RETRACTABLE TECHNOLOGIES INC
Form 10-K
March 31, 2015
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

(Mark One)

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

For the fiscal year ended December 31, 2014

or

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

For the transition period from to

Commission file number 001-16465

Retractable Technologies, Inc.

(Exact name of registrant as specified in its charter)

Texas	**75-2599762**
(State or other jurisdiction of incorporation or organization)	(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

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

Title of each class	**Name of each exchange on which registered**
Common	NYSE MKT LLC

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

Preferred Stock

(Title of class)

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

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

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 x No o

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 x No o

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

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 o	Accelerated filer o
Non-accelerated filer o (Do not check if a smaller reporting company)	Smaller reporting company x

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

State the aggregate market value of the voting and non-voting common equity held by non-affiliates computed by reference to the price at which the common equity was last sold, or the average bid and asked price of such common equity, as of the last business day of the registrant s most recently completed second fiscal quarter. The aggregate market value of the common equity held by non-affiliates as of June 30, 2014 was $34,844,270, assuming a closing price of $2.50 and outstanding shares held by non-affiliates of 13,937,708.

APPLICABLE ONLY TO REGISTRANTS INVOLVED IN BANKRUPTCY

PROCEEDINGS DURING THE PRECEDING FIVE YEARS:

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

(APPLICABLE ONLY TO CORPORATE REGISTRANTS)

Indicate the number of shares outstanding of each of the registrant s classes of common stock, as of the latest practicable date. As of March 2, 2015, there were 27,695,600 shares of our Common Stock outstanding, excluding treasury shares.

DOCUMENTS INCORPORATED BY REFERENCE

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

None except exhibits.

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FORM 10-K

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PART I

FORWARD-LOOKING STATEMENT WARNING

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

Item 1. Business.

DESCRIPTION OF BUSINESS

General Development of Business

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

We have designed, developed, and currently market the VanishPoint® and PatientSafe® products. The VanishPoint® products are designed specifically to prevent needlestick injuries and to prevent reuse. The patented designs permit the automated retraction of the needle directly from the patient after completion of the procedure.

Our VanishPoint® safety products currently consist of tuberculin, insulin, and allergy antigen VanishPoint® syringes; 2mL, 3mL, 5mL, and 10mL VanishPoint® syringes; and the VanishPoint® autodisable syringe.

We also sell the VanishPoint® IV catheter; the VanishPoint® blood collection tube holder; and the VanishPoint® blood collection set.

The PatientSafe® syringe embodies a unique patented design and protects patients by reducing the risk of bloodstream infections resulting from catheter hub contamination. Our PatientSafe® syringe products currently consist of 3mL, 5mL, 10mL, 20mL, 30mL, 60mL PatientSafe® syringes and the PatientSafe® Luer cap.

On June 17, 2014, we received notice of substantial equivalence from the Food and Drug Administration for the EasyPoint needle. The EasyPoint is a retractable needle that can be used with Luer lock syringes, Luer slip syringes, and prefill syringes to give injections. The EasyPoint needle can also be used to aspirate fluids and obtain blood collection.

We currently have under development additional safety products that add to or build upon or current product line offering. These products include: retractable needles and syringes, glass syringes, dental syringes, IV catheter introducers, and blood collection sets.

Our products have been and continue to be distributed nationally through numerous distributors. However, we have been blocked from access to the market by the marketing practices engaged in by Becton, Dickinson and Company (BD) which dominates our market. We initiated a lawsuit in 2007 against BD. Currently, this extended litigation is in various post-trial and appellate stages as further described below. The most significant development

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to date is that a final judgment for $352 million plus prejudgment and post-judgment interest as well as some injunctive relief has been granted by the District Court. BD has appealed the injunction portion of the case and the monetary award is still the subject of post-trial motions at the District Court. BD s post-trial motion argues against the District Court s award of prejudgment interest. We have not received any of the amounts indicated by the District Court in its final judgment. BD is currently under court order to make certain disclosure regarding its exclusionary conduct to a specified class of distributors and customers. An earlier portion of the same case dealt with patent infringement charges against BD. In that portion of the case, the Federal Circuit determined that BD s 1mL Integra syringe violated our patents but that BD s 3mL Integra did not infringe our patents. The District Court had awarded us $5 million plus prejudgment and post-judgment interest based on the finding of infringement by the jury. BD filed a post-judgment Rule 60(b) motion contesting the amount of the judgment based on the partial reversal on appeal. The District Court denied BD s motion and the Federal Circuit affirmed that denial on July 7, 2014. On September 30, 2013, we received payment of $7,724,826 (the Judgment Amount) from BD pursuant to a stipulation. The Judgment Amount is included as cash on the balance sheet and shown as a liability on the balance sheet under Litigation proceeds subject to stipulation . The current status of this patent portion of the case is that BD has filed a petition for certiorari with the United States Supreme Court regarding its Rule 60(b) motion and we filed a response to that petition on March 12, 2015. It is expected that the Supreme Court will decide whether to accept or deny BD s petition sometime in the second quarter of this year, although that could be extended because the Supreme Court maintains its own calendar.

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

Section 4191 of the Internal Revenue Code, enacted by the Health Care and Education Reconciliation Act of 2010 in conjunction with the Patient Protection and Affordable Care Act (PPACA), provides for an excise tax of 2.3% on medical devices. At the present time the excise tax is applicable to domestic sales of our products, except those sold to exempt organizations. The majority of our sales are domestic and not in the retail market. The tax is imposed on sales, not profits. The impact of this tax was $856,000 in 2014 and $758,000 in 2013, and is net of expected refunds attributable to rebate credits.

In 2014, we took steps to decrease our non-litigation legal costs. We expect such costs to remain lower in the future. Our non-litigation legal costs were reduced by approximately $1.1 million. Additionally, effective May 9, 2014, we reduced our workforce by 13.7% in an effort to cut costs. The combined effect of both of these cost-cutting measures was approximately $1.5 million in 2014.

Financial Information

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

Principal Products

Our products with Notice of Substantial Equivalence to the U.S. Food and Drug Administration (FDA) and which are currently sold include the 1mL tuberculin; insulin syringes; allergy antigen VanishPoint® syringes; 2mL, 3mL, 5mL, and 10mL VanishPoint® syringes; the VanishPoint® blood collection tube holder; the VanishPoint® IV safety catheter; small diameter tube adapter; the allergy tray; the Patient Safe® syringes; the Patient Safe® Luer Cap; and the VanishPoint® Blood Collection Set. We are also selling VanishPoint® autodisable

syringes in the international market in addition to our other products.

Syringe sales comprised 99.1%, 98.6%, and 97.3% of revenues in 2012, 2013, and 2014, respectively.

Principal Markets

Our products are sold to and used by healthcare providers primarily in the U.S. (with 19.9% of revenues in 2014 generated from sales outside the U.S.) which include, but are not limited to, acute care hospitals, alternate care facilities, doctors offices, clinics, emergency centers, surgical centers, long-term care facilities, Veterans Administration facilities, military organizations, public health facilities, and prisons.

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

Methods of Marketing and Distribution

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

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

In the needle and syringe market, the market share leader, BD, has utilized, among other things, product disparagement, patent infringement, false advertising, and other deceptive conduct which have restricted the entry of VanishPoint® syringes into the market. Other products manufactured by us that are being denied market access as a result of BD s anticompetitive actions include the IV safety catheters and Patient Safe® syringes.

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

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

venture agreements for the manufacture and distribution of safety products in the U.S. and abroad; (h) introduce new products; and (i) increase international sales.

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Status of Publicly Announced New Products

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

On June 17, 2014, we received notice of substantial equivalence from the Food and Drug Administration for the EasyPoint needle. The EasyPoint is a retractable needle that can be used with Luer lock syringes, Luer slip syringes, and prefill syringes to give injections. The EasyPoint needle can also be used to aspirate fluids and obtain blood collection.

Sources and Availability of Raw Materials

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

Patents, Trademarks, Licenses, and Proprietary Rights

Soon after the Company was formed in May 1994, in recognition of the preexisting technology, intellectual property rights, products, inventive knowhow and ongoing research and development projects (the Core Technology) that were brought into the Company by Thomas J. Shaw as its founder and CEO, the Company and Mr. Shaw entered into a Technology License Agreement dated June 23, 1995, which was subsequently amended July 3, 2008, and again to its present form September 7, 2012.

The Technology License Agreement encompasses the Core Technology, all technology and knowhow arising out of the Core Technology that has been developed since its inception, all related future improvements, and all the related domestic and foreign patent rights in which Mr. Shaw is named as an inventor. The knowhow component is broadly defined to include both technical and valuable proprietary business information. Under the Technology License Agreement, Mr. Shaw has granted the Company an exclusive worldwide license in inventions to manufacture, market, sell and distribute the licensed technology and improvements that perform the same function in a better or more economical way. The Company has the right to grant sublicenses and assign the Technology License Agreement subject to Mr. Shaw s approval. The term of the Technology License Agreement is coextensive with the life of the patent rights that are subject to it.

In return for the rights granted, the Company paid Mr. Shaw an initial licensing fee and pays a continuing 5% royalty on gross sales, as well as the costs of obtaining and maintaining the patents subject to the license. The Company has reserved the right to control patent prosecution and the right not to pursue or maintain any patent or patent application, in which case the rights in any non-elected technology can revert to Mr. Shaw and be excluded from the license. The Technology License Agreement also acknowledges a march-in right held by the U.S. government as a result of federal funding that was provided under Small Business Innovation Research grants made during the early development of what later became the Company s VanishPoint® product line.

We hold exclusive rights under numerous domestic and foreign patents and have applications pending related to the technology we currently market, as well as technology that is in development. These include patents and applications that are related to retractable syringes, interchangeable needle syringes, needleless syringes, retractable needles, retractable dental syringes, glass syringes with retractable needles, retractable fluid collection devices, blood draw devices with retractable needles, fluid flow control device with retractable cannula, blood collection sets, IV catheters, and self-retracting catheter introducers. These patent properties have varying remaining terms and expiration dates. While patents covering some features of our syringes with retractable needles will expire in 2015 and 2016, we have other patents with later expiration dates that will continue to provide patent coverage for our VanishPoint® syringes and other commercial products. These patent properties, coupled with the technical knowhow that is embodied in but not readily apparent from our commercial products, should offer continuing protection against unauthorized copying of our VanishPoint® syringes beyond 2016.

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

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

Seasonality

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

Working Capital Practices

Cash and cash equivalents include unrestricted cash, restricted cash, the proceeds subject to a stipulation, money market accounts, and investments with original maturities of three months or less. Restricted cash consists of a demand deposit used to collateralize a Letter of Credit issued by us for the purchase of manufacturing equipment.

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

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

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

Accounts payable and other short-term liabilities include amounts that we believe we have an obligation for at the end of year. These included charges for goods or services received in 2014 but not billed to us at the end of the year. It also included estimates of potential liabilities such as rebates and other fees.

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

Our domestic return policy also generally provides that a customer may return product that is overstocked. Overstocking returns are limited to two times in each 12 month period up to 1% of distributor s total purchase of products for the prior 12 month period upon the following terms: i) an overstocked product is that portion of distributor s inventory of the product which exceeds distributor s sales volume for the product during the preceding four months; ii) distributor must not have taken delivery of the product which is overstocked during the preceding four months; iii) overstocked product held by distributor in excess of 12 months from the date of original invoice will not be eligible for return; iv) the product must have an expiration date of at least 24 months from the date of return; v) the overstocked product must be returned to us in our saleable case cartons which are unopened and untampered, with no broken or re-taped seals; vi) distributor will be granted a credit which may be used only to purchase other products from us, the credit to be in the amount of the invoice price of the returned product less a

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10% restocking fee which will be assessed against distributor s subsequent purchase of product; vii) distributor must obtain an authorization code from our distribution department and affix the code to the returned product; and viii) distributor shall bear the cost of shipping the returned products to us. All product overstocks and returns are subject to inspection and acceptance by us.

Our international contracts generally do not provide for any returns.

