

RETRACTABLE TECHNOLOGIES INC
Form 10-Q
May 15, 2017
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended March 31, 2017

or

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

For the transition period from _____ to _____

Commission file number: 001-16465

Retractable Technologies, Inc.

(Exact name of registrant as specified in its charter)

Texas
(State or other jurisdiction of
incorporation or organization)

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

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

75068-5295
(Zip Code)

(972) 294-1010

(Registrant's telephone number, including area code)

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

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

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer

Accelerated filer

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

Smaller reporting company
Emerging growth company

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

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

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APPLICABLE ONLY TO ISSUERS INVOLVED IN BANKRUPTCY

PROCEEDINGS DURING THE PRECEDING FIVE YEARS:

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

APPLICABLE ONLY TO CORPORATE ISSUERS

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date: 31,666,454 shares of Common Stock, no par value, issued and outstanding on May 1, 2017.

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RETRACTABLE TECHNOLOGIES, INC.

FORM 10-Q

For the Quarterly Period Ended March 31, 2017

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	March 31, 2017	December 31, 2016
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 16,816,193	\$ 16,199,043
Accounts receivable, net	3,186,640	3,267,838
Inventories, net	7,288,087	7,017,224
Other current assets	443,768	192,548
Total current assets	27,734,688	26,676,653
Property, plant, and equipment, net	11,903,278	12,092,037
Other assets	9,188	10,289
Total assets	\$ 39,647,154	\$ 38,778,979
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities:		
Accounts payable	\$ 4,461,249	\$ 4,471,756
Current portion of long-term debt	435,649	430,393
Accrued compensation	906,451	536,456
Dividends payable	55,113	55,113
Accrued royalties to shareholder	587,844	659,443
Other accrued liabilities	932,582	1,008,699
Income taxes payable	10,842	10,584
Total current liabilities	7,389,730	7,172,444
Long-term debt, net of current maturities	3,379,292	3,498,244
Total liabilities	10,769,022	10,670,688
Commitments and contingencies	see Note 6	
Stockholders' equity:		
Preferred stock, \$1 par value:		
Series I, Class B	98,500	98,500
Series II, Class B	171,200	171,200
Series III, Class B	129,245	129,245
Series IV, Class B	342,500	342,500
Series V, Class B	40,000	40,000

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Common stock, no par value			
Additional paid-in capital	61,250,119		59,290,333
Accumulated deficit	(33,153,432)		(31,963,487)
Total stockholders' equity	28,878,132		28,108,291
Total liabilities and stockholders' equity	\$ 39,647,154	\$	38,778,979

See accompanying notes to condensed unaudited financial statements

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

	Three Months Ended March 31, 2017	Three Months Ended March 31, 2016
Sales, net	\$ 6,923,680	\$ 5,921,982
Cost of sales		
Cost of manufactured product	4,010,913	3,226,597
Royalty expense to shareholders	587,844	505,375
Total cost of sales	4,598,757	3,731,972
Gross profit	2,324,923	2,190,010
Operating expenses:		
Sales and marketing	1,027,711	909,572
Research and development	148,449	124,919
General and administrative	2,300,867	2,049,688
Total operating expenses	3,477,027	3,084,179
Loss from operations	(1,152,104)	(894,169)
Interest and other income	10,505	5,181
Interest expense	(48,063)	(49,623)
Loss before income taxes	(1,189,662)	(938,611)
Provision for income taxes	283	480
Net loss	(1,189,945)	(939,091)
Preferred stock dividend requirements	(176,249)	(176,249)
Loss applicable to common shareholders	\$ (1,366,194)	\$ (1,115,340)
Basic loss per share	\$ (0.04)	\$ (0.04)
Diluted loss per share	\$ (0.04)	\$ (0.04)
Weighted average common shares outstanding:		
Basic	31,333,121	28,624,874
Diluted	31,333,121	28,624,874

See accompanying notes to condensed unaudited financial statements

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

	Three Months Ended March 31, 2017	Three Months Ended March 31, 2016
Cash flows from operating activities		
Net loss	\$ (1,189,945)	\$ (939,091)
Adjustments to reconcile net loss to net cash provided (used) by operating activities:		
Provision for doubtful accounts		22,000
Share based compensation	234,898	
Depreciation and amortization	206,992	204,266
(Increase) decrease in assets:		
Inventories	(270,863)	(46,367)
Accounts receivable	81,198	1,715,858
Other current assets	(251,220)	496,407
Other assets		(750)
Increase (decrease) in liabilities:		
Accounts payable	(10,507)	(1,328,233)
Other accrued liabilities	222,279	92,233
Income taxes payable	258	1,756
Net cash provided (used) by operating activities	(976,910)	218,079
Cash flows from investing activities		
Purchase of property, plant, and equipment	(17,131)	(75,650)
Net cash used by investing activities	(17,131)	(75,650)
Cash flows from financing activities		
Repayments of long-term debt and notes payable	(113,696)	(65,626)
Proceeds from the sale of common stock	1,780,000	
Proceeds from the exercise of stock options		29,200
Payment of Preferred Stock dividends	(55,113)	(55,414)
Net cash provided (used) by financing activities	1,611,191	(91,840)
Net increase in cash and cash equivalents	617,150	50,589
Cash and cash equivalents at:		
Beginning of period	16,199,043	18,045,044
End of period	\$ 16,816,193	\$ 18,095,633
Supplemental schedule of cash flow information:		
Interest paid	\$ 48,064	\$ 49,623
Income taxes paid	\$	\$
Supplemental schedule of noncash investing and financing activities:		
Preferred dividends declared, not paid	\$ 55,113	\$ 55,113

See accompanying notes to condensed unaudited financial statements

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RETRACTABLE TECHNOLOGIES, INC.

