

Edgar Filing: RETRACTABLE TECHNOLOGIES INC - Form 10QSB

RETRACTABLE TECHNOLOGIES INC  
Form 10QSB  
August 14, 2002

U.S. SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

FORM 10-QSB

(Mark One)

Quarterly report under Section 13 or 15(d) of the Securities Exchange Act of 1934

For the quarterly period ended June 30, 2002

Transition report under Section 13 or 15(d) of the Exchange Act

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission file number 000-30885

Retractable Technologies, Inc.

(Exact Name of Small Business Issuer as Specified in Its Charter)

Texas

75-2599762

(State or Other Jurisdiction of  
Incorporation or Organization)

(IRS Employer  
Identification No.)

511 Lobo Lane  
Little Elm, Texas 75068-0009

(Address of Principal Executive Offices)

(972) 294-1010

(Issuer's Telephone Number, Including Area Code)

(Former Name, Former Address, and Former Fiscal Year, if Changed  
Since Last Report)

Check whether the issuer: (1) filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act during the past 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes X No  
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APPLICABLE ONLY TO ISSUERS INVOLVED IN  
BANKRUPTCY PROCEEDINGS DURING THE  
PRECEDING FIVE YEARS

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

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## APPLICABLE ONLY TO CORPORATE ISSUERS

State the number of shares outstanding of each of the issuer's classes of common equity, as of the latest practicable date: 20,312,600 shares of Common Stock, no par value, issued and outstanding on August 12, 2002.

Transitional Small Business Disclosure Format (check one): Yes  No

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## PART I

### FINANCIAL INFORMATION

#### ITEM 1. FINANCIAL STATEMENTS

##### RETRACTABLE TECHNOLOGIES, INC. CONDENSED BALANCE SHEETS

	June 30, 2002	December 31, 2001
	-----	-----
	(unaudited)	
ASSETS		
Cash and cash equivalents	\$ 820,234	\$ 1,220,244
Accounts receivable, net	3,166,761	1,585,024

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Inventories, net	3,226,969	3,218,786
Other current assets	243,149	245,555
	-----	-----
Total current assets	7,457,113	6,269,609
Property, plant, and equipment, net	11,168,622	11,740,464
Intangible assets and deferred charges, net	447,579	530,378
	-----	-----
Total assets	\$ 19,073,314	\$ 18,540,451
	=====	=====
LIABILITIES AND STOCKHOLDERS' EQUITY		
Liabilities:		
Accounts payable	\$ 3,356,915	\$ 4,005,816
Current portion of long-term debt	912,556	686,402
Accrued compensation	344,356	399,149
Marketing fees payable	2,241,823	2,429,175
Accrued royalties	92,500	1,019,050
Provision for product recall and recovery	642,618	-
Other accrued liabilities	222,721	259,184
	-----	-----
Total current liabilities	7,813,489	8,798,776
	-----	-----
Long-term debt, net of current maturities	5,371,715	9,579,053
	-----	-----
Stockholders' equity		
Preferred Stock \$1 par value		
Class A	1,061,500	1,101,500
Series I, Class B	259,400	261,900
Series II, Class B	431,000	431,000
Series III, Class B	155,745	158,245
Series IV, Class B	1,066,000	1,066,000
Series V, Class B	1,683,471	-
Additional paid-in capital	46,499,234	37,671,513
Accumulated deficit	(45,268,240)	(40,527,536)
	-----	-----
Total stockholders' equity	5,888,110	162,622
	-----	-----
Total liabilities and stockholders' equity	\$ 19,073,314	\$ 18,540,451
	=====	=====

See accompanying notes to the condensed financial statements

RETRACTABLE TECHNOLOGIES, INC.  
CONDENSED STATEMENTS OF OPERATIONS

	Three Months ended June 30, 2002	Three Months ended June 30, 2001	Six Months ended June 30, 2002
	-----	-----	-----
	(unaudited)	(unaudited)	(unaudited)
Sales, net	\$ 4,867,634	\$ 4,788,930	\$ 8,983,930
Cost of sales	3,856,649	3,149,316	6,530,149
Product recall and recovery	481,637	-	481,637

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Gross profit	529,348	1,639,614	1,972,2
Operating expenses:			
Sales and marketing	987,330	1,158,635	1,933,0
Research and development	71,071	179,131	164,5
General and administrative	885,948	1,175,867	1,999,2
Debt conversion expense	2,319,073	-	2,319,0
Total operating expenses	4,263,422	2,513,633	6,415,9
Loss from operations	(3,734,074)	(874,019)	(4,443,7
Interest income	1,888	9,060	4,7
Interest expense	(139,219)	(119,785)	(301,7
Net loss	(3,871,405)	(984,744)	(4,740,7
Preferred Stock dividend requirements	(498,434)	(517,997)	(977,1
Net loss applicable to common shareholders	\$ (4,369,839)	\$ (1,502,741)	\$ (5,717,8
Net loss per share (basic and diluted)	\$ (0.22)	\$ (0.08)	\$ (0.
Weighted average common shares outstanding	20,303,433	19,523,725	20,286,3

See accompanying notes to the condensed financial statements

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RETRACTABLE TECHNOLOGIES, INC.  
CONDENSED STATEMENTS OF CASH FLOWS

	Six Months ended June 30, 2002	Six Mo end June 30
	(unaudited)	(unaud
Cash flows from operating activities		
Net loss	\$ (4,740,706)	\$ (3,0
Adjustments to reconcile net loss to net cash provided by (used by) operating activities:		
Depreciation and amortization	726,797	5
Capitalized interest	(12,732)	(1
Waiver of vacation pay	(100,936)	
Debt conversion expense	2,319,073	
Changes in assets and liabilities		
(Increase) decrease in inventories	(8,183)	(1,8
(Increase) decrease in accounts and note receivable	(1,581,737)	8
(Increase) decrease in other current assets	(52,882)	(2
Increase (decrease) in accounts payable	1,685,198	8
Increase (decrease) in marketing fees payable	(187,352)	2
Increase (decrease) in other accrued liabilities	389,111	1,2

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Net cash used by operating activities	(1,564,349)	(1,6
Cash flows from investing activities		
Purchase of property, plant, and equipment	(57,052)	(5
Acquisition of patents, trademarks, licenses and intangibles	(2,372)	(
Net cash used by investing activities	(59,424)	(5
Cash flows from financing activities		
Repayments of long-term debt and notes payable	(301,899)	(2
Proceeds from exercise of stock options	-	
Stock subscriptions held in escrow	-	
Proceeds from sale of preferred stock	1,554,600	
Offering expense for Series V stock	(28,938)	
Net cash provided (used) by financing activities	1,223,763	(2
Net (decrease) increase in cash	(400,010)	(2,4
Cash and cash equivalents at:		
Beginning of period	1,220,244	3,7
End of period	\$ 820,234	\$ 1,2
Supplemental schedule of cash flow information:		
Interest paid	\$ 293,518	\$ 1
Supplemental schedule of noncash financing activities:		
Forgiveness of royalties by an officer	\$ 1,500,000	
Conversion of accounts payable into preferred stock	\$ 1,500,000	
Conversion of long-term debt into preferred stock	\$ 3,679,284	

See accompanying notes to the condensed financial statements

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RETRACTABLE TECHNOLOGIES, INC.  
NOTES TO CONDENSED FINANCIAL STATEMENTS  
(Unaudited)

1. BUSINESS OF THE COMPANY, BASIS OF PRESENTATION, AND RECENT DEVELOPMENTS

Business of the Company

Retractable Technologies, Inc. (the "Company") was incorporated in Texas on May 9, 1994, to design, develop, manufacture, and market safety syringes and other safety medical products for the healthcare profession. The Company began to develop its manufacturing operations in 1995. The Company's manufacturing and administrative facilities are located in Little Elm, Texas. The Company's primary products are the VanishPoint(R) syringe in 1cc, 3cc, 5cc, and 10cc sizes and blood collection tube holders. The Company has conducted clinical evaluations and worked with national distributors to encourage healthcare facilities to transition from the use of standard syringes to the VanishPoint(R) syringe. Preliminary shipments, which commenced in February 1997, included syringes for hospital product evaluations as well as for sale in clinics and other healthcare settings.

Basis of presentation

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The accompanying condensed financial statements are unaudited and, in the opinion of management, reflect all adjustments that are necessary for a fair presentation of the financial position and results of operations for the periods presented. All of such adjustments are of a normal and recurring nature. The results of operations for the periods presented are not necessarily indicative of the results to be expected for the entire year. The condensed financial statements should be read in conjunction with the financial statement disclosures contained in the Company's audited financial statements for the year ended December 31, 2001.

### Recent developments

In the second quarter of 2002, the Company entered into a contract with Double Dove, the leading syringe manufacturer in the People's Republic of China, to manufacture our syringes for worldwide distribution. Double Dove will supply the syringes at an average unit cost of \$0.085.

As of June 30, 2002, the Company recorded an expense of \$481,637 related to a recall and recovery of certain lots of its blood collection tube holders. The Company found that, in limited lots, upon testing, some blood collection tube holders retracted prior to activation. The premature retraction occurred during use as well as during shipping and handling. The Company has addressed the premature retraction through the manufacturing and design process.

### 2. LIQUIDITY

The Company has been successful in raising funds through private equity financing totaling approximately \$50 million over the last six and one-half years. However, the Company has incurred substantial losses and negative cash flows from operations in every fiscal period since inception. For the years ended December 31, 2001, 2000, and 1999, the Company incurred a loss from operations of approximately \$6.7 million, \$10.4 million, and \$8.2 million, respectively. For the six months ended June 30, 2002, the Company incurred a loss from operations of approximately \$4.4 million. For the years ended December 31, 2001, 2000, and 1999, the Company had negative cash flows from operating activities of approximately \$3.7 million, \$8.6 million, and \$6.8 million, respectively. For the six months ended June 30, 2002, the Company had negative cash flows from operating activities of \$1,564,349. As of June 30, 2002, and December 31, 2001 and 2000, the Company had accumulated deficits of approximately \$45.3 million, \$40.5 million, and \$33.3 million, respectively.

Management expects to reach a break-even operating point during the fourth quarter of 2002. The Company has a high concentration of sales with one significant customer. Assuming continued access to the market, the Company plans to devote significant resources to expansion of production capacity to meet current and future expected increases in sales activity. Failure to generate sufficient revenues or raise additional capital could have a material adverse effect on the Company's ability to continue as a going concern and to achieve its intended business objectives. In the event the Company cannot

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generate sufficient revenues or raise additional capital, management has committed to undertake actions to preserve liquidity, including, but not limited to, eliminating research and development expenditures, deferral of royalty payments to a Company officer, and salary reductions.

The Company obtained a loan agreement on November 12, 2001, whereby the lender purchased the real estate note from 1st International Bank and provided a

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construction loan of \$1 million to build a 15,000 square foot warehouse. Upon completion of the warehouse and assuming no defaults, the two loans would have been consolidated into a 20-year loan. Furthermore, the same lender provided a working capital loan of \$2.5 million secured by certain equipment. This loan was a five-year loan. The loans were guaranteed by Thomas J. Shaw and all indebtedness (approximately \$5 million if the \$1,000,000 loan had been drawn down on) would have been convertible into Common Stock of the Company at a rate of one share per \$7.00 of indebtedness.

Effective June 21, 2002 the \$2,500,000 working capital loan was converted into 625,000 shares of Series V Convertible Preferred Stock ("Series V Stock") and \$1,179,284 of the real estate note was converted into 294,821 shares of Series V Stock, leaving a principal balance of zero on the working capital loan and \$250,003 on the real estate note. Additionally, payments on the real estate note are interest only until maturity in February 2005. The remaining balance of the real estate note remained convertible into Common Stock under the terms of the original agreement. The Company also granted to the lender a stock option to purchase 100,000 shares of Common Stock. The commitment for the construction loan, which was never drawn on, was cancelled by mutual agreement.

As previously stated, the original loan agreement for these two loans included a provision to convert the loans into Common Stock of the Company at a rate of \$7.00 per share. The agreement was modified to be convertible into Series V Stock at \$4.00 per share. The remaining balance of the real estate note remained convertible into Common Stock under the terms of the original agreement. As a result of the modification and subsequent conversion of the loans to equity, the Company issued 919,821 shares of Series V Stock. Since the Series V Stock can be immediately convertible to Common Stock, the additional shares have been valued at the market price at the time of the conversion and recorded as debt conversion expense of \$1,821,246. The remaining debt conversion expense consists of \$440,000 for stock option expense issued in connection with the conversion and \$57,827 attributable to the write-off of unamortized debt expense. Both the expense of additional shares of stock issued and the stock option expense were increases to additional paid-in capital.

Additionally, the Company eliminated \$1,500,000 of accounts payable as of June 21, 2002, through the issuance of 375,000 shares of Series V Stock. Subsequent to June 30, 2002, the Company eliminated an additional \$50,000 in accounts payable through the issuance of 12,500 shares of Common Stock.

On January 18, 2002, Thomas J. Shaw and his wife, Suzanne M. August, forgave \$1,000,000 of the royalties payable under a licensing agreement. It was recorded in the first quarter of 2002 as a capital contribution. On June 21, 2002, Thomas J. Shaw and his wife, Suzanne M. August, forgave an additional \$500,000 of the royalties payable under the licensing agreement. It was recorded in the second quarter of 2002 as a capital contribution.

Subsequent to June 30, 2002, the Company raised \$431,000 in equity capital.

### 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### Accounting estimates

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

#### Cash and cash equivalents

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

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### Inventories

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

### 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 six months ended June 30, 2002 and 2001, the Company capitalized interest of \$12,732 and \$144,868, respectively. Gains or losses from property disposals are included in income.

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

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

### Long-lived assets

When events or changes in circumstances indicate that the carrying amount of long-lived assets may not be recoverable, the Company will review the net realizable value of the long-lived assets through an assessment of the estimated future cash flows related to such assets. In the event that assets are found to be carried at amounts which are in excess of estimated gross future cash flows, the assets will be adjusted for impairment to a level commensurate with a discounted cash flow analysis of the underlying assets.

### Reclassifications

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

### Intangible assets and deferred charges

Intangible assets are stated at cost and consist primarily of patents, a license agreement granting exclusive rights to use patented technology, and trademarks which are amortized using the straight-line method over 17 years. Other intangible assets consist of deferred charges for loan origination fees, which are amortized over the life of the debt.

### Financial instruments

The fair market value of financial instruments is determined by reference to various market data and other valuation techniques as appropriate. The Company believes that the fair value of financial instruments approximate their recorded values.