Dependence on Major Customers

Three customers accounted for an aggregate of 47.9% of our revenue in 2014. We have numerous other customers and distributors that sell our products in the U.S. and internationally.

Backlog Orders

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

Government Funding of Research and Right to License

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

Government Approval and Government Regulations

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

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

Competitive Conditions

Our products are sold to and used by healthcare providers primarily in the U.S. (with 19.9% of revenues in 2014 generated from sales outside the U.S.) which include, but are not limited to, acute care hospitals, alternate care facilities, doctors offices, clinics, emergency centers, surgical centers, long-term care facilities, Veterans Administration facilities, military organizations, public health facilities, and prisons.

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

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

Founded in 1897, BD is headquartered in New Jersey. BD s safety-engineered device sales accounted for approximately 26.2% of BD s total 2014 sales. BD s classification of safety-engineered devices include the SafetyLok syringe, which features a tubular plastic sheath that must be manually slid over the needle after removal from the patient, and the SafetyGlide hypodermic needle which utilizes a manually activated hinged lever

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to cover the needle tip after removal from the patient. BD markets the SafetyGlide blood collection set that has a manually activated cover designed to extend over the needle after use. The BD Eclipse safety blood collection needle and hypodermic needle is also designed to manually cover the needle after removal from the patient. BD manufactures the Integra 3mL retracting needle and syringe product, as well as a spring activated Vacutainer® Passive Shielding Blood Collection Needle and spring activated retracting Vacutainer® blood collection set. BD s Vacutainer® brand name is commonly used as industry jargon to refer to blood collection products in general.

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

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

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

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

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

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

Litigation could also provide more access to the market. For example, if upheld on appeal, the injunctive relief we obtained in litigation means that BD would have to notify end use customers such as nurses, hospitals, clinics, and nursing homes that it had misrepresented information about our products and its own products with regard to sharpness and medication waste and that such statements were false and misleading, and, in part, based on false and inaccurate measurements of the VanishPoint® products. BD has already taken some measures to advise its employees, distributors, and GPOs of its actions in accordance with injunctive provisions that were not stayed pending appeal.

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

Research and Development

We spent $871,851; $837,073; and $616,784 in 2012, 2013, and 2014, respectively, on research and development. Costs in 2014 were primarily for compensation and related benefits, along with engineering samples and testing. Our ongoing research and development activities are performed by an internal research and development staff and includes developing process improvements for current and future automated machines. Our limited access to the market has slowed the introduction of products.

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

Environmental Compliance

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

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

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

Employees

As of March 2, 2015, we had 132 employees. 130 of such employees were full time employees.

Financial Information About Geographic Areas

We have minimal long-lived assets in foreign countries. Shipments to international customers generally require a prepayment either by wire transfer or an irrevocable confirmed letter of credit. We do extend credit to international customers on some occasions depending upon certain criteria, including, but not limited to, the credit worthiness of the customer, the stability of the country, banking restrictions, and the size of the order. All transactions are in U.S. currency. If customers designate a specific destination for its order, we attribute sales to countries based on the destination of shipment.

	2014	2013	2012
U.S. sales	$ 27,649,974	$ 24,843,200	$ 25,363,814
North and South America sales (excluding U.S.)	5,651,426	4,453,151	4,668,550
Other international sales	1,219,230	1,488,776	3,612,139
Total sales	$ 34,520,630	$ 30,785,127	$ 33,644,503
Long-lived assets			
U.S.	$ 10,642,859	$ 10,676,053	$ 11,679,592
International	$ 209,994	$ 234,119	$ 220,058

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Most large international sales of VanishPoint® syringes are filled by production from a Chinese manufacturer. In the event that we become unable to purchase such product from our Chinese manufacturer, we would need to find an alternate manufacturer for the 0.5mL insulin syringe, the 0.5mL autodisable syringe, and the 2mL, 5mL, and 10mL syringes and we would increase domestic production for the 1mL and 3mL syringes.

We do not maintain patent or trademark protection in all foreign countries, but, where possible, have taken steps to protect our patents and trademarks in those countries where we routinely conduct a material amount of business. Our lack of patent and trademark protection, particularly in certain foreign countries, heightens the risk that our designs may be copied by a competitor.

Available Information

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

Item 1A. Risk Factors.

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

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

We Compete in an Anticompetitive Marketplace

We operate in an environment that is dominated by BD, the major syringe manufacturer in the U.S. We initiated a lawsuit in 2007 against BD. The suit was for patent infringement, antitrust practices, and false advertising. The court severed the patent claims from the other claims pending resolution of the patent dispute. The antitrust and false advertising claims resulted in a final judgment for $352 million plus prejudgment and post-judgment interest as well as some injunctive relief. BD has appealed the injunction portion of the case and the monetary award is still the subject of post-trial motions at the District Court. We have not received any of the amounts indicated by the District Court in its final judgment. BD is currently under court order to make certain disclosures regarding its exclusionary conduct to a specified class of distributors and customers.

Although we have made limited progress in some areas, such as the alternate care and some international markets, our volumes are not as high as they should be given the nature and quality of our products and the federal and state legislation requiring the use of safe needle devices. We believe this is due to the anticompetitive market, despite our litigation efforts described briefly above.

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

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

We Are Dependent on Our Patent Protection

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

We hold exclusive rights under numerous domestic and foreign patents and have applications pending related to the technology we currently market, as well as technology that is in development. These include patents and applications that are related to retractable syringes, interchangeable needle syringes, needleless syringes, retractable needles, retractable dental syringes, glass syringes with retractable needles, retractable fluid collection

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devices, blood draw devices with retractable needles, fluid flow control device with retractable cannula, blood collection sets, IV catheters, and self-retracting catheter introducers. These patent properties have varying remaining terms and expiration dates. While patents covering some features of our syringes with retractable needles will expire in 2015 and 2016, we have other patents with later expiration dates that will continue to provide patent coverage for our VanishPoint® syringes and other commercial products. These patent properties, coupled with the technical knowhow that is embodied in but not readily apparent from our commercial products, should offer continuing protection against unauthorized copying of our VanishPoint® syringes beyond 2016.

Patent life may be extended, not through the original patents, but through related improvements. As our technology ages (and the associated patent life expires), our competitive position in the marketplace could weaken. The patent protection may decrease and make us vulnerable to other competitors utilizing our technology.

We do not maintain patent or trademark protection in all foreign countries, but, where possible, have taken steps to protect our patents and trademarks in those countries where we routinely conduct a material amount of business. Our lack of patent and trademark protection, particularly in certain foreign countries, heightens the risk that our designs may be copied by a competitor.

Our Patents Are Subject to Litigation

We have been sued by BD and MDC Investment Holdings, Inc. for patent infringement. This case is currently not active and no trial date is set. Patent litigation and challenges involving our patents are costly and unpredictable and may deprive us of market exclusivity for a patented product or, in some cases, third party patents may prevent us from marketing and selling a product in a particular geographic area.

We Are Vulnerable to New Technologies

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

Our Competitors Have Greater Resources

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

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

Most international syringe sales, as well as a substantial portion of domestic sales, are filled by production from a Chinese manufacturer. In the event that we become unable to purchase such product from our Chinese manufacturer, we would need to find an alternate manufacturer for the 0.5mL insulin syringe, the 0.5mL autodisable syringe, and the 2mL, 5mL, and 10mL syringes and we would increase domestic production for the 1mL and 3mL syringes. Even with increased domestic production, we may not be able to avoid a disruption in supply. In 2014, the 1mL and 3mL syringes made up 91.2% of our unit sales and 89.9% of our revenues.

Fluctuations in Supplies of Inventory Could Temporarily Increase Costs

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

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We Are Controlled by One Shareholder

Thomas J. Shaw, our President and Chief Executive Officer, would have investment or voting power over a total of 51.1% of the outstanding Common Stock if he exercised his options as of March 2, 2015. Mr. Shaw will, therefore, have the ability to direct our operations and financial affairs and to substantially influence the election of members of our Board of Directors. His interests may not always coincide with our interests or the interests of other stockholders. This concentration of ownership, for example, may have the effect of delaying, deferring, or preventing a change in control, impeding a merger, consolidation, takeover, or other business combination involving us, or discouraging a potential acquirer from making a tender offer or otherwise attempting to obtain control of us, which in turn could materially adversely affect the market price of our Common Stock. Mr. Shaw s rights under the Technology License Agreement, as the owner of the technology we produce, present similar conflicts of interest.

Current Economic Conditions May Decrease Collectability of Accounts

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

We Face Inherent Product Liability Risks

As a manufacturer and provider of safety needle products, we face an inherent business risk of exposure to product liability claims. If a product liability claim is made and damages are in excess of our product liability coverage, our competitive position could be weakened by the amount of money we could be required to pay to compensate those injured by our products. In the event of a recall, we have recall insurance.

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Item 1B. Unresolved Staff Comments.

Not applicable and none.

Item 2. Properties.

Our headquarters is located at 511 Lobo Lane, on 35 acres, which we own, overlooking Lake Lewisville in Little Elm, Texas. The headquarters are in good condition and house our administrative offices and manufacturing facility. The manufacturing facility produced approximately 24.8% of the units that were manufactured in 2014. In the event that we become unable to purchase product from our Chinese manufacturer, we would need to find an alternate manufacturer for the 0.5mL insulin syringe, the 0.5mL autodisable syringe, and the 2mL, 5mL, and 10mL syringes and we would increase domestic production for the 1mL and 3mL syringes. The 5mL and 10mL syringes are sold principally in the international market. In 2014, we used approximately 32.5% of our current U.S. productive capacity for VanishPoint® syringes.

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

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

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Item 3. Legal Proceedings.

On May 19, 2010, final judgment was entered in the U.S. District Court for the Eastern District of Texas, Marshall Division for us which ordered that we recover $5,000,000 plus prejudgment and post-judgment interest, and ordered a permanent injunction for BD s 1mL and 3mL Integra syringes until the expiration of certain patents. The permanent injunction was stayed for the longer of the exhaustion of the appeal of the district court s case or twelve months from May 19, 2010. In July 2011, a three-judge panel of the U.S. Court of Appeals for the Federal Circuit reversed the district court s judgment that BD s 3mL Integra infringed our 224 patent and 077 patent. The U.S. Court of Appeals for the Federal Circuit affirmed the district court s judgment that the 1mL Integra infringes our 244 and 733 patents. BD filed a Rule 60(b)(5) motion to Conform Judgment to Federal Circuit Mandate in the U.S. District Court for the Eastern District of Texas which sought to modify the damages award. On October 29, 2013, BD filed its Notice of Appeal of the District Court s August 7, 2013 order denying BD s Rule 60(b)(5) motion to the U.S. Court of Appeals of the Federal Circuit. On July 7, 2014, the U.S. Court of Appeals for the Federal Circuit affirmed the U.S. District Court for the Eastern District of Texas decision denying BD s Rule 60(b)(5) motion to modify the damages award. BD filed a petition to the Supreme Court for certiorari in January of 2015. We filed our response to the petition on March 12, 2015. It is expected that the Supreme Court will decide whether to accept or deny BD s petition sometime in the second quarter of this year, although that could be extended because the Supreme Court maintains its own calendar. On September 30, 2013, we received payment of $7,724,826 (the Judgment Amount) from BD pursuant to a stipulation in this case. The Judgment Amount has been reflected as a current liability in the Balance Sheets since the proceeds are not yet realizable.

In May 2010, our and Mr. Shaw s suit against BD in the U.S. District Court for the Eastern District of Texas, Marshall Division alleging violations of antitrust acts, false advertising, product disparagement, tortious interference, and unfair competition was reopened. The trial commenced on September 9, 2013 in the U.S. District Court for the Eastern District of Texas, Tyler Division, and the jury returned its verdict on September 19, 2013, finding that BD illegally engaged in anticompetitive conduct with the intent to acquire or maintain monopoly power in the safety syringe market and engaged in false advertising under the Lanham Act. The jury awarded us $113,508,014 in damages, which was trebled pursuant to statute. The Court issued an order on September 30, 2014 denying BD s Renewed Motion for Judgment as a Matter of Law, or Alternatively, for New Trial or Remittitur, ruling that there was sufficient evidence for the jury to: find that BD had attempted to monopolize the safety syringe market, find that BD had engaged in false advertising under the Lanham Act, and award us $113,508,014 in damages. On November 10, 2014, the Court found that the remedy of disgorgement of a portion of BD s profits was appropriate but that the $340 million was a sufficient disgorgement. The Court also granted injunctive relief to take effect January 15, 2015. In doing so, the Court found that BD s business practices limited innovation, including false advertisements that suppressed sales of the VanishPoint®. The specific injunctive relief includes: (1) enjoining BD s use of World s Sharpest Needle or any similar assertion of superior sharpness; (2) requiring notification to all customers who purchased BD syringe products from July 2, 2004 to date that BD wrongfully claimed that its syringe needles were sharper and that its statement that it had data on file was false and misleading; (3) requiring notification to employees, customers, distributors, GPOs, and government agencies that the deadspace of the VanishPoint® has been within ISO standards since 2004 and that BD overstated the deadspace of the VanishPoint® to represent that it was higher than some of BD s syringes when it was actually less, and that BD s statement that it had data on file was false and misleading, and, in addition, posting this notice on its website for a period of three years; (4) enjoining BD from advertising that its syringe products save medication as compared to VanishPoint® products for a period of three years; (5) requiring notification to all employees, customers, distributors, GPOs, and government agencies that BD s website, cost calculator, printed materials, and oral representations alleging BD s syringes save medication as compared to the VanishPoint® were based on false and inaccurate measurement of the VanishPoint®, and, in addition, posting this notice on its website for a period of three years; and (6) requiring the implementation of a comprehensive training program for BD employees and distributors that specifically instructs them not to use old marketing materials and not to make false representations regarding VanishPoint® syringes. Final judgment was entered on January 15, 2015, awarding us $340,524,042 in damages and $11,722,823 in attorneys fees, as well as granting injunctive relief consistent with the orders as indicated above. Additionally, the final judgment provides for prejudgment and post-judgment interest. The parties stipulated that the amount of litigation costs recoverable by us is $295,000. On January 14, 2015, the District Court granted in part and denied in part BD s motion to stay the injunctive relief. The order stayed the portion of the injunctive relief that requires BD to notify end-user customers but also ordered BD to comply with internal

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correction activities as well as mandatory disclosures as set out above to its employees, customers, distributors and Group Purchasing Organizations. BD filed an appeal of that ruling with the 5th Circuit Court of Appeals and that appeal was denied on February 3, 2015, as was our motion to expedite the appeal. On February 12, 2015, BD filed a motion to amend the judgment directed most specifically to the issue of award of prejudgment interest. Briefing has been completed on that motion and we await the Court s decision. BD is expected to appeal the Final Judgment of January 15, 2015 upon resolution of its pending motion to amend. The parties met during late 2014 to mediate the case, but the mediation was not successful.

In September 2007, BD and MDC Investment Holdings, Inc. (MDC) sued us in the United States District Court for the Eastern District of Texas, Texarkana Division, initially alleging that we are infringing two U.S. patents of MDC (6,179,812 and 7,090,656) that are licensed to BD. BD and MDC seek injunctive relief and unspecified damages. We counterclaimed for declarations of non-infringement, invalidity, and unenforceability of the asserted patents. The plaintiffs subsequently dropped allegations with regard to patent no. 7,090,656 and we subsequently dropped our counterclaims for unenforceability of the asserted patents. The case had been stayed pending resolution of our first filed case against BD described above. While the stay has been automatically lifted, there has been no activity in this case and we referred questions from the Court regarding its status to BD s counsel.

Item 4. Mine Safety Disclosures.

Not applicable.

PART II

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

MARKET INFORMATION

Our Common Stock has been listed on the NYSE MKT (or its predecessor entities) under the symbol RVP since May 4, 2001. Our closing price on March 2, 2015, was $4.12 per share. Shown below are the high and low sales prices of our Common Stock as reported by the NYSE MKT for each quarter of the last two fiscal years:

2014	High	Low
Fourth Quarter	$ 5.39	$ 3.31
Third Quarter	$ 3.27	$ 2.54
Second Quarter	$ 3.74	$ 2.50
First Quarter	$ 4.00	$ 2.93

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

SHAREHOLDERS

As of March 2, 2015, there were 27,695,600 shares of Common Stock held by 231 shareholders of record not including shareholders who beneficially own Common Stock held in nominee or street name. The previous sentence excludes 722,920 shares of treasury stock.

DIVIDENDS

We have not ever declared or paid any dividends on the Common Stock. We have no current plans to pay any cash dividends on the Common Stock. We intend to retain all earnings, except those required to be paid to the holders of the Preferred Stock as resources allow, to support operations and future growth. Dividends on Common Stock cannot be paid so long as preferred dividends are unpaid. As of December 31, 2014, there was an aggregate of $12.8 million in preferred dividends in arrears.

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EQUITY COMPENSATION PLAN INFORMATION

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

STOCK PERFORMANCE GRAPH

The following graph compares the cumulative total return for our Common Stock from December 31, 2009 to December 31, 2014, to the total returns for the Russell Microcap® and Becton, Dickinson and Company (or BDX), a peer issuer. The graph assumes an investment of $100 in the aforementioned equities as of December 31, 2009, and that all dividends are reinvested.

RECENT SALES OF UNREGISTERED SECURITIES

None.

PURCHASES OF EQUITY SECURITIES BY THE ISSUER AND AFFILIATED PURCHASERS

None for the fourth quarter of 2014.

Item 6. Selected Financial Data.

The following selected financial data is qualified by reference to, and should be read in conjunction with, our audited financial statements and the notes to those statements and Management s Discussion and Analysis of Financial Condition and Results of Operations appearing elsewhere herein. The selected Statements of Operations data presented below for the years ended December 31, 2011 and 2010 and the Balance Sheet data as of December 31, 2012, 2011, and 2010 have been derived from our audited financial statements, which are not included herein.

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

	As of and for the Years Ended December 31,				
	2014	**2013**	**2012**	**2011**	**2010**
Sales, net	$ 34,521	$ 30,785	$ 33,644	$ 32,102	$ 36,219
Cost of sales	22,499	20,475	22,468	21,199	23,698
Gross profit	12,022	10,310	11,176	10,903	12,521
Total operating expenses	14,180	16,241	15,115	14,993	19,185
Loss from operations	(2,158)	(5,931)	(3,939)	(4,090)	(6,664)
Interest income	34	39	47	63	32
Interest expense, net	(223)	(231)	(231)	(241)	(302)
Litigation settlements, net				5,700	9,159
Income (loss) before income taxes	(2,347)	(6,123)	(4,123)	1,432	2,225
Provision (benefit) for income taxes	8	91	10	14	(176)
Net income (loss)	(2,355)	(6,214)	(4,133)	1,418	2,401
Preferred Stock dividend requirements	(915)	(916)	(918)	(964)	(1,371)
Earnings (loss) applicable to common shareholders	$ (3,270)	$ (7,130)	$ (5,051)	$ 454	$ 1,030
Earnings (loss) per share basic	$ (0.12)	$ (0.26)	$ (0.19)	$ 0.02	$ 0.04
Earnings (loss) per share diluted	$ (0.12)	$ (0.26)	$ (0.19)	$ 0.02	$ 0.04
Weighted average shares outstanding basic	27,375,450	26,999,698	26,219,728	24,171,238	23,872,783
Weighted average shares outstanding diluted	27,375,450	26,999,698	26,219,728	26,354,786	26,248,874
Current assets	$ 34,230	$ 37,907	$ 35,441	$ 35,903	$ 40,224
Current liabilities	$ 15,100	$ 16,621	$ 8,077	$ 6,125	$ 9,986
Property, plant, and equipment, net	$ 10,853	$ 10,910	$ 11,900	$ 12,654	$ 12,561
Total assets	$ 45,353	$ 49,097	$ 47,632	$ 48,920	$ 53,191
Long-term debt, net of current maturities	$ 3,425	$ 3,577	$ 3,826	$ 4,143	$ 4,304
Stockholders equity	$ 26,828	$ 28,900	$ 35,729	$ 38,651	$ 38,901
Redeemable Preferred Stock (in shares)	987,445	994,945	1,001,552	1,001,552	2,279,016
Capital leases					
Cash dividends per common share	$	$	$	$	$
Gross profit margin	34.8%	33.5%	33.2%	34.0%	34.6%

* Events that could affect the trends indicated above include continued reductions in manufacturing costs, changing average sales prices, changing raw material cost, the gaining of market access, the effect of injunctive relief, protection of our patents, foreign currency exchange rates, the Medical Device Excise Tax, the impact of flu season requirements, new or changing regulations, and new products. As our products are made from petroleum products, the changing cost of oil and transportation may have an impact on our costs to the extent increases may not be recoverable through price increases of our products and reductions in oil prices may not quickly affect petroleum product prices. Receipt of settlement proceeds and option payments from Abbott and Hospira positively affected 2010 and 2011 results. Our purchase in 2011 of a total of 1,277,464 shares of our Preferred Stock (which purchase required the selling Preferred Stockholder to waive all unpaid dividends in arrears) in exchange for our Common Stock and cash have reduced our Preferred Stock Dividend Requirements. The receipt of $7,724,826 from BD pursuant to litigation and subject to stipulation affects both the current assets and current liabilities in 2013 and 2014. The introduction of the Medical Device Excise Tax in 2013 affects comparability between 2013-2014 and prior years. In 2014, we took steps to decrease our non-litigation legal costs. We expect such costs to remain lower in the future. Our non-litigation legal costs were reduced by approximately $1.1 million. Additionally, effective May 9, 2014, we reduced our workforce by 13.7% in an effort to cut costs. The combined effect of both of these cost-cutting measures was approximately $1.5 million in 2014. A 2015 judgement in our favor for $352 million is not included in the data presented and, if received, could materially affect our future financial condition.

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Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operation.

FORWARD-LOOKING STATEMENT WARNING

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

Overview

We have been manufacturing and marketing our products since 1997. Safety syringes comprised 97.3% of our sales in 2014. We also manufacture and market the blood collection tube holder, IV safety catheter, and VanishPoint® Blood Collection Set. We currently provide other safety medical products in addition to safety products utilizing retractable technology. One such product is the Patient Safe® syringe, which is uniquely designed to reduce the risk of bloodstream infections resulting from catheter hub contamination.

On June 17, 2014, we received notice of substantial equivalence from the Food and Drug Administration for the EasyPoint needle. The EasyPoint is a retractable needle that can be used with Luer lock syringes, Luer slip syringes, and prefill syringes to give injections. The EasyPoint needle can also be used to aspirate fluids and obtain blood collection.

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

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

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

We have reported in the past that our progress is limited principally due to the marketing practices engaged in by BD, the dominant maker and seller of disposable syringes. In our litigation against BD alleging anticompetitive conduct and false advertising, a final judgment for $352 million plus prejudgment and post-judgment interest as well as some injunctive relief (discussed in more detail below) has been granted by the District Court. BD has appealed the injunction portion of the case and the monetary award is still the subject of post-trial motions at the District Court. BD s post-trial motion argues against the District Court s award of

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prejudgment interest. We have not received any of the amounts indicated by the District Court in its final judgment. BD is currently required to follow the Court s order for injunctive relief, except that the notifications to end-user customers are stayed pending appeal. The injunctive relief included:

(1) enjoining BD s use of World s Sharpest Needle or any similar assertion of superior sharpness;

(2) requiring notification to all customers who purchased BD syringe products from July 2, 2004 to date that BD wrongfully claimed that its syringe needles were sharper and that its statement that it had data on file was false and misleading;

(3) requiring notification to employees, customers, distributors, GPOs, and government agencies that the deadspace of the VanishPoint® has been within ISO standards since 2004 and that BD overstated the deadspace of the VanishPoint® to represent that it was higher than some of BD s syringes when it was actually less, and that BD s statement that it had data on file was false and misleading, and, in addition, posting this notice on its website for a period of three years;

(4) enjoining BD from advertising that its syringe products save medication as compared to VanishPoint® products for a period of three years;

(5) requiring notification to all employees, customers, distributors, GPOs, and government agencies that BD s website, cost calculator, printed materials, and oral representations alleging BD s syringes save medication as compared to the VanishPoint® were based on false and inaccurate measurement of the VanishPoint®, and, in addition, posting this notice on its website for a period of three years; and

(6) requiring the implementation of a comprehensive training program for BD employees and distributors that specifically instructs them not to use old marketing materials and not to make false representations regarding VanishPoint® syringes.

On September 30, 2013, we received payment of $7,724,826 (the Judgment Amount) from BD pursuant to a stipulation in the patent infringement case *Retractable Technologies, Inc. and Thomas Shaw* v. *Becton Dickinson and Company*, Civil Action No. 2:07-cv-250, in the U.S. District Court for the Eastern District of Texas, Marshall Division. The Judgment Amount is included as cash on the balance sheet and shown as a liability on the balance sheet under Litigation proceeds subject to stipulation . The Judgment Amount is only related to the patent infringement portion of the claims against BD. We have determined not to use the Judgment Amount to fund operations yet.

In 2014, we took steps to decrease our non-litigation legal costs. We expect such costs to remain lower in the future. Our non-litigation legal costs were reduced by approximately $1.1 million. Additionally, effective May 9, 2014, we reduced our workforce by 13.7% in an effort to cut costs. We paid $193 thousand in severance costs in the second and third quarters of 2014. In May and July of 2014, we reduced all executive officers salaries by at least 10%, but reinstated nearly all such salaries in December of 2014. The combined effect of both the lower non-litigation costs and the reduced workforce was approximately $1.5 million in 2014. In the future, if such cost cutting measures prove insufficient, we may reduce the number of units being produced, further reduce the workforce, further reduce the salaries of officers as well as other employees, and/or defer royalty payments.

In 2014, our unit sales increased 12.0%. This increase is due to increased sales to several of our domestic customers.

Section 4191 of the Internal Revenue Code, enacted by the Health Care and Education Reconciliation Act of 2010 in conjunction with the PPACA provides for an excise tax of 2.3% on medical devices. At the present time, the excise tax is applicable to domestic sales of our products, except those which are sold to exempt organizations. The majority of our sales are domestic and not in the retail market. The tax is imposed on sales, not profits. We have not passed this tax along to our customers. The impact of this tax was $856,000 in 2014, and is net of expected refunds attributable to rebate credits.

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

Pursuant to the Certificates of Designation, Preferences, Rights And Limitations of the Series I Class B and Series II Class B Convertible Preferred Stock, we would be prohibited from purchasing our Common Stock while dividends were in arrears. Therefore, to facilitate the Common Stock repurchase plan, we paid quarterly dividends on the Series I Class B and Series II Class B Preferred Stock during the term of the repurchase plan. Notwithstanding the termination of the repurchase plan, the Board of Directors authorized dividends to be paid to the Series I Class B and Series II Class B Preferred Stockholders in certain successive quarters. Dividends were paid on November 11, 2013, January 20, 2014, April 21, 2014, and July 21, 2014, each in the cumulative amount of $57,613.

Product purchases from our Chinese manufacturer have enabled us to increase manufacturing capacity with little capital outlay and have provided a competitive manufacturing cost. In 2014, our Chinese manufacturer produced approximately 73.1% of our VanishPoint® units. In the event that we become unable to purchase products from our Chinese manufacturer, we would need to find an alternate manufacturer for the 0.5mL insulin syringe, the 0.5mL autodisable syringe, and the 2mL, 5mL, and 10mL syringes and we would increase domestic production for the 1mL and 3mL syringes.

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

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

RESULTS OF OPERATIONS

The following discussion contains trend information and other forward-looking statements that involve a number of risks and uncertainties. Our actual future results could differ materially from our historical results of operations and those discussed in the forward-looking statements. All period references are to our fiscal years ended December 2014, 2013, or 2012. Dollar amounts have been rounded for ease of reading.

Comparison of Year Ended

December 31, 2014 and Year Ended December 31, 2013

Domestic sales accounted for 80.1% and 80.7% of the revenues in 2014 and 2013, respectively. Domestic revenues increased 11.3% principally due to increased unit sales. Domestic unit sales increased 11.8%. Domestic unit sales were 71.6% of total unit sales for 2014. International revenues increased from $5.9 million in 2013 to $6.9 million in 2014, primarily due to increased unit sales and an increase in average price. Overall unit sales increased 12.0%. Our international orders may be subject to significant fluctuation over time. Such orders may fluctuate due to health initiatives at various times as well as economic conditions.

Cost of sales increased $2.0 million due to an increase in units sold mitigated by a slightly lower unit cost of manufacture. Royalty expense increased $254 thousand due to increased gross sales. Gross profit margins increased from 33.5% in 2013 to 34.8% in 2014.

Operating expenses decreased 12.7% from the prior year due to decreased cost of non-litigation legal expense, lower compensation cost, and decreased office expenses which is the result of cost-cutting measures implemented in 2014.

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Loss from operations was $2.2 million in 2014 compared to an operating loss of $5.9 million in 2013, a 63.6% decrease.

Cash flow from operations was a negative $3.9 million for 2014 due primarily to our increase in accounts receivable, decrease in current liabilities, and our loss from operations, mitigated by a decrease in inventory and depreciation.

Comparison of Year Ended

December 31, 2013 and Year Ended December 31, 2012

Domestic sales accounted for 80.7% and 75.4% of the revenues in 2013 and 2012, respectively. Domestic revenues decreased 2.1% principally due to lower average sales prices and lower volumes. Domestic unit sales decreased 0.8%. Domestic unit sales were 71.8% of total unit sales for 2013. International revenues decreased from $8.3 million in 2012 to $5.9 million in 2013, primarily due to lower sales volumes. Overall unit sales decreased 11.5%. Our international orders may be subject to significant fluctuation over time. Such orders may fluctuate due to health initiatives at various times, as well as economic conditions.

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

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

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

Cash flow from operations was $2.9 million for 2013 due primarily to litigation proceeds subject to a stipulation.

LIQUIDITY

At the present time, Management does not intend to raise equity capital. Due to the funds received from prior litigation, we have sufficient cash reserves and intend to rely on operations, cash reserves, and debt financing, when available, as the primary ongoing sources of cash. Our ability to obtain additional funds through loans is uncertain. Our financial statements do not reflect a 2015 judgment in our favor for $352 million.

The note payable to Deutsche Leasing USA, Inc. in the original principal amount of $327,726 was paid in full in April 2014 and the note payable to Deutsche Leasing USA, Inc. in the original principal amount of $207,260 was paid in full in November 2014. The monthly payment for the loan which matured in April was $9,900 and the monthly payment for the loan which matured in November was $6,300.

Historical Sources of Liquidity

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

Internal Sources of Liquidity

Margins and Market Access

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

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

Fluctuations in the cost and availability of raw materials and inventory and our ability to maintain favorable manufacturing arrangements and relationships could result in the need to manufacture all (as opposed to 24.8%) of our products in the U.S. This could temporarily increase unit costs as we ramp up domestic production.

The mix of domestic and international sales affects the average sales price of our products. Generally, the higher the ratio of domestic sales to international sales, the higher the average sales price will be. Typically, large international sales of VanishPoint® syringes are shipped directly from China to the customer. Purchases of product manufactured in China usually decrease the average cost of manufacture for all units. The number of units produced by us versus manufactured in China can have a significant effect on the carrying costs of inventory as well as Cost of sales. We will continue to evaluate the appropriate mix of products manufactured domestically and those manufactured in China to achieve economic benefits as well as to maintain our domestic manufacturing capability.

Fluctuations in the cost of oil (since our products are petroleum based) and transportation and the volume of units purchased from our Chinese manufacturer may have an impact on the unit costs of our product. Increases in such costs may not be recoverable through price increases of our products. Reductions in oil prices may not quickly affect petroleum product prices. For instance, we did not see a material change in the costs of our raw materials in 2014.

Seasonality

Historically, unit sales have increased during the flu season.

Cash Requirements

Due to funds received from prior litigation settlements, we have sufficient cash reserves and intend to rely on operations, cash reserves, and debt financing, when available, as the primary ongoing sources of cash. In 2014, we took steps to decrease our non-litigation legal costs and we expect such costs to remain lower in the future. Additionally, effective May 9, 2014, we reduced our workforce by 13.7% in an effort to cut costs and temporarily reduced many of our executive officers salaries. In the future, if such cost cutting measures prove insufficient, we may reduce the number of units being produced, further reduce the workforce, further reduce the salaries of officers and other employees, and/or defer royalty payments.

External Sources of Liquidity

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

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

In our litigation against BD alleging anticompetitive conduct and false advertising, a final judgment for $352 million plus prejudgment and post-judgment interest as well as some injunctive relief has been granted by the District Court. BD has appealed the injunction portion of the case and the monetary award is still the subject of post-trial motions at the District Court. BD s post-trial motion argues against the District Court s award of prejudgment interest. We have not received any of the amounts indicated by the District Court in its final judgment. BD is currently under court order to make certain disclosures regarding its exclusionary conduct to a specified class of distributors and customers.

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CAPITAL RESOURCES

Repurchase of Common Stock

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

Purchase of Equipment

We are purchasing two molding machines for $276 thousand.

OFF-BALANCE SHEET ARRANGEMENTS

None.

CONTRACTUAL OBLIGATIONS

Contractual Obligations and Commercial Commitments

The following chart summarizes our material obligations and commitments to make future payments under contracts for long-term debt as of December 31, 2014:

	Payments Due by Period				
	Total	Less Than 1 Year	1-3 Years	3-5 Years	More Than 5 Years
Contractual Obligations					
Long-term debt	$ 3,574,772	$ 149,744	$ 328,393	$ 3,096,635	$
Operating leases	59,966	59,966			
Total	$ 3,634,738	$ 209,710	$ 328,393	$ 3,096,635	$

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

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

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Item 8. Financial Statements and Supplementary Data.

RETRACTABLE TECHNOLOGIES, INC.

FINANCIAL STATEMENTS AND

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

DECEMBER 31, 2014 AND 2013

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RETRACTABLE TECHNOLOGIES, INC.

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Report of Independent Registered Public Accounting Firm

To the Board of Directors and Stockholders

of Retractable Technologies, Inc.

We have audited the accompanying balance sheets of Retractable Technologies, Inc. as of December 31, 2014 and 2013, and the related statements of operations, changes in stockholders equity, and cash flows for each of the three years in the period ended December 31, 2014. Our audits also included the financial statement schedule of Retractable Technologies, Inc., listed in Item 15(a). These financial statements and financial statement schedule are the responsibility of the Company s management. Our responsibility is to express an opinion on these financial statements and schedule based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Retractable Technologies, Inc. as of December 31, 2014 and 2013, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2014, in conformity with U.S. generally accepted accounting principles. Also, in our opinion, the related financial statement schedule, when considered in relation to the basic financial statements taken as a whole, presents fairly in all material respects the information set forth therein.

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

Dallas, Texas
March 31, 2015

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RETRACTABLE TECHNOLOGIES, INC.

BALANCE SHEETS

	December 31,	
	2014	**2013**
ASSETS		
Current assets:		
Cash and cash equivalents	$ 22,128,977	$ 27,629,359
Restricted cash	600,897	
Accounts receivable, net of allowance for doubtful accounts of $1,725,806 and $1,698,506, respectively	5,642,091	3,476,718
Inventories, net	4,663,548	5,735,589
Other current assets	1,194,055	1,065,641
Total current assets	34,229,568	37,907,307
Property, plant, and equipment, net	10,852,853	10,910,172
Intangible and other assets, net	270,693	279,965
Total assets	$ 45,353,114	$ 49,097,444
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities:		
Accounts payable	$ 5,142,796	$ 5,107,778
Litigation proceeds subject to stipulation	7,724,826	7,724,826
Current portion of long-term debt	149,744	247,064
Accrued compensation	504,188	815,044
Dividends payable		57,613
Accrued royalties to shareholders	787,434	602,209
Other accrued liabilities	782,322	1,975,018
Income taxes payable	8,290	90,972
Total current liabilities	15,099,600	16,620,524
Long-term debt, net of current maturities	3,425,028	3,576,932
Total liabilities	18,524,628	20,197,456
Commitments and contingencies See Note 8		
Stockholders equity:		
Preferred Stock $1 par value:		
Class B; authorized: 5,000,000 shares		
Series I, Class B; outstanding: 98,500 and 103,500 shares, respectively (liquidation preference of $615,625 and $646,875, respectively)	98,500	103,500
Series II, Class B; outstanding 176,200 and 178,700 shares, respectively (liquidation preference of $2,202,500 and $2,233,750, respectively)	176,200	178,700
Series III, Class B; outstanding: 130,245 shares (liquidation preference of $1,628,063)	130,245	130,245
Series IV, Class B; outstanding: 542,500 shares (liquidation preference of $5,967,500)	542,500	542,500
Series V, Class B; outstanding: 40,000 (liquidation preference of $176,000)	40,000	40,000
Common Stock, no par value; authorized: 100,000,000 shares; outstanding: 27,613,397 and 27,187,702 shares, respectively		
Additional paid-in capital	59,273,769	58,983,166
Retained deficit	(32,336,119)	(29,981,514)
Common stock in treasury - at cost; 722,920 shares	(1,096,609)	(1,096,609)
Total stockholders equity	26,828,486	28,899,988
Total liabilities and stockholders equity	$ 45,353,114	$ 49,097,444

See accompanying notes to financial statements

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RETRACTABLE TECHNOLOGIES, INC.

STATEMENTS OF OPERATIONS

	Years Ended December 31,		
	2014	**2013**	**2012**
Sales, net	$ 34,520,630	$ 30,785,127	$ 33,644,503
Cost of Sales			
Costs of manufactured product	19,770,226	18,000,408	19,776,198
Royalty expense to shareholders	2,728,701	2,474,762	2,691,887
Total cost of sales	22,498,927	20,475,170	22,468,085
Gross profit	12,021,703	10,309,957	11,176,418
Operating expenses:			
Sales and marketing	3,967,081	4,414,339	4,220,809
Research and development	616,784	837,073	871,851
General and administrative	9,595,399	10,989,790	10,022,621
Total operating expenses	14,179,264	16,241,202	15,115,281
Loss from operations	(2,157,561)	(5,931,245)	(3,938,863)
Interest and other income	33,941	38,943	46,999
Interest expense, net	(222,808)	(230,578)	(231,210)
Loss before income taxes	(2,346,428)	(6,122,880)	(4,123,074)
Provision for income taxes	8,177	90,972	9,818
Net loss	(2,354,605)	(6,213,852)	(4,132,892)
Preferred Stock dividend requirements	(915,225)	(916,065)	(918,108)
Loss applicable to common shareholders	$ (3,269,830)	$ (7,129,917)	$ (5,051,000)
Basic loss per share	$ (0.12)	$ (0.26)	$ (0.19)
Diluted loss per share	$ (0.12)	$ (0.26)	$ (0.19)
Weighted average common shares outstanding:			
Basic	27,375,450	26,999,698	26,219,728
Diluted	27,375,450	26,999,698	26,219,728

See accompanying notes to financial statements

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RETRACTABLE TECHNOLOGIES, INC.

STATEMENTS OF CHANGES IN STOCKHOLDERS EQUITY

	Series I Class B		Series II Class B		Series III Class B		Series IV Class B		Series V Class B		Common	
	Shares	Amount	Shares	Amount	Shares	Amount	Shares	Amount	Shares	Amount	Shares	Amount
Balance as of December 31, 2011	103,500	$ 103,500	178,700	$ 178,700	130,245	$ 130,245	542,500	$ 542,500	46,607	$ 46,607	25,318,700	$
Recognition of stock option exercise											2,000,865	
Dividends												
Repurchase of Common Stock											(67,102)	
Net loss												
Balance as of December 31, 2012	103,500	103,500	178,700	178,700	130,245	130,245	542,500	542,500	46,607	46,607	27,252,463	
Conversion of Preferred Stock into Common Stock									(6,607)	(6,607)	6,607	
Recognition of stock option compensation												
Recognition of stock option exercise											584,450	
Dividends												
Repurchase of Common Stock											(655,818)	
Net loss												
Balance as of December 31, 2013	103,500	103,500	178,700	178,700	130,245	130,245	542,500	542,500	40,000	40,000	27,187,702	
Conversion of Preferred Stock into Common Stock	(5,000)	(5,000)	(2,500)	(2,500)							7,500	
Recognition of stock option exercise											418,195	

Dividends																					
Net loss																					
Balance as of December 31, 2014	98,500	$	98,500	176,200	$	176,200	130,245	$	130,245	542,500	$	542,500	40,000	$	40,000	27,613,397	$				

See accompanying notes to financial statements

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RETRACTABLE TECHNOLOGIES, INC.

STATEMENTS OF CHANGES IN STOCKHOLDERS EQUITY

	Additional Paid-in Capital	Retained Deficit	Treasury Stock	Total
Balance as of December 31, 2011	$ 57,284,670	$ (19,634,770)	$	$ 770
				$ 10,142
				$ (2,437)
				$ (7,705)
				770

CONDENSED CONSOLIDATING STATEMENTS OF OPERATIONS
Nine Months Ended March 31, 2005

	Buckeye Technologies Inc.	Guarantors US Subsidiaries	Non-Guarantor Subsidiaries	Consolidating Adjustments	Consolidated
Net sales	$ 78,251	$ 317,195	$ 156,969	$ (23,560)	$ 528,855
Cost of goods sold	63,712	258,511	138,899	(23,253)	437,869
Gross margin	14,539	58,684	18,070	(307)	90,986
Selling, research and administrative expenses, and other	8,672	18,531	6,166	-	33,369
Restructuring and impairment costs	-	166	14,019	-	14,185
Operating income (loss)	5,867	39,987	(2,115)	(307)	43,432
Other income (expense):					
Net interest income (expense) and amortization of debt costs	(34,182)	65	484	-	(33,633)
Other income (expense), including equity	24,630	161	6,780	(25,347)	6,224

income in affiliates						
Intercompany interest income (expense)		22,660	(17,401)	(5,259)	-	-
Income (loss) before income taxes		18,975	22,812	(110)	(25,654)	16,023
Income tax expense (benefit)		7,553	6,844	(47)	(9,749)	4,601
Net income (loss)	$	11,422	$ 15,968	$ (63)	$ (15,905)	$ 11,422

CONDENSED CONSOLIDATING BALANCE SHEETS
As of March 31, 2006

	Buckeye Technologies Inc.	Guarantors US Subsidiaries	Non-Guarantor Subsidiaries	Consolidating Adjustments	Consolidated
Assets					
Current assets					
Cash and cash equivalents	$ 1,229	$ 233	$ 9,684	$ -	$ 11,146
Accounts receivable, net of allowance	18,892	67,844	26,618	-	113,354
Inventories	29,938	64,251	23,717	(697)	117,209
Other current assets	2,674	4,726	889	-	8,289
Intercompany accounts receivable	-	28,195	-	(28,195)	-
Total current assets	52,733	165,249	60,908	(28,892)	249,998
Property, plant and equipment, net	56,574	334,245	145,645	-	536,464
Goodwill and intangibles, net	20,925	52,214	96,305	-	169,444
Intercompany notes receivable	347,024	-	-	(347,024)	-
Other assets, including investment in subsidiaries	312,677	343,210	118,727	(760,786)	13,828
Total assets	$ 789,933	$ 894,918	$ 421,585	$ (1,136,702)	$ 969,734
Liabilities and stockholders' equity					
Current liabilities					
Trade accounts payable	$ 5,156	$ 19,338	$ 7,603	$ -	$ 32,097
Other current liabilities	24,911	14,351	11,109	-	50,371
Intercompany accounts payable	26,323	-	1,872	(28,195)	-
Total current liabilities	56,390	33,689	20,584	(28,195)	82,468
Long-term debt	552,959	-	-	-	552,959
Deferred income taxes	(44,625)	60,734	14,707	-	30,816
Other long-term liabilities	7,156	13,562	1,376	-	22,094
Intercompany notes payable	-	207,265	139,759	(347,024)	-
Stockholders'/invested equity	218,053	579,668	245,159	(761,483)	281,397
Total liabilities and stockholders' equity	$ 789,933	$ 894,918	$ 421,585	$ (1,136,702)	$ 969,734

CONDENSED CONSOLIDATING BALANCE SHEETS
As of June 30, 2005

	Buckeye Technologies Inc.	Guarantors US Subsidiaries	Non-Guarantor Subsidiaries	Consolidating Adjustments	Consolidated
Assets					
Current assets					
Cash and cash equivalents	$ 860	$ 151	$ 8,915	$ -	$ 9,926
Accounts receivable, net	16,147	70,636	31,432	-	118,215
Inventories	21,745	57,932	28,997	(779)	107,895
Other current assets	4,521	3,995	1,952	-	10,468
Intercompany accounts receivable	-	22,741	-	(22,741)	-
Total current assets	43,273	155,455	71,296	(23,520)	246,504
Property, plant and equipment, net	55,720	342,455	127,756	-	525,931
Goodwill and intangibles, net	20,962	53,827	92,217	-	167,006
Intercompany notes receivable	333,295	-	-	(333,295)	-
Other assets, including investment in subsidiaries	301,239	323,095	113,840	(727,878)	10,296
Total assets	$ 754,489	$ 874,832	$ 405,109	$ (1,084,693)	$ 949,737
Liabilities and stockholders' equity					
Current liabilities					
Trade accounts payable	$ 7,213	$ 20,841	$ 9,172	$ -	$ 37,226
Other current liabilities	20,450	18,094	11,918	-	50,462
Intercompany accounts payable	20,179	-	2,562	(22,741)	-
Total current liabilities	47,842	38,935	23,652	(22,741)	87,688
Long-term debt	535,539	-	-	-	535,539
Deferred income taxes	(43,918)	62,764	15,814	-	34,660
Other long-term liabilities	6,822	14,081	1,358	-	22,261
Intercompany notes payable	-	212,620	120,675	(333,295)	-
Stockholders'/invested equity	208,204	546,432	243,610	(728,657)	269,589
Total liabilities and stockholders' equity	$ 754,489	$ 874,832	$ 405,109	$ (1,084,693)	$ 949,737

CONDENSED CONSOLIDATING STATEMENTS OF CASH FLOWS
Nine Months Ended March 31, 2006

	Buckeye Technologies Inc.	Guarantors US Subsidiaries	Non-Guarantor Subsidiaries	Consolidated
Net cash provided by operations	$ 853	$ 20,725	$ 3,462	$ 25,040
Investing activities:				
Purchases of property, plant and equipment	(4,662)	(14,405)	(22,112)	(41,179)
Proceeds from sale of assets and other	-	(376)	42	(334)
Net cash used in investing activities	(4,662)	(14,781)	(22,070)	(41,513)
Financing activities				
Net borrowings under line of credit	33,486	-	-	33,486
Net borrowings (payments) on long-term debt and other	(29,308)	(5,862)	19,083	(16,087)
Net cash provided by (used in) financing activities	4,178	(5,862)	19,083	17,399
Effect of foreign currency rate fluctuations on cash	-	-	294	294
Increase in cash and cash equivalents	369	82	769	1,220
Cash and cash equivalents at beginning of period	860	151	8,915	9,926
Cash and cash equivalents at end of period	$ 1,229	$ 233	$ 9,684	$ 11,146

CONDENSED CONSOLIDATING STATEMENTS OF CASH FLOWS
Nine Months Ended March 31, 2005

	Buckeye Technologies Inc.	Guarantors US Subsidiaries	Non-Guarantor Subsidiaries	Consolidated
Net cash provided by (used in) operations	$ 44,470	$ 18,345	$ (5,020)	$ 57,795
Investing activities:				
Purchases of property, plant and equipment	(3,490)	(15,969)	(3,555)	(23,014)
Proceeds from sale of assets and other	-	(384)	13,645	13,261
Net cash provided by (used in) investing activities	(3,490)	(16,353)	10,090	(9,753)
Financing activities				
Net borrowings under line of credit	1,200	-	-	1,200
	(5)	-	-	(5)

Payments for debt issuance and extinguishment				
Net payments on long-term debt and other	(54,820)	(1,914)	(7,938)	(64,672)
Net cash used in financing activities	(53,625)	(1,914)	(7,938)	(63,477)
Effect of foreign currency rate fluctuations on cash	-	-	1,061	1,061
Increase (decrease) in cash and cash equivalents	(12,645)	78	(1,807)	(14,374)
Cash and cash equivalents at beginning of period	14,746	103	12,386	27,235
Cash and cash equivalents at end of period	$ 2,101	$ 181	$ 10,579	$ 12,861

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

The following Management's Discussion and Analysis of Financial Condition and Results of Operations ("MD&A") summarizes the significant factors affecting our results of operations, liquidity, capital resources and contractual obligations, as well as discussing our critical accounting policies. This discussion should be read in conjunction with the accompanying unaudited financial statements and our Annual Report on Form 10-K for the year ended June 30, 2005 ("Annual Report"), which include additional information about our significant accounting policies, practices and transactions that underlie our financial results. Our MD&A is composed of four major sections: Executive Summary, Results of Operations, Financial Condition, and Critical Accounting Policies.

Except as otherwise specified, references to years indicate our fiscal year ending June 30, 2006 or ended June 30 of the year referenced and comparisons are to the corresponding period of the prior year. The following discussion includes a comparison of the results of operations for the three and nine months ended March 31, 2006 to the three and nine months ended March 31, 2005.

Executive Summary

Buckeye manufactures and distributes value-added cellulose-based specialty products used in numerous applications, including disposable diapers, personal hygiene products, engine, air and oil filters, food casings, rayon filaments, acetate plastics, thickeners and papers. Our products are produced in the United States, Canada, Germany and Brazil, and we sell these products in approximately 60 countries worldwide. We generate revenues, operating income and cash flows from two reporting segments: specialty fibers and nonwoven materials. Specialty fibers are derived from wood and cotton cellulose materials using wetlaid technologies. Our nonwoven materials are derived from wood pulps, synthetic fibers and other materials using an airlaid process.

Our strategy is to continue to strengthen our position as a leading supplier of cellulose-based specialty products. We believe that we can continue to expand market share, improve profitability and decrease our exposure to cyclical downturns by pursuing the following strategic objectives: focus on technically demanding niche markets, develop and commercialize innovative proprietary products, strengthen long-term alliances with customers, provide our products at an attractive value, and significantly reduce our debt.

We incurred a net loss of $0.8 million for the three months ended March 31, 2006 and earned $0.8 million for the nine months ended March 31, 2006. These operating results included restructuring and impairment charges related to the closure of our Glueckstadt, Germany specialty fiber facility of $1.8 million ($1.1 million after tax) and $4.9 million ($3.0 million after tax) for the three and nine months periods, respectively.

During the three months ended March 31, 2006, we completed the upgrade of our cotton cellulose manufacturing facility in Americana, Brazil. Also during the quarter, we began providing trial quantities for customer qualifications and are now producing product for market sales. However, our Americana facility will not produce significant revenue until later this calendar year. Prior to the transition of the facility to market production, we were manufacturing product for an on-site customer in which the customer provided raw materials and paid us a manufacturing fee. We ceased this toll manufacturing arrangement in November of 2005. The combination of startup costs being incurred this fiscal year and the loss of the profitability from the tolling operations we received during the same periods in fiscal 2005 resulted in a negative impact of approximately $3.5 million before tax during the three months ended March 31, 2006. Although we expect improvement, we believe that operating performance for the Americana facility during the three months ended June 30, 2006 will still compare negatively to the operating performance of the same period in 2005.

We continued to experience high energy, chemical and transportation costs during the three months ended March 31, 2006. Although some energy-related costs have retreated recently, energy, chemical and transportation costs were still approximately $4.5 million and $22.5 million higher during the three and nine months ended March 31, 2006 than they were during the same periods in 2005.

As a result of these extraordinarily high costs, we announced the implementation of product price surcharges of up to 5% on our products. This surcharge was effective for most of our products manufactured in the United States (excluding fluff pulp) starting October 1, 2005. In January of 2006 we implemented additional price increases averaging 8% on specialty wood cellulose products. Due to the return of natural gas pricing to more normal levels, we removed the product price surcharge effective April 1, 2006. However, we expect price increases for specialty fibers and nonwoven materials that were also effective April 1, 2006 and reductions in energy costs will offset the reduction in revenue from the elimination of the product price surcharge.

Although the price increases discussed above were sufficient to maintain our margins in the high end segments of our markets, pricing on fluff pulp for the three months ended March 31, 2006 was slightly below the level we achieved during the same period in 2005. This combination of low prices and higher costs during the three and nine months ended March 31, 2006 resulted in our operating profit on fluff pulp being about $5 million and $10 million, respectively, below the levels achieved in the comparable periods last year. This decline in operating profit for fluff pulp more than offset the improvements in our high end specialty wood products and nonwoven materials.

Manufacturing difficulties at our large specialty wood pulp facility in Perry, Florida related to the startup of new chemical recycling equipment and transportation issues also negatively impacted our business during the three months ended March 31, 2006.

In spite of the higher costs, we are encouraged by progress on several fronts:

Ø In January 2006, we established two new organizations within Buckeye.

§ Marketing- The mission is to bring new products to the market on an accelerated schedule. The new organization is focused on improving our marketing capability and increasing the speed at which we commercialize new products.

§ Lean Enterprise - The mission is to lead our efforts in lowering costs, reducing working capital and eliminating waste. This new organization is responsible for the implementation of the “Lean Enterprise” methodology throughout our operations. The new organization is focused on improving work processes to ensure that all activities bring value to our customers.

Ø We are continuing to establish our sales and distribution network for UltraFiber 500™, a revolutionary concrete-reinforcing fiber. UltraFiber 500™ is a niche product for the building industry and a great example of the new product initiatives we are undertaking to reduce our dependency on fluff pulp. Each sale of UltraFiber 500™ advances us toward our goal of reducing our dependency on fluff pulp. We expect sales of approximately $3 million in fiscal 2006 and approximately $15 million in fiscal 2007.

Ø Our plan to transition the specialty fibers production currently supplied by Glueckstadt, Germany to our lower-cost manufacturing facilities in Memphis, Tennessee and Americana, Brazil is proceeding. We believe we are well-positioned to supply cotton-based specialty fiber products from our facilities in Memphis and Americana, with a significantly more favorable cost structure once we reach full production at the Americana facility.

The combination of new product initiatives, strong demand in important markets, and an improved, lower cost manufacturing configuration gives us optimism that we can generate future growth in sales and profitability. Like other manufacturing firms, we are currently being negatively impacted by high costs for energy, chemicals, transportation and other materials. These issues will slow progress in the short-term, but our longer-term outlook remains favorable.

Results of Operations

Consolidated results

The following table compares components of operating income for the three and nine months ended March 31, 2006 and 2005.

(millions)	Three Months Ended March 31				Nine Months Ended March 31			
	2006	2005	Change	% Change	2006	2005	Change	% Change
Net sales	$ 181.4	$ 180.9	$ 0.5	0%	$ 535.1	$ 528.9	$ 6.2	1%
Cost of goods sold	157.0	150.7	6.3	4%	460.8	437.9	22.9	5%
Gross margin	24.4	30.2	(5.8)	(19%)	74.3	91.0	(16.7)	(18)%
Selling, research and administrative expenses	12.3	11.1	1.2	11%	35.1	31.6	3.5	11%
Impairment costs	1.5	-	1.5	*	1.5	12.0	(10.5)	*
Restructuring costs	0.3	0.6	(0.3)	(50%)	3.4	2.2	1.2	55%
Amortization of intangibles and other	0.5	0.6	(0.1)	(17%)	1.5	1.8	(0.3)	(17)%
Operating income	$ 9.8	$ 17.9	(8.1)	45%	$ 32.8	$ 43.4	(10.6)	(24)%

* Percent change not meaningful

Net sales increased during the three and nine months ended March 31, 2006 primarily due to improved pricing on our products. Demand for high-end specialty fibers helped drive prices higher throughout the year. Higher shipment volumes and increased pricing drove sales of nonwoven materials higher during both the three and nine month periods versus the same periods in 2005. Additionally, the implementation of the product price surcharge effective October 1, 2005 had a positive impact on revenues. The product price surcharge improved revenues by $2.4 million and $4.7 million for the three and nine months ended March 31, 2006, respectively.

As mentioned in the executive summary, gross margins were negatively impacted by high costs related to increases in the pricing of energy, chemicals and transportation. During the three and nine months ended March 31, 2006, these costs were higher by approximately $4.5 million and $22.5 million, respectively, versus the same periods in 2005.

Increases in selling, research and administrative expenses also had a negative impact on our operating margins. Expenses related to the establishment of an UltraFiber 500™ sales force and distribution network, the expensing of share-based payments and the expensing of previously capitalized patent costs contributed to the increased costs.

As part of the announced closure of the Glueckstadt, Germany specialty fibers facility, we continued to incur restructuring expenses in the three months ended March 31, 2006. We incurred $0.3 million and $3.4 million of expenses during the three and nine months ended March 31, 2006, respectively, and expect to incur an additional $0.1 million related to this restructuring during the remainder of fiscal year 2006. As of March 31, 2006, we have incurred $6.4 million of restructuring costs as part of this planned closure. Effective March 31, 2006, we reclassified the land and buildings, and equipment at the Glueckstadt facility to assets held for sale. Additionally, we reevaluated the fair

value less cost to sell and recognized an impairment charge of $1.5 million.

Further discussion of revenue, operating trends, impairment costs, and restructuring costs are discussed later in this MD&A. Additional information on the restructuring programs and charges may also be found in Note 4 and Note 5 of the accompanying interim financial statements.

Segment results

Although nonwoven materials, processes, customers, distribution methods and regulatory environment are very similar to specialty fibers, we believe it is appropriate for nonwoven materials to be disclosed as a separate reporting segment from specialty fibers. The specialty fibers segment is an aggregation of cellulosic fibers based on both wood and cotton. We make separate financial decisions and allocate resources based on the sales and operating income of each segment. We allocate selling, research, and administrative expenses to each segment, and we use the resulting operating income to measure the performance of the segments. We exclude items that are not included in measuring business performance, such as amortization of intangibles, restructuring costs, asset impairment and certain financing and investing costs.

Specialty fibers

The following table compares specialty fibers net sales and operating income for the three and nine months ended March 31, 2006 and 2005.

(millions)	Three Months Ended March 31				Nine Months Ended March 31			
	2006	2005	Change	% Change	2006	2005	Change	% Change
Net sales	$ 127.2	$ 132.3	$ (5.1)	(4)%	$ 379.7	$ 380.2	$ (0.5)	-
Operating income	7.0	15.2	(8.2)	(54)%	28.7	49.1	(20.4)	(42)%

Although demand for our high-end specialty fibers products and the implementation of a product price surcharge pushed pricing higher during the three and nine months ended March 31, 2006 versus 2005, the favorable earnings impact of higher prices was offset by lower volumes due to the closure of our Glueckstadt, Germany cotton specialty fibers facility, the start-up of our Americana, Brazil facility and production and transportation issues at our Perry, Florida facility. The demand for domestic transportation, especially in the southeastern United States, remains very tight. The limited supply of transportation vehicles has put additional pressure on our operations.

Fluff pulp pricing declined by approximately 3% for the three months ended March 31, 2006 and remained flat for the nine months ended March 31, 2006 versus the same periods in 2005. Although we have experienced some softness in pricing for fluff pulp in the recent quarter, competitors have announced fluff pulp price increases for the upcoming period. We expect these announcements will have a positive impact on our pricing in the upcoming quarter. For the nine month period ending March 31, 2006, fluff pulp sales accounted for 16.9% of our consolidated sales.

Higher costs for energy, chemicals and transportation combined with strong demand in our high-end markets allowed us to raise prices during the year. However, due to the rapid and continued increase in costs along with the slightly lower prices for fluff pulp, we were unable to maintain our margins at the same level as those realized during the three and nine months ended March 31, 2005.

Our specialty fibers manufacturing costs for chemicals, energy and transportation increased by approximately $4.3 million for the three months and $20.5 million for the nine months ended March 31, 2006 as compared to the same periods in 2005, respectively. While we have made some progress to recover a portion of these costs through reductions in usage, increased pricing for our products and the implementation of a product price surcharge that went into effect on October 1, 2005, we expect that these abnormally high energy, chemical and transportation prices will continue to put pressure on our margins during the upcoming quarters. Although the natural gas component of our energy costs are returning to normal pricing levels, our other energy related costs still remain higher than normal.

In addition to recovering margins through increased pricing, we are also working on ways to reduce manufacturing costs. While natural gas prices were abnormally high, we transitioned our energy supply from natural gas to fuel oil where possible. Although natural gas is a very efficient energy source, market price volatility may make it more economical to purchase fuel oil at certain times. We now have the flexibility at more of our plants to switch between these alternative sources of energy. We will continue to look for alternatives to reduce costs and recover margins. Our new lean enterprise initiative, discussed in the executive summary, will focus on reducing costs by focusing on efficient processes that add value to our customers.

During the quarter, we installed new chemical recycling equipment at our Perry, Florida facility that will improve our efficiency and further minimize our environmental impact. During the startup of this equipment, we lost production for approximately two days at the facility. In addition to the fixed costs of the facility being spread over fewer tons of production, we also lost production of our high end specialty wood products, which impacted our sales volumes for the quarter both of which adversely affected our gross margins. We believe these manufacturing difficulties are largely behind us and the new equipment will contribute to the efficiencies of our operations and lower our cost to produce.

We are continuing to make progress with developing our capability to supply a wide range of products based on cotton cellulose to customers worldwide by upgrading the capability of our Americana, Brazil manufacturing facility. Because Brazil benefits from low manufacturing costs and a large and increasing raw material supply, we anticipate that, when we reach full capacity, this facility will be a significant contributor to our profitability. We completed the upgrade and began the process of qualifying our facility with our customers during January of 2006. With the cessation of tolling production in late November to facilitate the upgrade, we continued incurring pre-production expenses without offsetting revenue. During the three and nine months ended March 31, 2006, the net impact of the Americana startup decreased earnings by approximately $3.5 million and $7.5 million versus the same periods in 2005. We expect to continue to incur startup and transition costs during the remainder of the calendar year as we qualify the plant and ramp up volume. We expect these startup and transition costs will negatively impact our earnings by approximately $10 million for fiscal 2006 versus the prior year.

Nonwoven materials

The following table compares nonwoven materials net sales and operating income for the three and nine months ended March 31, 2006 and 2005.

(millions)	Three Months Ended March 31				Nine Months Ended March 31			
	2006	2005	Change	% Change	2006	2005	Change	% Change
Net sales	$ 61.2	$ 56.6	$ 4.6	8%	$ 177.0	$ 170.6	$ 6.4	4%
Operating income	5.1	3.6	1.5	42%	10.4	10.6	(0.2)	(2)%

Improvements in the mix, selling prices and volumes for our nonwoven materials resulted in an increase in net sales during the three and nine months ended March 31, 2006 versus the same periods in 2005. In an effort to offset rising prices for raw materials and other manufacturing costs, we implemented sales price increases during the year. Effective October 1, 2005, we implemented a product pricing surcharge for most of our products manufactured in the United States to offset higher energy related costs. Increased demand for high-end napkins and other tabletop products in our European markets contributed to an improved mix.

These improvements were offset by the 7% weakening of the euro since March 31, 2005. A majority of our products produced and sold at our Steinfurt, Germany facility are priced in euros and the weakening of the euro had a negative impact on the translation of these revenues to U.S. dollars in fiscal 2006.

Operating income improved during the three months ended March 31, 2006 versus the same period in 2005. Improved pricing, mix and increased volumes overcame higher raw materials and other manufacturing costs to improve operating margins during the period. Despite the improved pricing, mix and volume, operating income was lower for the nine months ended March 31, 2006 primarily due to higher energy, chemical and transportation costs. Energy, chemical and transportation costs were approximately $0.2 million and $2.0 million higher for the three and nine months ended March 31, 2006 versus the same periods in 2005. Additionally, the stronger Canadian dollar created further pressure on operating costs at our nonwoven materials facility in Delta, British Columbia.

Restructuring and impairment activities

During fiscal years 2005, 2004 and 2003, we entered into various restructuring programs, which resulted in restructuring and impairment charges. In order to continue to provide both specialty fibers and nonwoven materials at attractive values, we will continue to look for ways to reduce costs and optimize our operating structure. The following table summarizes restructuring expense by program for the nine month period ended March 31, 2006 and 2005.

	Nine Months Ended March 31		Total Program Charges	Estimate to Complete at March 31,
(millions)	2006	2005	To Date	2006
Restructuring costs				
2005 Restructuring program	$ 3.4	$ 0.6	$ 6.4	$ 0.1
2004 Restructuring program	-	1.2	3.0	-
2003 Restructuring program - phase 2	-	0.3	3.4	-
2003 Restructuring program - phase 1	-	0.1	2.7	-
Total restructuring costs	$ 3.4	$ 2.2	$ 15.5	$ 0.1

2005 Restructuring program

In January 2005, we announced our decision to discontinue producing cotton linter pulp at our Glueckstadt, Germany facility. Our decision was due to a combination of factors that had increased the plant's costs to a level at which it was uneconomical to continue operations. The most significant factor impacting cost at the site was the substantial strengthening of the euro relative to the U.S. dollar over calendar years 2003 and 2004. Specialty fibers are normally priced and sold in U.S. dollars around the world. As a majority of Glueckstadt's costs were denominated in euros, this substantial strengthening had a negative impact on Glueckstadt's cost position and margin. Additionally, Glueckstadt's process water, waste treatment and energy costs were more than twice the cost of these utilities at our Memphis, Tennessee cotton-based specialty fibers facility. Faced with these difficulties, we reduced the number of employees at the facility from approximately 150 to approximately 100 and operated at 55% of capacity during calendar year 2004.

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After careful consideration of all the options available, we decided to close the Glueckstadt facility and consolidate production at our two other specialty fibers manufacturing facilities. Production at Glueckstadt ceased in December 2005. We expect the closure of our Glueckstadt facility and the transfer of the cotton-based specialty fiber production to our Memphis, Tennessee and Americana, Brazil facilities will ultimately yield a superior cost structure and improve margins.

The closure of the Glueckstadt facility resulted in the termination of 101 employees as of March 31, 2006 and will result in an additional two terminations during the remainder of calendar 2006. We expect restructuring expenses related to the closure to total approximately $6.5 million and payments will extend through the end of fiscal year 2006. We expect this consolidation to enable us to improve our overall specialty fibers operating results by approximately $9 million annually and to reduce working capital needs by approximately $6 million.

In anticipation of the closure of the facility, customers increased their inventories to ensure a smooth transition as they qualified material supplied from our Memphis, Tennessee facility. Due to the increased demand, we were able to increase pricing and make incremental sales from inventory. Additionally, as a result of the impairment of the Glueckstadt plant and equipment, our depreciation expense decreased during the period. Although we are recognizing a portion of the benefit of the closure, we expect to realize the full on-going benefit of the closure during calendar year 2006.

2004 Restructuring program

Due to excess production capacity around the globe, we operated our Cork, Ireland nonwoven materials facility below its productive capacity from its inception in 1998. Because of its location and small size, our cost to produce at Cork was higher than at our other locations. Due to these issues, we decided to close the Cork facility and consolidate production at our three other nonwoven manufacturing facilities. Production at Cork ceased in July 2004. Closing our Cork facility reduced our nonwovens capacity by about 10%.

We continued to meet customer needs for nonwoven materials by producing these products at our facilities in Delta, British Columbia, Canada; Steinfurt, Germany; and Gaston County, North Carolina. This consolidation reduced working capital needs, and we began to realize fully the on-going cost benefit from operating one less facility during the third quarter of fiscal year 2005. The closure of the Cork facility and related reorganization of the nonwoven materials segment resulted in the termination of 89 employees and resulted in restructuring expenses totaling $3.0 million. We do not expect additional expenses related to this program.

2003 Restructuring programs (phase 1 and phase 2)

In April 2003, we announced the discontinuation of production of cotton linter pulp at our specialty fibers facility in Lumberton, North Carolina. To better meet our customers' needs, we consolidated our U.S. cotton linter pulp production at our larger Memphis, Tennessee and Glueckstadt, Germany facilities. In conjunction with the consolidation, we initiated the first phase of a restructuring program designed to deliver cost reductions through reduced expenses across the company, the main component of which was the partial closure of our Lumberton, North Carolina facility. This phase of restructuring resulted in the elimination of approximately 100 positions within the specialty fibers segment. The resulting increase in facility utilization enabled us to improve our operating results by approximately $6 million annually.

During the first quarter of fiscal year 2004, we entered into a second phase of this restructuring program. This phase of the program enabled us to improve our operating results by approximately $6 million annually through reduced salaries, benefits, other employee-related expenses and operating expenses. As a result of this restructuring, 78 positions were eliminated. These positions include manufacturing, sales, product development and administrative functions throughout the organization. We do not expect any further expenses related to this restructuring.

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Impairment costs

In December 2005, we ceased production of specialty fibers at our Glueckstadt, Germany facility. See Note 5 - Restructuring costs for more information on this closure. During the three months ended March 31, 2006, we began to actively market the land and buildings, and the equipment with carrying values of $1.6 million and $0.5 million, respectively. We reevaluated our estimate of fair value less the cost to sell the assets and determined an additional impairment should be recognized for the land and buildings. Current markets and third party interest for the land and buildings indicate we will not be able to recover the carrying value through the sales process. Therefore, we wrote down the carrying value of the land and buildings to their fair value less costs to sell and recorded an impairment charge of $1.5 million during the three months ended March 31, 2006. Although we believe the current carrying value less cost to sell best represent the fair value of the land and buildings, and the equipment, it is possible the actual results of a sale could materially differ from amounts estimated.

Net interest expense and amortization of debt costs

Net interest expense and amortization of debt costs decreased $1.8 million for the nine month period ending March 31, 2006 versus the same period in the prior year. Our decrease in average outstanding debt had a positive impact on interest expense during the period. Also contributing to the improvement was the impact of capitalizing interest for the Americana facility capital improvements. The total amount of interest capitalized during the period, related to the Americana project, was $1.3 million. These improvements were partially offset by higher variable interest rates. The weighted average effective interest rate on our variable rate debt increased from 4.8% at March 31, 2005 to 7.0% at March 31, 2006. This increase in variable interest rates fully offset the benefits we received from lower debt levels and capitalized interest during the three months ended March 31, 2006.

Income tax expense

Our effective tax rate for the three months ended March 31, 2006 was 31% versus 28% for the same period in 2005. During the three months ended March 31, 2006, we recorded a $1.1 million tax benefit related to a correction of the method used to record tax benefits of certain tax reductions related to our Canadian operations. Offsetting this benefit was an increase in our Brazilian valuation allowance due to larger losses associated with the slower than expected start-up of the Americana, Brazil operations. See Note 9 - Income Taxes for more information on these tax adjustments.

During the prior quarter we analyzed and corrected the rates and methodology used to value our state deferred taxes. The resulting adjustment was a $0.6 million net tax benefit. See Note 9 - Income Taxes for a reconciliation of the statutory tax rate to the effective tax rate.

Our effective tax rate may vary in future quarters due to the amount and source of income, results of tax audits and changes in tax legislation. We currently expect the effective tax rate for the remainder of the fiscal year to be 35%, resulting in an overall estimated tax rate of 30% for fiscal year 2006.

Loss on early extinguishment of debt costs

On September 26, 2005 we used borrowings on our revolving credit facility to redeem $15 million of our 9.25% 2008 Notes. As a result of this partial extinguishment, we wrote off a portion of deferred financing costs, resulting in non-cash expense of $0.2 million during the nine months ended March 31, 2006.

Foreign exchange and other

The Canadian dollar strengthened against the U.S. dollar during the nine months ended March 31, 2006, increasing 6% during the period. We incurred foreign exchange losses and other expense of $0.2 million, due primarily to this strengthening.

Financial Condition

Liquidity and capital resources

We have the following major sources of financing: credit facility, senior notes and senior subordinated notes. Our senior secured credit facility, senior notes and senior subordinated notes contain various covenants. We were in compliance with these covenants as of March 31, 2006 and believe we will continue to remain in compliance.

On March 31, 2006, we had $11.1 million of cash and cash equivalents and $31.7 million borrowing capacity on our revolving credit facility as defined in Note 7. The portion of this capacity that we could borrow will depend on our financial results and ability to comply with certain borrowing conditions under the revolving credit facility. As of March 31, 2006, our liquidity, including available borrowings and cash and cash equivalents was approximately $42.8 million.

While we can offer no assurances, we believe that our cash flow from operations, together with current cash and cash equivalents, will be sufficient to fund necessary capital expenditures, meet operating expenses and service our debt obligations for the foreseeable future.

Cash Flow

The following table provides a summary of cash flows for the nine month periods ended March 31, 2006 and March 31, 2005.

	Nine Months Ended March 31	
(millions)	2006	2005
Operating activities:		
Net income	$ 0.8	$ 11.4
Noncash charges and credits, net	36.0	47.9
Changes in operating assets and liabilities, net	(11.8)	(1.5)
Net cash provided by operating activities	25.0	57.8
Investing activities:		
Purchases of property, plant and equipment	(41.1)	(23.0)
Proceeds from sale of assets and other	(0.4)	13.3
Net cash used in investing activities	(41.5)	(9.7)
Financing activities:		
Net borrowings under lines of credit	33.5	1.2
Payments on long-term debt and other	(16.6)	(67.3)
Other financing activities, net	0.5	2.7
Net cash provided by (used in) financing activities	17.4	(63.4)
Effect of foreign currency rate fluctuations on cash	0.3	1.1
Net increase/(decrease) in cash and cash equivalents	1.2	(14.2)

Cash provided by operating activities

The $32.8 million decrease in cash flows from operating activities during the nine months ended March 31, 2006 was partially the result of a decrease in earnings. Additionally, net income for the nine months ended March 31, 2005 included $12.0 million of non-cash impairment expenses versus $1.5 million for the nine months ended March 31, 2006. The combination of a decrease in net earnings and a decrease in the non-cash impairment charges accounted for $21.1 million of the reported decrease in operating cash flows. The remaining decline in cash provided by operating activities was a decline in accounts payable and other liabilities during the period ending March 31, 2006 versus an increase for the same period in 2005. Also contributing to the negative impact changes in operating assets and liabilities had on cash provided by operating activities was the increase in inventory values during the nine months ended March 31, 2006. These increases in inventories were primarily related to larger UltraFiber 500 inventory balances as we ramp up sales and higher inventory values due to higher costs to produce.

Although the closure of our Glueckstadt, Germany cotton cellulose facility reduced working capital in fiscal year 2006, this improvement was largely offset by the increased working capital requirements at our Americana, Brazil and Memphis, Tennessee specialty fibers facilities during fiscal 2006. Overall, we do not expect changes in operating assets and liabilities will be significant contributors to operating cash flow over fiscal 2006.

Net cash used in investing activities

Purchases of property, plant and equipment increased during the nine months ended March 31, 2006 versus the same period in 2005 primarily due to expenditures related to the project to add full market capability to our Americana, Brazil cotton cellulose facility. The total cost of this facility improvement was approximately $31 million, of which approximately $19.8 million was spent during the nine months ended March 31, 2006. We do not expect any significant additional spending related to the Americana facility upgrade. We expect that our total capital expenditures excluding capitalized interest will be approximately $45 million for fiscal 2006.

The generation of cash through investing activities during the nine months ended March 31, 2005 resulted from our sale of the Cork, Ireland building and equipment during December 2004 for net proceeds of $13.2 million.

We expect to incur significant capital expenditures in the future to comply with remaining environmental obligations at our Perry, Florida specialty fibers facility. Based on current estimates, we expect expenditures of approximately $60 million over several years, possibly beginning as early as fiscal year 2007. See Note 20, Contingencies, to the Consolidated Financial Statements in our fiscal 2005 Annual Report filed on Form 10-K.

Net cash provided by (used in) financing activities

During the nine months ended March 31, 2006, we used net borrowings on our revolving credit facility to finance the capital investments we are making in our Americana, Brazil facility. We also used net borrowings on the revolver to redeem, at par, $15 million principal amount of our high interest rate, 9.25%, senior subordinated notes due in 2008. We intend to continue to redeem portions of the remaining $65 million of these notes over the next few years ahead of their maturity in the fall of 2008. These partial redemptions will be limited by available cash and our capacity to make restricted cash payments under our other debt instruments. We are focused on debt reduction with a target of a 50/50 debt to equity balance in our capital structure.

Treasury stock

Our board of directors has authorized the repurchase of up to 6 million shares of our common stock. Under this authorization, we will hold the repurchased shares as treasury stock and such shares will be available for general corporate purposes, including the funding of employee benefit and stock-related plans. We repurchased no shares of our common stock during the nine months ended March 31, 2006 and expect to make no such repurchases in the balance of fiscal 2006. Through March 31, 2006, we had repurchased a total of 5,009,300 shares under the current board authority.

Contractual obligations

There have been no material changes to our contractual obligations since our disclosure in our Annual Report on Form 10-K. The following table summarizes our significant contractual cash obligations as of March 31, 2006. Certain of these contractual obligations are reflected in our balance sheet, while others are disclosed as future obligations under accounting principles generally accepted in the United States.

(millions)	Payments Due by Period				
Contractual Obligations	Total	Fiscal 2006 [1]	Fiscal 2007 and 2008	Fiscal 2009 and 2010	Thereafter
Long-term obligations [2]	$ 801.4	$ 17.0	$ 97.5	$ 271.4	$ 415.5
Capital lease obligations [3]	1.8	0.2	1.2	0.4	-
Operating leases	3.4	0.6	2.7	0.1	-
Timber commitments	61.2	3.2	24.8	26.4	6.8
Lint commitments	14.8	14.8	-	-	-
Other purchase commitments [4]	10.2	7.4	2.8	-	-
Total contractual cash obligations	$ 892.8	$ 43.2	$ 129.0	$ 298.3	$ 422.3

[1] Cash obligations for the remainder of fiscal 2006.

[2] Amounts include related interest payments. Interest payments for variable debt of $131.9 million are based on the effective rate as of March 31, 2006 of 7.0% per annum.

[3] Capital lease obligations represent principal and interest payments.

[4] The majority of other purchase commitments are take-or-pay contracts made in the ordinary course of business related to utilities and raw material purchases.

Critical Accounting Policies

The preparation of financial statements in accordance with accounting principles generally accepted in the United States requires management to adopt accounting policies and make significant judgments and estimates to develop amounts reflected and disclosed in the financial statements. Management bases these estimates and assumptions on historical data and trends, current fact patterns, expectations and other sources of information they believe are reasonable. In many cases, there are alternative policies or estimation techniques that could be used. We maintain a thorough process to review the application of our accounting policies and to evaluate the appropriateness of the many estimates that are required to prepare the financial statements. However, even under optimal circumstances, estimates routinely require adjustment based on changing circumstances and the receipt of new or better information.

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The four critical accounting policies that we believe are either the most judgmental, or involve the selection or application of alternative accounting policies, and are material to our financial statements are those relating to allowance for doubtful accounts, deferred income taxes, depreciation and long-lived assets. Further information regarding our “Critical Accounting Policies” can be found in the "Management's Discussion and Analysis of Financial Condition and Results of Operations" in our Annual Report. Further information regarding inventories may be found in Note 6 to the financial statements of this quarterly report. Management has discussed the development and selection of these critical accounting policies and estimates with the Audit Committee of our Board of Directors and with our independent registered public accounting firm. In addition, Note 1 to the financial statements in our Annual Report contains a summary of our significant accounting policies.

Forward-Looking Statements

This document contains both historical and forward-looking statements. All statements other than statements of historical fact are, or may be deemed to be, forward-looking statements within the meaning of section 27A of the Securities Act of 1933, as amended, and section 21E of the Securities Exchange Act of 1934, as amended. These forward-looking statements are not based on historical facts, but rather reflect management’s current expectations concerning future results and events. These forward-looking statements generally can be identified by the use of statements that include phrases such as "believe," "expect," "anticipate," "intend," "plan," "foresee," "likely," "will" or other similar words or phrases. Similarly, statements that describe management’s objectives, plans or goals are or may be forward-looking statements. These forward-looking statements involve known and unknown risks, uncertainties and other factors that are difficult to predict and which may cause the actual results, performance or achievements to be different from any future results, performance and achievements expressed or implied by these statements. The following important factors, among others, could affect future results, causing these results to differ materially from those expressed in our forward-looking statements: pricing fluctuations and worldwide economic conditions; dependence on a single customer; fluctuation in the costs of raw materials and energy resources; competition; changes in fair values of long-lived assets; inability to predict the scope of future environmental compliance costs or liabilities; inability to predict the scope of future restructuring costs or liabilities; and the ability to obtain additional capital, maintain adequate cash flow to service debt as well as meet operating needs. The forward-looking statements included in this document are only made as of the date of this document and we do not have any obligation to publicly update any forward-looking statements to reflect subsequent events or circumstances. For additional factors that could impact future results, please see our Annual Report.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

As of March 31, 2006, there have been no material changes in our market risk since the disclosure in our Annual Report. While we have global operations, the majority of our transactions are denominated in U.S. dollars. The distribution of our foreign currency denominated transactions is such that foreign currency declines in some areas of the world are often offset by foreign currency gains of equal magnitude in other areas of the world. The principal foreign currency exchange rate risks to which we are exposed are in the Canadian dollar, Brazilian real and European euro.

Item 4. Controls and Procedures

Under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, we conducted an evaluation as of March 31, 2006 of our disclosure controls and procedures, as such term is defined under Rule 13a-15(e) promulgated under the Securities Exchange Act of 1934, as amended (the "Exchange Act"). Based on that evaluation, our Chief Executive Officer and our Chief Financial Officer concluded that our disclosure controls and procedures were effective.

No changes in our internal control over financial reporting occurred during the quarter that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II - OTHER INFORMATION

Items 1, 2, 3, 4 and 5 are not applicable and have been omitted.

Item 6. Exhibits

3.2	Amended and Restated By-laws of the Registrant
31.1	Rule 13a-14(a)/15d-14(a) Certification of Chief Executive Officer
31.2	Rule 13a-14(a)/15d-14(a) Certification of Chief Financial Officer
32.1	Section 1350 Certification of Chief Executive Officer
32.2	Section 1350 Certification of Chief Financial Officer

SIGNATURES

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

BUCKEYE TECHNOLOGIES INC.

By: /S/ DAVID B. FERRARO

David B. Ferraro, Chief Executive Officer

Date: April 26, 2006

By: /S/ KRISTOPHER J. MATULA

Kristopher J. Matula, Executive Vice President and Chief Financial Officer

Date: April 26, 2006