NOTES TO CONDENSED FINANCIAL STATEMENTS

(unaudited)

1. BUSINESS OF THE COMPANY AND BASIS OF PRESENTATION

Business of the Company

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

Basis of presentation

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Accounting estimates

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

Cash and cash equivalents

For purposes of reporting cash flows, cash and cash equivalents include cash, money market accounts, and investments with original maturities of three months or less.

Accounts receivable

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

The Company requires certain customers to make a prepayment prior to beginning production or shipment of their order. Customers may apply such prepayments to their outstanding invoices or pay the invoice and continue to carry forward the deposit for future orders. Such amounts are included in Other accrued liabilities on the Condensed Balance Sheets and are shown in Note 5, Other Accrued Liabilities.

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

Property, plant, and equipment

Property, plant, and equipment are stated at cost. Expenditures for maintenance and repairs are charged to operations as incurred. Cost includes major expenditures for improvements and replacements which extend useful lives or increase capacity and interest cost associated with significant capital additions. Gains or losses from property disposals are included in income.

The Company's property, plant, and equipment primarily consist of buildings, land, assembly equipment, molding machines, molds, office equipment, furniture, and fixtures. Depreciation and amortization are calculated using the straight-line method over the following useful lives:

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

Long-lived assets

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

Financial instruments

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

Concentration risks

The Company's financial instruments exposed to concentrations of credit risk consist primarily of cash, cash equivalents, and accounts receivable. Cash balances, some of which exceed federally insured limits, are maintained in financial institutions; however, Management believes the institutions are of high credit quality. The majority of accounts receivable are due from companies which are well-established entities. As a consequence, Management considers any exposure from concentrations of credit risks to be limited.

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The following table reflects our significant customers for the first quarters of 2017 and 2016:

	Three Months Ended March 31, 2017	Three Months Ended March 31, 2016
Number of significant customers	3	3
Aggregate dollar amount of net sales to significant customers	\$3.7 million	\$3.1 million
Percentage of net sales to significant customers	53.2%	52.6%

The Company manufactures some of its products in Little Elm, Texas as well as utilizing manufacturers in China. The Company purchases most of its product components from single suppliers, including needle adhesives and packaging materials. There are multiple sources of these materials. The Company obtained roughly 90.5% and 58.4% of its VanishPoint® syringes in the first three months of 2017 and 2016, respectively, from its primary Chinese manufacturer. In the event that the Company becomes unable to purchase products from its Chinese manufacturers, the Company would need to find an alternate manufacturer for its blood collection set, IV catheter, Patient Safe® syringe, 0.5mL insulin syringe, 0.5mL autodisable syringe, and 2mL, 5mL, and 10mL syringes and would increase domestic production for the 1mL and 3mL syringes.

Revenue recognition

Revenue is recognized for sales when title and risk of ownership passes to the customer, generally upon shipment. Under certain contracts, revenue is recorded on the basis of sales price to distributors, less contractual pricing allowances. Contractual pricing allowances consist of: (i) rebates granted to distributors who provide tracking reports which show, among other things, the facility that purchased the products, and (ii) a provision for estimated contractual pricing allowances for products for which the Company has not received tracking reports. Rebates are recorded when issued and are applied against the customer's receivable balance. Distributors receive a rebate for the difference between the Wholesale Acquisition Cost and the appropriate contract price as reflected on a tracking report provided by the distributor to the Company. If product is sold by a distributor to an entity that has no contract, there is a standard rebate (lower than a contracted rebate) given to the distributor. One of the purposes of the rebate is to encourage distributors to submit tracking reports to the Company. The provision for contractual pricing allowances is reviewed at the end of each quarter and adjusted for changes in levels of products for which there is no tracking report. Additionally, if it becomes clear that tracking reports will not be provided by individual distributors, the provision is further adjusted. The estimated contractual allowance is included in Accounts payable in the Balance Sheets and deducted from revenues in the Statements of Operations. Accounts payable included estimated contractual allowances for \$3,294,192 and \$3,591,534 as of March 31, 2017 and December 31, 2016, respectively. The terms and conditions of contractual pricing allowances are governed by contracts between the Company and its distributors. Revenue for shipments directly to end-users is recognized when title and risk of ownership pass from the Company. Any product shipped or distributed for evaluation purposes is expensed.

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 for contractual rebates in the periods currently presented.

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

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

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

Litigation proceeds

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

Income taxes

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

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

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. The calculation of diluted EPS excluded 148 thousand and 1.4 million shares of Common Stock underlying issued and outstanding stock options at March 31, 2017 and March 31, 2016, respectively, as their effect was antidilutive. The potential dilution, if any, is shown on the following schedule: