial registration statement under the Securities Act of 1933. Pursuant to these terms, no shares of Series III Class B Stock were converted into Common Stock in 2013 or 2012. In the event of voluntary or involuntary dissolution, liquidation, or winding up of the Company, holders of Series III Class B Stock then outstanding are entitled to \$12.50 per share, plus all unpaid dividends, after distribution obligations to Series I Class B Stock and Series II Class B Stock have been satisfied and prior to any distributions to holders of Series IV Class B Stock, Series V Class B Stock, or Common Stock.

Series IV Class B Stock

There were 542,500 shares of \$1 par value Series IV Class B Stock outstanding at December 31, 2013 and 2012. Holders of Series IV Class B Stock are entitled to receive a cumulative annual dividend of \$1.00 per share, payable quarterly, if declared by the Board of Directors. At December 31, 2013 and 2012, approximately \$7,423,000 and \$6,881,000, respectively, of dividends which have not been declared were in arrears.

Table of Contents

Series IV Class B Stock is redeemable after three years from the date of issuance at the option of the Company at a price of \$11.00 per share plus all unpaid dividends. Each share of Series IV Class B Stock may, at the option of the stockholder any time subsequent to three years from date of issuance, be converted into one share of Common Stock, or in the event the Company files an initial registration statement under the Securities Act of 1933. Pursuant to these terms, no shares of Series IV Class B Stock were converted into Common Stock in 2013 or 2012. In the event of voluntary or involuntary liquidation, dissolution, or winding up of the Company, holders of Series IV Class B Stock then outstanding are entitled to receive liquidating distributions of \$11.00 per share, unpaid dividends after distribution obligations to Series I Class B Stock, Series II Class B Stock, and Series III Class B Stock have been satisfied and prior to any distribution to holders of Series V Class B Stock or Common Stock.

Series V Class B Stock

There were 40,000 and 46,607 shares of \$1 par value Series V Class B Stock outstanding at December 31, 2013 and 2012, respectively. Holders of Series V Class B Stock are entitled to receive a cumulative annual dividend of \$0.32 per share, payable quarterly, if declared by the Board of Directors. At December 31, 2013 and 2012, approximately \$942,000 and \$929,000, respectively, of dividends which have not been declared were in arrears.

Series V Class B Stock is redeemable after two years from the date of issuance at the option of the Company at a price of \$4.40 per share plus all unpaid dividends. Each share of Series V Class B Stock may, at the option of the stockholder any time subsequent to the date of issuance, be converted into Common Stock. Pursuant to these terms, 6,607 shares of Series IV Class B Stock were converted into Common Stock in 2013 and none were converted in 2012. In the event of voluntary or involuntary liquidation, dissolution, or winding up of the Company, holders of Series V Class B Stock then outstanding are entitled to receive liquidating distributions of \$4.40 per share, plus unpaid dividends after distribution obligations to Series I Class B Stock, Series II Class B Stock, Series III Class B Stock, and Series IV Class B Stock have been satisfied and prior to any distribution to the holders of the Common Stock.

Common stock

The Company is authorized to issue 100,000,000 shares of no par value Common Stock, of which 27,187,702 and 27,252,463 shares were outstanding at December 31, 2013 and 2012, respectively. The Company had a Common Stock repurchase plan structured to comply with Rules 10b5-1 and 10b-18 under the Securities Exchange Act of 1934 until termination of such plan in August 2013. Under the plan, the Company purchased 67,102 shares in 2012 and 655,818 shares in 2013. Such purchased shares are recorded as treasury stock.

16. RELATED PARTY TRANSACTIONS

The Company has a license agreement with the Chief Executive Officer of the Company. See Note 5.

The Chief Executive Officer of the Company exercised a portion of his stock option in 2012. See Note 14.

Edgar Filing: RETRACTABLE TECHNOLOGIES INC - Form 10-K

During the years ended December 31, 2013, 2012, and 2011, the Company paid \$93,939; \$91,086; and \$96,787, respectively, to a family member of its Chief Executive Officer as an employee and consultant.

The Chief Executive Officer exchanged his Preferred Stock shares for Common Stock and cash in the fourth quarter of 2011 pursuant to the 2011 Exchange Offer on the same terms as were offered to all Preferred Stockholders. He received 86,607 shares of Common Stock and \$95,843 in exchange for 5,000 shares of Series IV Preferred Stock and 81,607 shares of Series V Preferred Stock, and he waived a total of \$58,110 in unpaid dividends in arrears. The Company's Common Stock had a closing stock price of \$1.39 at November 4, 2011, the expiration date of the 2011 Exchange Offer.

Table of Contents**17. STOCK OPTIONS****Stock options**

The Company has approved stock option plans for the granting of stock options to employees, Directors, and consultants. Options for the purchase of 700 shares of Common Stock remain outstanding under the 1999 Stock Option Plan, which terminated pursuant to its terms in 2009. Options for the purchase of 2,899,108 shares of Common Stock have been issued under the 2008 Stock Option Plan, which authorized a total of 3,000,000 shares of Common Stock upon the exercise of stock options. Options for the purchase of 1,889,931 shares under the 2008 Stock Option Plan were outstanding as of December 31, 2013. Options for the purchase of 1,000,000 shares of Common Stock remain outstanding under an option granted to Mr. Thomas J. Shaw.

The Compensation and Benefits Committee administers all plans and determines and/or recommends to the Board exercise prices at which options are granted. All executive compensation, including the granting of stock options, is determined by the Compensation and Benefits Committee. Shares issued upon exercise of options come from the Company's authorized but unissued Common Stock. The options vested over periods up to three years from the date of grant and generally expire ten years after the date of grant. Unvested options issued under the 2008 Stock Option Plan expire immediately after termination of employment.

Employee options

A summary of Director, officer, and employee options granted and outstanding under the Plans is presented below:

	2013		Years Ended December 31, 2012		2011	
	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price
Outstanding at beginning of period	3,367,081	\$ 0.95	5,433,591	\$ 0.91	5,508,513	\$ 0.91
Granted	50,000	1.46				
Exercised	(584,450)	(0.92)	(2,000,865)	(0.81)	(67,122)	(0.81)
Forfeited	(12,000)	(2.38)	(65,645)	(2.29)	(7,800)	(0.85)
Outstanding at end of period	2,820,631	\$ 0.95	3,367,081	\$ 0.95	5,433,591	\$ 0.91
Exercisable at end of period	2,820,631	\$ 0.95	3,367,081	\$ 0.95	5,433,591	\$ 0.91

No employee options were issued in 2012 or 2011. The fair value of the 2013 grant is \$1.06 per share of underlying Common Stock and is estimated on the date of the grant using the Black Scholes pricing model with the following assumptions: expected volatility of 67.53%, risk free

interest rate of 3.35%, and an expected life of 8.61 years. This option was issued under the 2008 Stock Option Plan.

Edgar Filing: RETRACTABLE TECHNOLOGIES INC - Form 10-K

Table of Contents

The following table summarizes information about Director, officer, and employee options outstanding under the aforementioned plans at December 31, 2013:

Exercise Prices	Shares Outstanding	Weighted Average Remaining Contractual Life	Shares Exercisable
\$ 8.87	700	0.36	700
\$ 1.30	754,103	4.88	754,103
\$ 1.46	50,000	9.37	50,000
\$ 0.81	2,015,828	5.54	2,015,828

Non-employee options

A summary of options outstanding during the years ended December 31 and held by non-employees is as follows:

	2013		Years Ended December 31, 2012		2011	
	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price
Outstanding at beginning of period	70,000	\$ 0.81	302,500	\$ 5.49	302,500	\$ 5.49
Granted						
Exercised						
Forfeited			(232,500)	(6.90)		
Outstanding at end of period	70,000	\$ 0.81	70,000	\$ 0.81	302,500	\$ 5.49
Exercisable at end of period	70,000	\$ 0.81	70,000	\$ 0.81	302,500	\$ 5.49

No non-employee options were issued in 2011, 2012, or 2013.

The following table summarizes information about non-employee options outstanding under the aforementioned plans at December 31, 2013:

Exercise Price	Shares Outstanding	Weighted Average Remaining Contractual Life	Shares Exercisable
----------------	--------------------	---	--------------------

Edgar Filing: RETRACTABLE TECHNOLOGIES INC - Form 10-K

\$	0.81	70,000	5.54	70,000
----	------	--------	------	--------

The Company recorded \$52,775; \$0; and \$0 as stock-based compensation expense in 2013, 2012, and 2011, respectively. The total intrinsic value of options exercised was \$1,210,135; \$220,268; and \$49,626 in 2013, 2012, and 2011, respectively. The aggregate intrinsic value of options outstanding and exercisable with exercise prices lower than market price at December 31, 2013 was approximately \$6,158,133. There is no compensation cost related to non-vested stock options to be recognized in the future.

F-23

Table of Contents**Options Pricing Models Assumptions**

The expected life and forfeiture rate assumptions are based on the vesting period for each option grant and expected exercise behavior. The assumptions for expected volatility and dividend yield are based on recent historical experience. Risk-free interest rates are set using grant-date U.S. Treasury yield curves for the same periods as the expected term.

18. 401(k) PLAN

The Company implemented an employee savings and retirement plan (the 401(k) Plan) in 2005 that is intended to be a tax-qualified plan covering substantially all employees. Under the terms of the 401(k) Plan, employees may elect to contribute up to 88% of their compensation, or the statutory prescribed limit, if less. The Company may, at its discretion, match employee contributions. In the third quarter of 2009, the Company discontinued its matching contributions until further notice.

19. BUSINESS SEGMENTS

	2013		2012		2011
U.S. sales	\$ 24,843,200	\$	25,363,814	\$	26,655,781
North and South America sales (excluding U.S.)	4,453,151		4,668,550		4,736,356
Other international sales	1,488,776		3,612,139		710,159
Total sales	\$ 30,785,127	\$	33,644,503	\$	32,102,296
Long-lived assets					
U.S.	\$ 10,676,053	\$	11,679,592	\$	12,412,502
International	\$ 234,119	\$	220,058	\$	241,354

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

SELECTED QUARTERLY FINANCIAL DATA - UNAUDITED

The selected quarterly financial data for the periods ended December 31, 2013 and 2012, have been derived from the Company's unaudited financial statements and include all adjustments, consisting only of normal recurring adjustments, necessary for a fair presentation of the results of the interim periods.

(In thousands, except for per share and outstanding stock amounts)

2013

Quarter 1	Quarter 2	Quarter 3	Quarter 4
-----------	-----------	-----------	-----------

Edgar Filing: RETRACTABLE TECHNOLOGIES INC - Form 10-K

Sales, net	\$	7,173	\$	6,907	\$	9,160	\$	7,545
Cost of sales		4,397		5,168		5,842		5,068
Gross profit		2,776		1,739		3,318		2,477
Total operating expenses		4,143		4,124		4,143		3,831
Loss from operations		(1,367)		(2,385)		(825)		(1,354)
Interest and other income		11		9		7		12
Interest expense, net		(52)		(61)		(60)		(58)
Provision (benefit) for income taxes		2		2		62		25
Net loss		(1,410)		(2,439)		(940)		(1,425)
Preferred stock dividend requirements		(229)		(229)		(229)		(229)

F-24

Table of Contents

	Quarter 1	Quarter 2	Quarter 3	Quarter 4
Loss applicable to common shareholders	\$ (1,639)	\$ (2,668)	\$ (1,169)	\$ (1,654)
Basic loss per share	\$ (0.06)	\$ (0.10)	\$ (0.04)	\$ (0.06)
Diluted loss per share	\$ (0.06)	\$ (0.10)	\$ (0.04)	\$ (0.06)
Weighted average shares outstanding - basic	27,238,495	27,042,370	26,972,818	26,719,608
Weighted average shares outstanding - diluted	27,238,495	27,042,370	26,972,818	26,719,608
Gross profit margin	38.7%	25.2%	36.2%	32.8%

(In thousands, except for per share and outstanding stock amounts)

	2012			
	Quarter 1	Quarter 2	Quarter 3	Quarter 4
Sales, net	\$ 7,430	\$ 8,728	\$ 9,444	\$ 8,042
Cost of sales	4,590	5,397	6,090	6,391
Gross profit	2,840	3,331	3,354	1,651
Total operating expenses	3,486	3,862	3,565	4,202
Loss from operations	(646)	(531)	(211)	(2,551)
Interest and other income	12	11	11	13
Interest expense, net	(72)	(70)	(68)	(20)
Provision (benefit) for income taxes	8	14	4	(17)
Net loss	(714)	(604)	(272)	(2,541)
Preferred stock dividend requirements	(230)	(230)	(230)	(230)
Loss applicable to common shareholders	\$ (944)	\$ (834)	\$ (502)	\$ (2,771)
Basic loss per share	\$ (0.04)	\$ (0.03)	\$ (0.02)	\$ (0.10)
Diluted loss per share	\$ (0.04)	\$ (0.03)	\$ (0.02)	\$ (0.10)
Weighted average shares outstanding - basic	25,318,700	25,318,700	26,972,818	27,268,696
Weighted average shares outstanding - diluted	25,318,700	25,318,700	26,972,818	27,268,696
Gross profit margin	38.2%	38.2%	35.5%	20.5%

Major variances for 2013 compared to 2012 are due to the Medical Device Excise Tax of 2.3% of sales imposed in 2013.

Table of Contents

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure.

None.

Item 9A. Controls and Procedures.

Disclosure Controls and Procedures

Pursuant to Rule 13a-15(b) under the Securities Exchange Act of 1934 (the Exchange Act), 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 financial officers, evaluated the effectiveness of our disclosure controls and procedures, as defined in Rule 13a-15(e) under the Exchange Act. 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 (the SEC) 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 December 31, 2013, our disclosure controls and procedures were effective.

Management's Annual Report on Internal Control over Financial Reporting

Management is responsible for establishing and maintaining adequate internal control over our financial reporting as defined in Rule 13a-15(f) under the Exchange Act. The term internal control over financial reporting means a process designed by, or under the supervision of, our principal executive and principal financial officers and effected by our Board of Directors, Management and other personnel, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles and includes those policies and procedures that: (i) pertain to the maintenance of records that in reasonable detail accurately and fairly reflect our transactions and dispositions of assets; (ii) provide reasonable assurance that our transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that our receipts and expenditures are being made only in accordance with authorizations of Management and Directors; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of our assets that could have a material effect on our financial statements. Management used the *Internal Control - Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission to evaluate the effectiveness of our internal control over financial reporting as required by paragraph (c) of Rule 13a-15 under the Exchange Act. Management, with the participation of our CEO and CFO, concluded that our internal control over financial reporting as of December 31, 2013, was effective. No material weaknesses in our internal control over financial reporting were identified by Management.

Our Management, including the CEO and CFO, does not expect that our disclosure controls and procedures or our internal control over financial reporting will prevent or detect all errors and all instances of fraud. A control system, no matter how well designed and operated, can provide only reasonable, not absolute, assurance that the control system's objectives will be met.

Changes in Internal Control Over Financial Reporting

There have been no changes during the fourth quarter of 2013 or subsequent to December 31, 2013 in our internal control over financial reporting or in any other factor that has materially affected or is reasonably likely to materially affect our internal control over financial reporting.

Item 9B. Other Information.

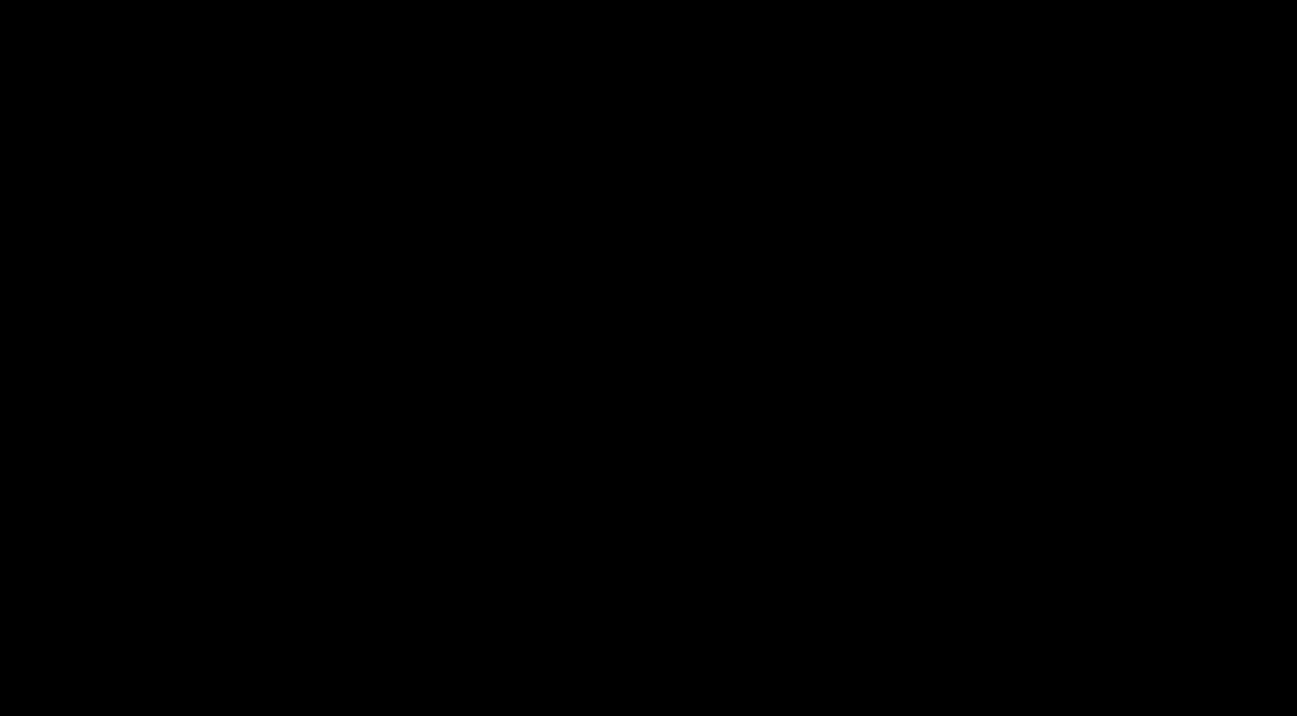
None.

Table of Contents

PART III

Item 10. Directors, Executive Officers and Corporate Governance.

The following table sets forth information concerning our Directors, executives, and certain of our significant employees as of the date of this report. Our Board of Directors currently consists of a total of seven (7) members, three (3) members of which are Class 1 Directors and four (4) of which are Class 2 Directors which serve for two-year terms.

Name	Age	Position	Term as Director Expires
			

Executives

Thomas J. Shaw, our Founder, has served as Chairman of the Board, President, Chief Executive Officer, and Director since our inception. We believe it is appropriate for Mr. Shaw to continue to serve as a Director and as the Chairman of the Board because of his deep knowledge of the strengths and weaknesses of our products (as their primary inventor) and of the Company (as its Founder). Further, his strategic knowledge of the Company and its competitive environment arising from his ongoing services as its CEO is vital to the successful supervision of the Company by the Board of Directors. Finally, Mr. Shaw's educational background in both Engineering and Accounting is helpful to Board deliberations. In addition to his duties overseeing our Management, he continues to lead our design team in product development of other medical safety devices

Edgar Filing: RETRACTABLE TECHNOLOGIES INC - Form 10-K

that utilize, among other things, his unique patented friction ring technology. Mr. Shaw has extensive experience in industrial product design and has developed several solutions to complicated mechanical engineering challenges. He has been granted multiple patents and has additional patents pending.

Douglas W. Cowan is a Vice President and our Chief Financial Officer, Treasurer, Principal Accounting Officer, and a Director. Mr. Cowan joined us as Chief Financial Officer and was elected to the Board of Directors in 1999. We believe it is appropriate Mr. Cowan continue to serve as a Director due to his level of involvement in the financial state of the Company (as its CFO) as well as his lead role in supervising all internal control and

Table of Contents

disclosure control procedures and statements. He also serves as the primary contact for investors which enables him to bring their concerns to the Board on appropriate topics as they arise. His expertise as a CPA and experience as the Company's CFO allow him to guide the Board, upon request, with regard to financial matters. He is responsible for our financial, accounting, investor relations, risk management, and forecasting functions.

Russell B. Kuhlman joined us in February 1997 and is our Vice President, Sales. Mr. Kuhlman is responsible for management of the sales force and liaison with GPOs and product training for our sales organization, as well as distribution. Mr. Kuhlman's efforts with us have resulted in bringing onboard Specialty Distributors, influencing legislation, and educating influential healthcare representatives about the benefits of our product line. Mr. Kuhlman is respected throughout the industry and is a main contributor to the safety effort in this country.

Michele M. Larios joined us in February 1998 and currently serves as our Vice President, General Counsel, and Secretary. Ms. Larios is responsible for our legal and legislative, human resource, and regulatory functions. In addition to working on all legal matters, both internally and with outside counsel, Ms. Larios oversees work on any pertinent legislative issues and all relevant regulatory matters.

Steven R. Wisner joined us in October 1999 as Executive Vice President, Engineering and Production and as a Director. We believe it is appropriate that Mr. Wisner continue to serve as a Director due to his extensive experience in operational management. His role in overseeing all engineering, production, and foreign sales allows him to provide timely and insightful guidance regarding the effect of Board decisions on the Company's abilities to meet its goals. Mr. Wisner's responsibilities include the management of engineering, production, Chinese operations, quality assurance, information technology, and international sales. Mr. Wisner has extensive experience in product design, development, and manufacturing.

Independent Directors

Marco Laterza joined us as a Director effective as of March 22, 2005. We believe it is appropriate Mr. Laterza continue to serve as a Director because of his skills as a CPA in active practice as well as his decades of experience in advising individuals and entities with regard to corporate planning and financial issues. Such skills and experience provide a valuable contribution in his role as the designated financial expert on the Audit Committee as well as provide valuable independent accounting advice to the Board. Since 1988, Mr. Laterza has owned and operated a public accounting practice. His practice includes corporate, partnership and individual taxation, compilation/review of financial statements, financial planning, business consulting, and trusts and estates. From 2004 to the present Mr. Laterza has also served as the Treasurer for EZ Blue Software Corporation, a private software company. Since 2009, Mr. Laterza has served as Vice President of SpectraComp, Corp. a private holding company. Formerly, Mr. Laterza was employed in a number of positions from 1977 to 1985 with El Paso Natural Gas Company eventually serving as its Director of Accounting.

Amy Mack joined us as a Director on November 19, 2007. We believe it is appropriate that Ms. Mack continue as a Board member due both to her experience as a nurse (the primary retail user of our products) as well as her experience in running her own company. Since April of 2000, she has been the Secretary of EmergiStaff & Associates, a nursing agency, and she served as the Chief Nursing Officer of EmergiStaff & Associates from 2000 to 2010. From 2003 to 2010, she was the owner and Aesthetics Nurse Specialist for Spa O2 & Medical Aesthetics. Ms. Mack has served as an emergency room nurse in various emergency rooms throughout her career as a nurse.

Edgar Filing: RETRACTABLE TECHNOLOGIES INC - Form 10-K

Clarence Zierhut has served on our Board of Directors since April 1996. We believe it is appropriate for Mr. Zierhut to continue to serve as a Director primarily due to his lifetime of experience in conception and development of innovative products as well as his experience in adapting such products to address mass production issues. During his professional career, Mr. Zierhut has created over 3,000 product designs for more than 350 companies worldwide, in virtually every field of manufacturing, and has won many international awards for design excellence. His clients have included Johnson & Johnson, Abbott, Gould, and McDonnell Douglas.

Walter O. Bigby, Jr. has served on our Board of Directors since July 2012. We believe it is appropriate for Mr. Bigby to continue to serve as a Director due to his experience in owning and operating healthcare-related businesses. Mr. Bigby's experience includes ownership of several small businesses, including hospitals, nursing homes, commercial real estate, and office equipment providers. Mr. Bigby has owned and operated Bastrop

Table of Contents

Rehabilitation Hospital, a 27-bed 2-location rehabilitation hospital in Louisiana, since 2001. He is currently a minority interest owner in several nursing homes in Louisiana. In 1995, Mr. Bigby sold his home health agency to Columbia HCA and remained a contract employee of the company (Hayden Health, Inc.) for three years developing other home health markets. Mr. Bigby has over a decade of experience operating healthcare businesses heavily regulated by Federal agencies and has experience with Medicare and Medicaid.

Significant Employees

Kathryn M. Duesman, RN, joined us in 1996 and currently serves as the Executive Director, Global Health. She provides clinical expertise on existing products as well as those in development. She has been instrumental in developing training and marketing materials and has spoken and been published on safety issues. Ms. Duesman works with international agencies to promote the use of safe technologies in developing countries.

Lawrence G. Salerno has been employed with us since 1995 and has served as Director of Operations for us since 1998. He is responsible for the manufacture of all our products, as well as all product development and process development projects. In addition, he supervises all aspects of the construction and expansion of our facilities in Little Elm, Texas. Mr. Salerno is the brother of a 5% shareholder who ceased to be a 10% shareholder in 2008.

Shayne Blythe has been with us since 2001 and is our Director of Sales and Marketing Logistics. She is responsible for developing and implementing strategic directions, objectives, comprehensive sales and marketing plans, and programs. In addition, she directs and oversees all aspects of the distribution process and customer service policies in order to monitor and maintain customer satisfaction.

John W. Fort III is our Director of Accounting. Mr. Fort joined us in March of 2000 as a Financial Analyst and has served as our Director of Accounting since October of 2002. His primary responsibilities include managing the day-to-day operations of the Accounting and Finance Department and coordination of the annual audits, and interim reviews by our independent accountants, as well as our cost accounting and forecasting functions.

James A. Hoover joined us in February 1996 and is our Director of Quality Assurance. Prior to his becoming Director of Quality Assurance he was Production Manager. He is responsible for our quality assurance functions. Mr. Hoover has also developed and implemented FDA required procedures and has been involved in the FDA inspection process.

R. John Maday joined us in July 1999 and is our Production Manager. He is responsible for supervision of the production of our products. Prior to becoming Production Manager on January 1, 2005, he served as our Production General Supervisor. Mr. Maday has extensive manufacturing experience in both class II and III medical devices.

Judy Ni Zhu joined us in 1995 and is our Research and Development Manager. Her primary focus is on new product development and improvement of current products. Prior to joining us, Ms. Zhu worked as a design engineer with Mr. Shaw on the original 3mL syringe and other SBIR grant projects.

Patti S. King joined us in 2006 and is our Director of National Accounts. Ms. King is responsible for managing all activities with healthcare group purchasing organizations (GPOs), which includes national contracting negotiations and contract implementation. She has over 30 years of healthcare experience, including patient care in respiratory therapy and cardiopulmonary technology, clinical data research, clinical software development, sales, sales and operations management, and national account (group purchasing) business development. In 2005 and 2006, Ms. King served on our Board of Directors.

FAMILY RELATIONSHIPS

There are no family relationships among the above persons except as set forth above.

Table of Contents

DIRECTORSHIPS IN OTHER COMPANIES

No Directors hold directorships in reporting companies.

INVOLVEMENT IN CERTAIN LEGAL PROCEEDINGS

None of the above persons or any business in which such person was an executive officer have been involved in a bankruptcy petition, been subject to a criminal proceeding (excluding traffic violations and other minor offenses), been subject to any order enjoining or suspending their involvement in any type of business, or been party to an alleged violation of a securities law, commodities law, law or regulation respecting financial institutions or insurance companies, law or regulation prohibiting mail or wire fraud, or rules of any organization that has disciplinary authority over its members.

SECTION 16(a) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE

Section 16 of the Exchange Act requires our Directors, executive officers, and persons who own more than 10% of a registered class of our equity securities to file with the SEC initial reports of beneficial ownership (Form 3) and reports of changes in beneficial ownership (Forms 4 and 5) of our Common Stock and our other equity securities. Officers, Directors, and greater than 10% shareholders are required by the SEC's regulations to furnish us with copies of all Section 16(a) reports they file. Based on our review of the forms submitted to us during and with respect to its most recent fiscal year, all of our Directors, executive officers, and 10% shareholders filed all reports timely.

CODE OF ETHICS

Effective as of March 9, 2004, we adopted a code of ethics that applies to all employees, including, but not limited to, our principal executive and financial officers. Our Code of Business Conduct and Ethics is designed to deter wrongdoing and to promote:

1. Honest and ethical conduct, including the ethical handling of actual or apparent conflicts of interests between personal and professional relationships;
2. Full, fair, accurate, timely, and understandable disclosure in reports and documents that we file with, or submit to, the SEC and in our other public communications;

Edgar Filing: RETRACTABLE TECHNOLOGIES INC - Form 10-K

3. Compliance with applicable governmental laws, rules, and regulations;

4. The prompt, internal reporting of violations of the code to an appropriate person or persons identified in the code; and

5. Accountability for adherence to the code.

A copy of the code, as amended in 2009, is incorporated herein as Exhibit No. 14. We have posted a copy of the code on our website at www.vanishpoint.com/investor.htm. Please follow the link to Governance then follow the link to Charters, then click on RVP Corporate Code of Conduct. Any amendment to this code or waiver of its application to the principal executive officer, principal financial officer, principal accounting officer, or controller or similar person shall be disclosed to investors by means of a Form 8-K filing with the SEC. We will provide to any person without charge, upon request, a copy of such code of ethics. Such requests should be submitted in writing to Mr. Douglas W. Cowan at 511 Lobo Lane, P.O. Box 9, Little Elm, Texas 75068-0009.

AUDIT COMMITTEE

We have a separately-designated standing Audit Committee established in accordance with Section 3(a)(58)(A) of the Exchange Act consisting of Clarence Zierhut, Marco Laterza, and Walter O. Bigby, Jr. Each of the members of the Audit Committee is independent as determined by the NYSE MKT rules.

Table of Contents

Audit Committee Financial Expert

The Board of Directors has determined that we have at least one financial expert serving on the Audit Committee. Mr. Marco Laterza serves as our designated Audit Committee Financial Expert. Mr. Laterza is independent as defined for Audit Committee members by the listing standards of the NYSE MKT.

Item 11. Executive Compensation.

COMPENSATION DISCUSSION AND ANALYSIS

The Objectives of Our Compensation Plan

Our executive officer compensation program (the Compensation Program) is based on the belief that competitive compensation is essential to attract, retain, motivate, and reward highly qualified and industrious executive officers. Our Compensation Program is intended to accomplish the following:

attract and retain highly talented and productive executive officers;

provide incentives and rewards for superior performance by the executive officers; and

align the interests of executive officers with the interests of our stockholders.

What the Compensation Program Is Designed to Award

Our Compensation Program is designed to award both superior long-term performance by our executive officers and their loyalty.

Summary of Each Element of Compensation

Edgar Filing: RETRACTABLE TECHNOLOGIES INC - Form 10-K

To achieve these objectives, the Compensation and Benefits Committee has approved an executive officer compensation program that consists of four basic components:

base salary;

short-term incentive compensation in the form of cash bonuses;

periodic long-term incentive compensation in the form of stock options; and

medical, life, and benefit programs (which are generally available on the same terms to all employees).

Why We Choose to Pay Each Element of Our Compensation Program

Base Salary

We choose to pay a significant component of our compensation in base salary due to the fact that our financial performance is constrained by the monopolistic activities of BD. Until such time as we believe that we have access to the market, we believe that it is appropriate to weigh our Compensation Program heavily in favor of base salaries rather than in incentive compensation.

Cash Bonuses

From time to time and when our cash reserves allow, we grant cash bonuses in order to reward significant efforts or the accomplishment of short term goals. The Compensation and Benefits Committee last granted such bonuses in 2010. Prior to 2010, the last bonuses were granted in 2003.

Table of Contents

Long-Term Incentives: Stock Options

Long-term incentives are provided through grants of stock options. The grants are designed to align the interests of executive officers with those of stockholders and to provide each executive officer with a significant incentive to manage from the perspective of an owner with an equity stake in the Company.

How We Determine the Amount or Formula for Payment in Light of Our Objectives

Executive compensation remains the same until there is a review of such compensation by the Compensation and Benefits Committee. Compensation, other than that of the Chief Executive Officer, has generally not been reviewed annually. Under the terms of Mr. Shaw's employment agreement, his compensation is reviewed annually.

Base Salary

The base salary for each of our executive officers is subjectively determined primarily on the basis of the following factors: experience, individual performance, contribution to our performance, level of responsibility, duties and functions, salary levels in effect for comparable positions within and without our industry, and internal base salary comparability considerations. However, salaries can also be affected by our long-term needs.

These base salaries are reviewed periodically and may be adjusted based upon the factors discussed in the previous paragraph, as well as upon individual performance during the previous fiscal year, changes in the duties, responsibilities and functions of the executive officer, and general changes in the compensation peer group in which we compete for executive talent. The relative weight given to each of these factors in the Compensation and Benefits Committee's recommendation differs from individual to individual, as the Compensation and Benefits Committee deems appropriate.

In 2009, all employees above a certain salary level had their salaries reduced by 10%. All employees affected by the salary reduction had their salaries increased by the amount of the reduction. Such increase was effective for most employees on August 6, 2012 and was effective for four of our executive officers on October 28, 2013.

Mr. Shaw's Employment Agreement provides that his salary is automatically increased by the percentage increase in the consumer price index (CPI) from the previous year. The Compensation and Benefits Committee decided to increase Mr. Shaw's salary by the CPI percentage increase (\$6,840 or 1.5%) over his 2013 salary for 2014.

Cash Bonuses

The bonuses, when paid, are paid on a discretionary basis as determined by the Compensation and Benefits Committee. Factors considered by the Compensation and Benefits Committee include personal performance, level of responsibility, and the factors used in determination of base salary as stated above, except with a greater focus on the prior fiscal year. The Compensation and Benefits Committee also considers our need to retain cash in deciding whether to grant cash bonuses.

Long-Term Incentive: Stock Options

We have issued stock options to our employees from time to time and may do so in the future. A stock option was issued to an independent Director in 2013. Options are generally granted to regular full-time employees and officers.

If stock options are to be issued, Management prepares a proposal to the Compensation and Benefits Committee. Considerations by Management in its initial proposal in determining a suitable aggregate fair market value of options to be granted include our financial condition, the number of options already outstanding, and the benefit to the non-executive officer employees. The proposal includes information relating to the expected expense of such grants to be recognized by us, the approximate number of options to be issued, the number of options

Table of Contents

currently outstanding, the employees to be included, the amount of stock currently outstanding, and the method under which the options would be awarded.

Once the dollar amount of options to be granted is approved by the Compensation and Benefits Committee, Management begins determining the aggregate number of shares underlying options that can be granted under such approval (based on the fair value of an option for the purchase of one underlying share). Factors included in the determination of the value of an option grant for the purchase of one share include current market price of the Company's stock, the proposed exercise price, the proposed expiration date, the volatility of the Company's stock, and the risk free rate. We may retain an independent outside consultant to determine such value. In the past we have utilized the Black-Scholes model as well as the binomial model, but we may use other methods in the future as more appropriate methods are developed.

Management provides the Compensation and Benefits Committee with a proposal regarding option grants to executive officers. If the recommendation is acceptable, the committee grants the options. If the committee feels changes are merited, it grants options on its own terms.

With regard to many past grants, after the aggregate number of shares underlying the options to be granted was determined, we allocated the options to our various departments using a factor based on their annual compensation times their performance rating. The individual employee's allocation factor was the numerator of a fraction. The denominator was the department's sum of all factors (annual compensation times performance ratings of all the eligible employees). The resulting fraction was multiplied by the stock options to be awarded to determine the employee's individual portion of the aggregate approved options. Future grants may be based on the value of contributions to the Company and not necessarily pursuant to any formula.

The allocation may be further reviewed by each department's management if they believed certain employees were not awarded an appropriate number of options. Management would consider any suggestions.

Each stock option grant to employees allows the employee to acquire shares of Common Stock at a fixed price per share (never less than the closing stock price of the Common Stock on the date of grant) for a fixed period (usually ten years). With regard to grants prior to 2009, each option generally became exercisable after three years, contingent upon the employee's continued employment with us. However, options issued to Officers and Directors pursuant to the 2008 option exchange offer, vested immediately for non-employee Directors and after one year for employees (including employee Directors). Options granted in 2009 and later vested in one year for executive officers and immediately for non-employee Directors. Accordingly, generally stock option grants will provide a return to the employee only if the employee remains employed by us during the vesting period, and then only if the market price of the underlying Common Stock appreciates. Future grants may vest over a shorter or longer period.

How Each Compensation Element and Decision Fits Into Overall Compensation Objectives

Our Compensation Program is intended to accomplish the following objectives: 1) attract and retain highly talented and productive executive officers; 2) provide incentives and rewards for superior performance by the executive officers; and 3) align the interests of executive officers with the interests of our stockholders.

Edgar Filing: RETRACTABLE TECHNOLOGIES INC - Form 10-K

We pay the bulk of our compensation in the form of cash compensation due to the fact that competing in an anti-competitive environment means that results will not always be commensurate with performance. We believe that the performance of our executives has been outstanding. We believe this is especially true given the anti-competitive environment in which we operate. Bonuses are granted occasionally to recognize extraordinary performance and/or extraordinary job requirements. We believe this approach and weighting of compensation elements is necessary to retain our executive talent due to the environment in which we operate.

Periodically, we grant stock options with the intent to provide both an incentive and reward to executive officers for long-term performance and to align the interests of our employees with that of the shareholders.

Table of Contents

Shareholder Advisory Votes

At our 2013 annual meeting of shareholders, we provided our shareholders with the opportunity to cast an advisory vote on the compensation paid to our named executive officers (say-on-pay). An overwhelming majority of the votes cast on the say-on-pay proposal were voted in favor of the proposal. We believe that this is an overall endorsement by the shareholders of our approach to executive compensation. The Compensation Committee will continue to take into account the outcome of future say-on-pay votes when making compensation decisions for the named executive officers in the future. We intend to hold the next say-on-pay vote at our 2016 annual meeting of shareholders.

Allocation Between Long-Term/Current and Between Cash/Non-Cash Compensation

All of our long-term compensation consists of non-cash compensation in the form of stock options. We believe that the granting of stock options incentivizes executives to maximize our long-term strengths as well as our stock price. However, because we are operating in a monopolistic environment and our stock price has little relationship with our performance, the most significant component of compensation is base salary and not stock options. Management is incentivized to maximize shareholder value and will be rewarded if they do so. However, a significant base salary enables us to retain this competent Management despite the current inability to provide valuable equity incentives.

How Determinations Are Made as to When Awards Are Granted

Generally, option awards to executive officers are granted by the Compensation and Benefits Committee and for others are granted at the discretion of the Board after recommendation of the Compensation and Benefits Committee or on the committee's own initiative. No awards are granted if the Compensation and Benefits Committee does not support a recommendation.

Unfortunately, our stock price does not always react as expected to our achievements. Accordingly, at times, options have been granted to aid in retaining competent and experienced executives without regard to the then current stock price. However, such options always have exercise prices that are at or above fair market value on the date of grant.

In addition, there is no relationship between the date of grant of options and our possession of material non-public information (i.e., we grant options without regard to whether or not we are in possession of material non-public information). Furthermore, it is our policy with regard to options that (although the options could be exercised) the underlying shares could not be sold into the market while the executive was in possession of material non-public information under our insider trading policy. Accordingly, we believe that there is minimal risk of the executive profiting from such material nonpublic information.

What Specific Items of Corporate Performance Are Taken Into Account in Setting Compensation Policies and Making Compensation Decisions

Edgar Filing: RETRACTABLE TECHNOLOGIES INC - Form 10-K

Cash reserves as well as trends in sales and costs are taken into account when considering the advisability of increasing base salaries or granting cash bonuses. However, no specific items of corporate performance are taken into account in setting executive compensation due to the fact that we compete in a monopolistic environment and, therefore, significant achievement or performance is not always correlated with corporate results. At such times that any of these factors make it inadvisable to increase salaries or grant bonuses, then consideration is given to increasing option awards, taking into account the value of prior option awards.

Awards are granted on the basis of historical performance. Accordingly, there is no discretion to change the awards once granted.

How Compensation Reflects Individual Performance

Executive compensation is not based on the individual's contribution to specific, quantitative corporate objectives due to the fact that we compete in a monopolistic environment. However, the individual's contribution to

Table of Contents

our performance is determined pursuant to qualitative factors as discussed above under How We Determine the Amount or Formula for Payment in Light of Our Objectives.

Factors We Consider in Determining to Change Compensation Materially

We consider our cash position, current liquidity trends, and the short-term and long-term needs for cash reserves (especially in light of the hostile environment in which we operate) when evaluating whether we can change compensation materially at a given time.

On an individual-by-individual basis, we also consider the value of past option compensation, the competitiveness of that individual's base salary, and that individual's contribution to our goals.

The Impact of the Accounting and Tax Treatments of Our Types of Compensation

Stock options granted to executives and other employees are expensed for accounting purposes under the Stock Compensation Topic of the Financial Accounting Standards Board Accounting Standards Codification. We expense all of our option costs as we do the costs of salaries and any periodic bonuses. Accordingly, the impact of tax treatment of various compensation forms does not impact our compensation decisions. Stock option expense is not recognized for tax purposes, except in the case of non-qualified stock options. For non-qualified stock options, the intrinsic value of the option is recognized when the option is exercised.

Our Policy Regarding Stock Ownership and Hedging

We do not have a policy regarding stock ownership by executive officers. We prohibit certain stock transactions by employees and Directors, including:

1. Purchases and sales of our stock within a six month period;
2. Short sales of our stock; and
3. Transactions in puts, calls, or other derivative securities involving our stock.

Furthermore, employees and Directors are required to pre-clear any hedging transactions.

Benchmarking of Our Compensation Program

In 2003, we hired Trinity Executive Recruiters, Inc. to assist us in providing benchmarks for the salary component of executive compensation by similarly sized companies in similar industries for persons that hold positions which are currently fulfilled by various members of our executive team. These benchmarks at least support existing executive compensation.

The Role of Our Executives and Directors in Determining Compensation

Management establishes the initial recommendations regarding compensation for all employees, including themselves. The Compensation and Benefits Committee reviews executive compensation changes and the process by which the employees are compensated.

Compensation Pursuant to Employment Agreement

We have an Employment Agreement with Mr. Thomas J. Shaw (the Employment Agreement) which was modified effective January 1, 2008 to avoid adverse tax consequences to Mr. Shaw created by the passage of the American Jobs Creation Act of 2004. No other executives or Directors are compensated pursuant to employment agreements.

Table of Contents

The Employment Agreement provides for an initial period of three years which ended December 31, 2010 and automatically and continuously renews for consecutive two-year periods. The Employment Agreement is terminable either by us or Mr. Shaw upon 30 days written notice or upon Mr. Shaw's death.

The Employment Agreement provides for an annual salary of at least \$416,400 with an annual salary increase equal to no less than the percentage increase in the CPI over the prior year. The Employment Agreement requires that Mr. Shaw's salary be reviewed by the Compensation and Benefits Committee annually, which shall make such increases as it considers appropriate. Mr. Shaw took a 10% salary cut in August of 2009, along with all other executive officers and other employees earning over a certain salary. In October 2013, his salary was increased by the amount of the reduction. Additionally, the Compensation and Benefits Committee increased his 2014 salary by \$6,840 (1.5%) over his 2013 salary in accordance with the percentage increase in the CPI over the prior year.

Under the Employment Agreement, we are obligated to provide certain benefits, including, but not limited to, participation in qualified pension plan and profit-sharing plans, participation in the Company's Cafeteria Plan and other such insurance benefits provided to other executives, paid vacation, and sick leave. We are also obligated to furnish him with a cellular telephone and suitable office space as well as reimburse him for any reasonable and necessary out of pocket travel and entertainment expenses incurred by him in carrying out his duties and responsibilities, membership dues to professional organizations, and any business-related seminars and conferences.

Pursuant to the Employment Agreement, we are obligated to indemnify Mr. Shaw for all legal expenses, court costs, and all liabilities incurred in connection with any proceeding involving him by reason of his being an officer, employee, or agent of the Company. We are further obligated to pay reasonable attorney fees and expenses and court and other costs associated with his defense in the event that, in Mr. Shaw's sole judgment, he needs to retain counsel or otherwise expend his personal funds for his defense.

Upon his death, Mr. Shaw's estate shall be entitled to his salary through the date of death, applicable benefits, and reimbursement of expenses.

We have the right to terminate the Employment Agreement if Mr. Shaw incurs a permanent disability during the term of his employment. A permanent disability means that Mr. Shaw is unable to engage in any substantial gainful activity by reason of any medically determinable physical or mental impairment which can be expected to result in death or can be expected to last for a continuous period of not less than 12 months or is, by reason of any medically determinable physical or mental impairment which can be expected to result in death or can be expected to last for a continuous period of not less than 12 months, receiving income replacement benefits for a period of not less than 3 months under an accident and health plan covering employees of the Company. Mr. Shaw shall also be deemed to be disabled if he is determined to be totally disabled by the Social Security Administration. In such event, Mr. Shaw is entitled to his salary through the date of termination, reimbursement of expenses, and salary for a period of 24 months as well as applicable benefits.

Mr. Shaw's employment may be terminated for cause which is defined to be conviction of a felony which is materially detrimental to the Company, proof, as determined finally by a court of competent jurisdiction of the gross negligence or willful misconduct which is materially detrimental to the Company, or proof, as determined finally by a court of competent jurisdiction, of a breach of a fiduciary duty which is materially detrimental to the Company. In such event, he shall be entitled to his salary through the date of termination plus reimbursement of expenses.

Edgar Filing: RETRACTABLE TECHNOLOGIES INC - Form 10-K

If Mr. Shaw is terminated without cause and not at his implicit request, Mr. Shaw shall be entitled to his salary through the date of termination, reimbursement of expenses, his salary for 24 months, as well as applicable benefits.

If Mr. Shaw resigns (other than because of a change in control), he is entitled to his salary through the date of termination, reimbursement of expenses, salary for 90 days, and applicable benefits.

Mr. Shaw has the right under this agreement to resign in the event that there is a change in control. A Change of Control shall be deemed to have occurred on either of the following dates: (i) the date any one person

Table of Contents

(other than Mr. Shaw), or more than one person acting as a group, acquires (or has acquired during the 12-month period ending on the date of the most recent acquisition by such person or persons) ownership of stock of the Company possessing 30% or more of the total possible voting power of the stock of the Company (assuming the immediate conversion of all then outstanding convertible preferred stock) or (ii) the date a majority of members of the Board of Directors is replaced during any 12-month period by Directors whose appointment or election is not endorsed by a majority of the members of the Company's Board of Directors before the date of the appointment or election. Mr. Shaw further has the right to resign if there is a change in ownership. A change in ownership is defined to have occurred on the date that any one person (other than Mr. Shaw) or more than one person acting as a group acquires ownership of the Company's stock that, together with the stock previously held by such person or group, constitutes more than 50% of the total fair market value or total voting power (assuming the immediate conversion of all then outstanding convertible preferred stock) of the Company. In such event Mr. Shaw is entitled to salary through the date of termination, salary for 24 months, reimbursement of expenses, and applicable benefits.

Mr. Shaw's commitment to the Company may not be construed as preventing him from participating in other businesses or from investing his personal assets as may require occasional or incidental time in the management, conservation, and protection of such investments provided such investments or businesses cannot be construed as being competitive or in conflict with the business of the Company.

Mr. Shaw has agreed to a one-year non-compete, not to hire or attempt to hire employees for one year, and not make known our customers or accounts or to call on or solicit our accounts or customers in the event of termination of his employment for one year unless the termination is without cause or pursuant to a change of control or ownership.

Compensation Committee Report

The Compensation and Benefits Committee has reviewed and discussed the COMPENSATION DISCUSSION AND ANALYSIS required by Item 402(b) of Regulation S-K with Management, and, based on the review and discussions referred to in paragraph (e)(5)(i)(A) of Item 407 of Regulation S-K, has recommended to the Board of Directors that the COMPENSATION DISCUSSION AND ANALYSIS be included in this report on Form 10-K.

CLARENCE ZIERHUT
WALTER O. BIGBY, JR.
AMY MACK

SUMMARY OF TOTAL COMPENSATION

The following Summary Compensation Table sets forth the total compensation paid or accrued by us over the past three fiscal years to or for the account of the principal executive officer, the principal financial officer, and the three highest paid additional executive officers:

SUMMARY COMPENSATION TABLE FOR 2011-2013

Name and Principal Position	Year	Salary (\$)	All Other Compensation	Total (\$)
------------------------------------	-------------	------------------------	-----------------------------------	-----------------------

Edgar Filing: RETRACTABLE TECHNOLOGIES INC - Form 10-K

			(\$)	
Thomas J. Shaw	2011	392,810		392,810
President and CEO	2012	406,714	220,000(1)	626,714
(principal executive officer)	2013	420,280		420,280
Michele M. Larios	2011	315,281		315,281
Vice President,	2012	315,000		315,000
General Counsel	2013	320,683		320,683

Table of Contents

Name and Principal Position	Year	Salary (\$)	All Other Compensation (\$)	Total (\$)
Douglas W. Cowan	2011	261,051		261,051
Vice President, CFO	2012	261,000		261,000
(principal financial officer, principal accounting officer)	2013	265,462		265,462
Steven R. Wisner	2011	261,000		261,000
Executive Vice President, Engineering and Production	2012	261,000		261,000
	2013	265,462		265,462
Russell B. Kuhlman	2011	125,377		125,377
Vice President, Sales	2012	130,916		130,916
	2013	143,429		143,429

(1) This amount is the result of Mr. Shaw's gain on exercising a portion of his nonqualified stock option for 2,000,000 shares of Common Stock. This gain had no effect on our financial statements. The expense related to the stock options was recognized in previous years.

Narrative Disclosure to Summary Compensation Table

Please see **Compensation Pursuant to Employment Agreement** above and **POTENTIAL PAYMENTS UPON TERMINATION OR CHANGE IN CONTROL** below for terms of our only employment agreement in effect.

For each Named Executive Officer, salary represents 100% of total compensation for 2013.

OUTSTANDING EQUITY AWARDS AT FISCAL YEAR-END

The following Outstanding Equity Awards at Fiscal Year-End Table sets forth information regarding unexercised options held by the principal executive officer, the principal financial officer, and the three highest paid additional executive officers as of December 31, 2013.

OUTSTANDING EQUITY AWARDS AT 2013 FISCAL YEAR END

Name	Option Awards		
	Number of Securities Underlying	Option Exercise Price (\$)	Option Expiration Date

	Unexercised Options Exercisable		
Thomas J. Shaw President, CEO (principal executive officer)	1,000,000	0.81	7-15-19
Michele M. Larios Vice President, General Counsel	97,050 152,950	1.30 0.81	11-18-18 7-15-19
Douglas W. Cowan Vice President, CFO (principal financial officer, principal accounting officer)	102,000 98,000	1.30 0.81	11-18-18 7-15-19

Table of Contents

Name	Number of Securities Underlying Unexercised Options Exercisable	Option Exercise Price (\$)	Option Expiration Date
Steven R. Wisner	100,700	1.30	11-18-18
Executive Vice President, Engineering and Production	23,500	0.81	7-15-19
Russell B. Kuhlman	63,450	1.30	11-18-18
Vice President, Sales	25,000	0.81	7-15-19

PENSION BENEFITS

We do not have a pension plan other than the 401(k) plan which is available to all employees the first of the month after 90 days of service.

401(k) Plan

We implemented an employee savings and retirement plan (the 401(k) Plan) in 2005 that is intended to be a tax-qualified plan covering substantially all employees. Under the terms of the 401(k) Plan, employees may elect to contribute up to 88% of their compensation, or the statutory prescribed limit, if less. We may, at our discretion, match employee contributions. We suspended matching contributions beginning August 1, 2009 until further notice.

POTENTIAL PAYMENTS UPON TERMINATION OR CHANGE IN CONTROL

The following table identifies the types and amounts of payments that shall be made to Thomas J. Shaw, our CEO, in the event of a termination of his employment or a change in control per his Employment Agreement. Such payments shall be made by us and shall be one-time, lump sum payments except as indicated below.

SUMMARY OF PAYMENTS UPON TERMINATION OR CHANGE IN CONTROL**ASSUMING OCCURRENCE AS OF DECEMBER 31, 2013(1)****Payment Triggering Event**

Edgar Filing: RETRACTABLE TECHNOLOGIES INC - Form 10-K

	Salary Through Trigger Event Date	Amounts Owed Under Benefit Plans(2)	Reimbursement of Expenses	Undiscounted Salary For a Period of 24 Months	Payment Equal to 90 Days Salary	Value of Payments(3)
Death	x	x	x			
Disability	x	x	x	\$912,036		\$912,036
Termination With Cause	x		x			
Termination Without Cause	x	x	x	\$912,036		\$912,036
Resignation (Other Than After a Change in Control)	x	x	x		\$114,005	\$114,005
Resignation (After a Change in Control)	x	x	x	\$912,036		\$912,036

Table of Contents

(1) The above payments would be paid under Mr. Shaw's agreement at certain times. Any payments arising as a result of disability or resignation would be paid not sooner than six months and one day from the termination date but not later than seven months from the termination date. Any payments arising as a result of death would be paid no later than the 90th day following the death. Payments arising as a result of termination with cause or termination without cause would be paid not later than the 30th day following the date of termination except that any amount due in excess of an amount equal to the lesser of: i) two times annual compensation or ii) two times the limit on compensation under section 401(17) of the Internal Revenue Code of 1986 such amount in excess shall be paid no earlier than six months and one day after the date of termination but in no event later than seven months after the date of termination. Under Mr. Shaw's agreement, Mr. Shaw has agreed to a one-year non-compete, not to hire or attempt to hire employees for one year, and not make known our customers or accounts or to call on or solicit our accounts or customers in the event of termination of his employment for one year unless the termination is without cause or pursuant to a change of control. However, it is not clear that the above payments are conditioned on the performance of these contractual obligations.

(2) Mr. Shaw participates in our benefit plans which do not discriminate in scope, terms, or operation in favor of executive officers. Such plans are generally available to all salaried employees. Accordingly, the value of such payments is not included in the "Value of Payments" column.

(3) This value does not include payments under our benefit plans for reasons set forth in footnote 2 above. In addition, this value assumes that the triggering event occurred on December 31, 2013. Authorized payments under the Employment Agreement are also capped to one dollar less than the amount that would cause Mr. Shaw to be the recipient of a parachute payment under Section 280G(b) of the Internal Revenue Code.

COMPENSATION OF DIRECTORS

The following table identifies the types and amounts of compensation earned by our Directors (with the exception of those that are named Executive Officers as described in footnote 1 to the table) in the last Fiscal Year:

DIRECTOR COMPENSATION TABLE FOR 2013

Name(1)	Fees Earned or Paid in		Option Awards	Total
	Cash			
	(\$)	(\$)(2)		(\$)
Marco Laterza	\$ 2,500	\$	\$	2,500
Amy Mack	\$ 2,500	\$	\$	2,500
Clarence Zierhut	\$ 2,500	\$	\$	2,500
Walter O. Bigby, Jr.	\$ 2,500	\$ 52,775	\$	55,275

(1) Thomas J. Shaw, Douglas W. Cowan, and Steven Wisner are Named Executive Officers who are also Directors. Their compensation is reflected in the Summary Compensation and other tables presented earlier.

(2) 50,000 shares of Common Stock underlie the option granted to Mr. Bigby in 2013. The value of this grant is estimated on the date of the grant using the Black Scholes pricing model with the following assumptions: expected volatility of 67.53%, risk free interest rate of 3.35%, and an expected life of 8.61 years. These options were issued under the 2008 Stock Option Plan.

Narrative Explanation of Director Compensation Table for 2013

In 2013 we paid each non-employee Director a fee of \$500 per meeting and reimbursed travel expenses, if airfare, hotel, and other reasonable travel-related expenses were incurred to attend Board meetings. We do not pay any additional amounts for committee participation or special assignment.

Generally, employee Directors are compensated on an at-will basis as discussed in the COMPENSATION DISCUSSION AND ANALYSIS. However, one employee, Mr. Thomas J. Shaw, our President and CEO, is

Table of Contents

compensated pursuant to an employment agreement. Please see Compensation Pursuant to Employment Agreement , set forth above for an in depth summary of the terms of such agreement.

Compensation Committee Interlocks and Insider Participation

The Compensation and Benefits Committee is currently composed of Clarence Zierhut, Walter O. Bigby, Jr., and Amy Mack. Each of these members of this committee is an independent Board member and none have ever been employees of the Company.

There are no interlocking Directors or executive officers between us and any other company. Accordingly, none of our executive officers or Directors served as a Director or executive officer for another entity whose executive officers or Directors served on our Board of Directors.

COMPENSATION POLICIES AND PRACTICES AS THEY RELATE TO RISK MANAGEMENT

We do not believe that risk-taking incentives are created by our compensation policies. We do not have business units. We believe that our compensation expense is a reasonable percentage of revenues overall. We have not set specific performance criteria for the award of bonuses. Salaries and bonuses, if any, are awarded based on skill, experience, and our overall revenues. Non-cash awards to employees are made periodically in the form of stock options, which we believe align the employees' interests with those of stockholders. We review our compensation policies and practices as they relate to risk management objectives if compensation amounts are materially amended or if our risk profile changes. No changes to our compensation policies and practices have been implemented as a result of changes to our risk profile.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters.

EQUITY COMPENSATION PLAN INFORMATION

The following table sets forth information relating to our equity compensation plans as of December 31, 2013:

Equity Compensation Plan Information

Number of securities to be issued upon exercise of outstanding options,	Weighted average exercise price of outstanding options, warrants and rights	Number of securities remaining available for future issuance under equity
--	--	--

Plan category	warrants and rights		compensation plans (excluding securities reflected in column(a))	
	(a)	(b)	(c)	
Equity compensation plans approved by security holders	2,890,631	\$	0.95	100,892
Total	2,890,631	\$	0.95	100,892

The Compensation and Benefits Committee authorized (and the shareholders approved) a grant of an option for the purchase of 3,000,000 shares of Common Stock to our CEO, Thomas J. Shaw. The option is exercisable at a price of \$0.81 per share, the market price on the date of grant. The option will terminate in 2019. Mr. Shaw exercised a portion of the option for 2,000,000 shares of Common Stock in 2012.

SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS

The following table sets forth certain information regarding the beneficial ownership as of March 3, 2014, for each person known by us to own beneficially 5% or more of our Common Stock. Except pursuant to applicable

Edgar Filing: RETRACTABLE TECHNOLOGIES INC - Form 10-K

Table of Contents

community property laws, each shareholder identified in the table possesses sole voting and investment power with respect to his or her shares, except as noted below.

Title of Class	Name and Address of Beneficial Owner	Amount and Nature of Beneficial Ownership	Percent of Class (1)
Common Stock	Thomas J. Shaw(2) 511 Lobo Lane P.O. Box 9 Little Elm, TX 75068-0009	14,665,642	51.8%
	Suzanne M. August(3) 5793 Lois Lane Plano, TX 75024	3,800,000	13.9%
	Lillian E. Salerno(4) 777 7th Avenue 430 Washington DC 20001	1,776,000	6.5%
	Lloyd I. Miller, III(5) 222 Lakeview Avenue Suite 160-365 West Palm Beach, FL 33401	1,416,938	5.2%

(1) The Percent of Class is calculated for the Common Stock class by dividing each beneficial owner's Amount of Beneficial Ownership, as shown in the table above, by the sum of the total outstanding Common Stock (27,296,312 shares) plus that beneficial owner's stock equivalents (options), if any.

(2) 1,000,000 of the shares identified as Common Stock are shares acquirable through the exercise of a stock option. 2,800,000 of the shares are owned by Ms. Suzanne August (see footnote 3) but are controlled by Mr. Shaw pursuant to a Voting Agreement. These shares are permanently controlled by Mr. Shaw until such time as they are sold by Ms. August. These shares are included in the share amounts and percentages for both Mr. Shaw and Ms. August in the above table. Mr. Shaw has investment power over 1,000,000 shares of Common Stock as Trustee pursuant to trust agreements for the benefit of family members. Ms. August has voting control over such 1,000,000 shares as Special Trustee (see footnote 3). These shares are included in the share amounts and percentages for both Mr. Shaw and Ms. August in the above table.

(3) Ms. August's 2,800,000 shares are controlled by Mr. Thomas J. Shaw pursuant to a Voting Agreement. These shares are included in the share amounts and percentages for both Mr. Shaw and Ms. August in the above table. Ms. August has voting control over 1,000,000 shares of Common Stock as Special Trustee pursuant to trust agreements for the benefit of family members. Mr. Shaw has investment power over such 1,000,000 shares as Trustee. These shares are included in the share amounts and percentages for both Mr. Shaw and Ms. August in the above table.

Edgar Filing: RETRACTABLE TECHNOLOGIES INC - Form 10-K

(4) 25,000 shares identified as Common Stock are shares which are obtainable by the exercise of a stock option.

(5) The number of shares held by this person was obtained from a Schedule 13G/A filed on February 12, 2014. Pursuant to the Schedule 13G/A, Lloyd I. Miller, III has sole voting and dispositive power for all reported shares.

Table of Contents**SECURITY OWNERSHIP OF MANAGEMENT AND DIRECTORS**

The following table sets forth certain information regarding the beneficial ownership of our Common Stock as of March 3, 2014, for each Named Executive Officer specified by Item 402 of Regulation S-K (i.e., our CEO, CFO, and three other highest paid executive officers) and each Director of the Company. Except pursuant to applicable community property laws or as otherwise discussed below, each shareholder identified in the table possesses sole voting and investment power with respect to his or her shares.

Title of Class	Name of Beneficial Owner	Amount and	Percent
		Nature of Beneficial Ownership	of Class(1)
Common Stock As a Group			
As Individuals	Named Executive Officers and Directors	15,566,870	55.1%
	Thomas J. Shaw(2)	14,665,642	51.8%
	Michele M. Larios(3)	261,000	<1%
	Douglas W. Cowan(4)	200,000	<1%
	Steven R. Wisner(5)	129,450	<1%
	Russell B. Kuhlman(6)	89,450	<1%
	Clarence Zierhut(7)	62,500	<1%
	Marco Laterza(8)	60,000	<1%
	Walter O. Bigby, Jr.(9)	55,000	<1%
	Amy Mack(10)	43,828	<1%

(1) The Percent of Class is calculated for the individuals holding Common Stock by dividing each beneficial owner's Amount of Beneficial Ownership, as shown in the table above, by the sum of the total outstanding Common Stock (27,296,312 shares) plus that beneficial owner's stock equivalents (options), if any. The Percent of Class is calculated for the As a Group row by totaling all of the Percent of Class percentages appearing in the chart.

(2) 1,000,000 of these shares are acquirable through the exercise of a stock option. 2,800,000 of the shares are owned by Ms. Suzanne August but are controlled by Mr. Shaw pursuant to a Voting Agreement. These shares are permanently controlled by Mr. Shaw until such time as they are sold by Ms. August. These shares are included in calculating Mr. Shaw's percentages in the above table. Mr. Shaw has investment power over 1,000,000 shares of Common Stock as Trustee pursuant to trust agreements for the benefit of family members. These shares are included in calculating Mr. Shaw's percentages in the above table.

(3) 250,000 of these shares are acquirable by the exercise of stock options. 1,000 of these shares are owned by Ms. Larios children.

Edgar Filing: RETRACTABLE TECHNOLOGIES INC - Form 10-K

- (4) These shares are acquirable by the exercise of stock options.

- (5) 124,200 of these shares are acquirable by the exercise of stock options.

- (6) 88,450 of these shares are acquirable by the exercise of stock options.

- (7) These shares are acquirable by the exercise of stock options.

- (8) 50,000 of these shares are acquirable by the exercise of stock options.

- (9) 50,000 of these shares are acquirable by the exercise of stock options.

- (10) These shares are acquirable by the exercise of stock options.

There are no arrangements, the operation of which would result in a change in control of the Company, other than:

Table of Contents

1. Ms. August's shares shall cease to be controlled by Mr. Shaw under their Voting Agreement upon their sale to a third party; and

2. Mr. Shaw was granted an option for the purchase of 3,000,000 shares of Common Stock, of which 1,000,000 shares of Common Stock remain eligible for purchase upon exercise. Mr. Shaw is able to control 51.8% of the currently outstanding shares of the Common Stock and would control 47.20% of the Common Stock assuming the exercise of all outstanding options and conversion of all outstanding preferred shares.

Item 13. Certain Relationships and Related Transactions, and Director Independence

Related Party Transactions

We believe that all of the transactions set forth below were made on terms no less favorable to us than could have been obtained from unaffiliated third parties. In accordance with our Audit Committee Charter, the Audit Committee has reviewed and approved all related party transactions. In particular, the Audit Committee reviews all proposed transactions where the amount involved meets or exceeds \$120,000.

In 1995, Thomas J. Shaw, President, Chief Executive Officer, and shareholder holding more than 5% of the outstanding Common Stock, was paid a licensing fee of \$500,000 (amortized over 17 years) by us for the exclusive worldwide licensing rights to manufacture, market, sell, and distribute retractable medical safety products. A royalty of 5% of gross sales of all licensed products sold to customers over the life of the Technology Licensing Agreement is paid. Of this royalty, Ms. Suzanne August, the former spouse of Mr. Shaw, is entitled to \$100,000 per quarter. Mr. Shaw receives the remainder of this royalty. A royalty of \$1,701,659 and \$2,185,019 was paid to Thomas J. Shaw in 2013 and 2012, respectively. Ms. August received \$300,000 in 2013 and \$500,000 in 2012.

On July 10, 2012, Mr. Shaw exercised a portion of his stock option. The Company issued 2,000,000 shares of Common Stock to him at an exercise price of \$0.81 (aggregate consideration of \$1,620,000).

Director Independence

The Board of Directors has the responsibility for establishing corporate policies and for our overall performance, although it is not involved in day-to-day operations. Currently, a majority (four of seven) of the Directors serving on our Board of Directors are independent Directors as defined in the listing standards of the NYSE MKT. Our current independent Directors are Clarence Zierhut, Marco Laterza, Amy Mack, and Walter O. Bigby, Jr. Each of our committees is constituted solely by independent Directors.

Item 14. Principal Accounting Fees and Services.

AUDIT FEES

The aggregate fees billed by CF & Co., L.L.P. for professional services rendered for the audit of our annual financial statements for 2013 and 2012 and the reviews of the financial statements included in our Forms 10-Q or services normally provided by the accountant in connection with statutory and regulatory filings for those fiscal years were \$180,000 and \$180,000, respectively.

AUDIT RELATED FEES

The aggregate fees billed by CF & Co., L.L.P. for professional services rendered for the audit of our 401(k) plan for 2013 and 2012 were \$13,000 and \$12,500, respectively.

Table of Contents

TAX FEES

The aggregate fees billed by CF & Co., L.L.P. for preparation of federal and state income tax returns and tax consulting costs related to notices from taxing authorities for 2013 and 2012 were \$96,408 and \$77,062, respectively. 2013 fees also include consultation on state sales tax matters and preparation of certain sales tax returns.

PRE-APPROVAL POLICIES AND PROCEDURES

The engagement of CF & Co., L.L.P. was entered into pursuant to the approval policies and procedures of the Audit Committee. Before CF & Co., L.L.P. was engaged to render services the engagement was approved by the Audit Committee. The engagement is for audit and tax services which were detailed separately. The Audit Committee implemented its approval procedures, i.e., they were not delegated to any other party. All of the services provided were pre-approved by the Audit Committee.

PART IV**Item 15. Exhibits, Financial Statement Schedules.**

- (a) (1) All financial statements: See Retractable Technologies, Inc. Index to Financial Statements on Page F-2.
- (2) Those financial statement schedules required to be filed by Item 8 of this form, and by paragraph (b) below. Schedule II-Schedule of Valuation and Qualifying Accounts for the years ended December 31, 2013, 2012, and 2011:

	Balance at				Balance at		
	beginning				end of period		
	of period	Additions	Deductions		of period	Additions	Deductions
Provision for Inventories							
Fiscal year ended 2011	\$ 205,600	\$ 52,835	\$	\$	258,435	\$	
Fiscal year ended 2012	\$ 258,435	\$ 120,000	\$ 138,683	\$	239,752	\$	
Fiscal year ended 2013	\$ 239,752	\$ 530,000	\$ 88,357	\$	681,395	\$	
Provision for Accounts Receivables							
Fiscal year ended 2011	\$ 780,900	\$ 1,298,044	\$	\$	2,078,944	\$	
Fiscal year ended 2012	\$ 2,078,944	\$ 107,246	\$	\$	2,186,190	\$	
Fiscal year ended 2013	\$ 2,186,190	\$ 50,000	\$ 537,684	\$	1,698,506	\$	
Deferred Tax Valuation							
Fiscal year ended 2011	\$ 5,442,682	\$	\$ 559,266	\$	4,883,416	\$	

Edgar Filing: RETRACTABLE TECHNOLOGIES INC - Form 10-K

Fiscal year ended 2012	\$	4,883,416	\$	1,155,638	\$	6,039,054
Fiscal year ended 2013	\$	6,039,054	\$	2,404,763	\$	8,443,817
Provision for Rebates			(A)	(B)	(C)	
Fiscal year ended 2011	\$	11,102,329	\$	19,229,308	\$	14,172,842
Fiscal year ended 2012	\$	16,158,795	\$	19,615,388	\$	13,780,916
Fiscal year ended 2013	\$	21,993,267	\$	17,912,447	\$	13,112,048

(A) Represents estimated rebates deducted from gross revenues

(B) Represents rebates credited to the distributor and charge offs against the allowance

(C) Includes \$3,611,962; \$3,036,564; and \$2,170,764 in Accounts payable for 2013, 2012 and 2011, respectively. The remainder includes a contra-account for credits taken by the distributor for which a credit memorandum has not been issued by the Company

Edgar Filing: RETRACTABLE TECHNOLOGIES INC - Form 10-K

Table of Contents

(3) Exhibits:

The following exhibits are filed herewith or incorporated herein by reference to exhibits previously filed with the SEC.

(b) Exhibits

Exhibit No.	Description of Document
3(i)	Restated Certificate of Formation with Certificates of Designation, Preferences, Rights and Limitations of Class B Preferred Stock (all Series) *
3(ii)	Fourth Amended and Restated Bylaws of RTI**
4	Restated Certificate of Formation with Certificates of Designation, Preferences, Rights and Limitations of Class B Preferred Stock (all Series) *
10.1	Sample United States Distribution Agreement***
10.2	Sample Foreign Distribution Agreement***
10.3	Employment Agreement between RTI and Thomas J. Shaw dated as of January 1, 2008 (This is a management compensation contract.) ****
10.4	Technology License Agreement between Thomas J. Shaw and RTI dated the 23rd day of June 1995***
10.5	First Amendment to Technology License Agreement between Thomas J. Shaw and RTI dated the 3rd day of July, 2008 *****
10.6	Second Amendment to Technology License Agreement between Thomas J. Shaw and Retractable Technologies, Inc. dated as of the 7th day of September, 2012
10.7	Loan Agreement among RTI, Katie Petroleum and Thomas J. Shaw as of the 30th day of September, 2002 and Promissory Note
10.8	RTI s 1999 Stock Option Plan***
10.9	First Amendment to 1999 Stock Option Plan
10.10	Retractable Technologies, Inc. 2008 Stock Option Plan
10.11	Thomas J. Shaw Nonqualified Stock Option Agreement Issued Outside of Any Plan
10.12	Voting Agreement Between Thomas J. Shaw and Suzanne August dated November 8, 2006
14	Retractable Technologies, Inc. Code of Business Conduct and Ethics
23	Consent of Independent Registered Public Accounting Firm
31.1	Certification of Principal Executive Officer

31.2 Certification of Principal Financial Officer

32 Section 1350 Certifications

Table of Contents

Exhibit No.	Description of Document
101	The following materials from this report, formatted in XBRL (eXtensible Business Reporting Language): (i) Balance Sheets as of December 31, 2013 and 2012, (ii) the Statements of Operations for the years ended December 31, 2013, 2012, and 2011, (iii) the Statements of Changes in Stockholders' Equity for the years ended December 31, 2013, 2012 and 2011, (iv) the Statements of Cash Flows for the years ended December 31, 2013, 2012, and 2011, and (v) Notes to Financial Statements.
*	Incorporated herein by reference to RTI's Form 10-Q filed on November 15, 2010
**	Incorporated herein by reference to RTI's Form 8-K filed on May 13, 2010
***	Incorporated herein by reference to RTI's Registration Statement on Form 10-SB filed on June 23, 2000
****	Incorporated herein by reference to RTI's Form 10-Q filed on November 14, 2008
*****	Incorporated herein by reference to RTI's Form 10-K filed on March 31, 2009
	Incorporated herein by reference to RTI's Form 10-Q filed on November 14, 2012
	Incorporated herein by reference to RTI's Form 8-K filed on October 10, 2002
	Incorporated herein by reference to RTI's Form 10-KSB filed on March 31, 2003
	Incorporated herein by reference to RTI's definitive Schedule 14A filed on August 19, 2008
	Incorporated herein by reference to RTI's Form 10-K filed on March 31, 2010
	Incorporated herein by reference to RTI's Schedule TO filed on October 17, 2008
	Incorporated herein by reference to RTI's Form 8-K filed on February 19, 2010
	Filed herewith
(c)	Excluded Financial Statement Schedules: None

Table of Contents

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) 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.

RETRACTABLE TECHNOLOGIES, INC.
(Registrant)

By: /s/ Thomas J. Shaw
THOMAS J. SHAW
CHAIRMAN, PRESIDENT, AND
CHIEF EXECUTIVE OFFICER

Date: March 31, 2014

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

/s/ Steven R. Wisner
STEVEN R. WISNER
EXECUTIVE VICE PRESIDENT, ENGINEERING
& PRODUCTION AND DIRECTOR

March 31, 2014

/s/ Douglas W. Cowan
DOUGLAS W. COWAN
VICE PRESIDENT, CHIEF FINANCIAL OFFICER,
PRINCIPAL ACCOUNTING OFFICER,
TREASURER, AND DIRECTOR

March 31, 2014

/s/ Clarence Zierhut
CLARENCE ZIERHUT
DIRECTOR

March 31, 2014

/s/ Amy Mack
AMY MACK
DIRECTOR

March 31, 2014

/s/ Marco Laterza
MARCO LATERZA
DIRECTOR

Edgar Filing: RETRACTABLE TECHNOLOGIES INC - Form 10-K

March 31, 2014

/s/ Walter O. Bigby, Jr.
WALTER O. BIGBY, JR.
DIRECTOR

March 31, 2014