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### Concentrations of credit risk

The Company's financial instruments exposed to concentrations of credit risk consist primarily of cash, cash equivalents, and accounts receivable. Cash balances, which may exceed the federally insured limits, are maintained in financial institutions; however, management believes the institutions are of high credit quality. The majority of accounts receivable are due from companies which are well-established entities. As a consequence, management considers any exposure from concentrations of credit risks to be limited. The Company has a high concentration of sales with one significant customer. Sales to this customer were \$4,617,900 and \$5,734,850 for the six months ended June 30, 2002 and 2001, respectively.

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### Revenue recognition

Revenue is recognized for sales to distributors when title and risk of ownership passes to the distributor, generally upon shipment. Revenue is recorded on the basis of sales price to distributors. Revenues on sales to distributors are recorded net of contractual pricing allowances. Revenue for shipments directly to end-users is recognized when title and risk of ownership passes from the Company. Any product shipped or distributed for evaluation purposes is expensed.

### Marketing fees

The Company pays certain distributors marketing fees for services provided by distributors. These services include participation in promotional activities, development of educational and promotional materials, representation at trade shows, clinical demonstrations, inservicing and training, and tracking reports detailing the placement of the Company's products to end-users. Marketing fees are accrued at the time of the sale of product to the distributor. These fees are paid after the distributor provides the Company a tracking report of product sales to end-users. These costs are included in sales and marketing expense in the Statements of Operations.

### Income taxes

The Company provides for deferred income taxes in accordance with Statement of Financial Accounting Standard No. 109, "Accounting for Income Taxes" ("SFAS 109"). SFAS 109 requires an asset and liability approach for financial accounting and reporting for income taxes based on the tax effects of differences between the financial statement and tax bases of assets and liabilities, based on enacted rates expected to be in effect when such basis differences reverse in future periods. Deferred tax assets are periodically reviewed for reliability. Valuation allowances are recorded when realizability of deferred tax assets is not likely.

### Earnings per share

The Company has adopted Statement of Financial Accounting Standards No. 128, "Earnings Per Share," which establishes standards for computing and presenting earnings per share. Basic earnings per share is computed by dividing net earnings for the period (adjusted for any cumulative preferred dividends for the period) by the weighted average number of common shares outstanding during the period. The weighted average number of shares outstanding was 20,303,433 and 19,523,725 for the quarters ended June 30, 2002, and 2001, respectively. The weighted average number of common shares outstanding for the six months ended June 30, 2002, and 2001, were 20,286,350 and 19,444,788 respectively. The

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Company's potentially dilutive common stock equivalents, including warrants, options, and convertible debt, are all antidilutive as the Company is in a loss position. Accordingly, basic loss per share is equal to diluted loss per share and is presented on the same line for income statement presentation. Cumulative preferred dividends of \$498,434 and \$517,997 have been added to net losses for the quarters ended June 30, 2002, and 2001, respectively, to arrive at net loss per share. Cumulative preferred dividends for the six months ended June 30, 2002, and 2001, were \$977,163 and \$1,046,966 respectively.

### Research and development costs

Research and development costs are expensed as incurred.

### Stock-based compensation

The Company has adopted the disclosure only provisions of Statement of Financial Accounting Standards No. 123, "Accounting for Stock-Based Compensation" ("SFAS 123"), which establishes accounting and reporting standards for stock-based employee compensation plans. As permitted by SFAS 123, the Company has elected not to adopt the fair value based method of accounting for stock-based employees compensation and will account for such arrangements under Accounting Principles Board Opinion No. 25. Accordingly, compensation cost for stock options issued to directors, officers, and employees is measured as the excess, if any, of the fair market value of the Company's stock at the date of grant over the amount the director, officer, or employee must pay to acquire the stock. Employee expense is recognized ratably from the date of the grant over the vesting period of the option. The

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Company accounts for stock options issued to nonemployees in accordance with SFAS 123. Nonemployees' expense is recognized based upon the shorter of the contract period or vesting period as applicable.

### Recent pronouncements

On July 29, 2001, the Financial Accounting Standards Board ("FASB") issued a Statement of Financial Accounting Standards No. 141 "Business Combinations" ("FAS 141") and Statement 142 "Goodwill and Other Intangible Assets" ("FAS 142"). FAS 141 primarily addresses the accounting for the cost of an acquired business. FAS 142 primarily addresses the accounting for goodwill and intangible assets subsequent to their acquisition. FAS 141 is effective for all business combinations after June 30, 2001. FAS 142 is effective for fiscal years beginning after December 15, 2001.

On October 3, 2001, the FASB issued Statement No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets" ("FAS 144"). FAS 144 supercedes FAS 121 and provides guidance on the accounting for the impairment or disposal of long-lived assets. FAS 144 is effective for financial statements issued for fiscal years beginning after December 15, 2001.

In April 2002, the FASB issued Statement of Financial Accounting Standards No. 145 "Rescission of FASB Statements No. 4, 44, and 64, Amendment of FASB Statement No. 13, and Technical Corrections" ("FAS 145"). FAS 145 rescinds FASB Statement No. 4, "Reporting Gains and Losses from Extinguishment of Debt," and an amendment of that Statement, FASB Statement No. 64, "Extinguishments of Debt Made to Satisfy Sinking-Fund Requirements." FAS 145 also rescinds FASB Statement No. 44, "Accounting for Intangible Assets of Motor Carriers." FAS 145 amends FASB Statement No. 13, "Accounting for Leases," to eliminate an inconsistency between the required accounting for sale-leaseback transactions and the required

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accounting for certain lease modifications that have economic effects that are similar to sale-leaseback transactions. FAS 145 also amends other existing authoritative pronouncements to make various technical corrections, clarify meanings, or describe their applicability under changed conditions. Provisions of FAS 145 are generally effective for fiscal years beginning after, transactions occurring after, and financial statements issued after May 15, 2002, as specified in FAS 145.

We have adopted FAS 141, 142, 144, and 145 with no material impact to the financial statements.

### 4. INDEBTEDNESS

In February 2002, the Company renewed its note payable of \$500,000 to 1st International for a one-year term.

As of June 21, 2002, the Company entered into an agreement whereby \$3,679,284 of long-term debt was converted into 919,821 shares of Series V Stock and additional consideration of an option to purchase 100,000 shares of Common Stock at \$1 per share, exercisable immediately.

At June 30, 2002, the Company has classified the \$5,000,000 note payable to Abbott as long-term debt based on the stated maturity of the debt, as well as the Company's interpretation of certain definitional terms in the Credit Agreement. Abbott notified the Company on June 12, 2002, of its belief the Company was in default with certain debt to equity ratios in the Credit Agreement. On June 26, June 28, and July 1, 2002, Abbott demanded payment of the note payable. The Company disputes Abbott's interpretation of the language in the Credit Agreement and disputes Abbott's asserted defaults under the Credit Agreement. In any event, the Company believes its actions with regard to removal of long-term debt, conversion of accounts payable to equity, sales of Series V Class B Convertible Preferred Stock, and forgiveness of royalties by Mr. Shaw and his wife, have placed the Company in compliance, with Abbott's interpretation, within the remedy period. Abbott has been notified of these transactions and their effect on the debt to equity ratio and has since delivered funds that it was holding in connection with the Credit Agreement. The Company intends to continue its efforts to work with Abbott to resolve the dispute over the indebtedness covenant and default provisions and to clarify the definitions in the Credit Agreement.

There can be no assurance that we will be able to clarify the terms of the Credit Agreement or that Abbott will refrain from asserting its rights under the Credit Agreement, any of which would have a material adverse effect on our results of operations and financial condition.

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### 5. STOCKHOLDERS' EQUITY

The Company has authorized a total of 5,000,000 shares of its Class B Convertible Preferred Stock which have been allocated among Series I, II, III, IV, and V stock as of July 23, 2002, in the amounts of 259,400; 431,000; 155,745; 1,066,000; and 1,683,471 shares, respectively. Once preferred shares are converted, they return to the status of authorized and unissued shares of Class B Convertible Preferred Stock which are eligible for issuance under any series. However, at no time may the Company have more than 5,000,000 total shares of Class B Convertible Preferred Stock outstanding. As of July 23, 2002, the Company had issued 1,683,471 shares of Series V Class B Convertible Preferred Stock ("Series V Stock").

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Series V Stock ranks senior to the Company's Common Stock with respect to dividends and upon liquidation, dissolution, or winding up, but secondary to the Company's Class A Convertible Preferred Stock; and Series I through IV, Class B Convertible Preferred Stock. Holders of Series V Class B Stock will be entitled to receive a cumulative annual dividend of \$.32 per share, payable quarterly, if declared by the board of directors. Holders of Series V Stock generally have no voting rights.

Series V 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 accrued and unpaid dividends. Each share of Series V Stock may, at the option of the stockholder any time subsequent to issuance be converted into Common Stock at a rate of one share of Common Stock for each share of Series V Stock. In the event of voluntary or involuntary liquidation, dissolution or winding up of the Company, holders of Series V Stock then outstanding are entitled to receive liquidating distributions of \$4.40 per share, plus accrued and unpaid dividends.

### ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OR PLAN OF OPERATION

#### FORWARD-LOOKING STATEMENT WARNING

Certain statements included by reference in this Form 10-QSB containing the words "believes," "anticipates," "intends," "expects," and similar such words constitute forward-looking statements within the meaning of the Private Securities Litigation Reform Act. Any forward-looking statements involve known and unknown risks, uncertainties, and other factors that may cause actual results, performance, or achievements of the Company to be materially different from any future results, performance, or achievements expressed or implied by such forward-looking statements. Such factors include, among others, the impact of dramatic increases in demand, our ability to quickly increase our capacity in the event of a dramatic increase in demand, our ability to access the market, our ability to continue to finance research and development as well as operations and expansion of production through equity and debt financing, as well as sales, and the increased interest of larger market players in providing safety needle devices. Given these uncertainties, undue reliance should not be placed on forward-looking statements.

The following discussion contains trend information and other forward-looking statements that involve a number of risks and uncertainties. Our actual future results could differ materially from our historical results of operations and those discussed in the forward-looking statements. Variances have been rounded for ease of reading. All period references are to the periods ended June 30, 2002, or June 30, 2001.

#### Comparison of Three Months Ended June 30, 2002, and June 30, 2001

Net sales were \$4,867,634 and \$4,788,930 for the three months ended June 30, 2002 and 2001, respectively. The increase of \$78,704, was due to an increase in sales of 1cc and 3cc syringes of \$497,000 or 12.7 percent offset by a decrease in sales of 5cc and 10cc syringes of \$377,000 or 51.9 percent, and a decrease in sales of the blood collection tube holders of \$41,000 or 25.3 percent. Sales to Abbott as a percentage of units sold declined

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from 54.5 percent to 45.95 percent of total units sold. Sales to Abbott decreased about 15.3 percent whereas sales to other distributors increased 28.1 percent. No other distributor accounted for more than 10 percent of units sold.

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Cost of sales increased from \$3,149,316 in 2001 to \$3,856,649 in 2002, an increase of \$707,333 or 22.5 percent. Material costs increased \$666,000, somewhat offset by a decrease in direct labor of \$153,000 due to improved operating efficiencies. Depreciation increased \$50,000 due to the lcc assembly equipment. Royalty expense increased \$16,000 due to increased gross revenues. Cost saving measures such as reduction of overtime, production bonuses, and consulting, as well as reduced repairs and maintenance expense, accounted for the remaining improvements in costs.

As of June 30, 2002, the Company recorded an expense of \$481,637 related to a recall and recovery of certain lots of its blood collection tube holders. The Company found that, in limited lots, upon testing, some blood collection tube holders retracted prior to activation. The premature retraction occurred during use as well as during shipping and handling. The Company has addressed the premature retraction through the manufacturing and design process.

Gross margins decreased from \$1,639,614 in 2001 to \$529,348 in 2002, a decrease of \$1,110,266. Gross margin as a percentage of net sales were 32.4 percent and 10.8 percent for the three months ended June 30, 2001 and 2002, respectively.

Research and development costs decreased from \$179,131 in 2001 to \$71,071 in 2002, a reduction of \$108,060. The reduction is principally due to a decrease in labor costs of \$28,000 attributable to unfilled vacancies and transfer of some functions to manufacturing. Additional reductions include \$8,000 in experimental parts expense related to the lcc syringe and consulting costs of \$71,000.

Sales and marketing expense decreased from \$1,158,635 in 2001 to \$987,330 in 2002, a decrease of \$171,305 or 14.8 percent. \$62,000 of the decrease is principally due to marketing fees attributable to Abbott due to lower sales volumes to Abbott. Travel and entertainment declined \$45,000. Trade show expenses decreased \$23,000 and freight was down \$13,000.

General and administrative costs decreased from \$1,175,867 in 2001 to \$885,948 in 2002, a decrease of \$289,919 or 24.7 percent. Decreases in labor costs of \$92,000, accounting fees of \$32,000, gain of \$40,000 on the sale of equipment, and legal expenses of \$158,670 account for most of the decrease.

Debt conversion expense consists of \$1,821,246 for Series V Stock issued in excess of the original conversion term of the real estate note and working capital loan, \$440,000 for stock options issued in connection with the conversion, and \$57,827 of unamortized debt expenses. See Note 2, Liquidity, for a more detailed discussion.

Net interest expense increased \$26,606 principally due to higher loan balances.

Preferred stock dividend requirements were \$498,434 for 2002 compared to \$517,997 in 2001, a decrease of \$19,563. The decrease is due to reduction in the outstanding preferred stock as a result of conversion to common stock.

Net loss per share increased from \$0.08 per share in 2001 to \$0.22 per share in 2002, due principally to the \$0.11 per share of debt conversion expense and \$0.02 per share of product recall and recovery expense.

### Comparison of Six Months Ended June 30, 2002, and June 30, 2001

Net sales were \$8,983,997 and \$8,219,945 for the six months ended June 30, 2002, and 2001, respectively. The increase of \$764,052 was due to an increase in

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sales of 1cc and 3cc syringes of \$2,084,000 or 33.9 percent offset by a decrease in sales of 5cc and 10cc syringes of \$688,775 or 61.1 percent, and a decrease in sales of the blood collection tube holders of \$631,000 or 66.2 percent. Sales to Abbott as a percentage of units sold declined from 63.1 percent to 48.4 percent of total units sold. Sales to Abbott decreased about 19.5 percent whereas sales to other distributors increased 75.7 percent. No other distributor accounted for more than 10 percent of units sold.

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Cost of sales increased from \$6,001,848 in 2001 to \$6,530,118 in 2002, an increase of \$528,270 or 8.8 percent. Material costs increased \$333,000 and direct labor decreased \$337,000 due to improved operating efficiencies. Depreciation increased \$157,000 due to the 1cc assembly equipment. Royalty expense increased \$85,000 due to increased gross revenues. Cost saving measures such as reduction of overtime, production bonuses, and consulting, as well as reduced repairs and maintenance expense, accounted for the remaining improvements in costs.

As of June 30, 2002, the Company recorded an expense of \$481,637 related to a recall and recovery of certain lots of its blood collection tube holders. The Company found that, in limited lots, upon testing, some blood collection tube holders retracted prior to activation. The premature retraction occurred during use as well as during shipping and handling. The Company has addressed the premature retraction through the manufacturing and design process.

Gross margins decreased from \$2,218,097 in 2001 to \$1,972,242 in 2002, a decrease of \$245,855. Gross margin as a percentage of net sales were 27.0 percent and 22.0 percent for the six months ended June 30, 2001 and 2002, respectively.

Research and development costs decreased from \$524,186 in 2001 to \$164,572 in 2002, a reduction of \$359,614. The reduction is principally due to a decrease in labor costs of \$170,000 attributable to unfilled vacancies. Additional reductions include \$31,000 in experimental parts expense related to the 1cc syringe and consulting costs of \$128,000.

Sales and marketing expense decreased from \$2,400,532 in 2001 to \$1,933,093 in 2002, a decrease of \$467,439 or 19.5 percent. \$238,000 of the decrease is principally due to marketing fees attributable to Abbott due to lower sales volumes to Abbott. Travel and entertainment declined \$86,000. Trade show expenses decreased \$24,000 and freight was down \$17,000.

General and administrative costs decreased from \$2,188,186 in 2001 to \$1,999,227 in 2002, a decrease of \$188,959 or 8.6 percent. Labor costs decreased by \$153,000, accounting fees increased by \$57,000, and legal expenses increased by \$121,000. The Company had a gain of \$40,000 on the sale of equipment.

Net interest expense increased \$94,192 principally due to higher loan balances.

Preferred stock dividend requirements were \$977,163 for 2002 compared to \$1,046,966 in 2001, a decrease of \$69,803. The decrease is due to reduction in the outstanding preferred stock as a result of conversion to common stock.

Net loss per share increased from \$0.21 per share in 2001 to \$0.28 per share in 2002 due principally to \$0.11 per share of debt conversion expense and \$0.02 per share of product recall and recovery expense.

Cash flow from operations improved from a negative \$1,611,710 for the six

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months ended June 30, 2001, to a negative \$1,564,349 for the six months ended June 30, 2002, an improvement of \$47,361. The Company's net loss before depreciation, capitalized interest, waiver of vacation pay and debt conversion expense was reduced from \$2.729 million to \$1.809 million for the six months ended June 30, 2001 and June 30, 2002, respectively. This improvement of \$920,000 was augmented by positive variances of \$1.832 million in inventory. These positive variances were mitigated by increases in accounts receivable of \$1.582 million for the six months ended June 30, 2002 compared to a decrease of \$835,000 for the same period last year. Changes in other current assets and liabilities accounted for a negative \$288,000 variance. Cash used in investing activities decreased \$504,342 due to limited capital expenditures in the current period. Repayments of debt increased \$37,192 over the same period last year.

### SIGNIFICANT ACCOUNTING POLICIES

The Company considers the following to be its most significant accounting policies. Careful consideration and Company review are given to these and all accounting policies on a routine basis to ensure that they are accurately and consistently applied.

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#### Revenue Recognition

Revenue is recognized for sales to distributors when title and risk of ownership passes to the distributor, generally upon shipment. Revenue is recorded on the basis of sales price to distributors. Revenues on sales to distributors are recorded net of contractual pricing allowances. Revenue for shipments directly to end-users is recognized when title and risk of ownership passes from the Company. Any product shipped or distributed for evaluation purposes is expensed.

#### Marketing Fees

The Company pays its distributors marketing fees for services provided by distributors. These services include participation in promotional activities, development of educational and promotional materials, representation at trade shows, clinical demonstrations, inservicing and training, and tracking reports detailing the placement of the Company's products to end-users. Marketing fees are accrued at the time of the sale of product to the distributor. These fees are paid after the distributor provides the Company a tracking report of product sales to end-users. These costs are included in sales and marketing expense in the Statements of Operations.

#### Stock-Based Compensation

The Company has adopted the disclosure only provisions of Statement of Financial Accounting Standards No. 123, "Accounting for Stock-Based Compensation" ("FAS 123"), which establishes accounting and reporting standards for stock-based employee compensation plans. As permitted by FAS 123, the Company has elected not to adopt the fair value based method of accounting for stock-based employee compensation and will account for such arrangements under Accounting Principles Board Opinion No. 25. Accordingly, compensation cost for stock options issued to directors, officers, and employees is measured as the excess, if any, of the fair market value of the Company's stock at the date of grant over the amount the director, officer, or employee must pay to acquire the stock. Employee expense is recognized ratably from the date of grant over the vesting period of the option. The Company accounts for stock options issued to nonemployees in accordance with FAS 123. Nonemployee expense is recognized based upon the shorter of the contract period or vesting period, as applicable.

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### Recent Pronouncements

On July 29, 2001, the FASB issued a Statement of Financial Accounting Standards No. 141 "Business Combinations" ("FAS 141") and Statement 142 "Goodwill and Other Intangible Assets" ("FAS 142"). FAS 141 primarily addresses the accounting for the cost of an acquired business. FAS 142 primarily addresses the accounting for goodwill and intangible assets subsequent to their acquisition. FAS 141 is effective for all business combinations after June 30, 2001. FAS 142 is effective for fiscal years beginning after December 15, 2001.

On October 3, 2001, the FASB issued Statement No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets" ("FAS 144"). FAS 144 supercedes FAS 121 and provides guidance on the accounting for the impairment or disposal of long-lived assets. FAS 144 is effective for financial statements issued for fiscal years beginning after December 15, 2001.

In April 2002, the FASB issued Statement of Financial Accounting Standards No. 145 "Rescission of FASB Statements No. 4, 44, and 64, Amendment of FASB Statement No. 13, and Technical Corrections" ("FAS 145"). FAS 145 rescinds FASB Statement No. 4, "Reporting Gains and Losses from Extinguishment of Debt," and an amendment of that Statement, FASB Statement No. 64, "Extinguishments of Debt Made to Satisfy Sinking-Fund Requirements." FAS 145 also rescinds FASB Statement No. 44, "Accounting for Intangible Assets of Motor Carriers." FAS 145 amends FASB Statement No. 13, "Accounting for Leases," to eliminate an inconsistency between the required accounting for sale-leaseback transactions and the required accounting for certain lease modifications that have economic effects that are similar to sale-leaseback transactions. FAS 145 also amends other existing authoritative pronouncements to make various technical corrections, clarify meanings, or describe their applicability under changed conditions. Provisions of FAS 145 are generally effective for fiscal years beginning after, transactions occurring after, and financial statements issued after May 15, 2002, as specified in FAS 145.

We have adopted FAS 141, 142, 144 and 145 with no material impact to the financial statements.

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### OTHER FINANCIAL MATTERS

Our Company does not engage in off balance sheet financing through structured finance or special purpose entities or otherwise. Our Company furthermore does not engage in related party or other kinds of transactions on special terms other than those we have disclosed.

### LIQUIDITY AND FUTURE CAPITAL REQUIREMENTS

The Company intends to raise additional equity capital in 2002 of up to approximately \$12 million. The Company has raised \$7,164,884 in equity capital as of August 14, 2002 from the sale of Series V Stock. There can be no assurances that such efforts to raise equity capital will be successful. In the event we are not successful in raising capital and we continue to have only limited market access, the Company would take cost cutting measures to reduce cash requirements. Such measures could result in reduction of units being produced, reduction of workforce, reduction of salaries of officers and other nonhourly employees, and deferral of royalty payments to Thomas J. Shaw. Thomas J. Shaw and his wife, Suzanne M. August, did forego an additional \$500,000 in royalty payments in the second quarter of 2002.



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We anticipate strengthening our capital structure over the next four years by increasing capital through debt and equity offerings, improving profitability, and participating in joint ventures or licensing arrangements, where possible, to accelerate the manufacture and distribution of our products. We believe we can achieve a break-even quarter by the end of 2002 utilizing our existing equipment.

Provided we are able to access the markets, we anticipate producing products at a rate in excess of 43 million syringes and 1 million blood collection tube holders by the end of 2002. In the event we are unable to access the market, we will reduce production accordingly

We expect to fund future expansion through a combination of debt, equity offerings, and internally generated funds. Assuming we are able to access the markets, capital needs are expected to require an additional \$87 million over the next five years for expansion of production discussed in greater detail in "Material Commitments for Expenditures" below.

### Internal Sources of Liquidity and Anticipated Trends in Sales

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The increase in sales is primarily due to legislation mandating the use of effective safety needles. The legislation requires the use of safe needle devices to eliminate exposure to needlestick injuries. Employers must implement written exposure control plans and involve frontline healthcare workers in the selection of safe needle devices. In addition, the legislation requires employers to create and maintain sharps injury logs containing detailed information on the type, brand, and manufacturer of devices associated with such injuries. The National Institute for Occupational Safety and Health ("NIOSH") issued a safety alert calling on employers to adopt safer needles to reduce needlestick injuries. OSHA issued a Compliance Directive, which instructs OSHA inspectors to cite employers who fail to evaluate and buy safety needle devices. The Service Employees International Union ("SEIU") has taken a proactive stance with regard to promoting the use of automated retraction needle devices in member hospitals and by participating in federal and state legislation protests. Demand for safety products is increasing in the United States and internationally. The desire to mandate safety engineered solutions to protect healthcare workers heralds internationally. The European Union has accepted the issue of needlestick safety as their top issue for healthcare worker safety. Organized healthcare workers in the UK, France, Spain, Germany, and Italy are currently proposing changes to their respective national purchasing agencies to reflect a mandate for safety engineering controls for needlestick protection. Additionally, a working document for a European Directive on the issue has been completed. Our products have been implemented in clinics and hospitals in the UK, France, and other selected European countries and have been demonstrated throughout Europe at trade exhibitions and for selected distributors.

Sales increased 67.5 percent from 2000 to 2001. Abbott purchases comprised 52.9 percent and 47.2 percent of our unit sales in 2000 and 2001, respectively. Sales to Abbott increased 50.7 percent from 2000 to 2001. Abbott distributes and markets our products into the acute care market. Sales to Abbott as a percentage of units sold declined from 54.5 percent to 45.9 percent of total units sold for the three months ended June 30, 2001 and 2002, respectively. Sales to Abbott as a percentage of units sold declined from 63.1 percent to 48.4 percent of total units sold for the six months ended June 30, 2001 and 2002, respectively. Unit sales to Abbott for the six months ended June 30, 2002, and 2001, were 9,528,000 units and 11,869,000 units, respectively. Unit sales to others were approximately 10,157,000 and 6,934,000 for the six months ended June 30, 2002, and 2001, respectively. This represents an increase of 46.5%. Sales to Abbott decreased about 19.5 percent whereas sales to other distributors increased 75.7 percent. Sales to customers other than Abbott were 47.1 percent and 52.8 percent of sales in 2000 and 2001, respectively. Unit sales to others were approximately

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\$10,157,000 and \$6,934,000 for the six months ended June 30, 2002, and 2001, respectively. This represents an increase of 46.5%. Sales to others increased 89.4 percent from 2000 to 2001. Sales to others consist primarily of sales into the alternate care market. While the sales to Abbott are significant, recent inconsistencies in Abbott's marketing efforts and timing of orders have made it difficult to plan production requirements in an efficient and cost effective manner.

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On January 18, 2002, Thomas J. Shaw and his wife, Suzanne M. August, forgave \$1,000,000 of the royalties payable under a licensing agreement. It has been recorded in the first quarter of 2002 as a capital contribution. An additional \$500,000 was forgiven and recorded as a capital contribution in the second quarter of 2002.

### External Sources of Liquidity

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We have obtained several loans over the past six years, which have, together with proceeds from sales of equities, enabled us to pursue development and production of our products.

In July 1996, we obtained a United States Small Business Administration note payable to Texas Bank in the principal amount of \$1,000,000, which matures on July 1, 2003. The note is payable monthly at an annual interest rate of prime plus 1.5 percent adjustable quarterly. The loan is collateralized by manufacturing equipment and guaranteed by Thomas J. Shaw, our President and Chief Executive Officer, and Suzanne M. August, his wife. This loan is in good standing. We have agreed not to make any distribution upon our capital stock, purchase any of our capital stock, or merge without prior written consent. Such permission was obtained where necessary.

In April 1997, we obtained a loan from Legacy Bank of Texas (formerly Plano Bank & Trust) in the principal amount of \$710,000 at an interest rate of prime plus 1 percent (adjustable daily) for reimbursement for the purchase of equipment, which was scheduled to mature on July 10, 2004. The loan was collateralized by certain machinery and equipment, a certificate of deposit in the amount of \$200,000, and restrictions on the transfer of certain patents. This certificate of deposit was applied to the loan balance in 2000. The loan was (continuously and without limit) guaranteed by Thomas J. Shaw, the President and Chief Executive Officer. This loan was paid off in the third quarter of 2002.

In February 2000, we obtained two loans totaling \$2 million through 1st International Bank of Plano. The proceeds from these loans were used to pay off a prior loan and also for working capital purposes. One of the loans, representing \$1,500,000 of the \$2 million, is secured by a lien on the land, building, and building improvements and matures on February 18, 2005. The interest rate on this loan is prime plus 1 percent. As of November 12, 2001, this loan was purchased by Katie Petroleum, and all except for approximately \$250,003 of the balance outstanding on this loan was settled in exchange for a combination of Preferred Stock of the Company and an option for the purchase of 100,000 shares of Common Stock. Monthly payments are interest only until maturity. This loan further provides in the event dividend arrearages exist, the maturity date will be extended on a year to year basis. The remaining \$500,000 loan from 1st International Bank of Plano is secured by our accounts receivable and matured on February 18, 2002. This note was renewed for a one-year term in March 2002. The interest rate on this loan is the prime rate, as defined in The Wall Street Journal, plus 2 percent. Only interest is paid monthly. See Note 2,

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LIQUIDITY. Both loans are guaranteed by a continuing guaranty by Thomas J. Shaw, the President and Chief Executive Officer. The loans are in good standing.

On May 4, 2000, we entered into a National Marketing and Distribution Agreement with Abbott for an initial five-year term. Pursuant to the Abbott agreement, Abbott agreed to act as a nonexclusive marketer and distributor of our 1cc, 3cc, 5cc, and 10cc syringes, blood collection tube holders, and small tube adapters to acute care facilities in the United States. As part of the consideration for the Abbott agreement, Abbott agreed to make periodic loans to us prior to June 30, 2005, in increments of \$1,000,000 in an aggregate amount of up to \$5,000,000 at an interest rate of prime plus 1 percent with any and all amounts lent to be due and payable on June 30, 2005. Accounts receivable from Abbott and contracts where Abbott is the account debtor secure any loans made. Payments due to us from Abbott under the Abbott agreement and certain equipment already owned by us also serve as collateral for the loans granted by Abbott. We have borrowed \$5 million under the Abbott agreement. Certain disputes have arisen between us and Abbott in connection with the Credit Agreement, which are described below. Pursuant to the Abbott agreement, we gave Abbott the right, at its option, to convert any and all principal amounts owed into Common Stock at a price of \$10 per share. Abbott also holds registration rights with respect to the shares of Common Stock issued upon conversion of any principal amount of the loan. As part of the consideration paid to us

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under the Abbott agreement, Abbott purchased \$5 million of Series IV Stock under the same terms and conditions as all other investors in the Series IV Stock offering. At December 31, 2001, and June 30, 2002, the Company has classified the note payable to Abbott as long-term debt based on the stated maturity of the debt, as well as the Company's interpretation of certain definitional terms in the Credit Agreement. Abbott notified the Company on June 12, 2002, of its belief the Company was in default with a certain debt to equity ratio in the Credit Agreement. On June 26, June 28, and July 1, 2002, Abbott demanded payment of the note payable. The Company disputes Abbott's interpretation of the language in the Credit Agreement and disputes Abbott's asserted defaults under the Credit Agreement. In any event, the Company believes its actions with regard to removal of long-term debt, conversion of accounts payable to equity, sales of Series V Convertible Preferred Stock, and forgiveness of royalties by Mr. Shaw and his wife, have placed the Company in compliance, with Abbott's interpretation, within the remedy period. Abbott has been notified of these transactions and their effect on the debt to equity ratio and has since delivered funds that it was holding in connection with the Credit Agreement. The Company intends to continue its efforts to work with Abbott to resolve the dispute over the indebtedness covenant and default provisions and to clarify the definitions in the Credit Agreement. This loan is otherwise in good standing. There can be no assurance that we will be able to clarify the terms of the Credit Agreement or that Abbott will refrain from asserting its rights under the Credit Agreement, any of which would have a material adverse effect on our results of operations and financial condition. See Note 4, INDEBTEDNESS.

We obtained \$11,338,000 in 2000 from the sale of our Series IV Stock, including the shares purchased by Abbott.

On November 12, 2001, we entered into a Loan Agreement (the "Loan Agreement") with Katie Petroleum whereby Katie Petroleum agreed to: (1) purchase our promissory note dated February 18, 2000, with an original principal amount of \$1,500,000 from 1st International Bank of Plano (the "FIB Note") (the FIB Note had an unpaid principal balance of \$1,429,287); (2) loan us a principal amount of \$2,500,000, to be used by us as working capital in our manufacturing business (the "Working Capital Loan") (during the first year of the Working

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Capital Loan only interest was payable; the principal and interest on the Working Capital Loan were payable quarterly thereafter and it was scheduled to mature on November 12, 2006; the Working Capital Loan was secured by certain manufacturing machinery and equipment relating to the production of the lcc syringe); and (3) loan us an additional principal amount of \$1,000,000 under a construction loan for the purpose of building a warehouse facility (the "Construction Loan"). There were no borrowings under the \$1,000,000 Construction Loan. The loans were also guaranteed by Thomas J. Shaw, the President and Chief Executive Officer. The Loan Agreement contains a conversion feature which allows Katie Petroleum, at its option, to exchange all or any part of the indebtedness covered by the Loan Agreement into our authorized Common Stock. The exchange ratio is set at one share of our Common Stock for each \$7.00 of indebtedness exchanged by Katie Petroleum. The interest rate on the Working Capital Loan was the prime rate, as defined in the Wall Street Journal, plus one percent.

Effective as of June 21, 2002, the Loan Agreement was modified by the execution of a First Amendment to Loan Agreement and Loan Documents and a Note Modification Agreement (the "Amended Loan Documents") as well as a Securities Purchase Agreement effective June 21, 2002. Under the Amended Loan Documents, Katie Petroleum agreed to the settlement and cancellation of the entire \$2,500,000 Working Capital Loan and partial settlement and cancellation of \$1,179,284 of the outstanding amount payable on the FIB Note in exchange for the issuance of 919,821 shares of Series V Stock of the Company and an option for the purchase of 100,000 shares of Common Stock at a price of \$1 per share. The terms of the FIB Note were modified by the Amended Loan Documents to provide for monthly payments of accrued interest and a February 18, 2005, maturity date. This loan further provides in the event dividend arrearages exist, the maturity date will be extended on a year to year basis. The Amended Loan Documents also terminate Katie Petroleum's commitment to make the \$1,000,000 Construction Loan (which was never drawn down upon). As a result of the agreement, the remaining aggregate amount of indebtedness outstanding and convertible by Katie Petroleum under the original Loan Agreement is \$250,003.

Effective as of June 21, 2002, the Company eliminated \$1,500,000 of accounts payable through the sale of 375,000 shares of Series V Stock. Subsequent to June 30, 2002, the Company eliminated an additional \$50,000 in accounts payable through the issuance of 12,500 shares of Common Stock.

We have raised \$7,164,884 in equity capital of August 14, 2002, by the sale of Series V Stock.

Contractual Obligations and Commercial Commitments

The following chart summarizes all of our material obligations and commitments to make future payments under contracts such as debt and lease agreements as of June 30, 2002:

Payments Due by Period

January 1, 2003, January

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Contractual Obligations	Total	By December 31, 2002	through December 31, 2005	2006, thro December 2007
Long-Term Debt	\$5,955,281	\$102,789	\$5,852,492	\$ 0
Capital Lease Obligations	\$ 328,990	100,151	222,703	6,136
Total Contractual Cash Obligations	\$6,284,271	\$202,940	\$6,075,195	\$6,136

### Material Commitments for Expenditures

We obtained \$18 million in a combination of debt and equity financing in 2000. We obtained a \$5 million Loan Agreement from Katie Petroleum in 2001 which provided, among other things, \$2.5 million in working capital. As of August 14, 2002, we have raised approximately \$7,164,884 in equity capital through the sale of equities. We anticipate no material capital expenditures in 2002. Future expenditures will depend on our ability to penetrate the market and raise capital.

Subject to our ability to penetrate the market and raise capital, we anticipate capital expenditures in the amount of \$87 million over the next five years for the purpose of expanding capacity by adding equipment and additional space (for 14 assembly lines for syringe production and 5 lines for blood collection tube holder production), expanding the current building by an additional 60,000 square feet, constructing a 15,000 square foot warehouse, and constructing another facility for additional assembly, equipment, and warehousing needs in order to meet our target production of syringes and blood collection tube holders. We need this capital to fund equipment and facilities expansion for additional 1cc, 3cc, and blood collection tube holders, as well as equipment to manufacture 5cc and 10cc syringes. The equipment will include machinery for assembly, packaging, and molds. This production target equates to our obtaining 6 percent of the United States' prior estimated 6.6 billion-unit syringe annual market and less than 1 percent of the world's prior estimate 24 billion-unit annual syringe market.

### PLAN OF OPERATION ASSUMING LIMITED ACCESS TO MARKETS

At the present time the Company intends to raise additional equity capital up to approximately \$12 million in 2002. The Company has raised \$7,164,884 of equity capital as of August 14, 2002. This included \$1,935,600 in cash, \$3,679,284 in exchange for long-term debt, and \$1,550,000 for exchange of accounts payable. In the event we are not successful in raising capital and we continue to have only limited market access, the Company would take cost cutting measures to reduce cash requirements. Such measures could result in reduction of units being produced, reduction of workforce, and reduction of salaries of officers and other nonhourly employees and deferral of royalty payments to Thomas J. Shaw. Thomas J. Shaw and his wife, Suzanne M. August, also forgave \$500,000 in royalties during the second quarter of 2002.

## PART II OTHER INFORMATION

### ITEM 1. LEGAL PROCEEDINGS

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On January 29, 2001, we filed a lawsuit in the United States District Court for the Eastern District of Texas, Texarkana Division styled Retractable Technologies, Inc. v. Becton Dickinson & Company, Tyco International (U.S.), Inc., Tyco Healthcare Group, L.P., Novation, L.L.C., VHA, Inc., Premier, Inc., and Premier Purchasing Partners, L.P. Cause No. 501CV036. We allege violations of state and federal antitrust acts, tortious interference with prospective business relationships, business disparagement, and common law conspiracy. We are seeking the following damages: an injunction enjoining each defendant from continuing the unlawful conduct alleged and from entering into any other combination, conspiracy, or agreement having similar purposes or effect and for actual damages, punitive damages, treble damages, costs of suit including reasonable attorneys' fees, pre-judgment and post-judgment interest at the maximum possible rate, and such other relief as we may be entitled. The federal court case is currently scheduled for a January 7, 2003, trial. We are still assessing the true extent of damages actually incurred by us as a result of the defendants' monopolistic activities. We are in the process of researching such damage amounts and cannot state them with certainty at this time.

We are not a party to any other material legal proceeding.

### ITEM 2. CHANGES IN SECURITIES AND USE OF PROCEEDS

The Company is obligated, under a loan made by Texas Bank, not to make any distribution upon our capital stock, purchase any of our capital stock, or merge without prior written consent. Such permission was obtained where necessary.

On June 21, 2002, the authorized number of shares of Series V Stock of the Company was increased by resolution of the Board of Directors to not more than 3,097,855 shares. Holders of existing shares of Class A and Class B convertible preferred shares are not affected by the authorization of this additional series of Class B stock as all shares of this series are subordinate to the Class A and Series I through IV Class B convertible preferred stock.

On June 21, 2002, we sold 919,821 shares of Series V Stock and a non-qualified option for the purchase of 100,000 shares of Common Stock of the Company at an exercise price of \$1 per share to Katie Petroleum in exchange for the settlement and cancellation of debt in the amount of \$3,679,284 pursuant to Regulation D under the Securities Act of 1933, as amended. The option is exercisable immediately.

In 2002, we sold 387,500 shares of Series V Stock pursuant to Regulation D under the Securities Act of 1933, as amended, to accredited investor vendors of the Company in exchange for the cancellation and settlement of \$1,550,000 in accounts payable amounts owed by the Company at a rate of \$4.00 in value of accounts payable amounts due per share.

As of August 14, 2002, we sold 1,791,221 shares of Series V Class B Stock at \$4.00 per share to 18 accredited investors and 6 nonaccredited investors pursuant to Regulation D under the Securities Act of 1933, as amended, for an aggregate amount of \$1,935,600 in cash. We did not pay any commissions on these sales.

### ITEM 3. DEFAULTS UPON SENIOR SECURITIES

Abbott notified the Company on June 12, 2002, of its belief the Company was in default with a certain debt to equity ratio in the Credit Agreement. On June 26, June 28, and July 1, 2002, Abbott demanded payment of the note payable. The Company disputes Abbott's interpretation of the language in the Credit Agreement and disputes Abbott's asserted defaults under the Credit Agreement. In any event, the Company believes its actions with regard to removal of long-term debt, conversion of accounts payable to equity, sales of Series V Stock, and

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forgiveness of royalties by Mr. Shaw and his wife, have placed the Company in compliance, with Abbott's interpretation, within the remedy period. Abbott has been notified of these transactions and their effect on the debt to equity ratio and has since delivered funds that it was holding in connection with the Credit Agreement. The Company intends to continue its efforts to work with Abbott to resolve the dispute over the indebtedness covenant and default provisions and to clarify the definitions in the Credit Agreement.

There can be no assurance that we will be able to clarify the terms of the Credit Agreement or that Abbott will refrain from asserting its rights under the Credit Agreement, any of which would have a material adverse effect on our results of operations and financial condition.

Series A Convertible Preferred Stock

As of the date of this filing, \$339,825 in dividends is in arrears.

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Series I Class B Convertible Preferred Stock

As of the date of this filing, \$2,370,318 in dividends is in arrears.

Series II Class B Convertible Preferred Stock

As of the date of this filing, \$3,847,003 in dividends is in arrears.

Series III Class B Convertible Preferred Stock

As of the date of this filing, \$2,215,718 in dividends is in arrears.

Series IV Class B Convertible Preferred Stock

As of the date of this filing, \$2,333,498 in dividends is in arrears.

### ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

#### (a) EXHIBITS

Exhibit No.	Description of Document
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3.1	Statement of Increase in Authorized Shares of Series V Class B Convertible Preferred Stock of Retractable Technologies, Inc. filed June 21, 2002
4.1	Sample Series V Class B Convertible Preferred Stock Certificate
10.1	Royalty Waiver Agreement entered into among Retractable Technologies, Inc., Thomas J. Shaw, and Suzanne M. August effective as of June 21, 2002
99	Certification of Chief Executive Officer and Chief Financial Officer Pursuant to 18 U.S.C. 1350

#### (b) Reports on Form 8-K

On April 4, 2002, we filed a Form 8-K with an item 5 disclosure that we issued a press release entitled "Retractable Technologies, Inc. Announces Significant Revenue Increase for 2001."

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On April 11, 2002, we filed a Form 8-K with an item 5 disclosure that we issued a press release entitled "Retractable Technologies, Inc. Hires Halliburton Investor Relations to Implement Strategic Financial Communications Program."

On April 19, 2002, we filed a Form 8-K with an item 5 disclosure that we issued a press release entitled "Investrend Research Announces Investment Opinion: Retractable Technologies `Strong Buy,' \$11.00 12 Mo Target Issued by Investrend Analyst Justin Canivet, CFA."

On May 1, 2002, we filed a Form 8-K with an item 5 disclosure that we issued a press release entitled "Retractable Technologies' CEO Thomas J. Shaw Applauds Senate Anti-Trust Hearing On Hospital Purchasing Cartels Urges Panel to `Restore Free Market Competition to the Healthcare Industry'."

On May 10, 2002, we filed a Form 8-K with an item 5 disclosure that we issued a press release entitled "Retractable Technologies, Inc. Announces Twenty Percent Revenue Increase for Three Months Ended March 31, 2002."

On May 23, 2002, we filed a Form 8-K with an item 5 disclosure that we issued a press release entitled "Centers for Disease Control Selects VanishPoint(R) Safety Needle Devices for Anthrax Vaccine Study."

On May 31, 2002, we filed a Form 8-K with an item 9 disclosure that we issued a letter to shareholders on May 31, 2002.

On June 25, 2002, we filed a Form 8-K with an item 5 disclosure that we issued a press release entitled "Retractable Technologies Signs Agreement to Produce VanishPoint Safety Syringes in China for Global Market."

On June 28, 2002, we filed a Form 8-K with an item 4 disclosure that we changed our certifying accountant.

### SIGNATURES

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

DATE: August 14, 2002

RETRACTABLE TECHNOLOGIES, INC.  
(Registrant)

BY: /s/ DOUGLAS W. COWAN

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DOUGLAS W. COWAN  
CHIEF FINANCIAL OFFICER