

**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION**  
Washington, D.C. 20549

**FORM 10-Q**

(Mark One)

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

For the quarterly period ended September 30, 2023

or

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

For the transition period from            to

Commission file number: 001-16465

**Retractable Technologies, Inc.**

(Exact name of registrant as specified in its charter)

**Texas**  
(State or other jurisdiction of  
incorporation or organization)

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

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

**75068-5295**  
(Zip Code)

**(972) 294-1010**  
(Registrant's telephone number, including area code)

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

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

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common Stock	RVP	NYSE American

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

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted 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 such files). Yes ☒ No ☐

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

Large accelerated filer	<input type="checkbox"/>	Accelerated filer	<input type="checkbox"/>
Non-accelerated filer	<input checked="" type="checkbox"/>	Smaller reporting company	<input checked="" type="checkbox"/>
		Emerging growth company	<input type="checkbox"/>

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

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

APPLICABLE ONLY TO ISSUERS INVOLVED IN BANKRUPTCY  
PROCEEDINGS DURING THE PRECEDING FIVE YEARS:

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

APPLICABLE ONLY TO CORPORATE ISSUERS

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date: 29,937,159 shares of Common Stock outstanding, excluding 4,087,145 treasury shares, on November 1, 2023.

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RETRACTABLE TECHNOLOGIES, INC.  
FORM 10-Q  
For the Quarterly Period Ended September 30, 2023

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# PART I—FINANCIAL INFORMATION

## Item 1. Financial Statements.

### RETRACTABLE TECHNOLOGIES, INC. CONDENSED BALANCE SHEETS (unaudited)

	September 30, 2023	December 31, 2022
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 11,257,822	\$ 19,721,345
Accounts receivable, net	8,180,244	4,835,119
Receivable from Technology Investment Agreement (TIA)	—	2,025,413
Investments in debt and equity securities, at fair value	33,649,141	29,657,314
Inventories	22,466,954	20,684,168
Income taxes receivable	1,143,930	10,619,835
Prepaid estimated taxes	4,295	4,295
Other current assets	1,095,053	1,262,221
Total current assets	77,797,439	88,809,710
Property, plant, and equipment, net	95,025,849	100,152,768
Deferred tax asset	8,533,602	6,518,663
Other assets	159,515	184,524
Total assets	\$ 181,516,405	\$ 195,665,665
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Current liabilities:		
Accounts payable	\$ 3,393,351	\$ 6,404,925
Current portion of long-term debt	297,257	285,954
Accrued compensation	728,889	997,530
Dividends payable	1,417,937	1,417,937
Accrued royalties to shareholder	794,388	973,701
Other accrued liabilities	2,589,845	1,992,144
Income taxes payable	40,368	63,631
Total current liabilities	9,262,035	12,135,822
Other long-term liabilities	71,517,656	75,459,612
Long-term debt, net of current maturities	1,312,330	1,533,422
Total liabilities	82,092,021	89,128,856
Commitments and contingencies – see Note 8		
Stockholders' equity:		
Preferred stock, \$1 par value:		
Class B; authorized: 5,000,000 shares		
Series II, Class B	156,200	156,200
Series III, Class B	76,245	76,245
Common Stock, no par value	—	—
Additional paid-in capital	73,164,501	73,164,501
Retained earnings	38,916,116	46,028,541
Common stock in treasury – at cost	(12,888,678)	(12,888,678)
Total stockholders' equity	99,424,384	106,536,809
Total liabilities and stockholders' equity	\$ 181,516,405	\$ 195,665,665

See accompanying notes to condensed unaudited financial statements

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

	Three Months Ended September 30, 2023	Three Months Ended September 30, 2022	Nine Months Ended September 30, 2023	Nine Months Ended September 30, 2022
Sales, net	\$ 10,335,031	\$ 23,061,285	\$ 29,307,413	\$ 82,140,204
Cost of sales:				
Cost of manufactured product	5,219,962	16,835,848	19,522,722	53,225,651
Royalty expense to shareholder	794,388	1,488,811	2,217,575	4,963,406
Total cost of sales	6,014,350	18,324,659	21,740,297	58,189,057
Gross profit	4,320,681	4,736,626	7,567,116	23,951,147
Operating expenses:				
Sales and marketing	1,368,112	1,174,675	4,263,735	3,258,435
Research and development	150,957	105,749	419,475	407,675
General and administrative	3,737,479	4,146,821	11,592,965	13,311,488
Total operating expenses	5,256,548	5,427,245	16,276,175	16,977,598
Income (loss) from operations	(935,867)	(690,619)	(8,709,059)	6,973,549
Other income - TIA	1,447,975	861,850	4,479,773	1,954,404
Unrealized loss on debt and equity securities	(6,538,568)	(615,215)	(11,298,207)	(1,187,629)
Gain on sale of equity securities	—	—	5,574,791	—
Interest and other income	768,863	105,661	1,197,329	201,152
Interest expense	(36,087)	(40,273)	(117,110)	(125,746)
Income (loss) before income taxes	(5,293,684)	(378,596)	(8,872,483)	7,815,730
Benefit for income taxes	(1,233,188)	(5,763,850)	(1,934,393)	(1,544,383)
Net income (loss)	(4,060,496)	5,385,254	(6,938,090)	9,360,113
Preferred Stock dividend requirements	(58,111)	(58,111)	(174,335)	(174,333)
Net income (loss) applicable to common shareholders	\$ (4,118,607)	\$ 5,327,143	\$ (7,112,425)	\$ 9,185,780
Basic earnings (loss) per share	\$ (0.14)	\$ 0.16	\$ (0.24)	\$ 0.28
Diluted earnings (loss) per share	\$ (0.14)	\$ 0.16	\$ (0.24)	\$ 0.28
Weighted average common shares outstanding:				
Basic	29,937,159	32,936,959	29,937,159	33,049,411
Diluted	29,937,159	33,229,866	29,937,159	33,358,225

See accompanying notes to condensed unaudited financial statements

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

	Nine Months Ended September 30, 2023	Nine Months Ended September 30, 2022
<b>Cash flows from operating activities</b>		
Net income (loss)	\$ (6,938,090)	\$ 9,360,113
Adjustments to reconcile net income (loss) to net cash from operating activities:		
Depreciation and amortization	5,826,203	2,984,785
Net unrealized loss on investments	11,298,207	1,187,629
Realized (gain) loss on investments	(5,574,791)	38,378
Accreted interest	9,157	46,957
Deferred taxes	(2,014,939)	3,893,874
Provision for doubtful accounts	452,547	—
Share-based compensation	—	3,433,972
Inventory Reduction	172,203	—
Other income - TIA	(4,479,773)	(1,954,404)
(Increase) decrease in operating assets:		
Accounts receivable	(3,797,674)	16,957,532
Inventories	(1,954,988)	2,070,742
Other current assets	167,166	(65,312)
Income taxes receivable	9,475,906	—
Prepaid estimated taxes	—	(13,027,101)
Other assets	25,008	—
Increase (decrease) in operating liabilities:		
Accounts payable	(3,011,574)	(12,271,594)
Accrued liabilities	1,241,700	(3,067,833)
Income taxes payable	(23,263)	(4,959,878)
Net cash from operating activities	<u>873,005</u>	<u>4,627,860</u>
<b>Cash flows from investing activities</b>		
Purchase of property, plant, and equipment	(699,283)	(13,880,546)
Purchase of debt and equity securities	(68,287,428)	(16,196,164)
Proceeds from the sales of debt and equity securities	58,572,186	1,924,769
Net cash from investing activities	<u>(10,414,525)</u>	<u>(28,151,941)</u>
<b>Cash flows from financing activities</b>		
Repayments of long-term debt	(209,789)	(213,661)
Proceeds from Technology Investment Agreement (TIA)	2,563,229	12,092,638
Proceeds from the exercise of stock options	—	13,800
Payment of preferred stock repurchase payable	(1,101,110)	(1,101,110)
Payment of preferred stock dividends	(174,333)	(194,768)
Repurchase of common stock	—	(2,818,177)
Net cash from financing activities	<u>1,077,997</u>	<u>7,778,722</u>
Net decrease in cash and cash equivalents	(8,463,523)	(15,745,359)
Cash and cash equivalents at:		
Beginning of period	19,721,345	29,162,913
End of period	<u>\$ 11,257,822</u>	<u>\$ 13,417,554</u>
Supplemental schedule of cash flow information:		
Interest paid	\$ 71,867	\$ 78,789
Income taxes paid	\$ —	\$ 12,323,857
Supplemental schedule of noncash investing and financing activities:		
Preferred dividends declared, not paid	\$ —	\$ 1,417,937
Amounts receivable under Technology Investment Agreement (TIA)	\$ —	\$ 1,836,826
Preferred stock repurchase payable	\$ —	\$ 1,084,795

See accompanying notes to condensed unaudited financial statements

**RETRACTABLE TECHNOLOGIES, INC.**  
**CONDENSED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY**  
(unaudited)

The following shows the changes in stockholders' equity for the three-month period ended September 30, 2023:

	Common Stock	Series II Class B Preferred Stock	Series III Class B Preferred Stock	Additional Paid-In Capital	Retained Earnings	Treasury Stock – at cost	Total
Balance at June 30, 2023	\$ —	\$156,200	\$ 76,245	\$73,164,501	\$43,034,723	\$(12,888,678)	\$103,542,991
Dividends	—	—	—	—	(58,111)	—	(58,111)
Net Loss	—	—	—	—	(4,060,496)	—	(4,060,496)
Balance at September 30, 2023	<u>\$ —</u>	<u>\$156,200</u>	<u>\$ 76,245</u>	<u>\$73,164,501</u>	<u>\$38,916,116</u>	<u>\$(12,888,678)</u>	<u>\$ 99,424,384</u>

The following shows the changes in stockholders' equity for the three-month period ended September 30, 2022:

	Common Stock	Series II Class B Preferred Stock	Series III Class B Preferred Stock	Additional Paid-In Capital	Retained Earnings	Treasury Stock – at cost	Total
Balance at June 30, 2022	\$ —	\$156,200	\$ 76,245	\$65,312,124	\$45,041,065	\$(8,088,678)	\$102,496,956
Stock Option Exercises	—	—	—	3,300	—	—	3,300
Dividends	—	—	—	—	(58,111)	—	(58,111)
Stock Option Compensation	—	—	—	1,157,236	—	—	1,157,236
Net Income	—	—	—	—	5,385,254	—	5,385,254
Balance at September 30, 2022	<u>\$ —</u>	<u>\$156,200</u>	<u>\$ 76,245</u>	<u>\$66,472,660</u>	<u>\$50,368,208</u>	<u>\$(8,088,678)</u>	<u>\$108,984,635</u>

The following shows the changes in stockholders' equity for the nine-month period ended September 30, 2023:

	Common Stock	Series II Class B Preferred Stock	Series III Class B Preferred Stock	Additional Paid-In Capital	Retained Earnings	Treasury Stock – at cost	Total
Balance at December 31, 2022	\$ —	\$156,200	\$ 76,245	\$73,164,501	\$46,028,541	\$(12,888,678)	\$106,536,809
Dividends	—	—	—	—	(174,335)	—	(174,335)
Net Loss	—	—	—	—	(6,938,090)	—	(6,938,090)
Balance at September 30, 2023	<u>\$ —</u>	<u>\$156,200</u>	<u>\$ 76,245</u>	<u>\$73,164,501</u>	<u>\$38,916,116</u>	<u>\$(12,888,678)</u>	<u>\$ 99,424,384</u>

The following shows the changes in stockholders' equity for the nine-month period ended September 30, 2022:

	Common Stock	Series II Class B Preferred Stock	Series III Class B Preferred Stock	Additional Paid-In Capital	Retained Earnings	Treasury Stock – at cost	Total
Balance at December 31, 2021	\$ —	\$156,200	\$ 76,245	\$63,024,888	\$41,182,429	\$(5,270,501)	\$ 99,169,261
Stock Option Exercises	—	—	—	13,800	—	—	13,800
Dividends	—	—	—	—	(174,334)	—	(174,334)
Stock Option Compensation	—	—	—	3,433,972	—	—	3,433,972
Repurchase of Common Stock - at cost	—	—	—	—	—	(2,818,177)	(2,818,177)
Net Income	—	—	—	—	9,360,113	—	9,360,113
Balance at September 30, 2022	<u>\$ —</u>	<u>\$156,200</u>	<u>\$ 76,245</u>	<u>\$66,472,660</u>	<u>\$50,368,208</u>	<u>\$(8,088,678)</u>	<u>\$108,984,635</u>

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

**1. BUSINESS OF THE COMPANY AND BASIS OF PRESENTATION**

**Business of the Company**

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

**Basis of presentation**

The accompanying condensed financial statements are unaudited and, in the opinion of Management, reflect all adjustments that are necessary for a fair presentation of the financial position and results of operations for the periods presented. All such adjustments are of a normal and recurring nature. The results of operations for the periods presented are not necessarily indicative of the results to be expected for the entire year. The unaudited condensed financial statements should be read in conjunction with the financial statement disclosures contained in the Company's audited financial statements incorporated into its Form 10-K filed on March 30, 2023 for the year ended December 31, 2022.

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Accounting estimates**

The preparation of financial statements in conformity with U.S. generally accepted accounting principles ("GAAP") requires Management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ significantly from those estimates. The amount reported as a contractual allowance for rebates involves examination of past historical trends related to sales to customers and the related credits issued once contractual obligations of the customers have been met. The establishment of a liability for future claims of rebates against sales in the current period requires that the Company has an understanding of the relevant sales with respect to product categories, sales distribution channels, and the likelihood of contractual obligations being satisfied.

**Cash and cash equivalents**

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

**Accounts receivable**

The Company records trade receivables when revenue is recognized. No product has been consigned to customers. The Company's allowance for doubtful accounts is primarily determined by review of specific trade receivables. Those accounts that are doubtful of collection are included in the allowance. This provision is reviewed to determine



the adequacy of the allowance for doubtful accounts. Trade receivables are charged off when there is certainty as to their being uncollectible. Trade receivables are considered delinquent when payment has not been made within contract terms. The allowance for doubtful accounts was \$716,148 and \$675,208 as of September 30, 2023 and December 31, 2022, respectively.

The Company requires certain customers to make a prepayment prior to beginning production or shipment of their order. Customers may apply such prepayments to their outstanding invoices or pay the invoice and continue to carry forward the deposit for future orders. Such amounts are included in Other accrued liabilities on the Condensed Balance Sheets and are shown in Note 6, Other Accrued Liabilities.

The Company records an allowance for estimated returns as a reduction to Accounts receivable and Gross sales. Historically, returns have been insignificant.

#### **Inventories**

Inventories are valued at the lower of cost or net realizable value, with cost being determined using actual average cost. The Company compares the average cost to the net realizable value and records the lower value. Net realizable value is the estimated selling price in the ordinary course of business, less reasonably predictable costs of completion, disposal, and transportation. As of September 30, 2023, the company recorded a \$31 thousand lower of cost or net realizable value inventory adjustment associated with the VanishPoint® 3mL product segment. There was no lower of cost or net realizable value inventory adjustment as of December 31, 2022.

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. Once inventory items are deemed to be either excess or obsolete, they are written down to their net realizable value. As of September 30, 2023 and December 31, 2022, our inventory reserve was \$438 thousand and \$297 thousand, respectively.

#### **Investments in debt and equity securities**

The Company holds mutual funds, debt and equity securities as investments. These assets are readily marketable and are carried at fair value as of the date of the Condensed Balance Sheets. Net unrealized and realized gains or losses on these investments are reflected separately on the Condensed Statements of Operations. Realized gains or losses on investments are recognized using the specific identification method.

#### **Property, plant, and equipment**

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

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

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

### Long-lived assets

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

### Fair value measurements

For assets and liabilities that are measured using quoted prices in active markets, total fair value is the published market price per unit multiplied by the number of units held without consideration of transaction costs. Assets and liabilities that are measured using significant other observable inputs are valued by reference to similar assets or liabilities, adjusted for contract restrictions and other terms specific to that asset or liability. For these items, a significant portion of fair value is derived by reference to quoted prices of similar assets or liabilities in active markets. For all remaining assets and liabilities, fair value is derived using a fair value model, such as a discounted cash flow model or Black-Scholes model.

### Financial instruments

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

### Concentration risks

The Company's financial instruments exposed to concentrations of credit risk consist primarily of cash, cash equivalents, certificates of deposit, exchange-traded and closed-end funds, mutual funds, equity securities, and accounts receivable. Cash balances, some of which exceed federally insured limits, are maintained in financial institutions; however, Management believes the institutions are of high credit quality. The Company assesses market risk in equity securities through consultation with its outside investment advisors. Management is responsible for directing investment activity based on current economic conditions. The majority of accounts receivable are due from companies which are well-established entities. Management considers any exposure from concentrations of credit risks to be limited.

The following table reflects our significant customers for the three-month and nine-month periods ended September 30, 2023 and 2022:

	Three Months Ended September 30, 2023	Three Months Ended September 30, 2022	Nine Months Ended September 30, 2023	Nine Months Ended September 30, 2022
Number of significant customers	3	2	3	4
Aggregate dollar amount of net sales to significant customers	\$ 5.7 million	\$ 15.5 million	\$ 14.3 million	\$ 60.0 million
Percentage of net sales to significant customers	55.0%	67.4%	49.0%	73.0%

The Company manufactures some of its products in Little Elm, Texas as well as utilizing manufacturers in China. The Company obtained roughly 90% and 92% of its products in the first nine months of 2023 and 2022, respectively, from its Chinese manufacturers. Purchases from Chinese manufacturers aggregated 91% and 94% of products in the third quarter of 2023 and 2022, respectively. In the event that the Company becomes unable to purchase products from its Chinese manufacturers, the Company may need to find an alternate manufacturer for its blood collection set, EasyPoint® blood collection tube holder with needle, IV catheter, Patient Safe ® syringe, 0.5mL insulin syringe, 0.5mL autodisable syringe, and 2mL, 5mL, and 10mL syringes, and would increase domestic production for the 1mL and 3mL syringes and EasyPoint® needles.

#### **Revenue recognition**

The Company recognizes revenue when control of performance obligations passes to the customer, generally when the product ships. Payments from customers with approved credit terms are typically due 30 days from the invoice date. Under certain contracts, revenue is recorded on the basis of sales price to distributors, less contractual pricing allowances. Contractual pricing allowances consist of: (i) rebates granted to distributors who provide tracking reports which show, among other things, the facility that purchased the products, and (ii) a provision for estimated contractual pricing allowances for products for which the Company has not received tracking reports. When rebates are issued, they are applied against the customer's receivable balance. Distributors receive a rebate for the difference between the Wholesale Acquisition Cost and the appropriate contract price as reflected on a tracking report provided by the distributor to the Company. If product is sold by a distributor to an entity that has no contract, there is a standard rebate (lower than a contracted rebate) given to the distributor. One of the purposes of the rebate is to encourage distributors to submit tracking reports to the Company. The provision for contractual pricing allowances is recognized in the period the related sales are recognized and is reviewed at the end of each quarter and adjusted for changes in levels of products for which there is no tracking report. Additionally, if it becomes clear that tracking reports will not be provided by individual distributors, the provision is further adjusted. The estimated contractual allowance is included in Accounts payable in the Condensed Balance Sheets and deducted from Revenues in the Condensed Statements of Operations. Accounts payable included estimated contractual allowances for \$2.7 million and \$3.0 million as of September 30, 2023 and December 31, 2022, respectively. The terms and conditions of contractual pricing allowances are governed by contracts between the Company and its distributors. Revenue for shipments directly to end-users is recognized when title and risk of ownership pass from the Company. End-users do not receive any contractual allowances on their purchases. Any product shipped or distributed for evaluation purposes is expensed.

The Company provides product warranties that: i) the products are fit for medical use as generally defined within the boundaries of United States FDA approval; ii) the products are not defective; and iii) the products will conform to the descriptions set forth in their respective labeling, provided that they are used in accordance with such labeling and the Company's written directions for use. The Company has historically not incurred significant warranty claims.

The Company's domestic return policy provides that a customer may return incorrect shipments within 10 days following arrival at the distributor's facility. In all such cases, the distributor must obtain an authorization code from the Company and affix the code to the returned product. The Company's domestic return policy also generally provides that a customer may return product that is overstocked. Overstocking returns are limited to two times in each 12-month period up to 1% of distributor's total purchase of products for the prior 12-month period. All product overstocks and returns are subject to inspection and acceptance by the Company. The Company has not historically incurred significant returns.

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

The Company requires certain customers to pay in advance of product shipment. Such prepayments from customers are recorded in Other accrued liabilities and are generally recognized as revenue upon shipment of the product.

The Company periodically recognizes revenue from licensing agreements. If the Company licenses its products for sale and the customers of the sublicensee are not known to the Company, the Company is obligated to pay Thomas J.

Shaw, the owner of certain patented technology, fifty percent ( 50%) of such revenue pursuant to the terms of the Technology License Agreement between the Company and Mr. Shaw.

Disaggregated information of revenue recognized from contracts with customers and licensing fees recognized are as follows:

For the three months ended September 30, 2023:					
Geographic Segment	Syringes	Blood Collection Products	EasyPoint® Needles	Other Products	Total Product Sales
U.S. sales	\$ 6,439,220	\$ 379,135	\$ 2,566,161	\$ 8,221	\$ 9,392,737
Sales to U.S. government	—	—	—	—	—
North and South America sales (excluding U.S.)	825,480	—	—	14,250	839,730
Other international sales	87,694	10,920	3,800	150	102,564
Total	<u>\$ 7,352,394</u>	<u>\$ 390,055</u>	<u>\$ 2,569,961</u>	<u>\$ 22,621</u>	<u>\$ 10,335,031</u>
For the three months ended September 30, 2022:					
Geographic Segment	Syringes	Blood Collection Products	EasyPoint® Needles	Other Products	Total Product Sales
U.S. sales (excluding U.S. government)	\$ 6,947,856	\$ 815,964	\$ 1,426,060	\$ 7,253	\$ 9,197,133
Sales to U.S. government	—	—	—	—	—
North and South America sales (excluding U.S.)	9,825,120	—	—	16,416	9,841,536
Other international sales	3,915,102	8,590	97,724	1,200	4,022,616
Total	<u>\$ 20,688,078</u>	<u>\$ 824,554</u>	<u>\$ 1,523,784</u>	<u>\$ 24,869</u>	<u>\$ 23,061,285</u>
For the nine months ended September 30, 2023:					
Geographic Segment	Syringes	Blood Collection Products	EasyPoint® Needles	Other Products	Total Product Sales
U.S. sales (excluding U.S. government)	\$ 17,022,384	\$ 1,123,808	\$ 3,944,284	\$ 26,385	\$ 22,116,861
Sales to U.S. government	—	—	—	—	—
North and South America sales (excluding U.S.)	5,596,992	—	—	226,290	5,823,282
Other international sales	959,548	224,868	178,004	4,850	1,367,270
Total	<u>\$ 23,578,924</u>	<u>\$ 1,348,676</u>	<u>\$ 4,122,288</u>	<u>\$ 257,525</u>	<u>\$ 29,307,413</u>
For the nine months ended September 30, 2022:					
Geographic Segment	Syringes	Blood Collection Products	EasyPoint® Needles	Other Products	Total Product Sales
U.S. sales (excluding U.S. government)	\$ 22,220,324	2,419,915	4,294,603	36,941	\$ 28,971,783
Sales to U.S. government	15,731,136	—	—	—	15,731,136
North and South America sales (excluding U.S.)	24,421,790	—	2,608	232,834	24,657,232
Other international sales	12,418,679	255,204	103,420	2,750	12,780,053
Total	<u>\$ 74,791,929</u>	<u>\$ 2,675,119</u>	<u>\$ 4,400,631</u>	<u>\$ 272,525</u>	<u>\$ 82,140,204</u>

## Income taxes

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

The Company provides for deferred income taxes through utilizing an asset and liability approach for financial accounting and reporting based on the tax effects of differences between the financial statement and tax bases of assets and liabilities, based on enacted rates expected to be in effect when such differences reverse in future periods. Deferred tax assets are periodically reviewed for realizability. Management has concluded that a \$283 thousand valuation allowance is needed for state net operating losses as of September 30, 2023 and December 31, 2022.

## Earnings per share

The Company computes basic earnings per share ("EPS") by dividing net earnings for the period (adjusted for any cumulative dividends for the period) by the weighted average number of common shares outstanding during the period. Diluted EPS includes the determinants of basic EPS and, in addition, reflects the dilutive effect, if any, of the common stock deliverable pursuant to stock options and/or common stock issuable upon the conversion of convertible preferred stock.

The calculation of diluted EPS under the treasury stock method included the following shares in the three-month and nine-month periods ending September 30, 2023 and 2022:

	Three Months Ended September 30, 2023	Three Months Ended September 30, 2022	Nine Months Ended September 30, 2023	Nine Months Ended September 30, 2022
Common Stock underlying issued and outstanding stock options	6,408	60,462	17,904	76,370
Common stock issuable upon the conversion of convertible preferred shares	232,445	232,445	232,445	232,445
	<u>238,853</u>	<u>292,907</u>	<u>250,349</u>	<u>308,815</u>

The potential dilution, if any, is shown on the following schedule:

	Three Months Ended September 30, 2023	Three Months Ended September 30, 2022	Nine Months Ended September 30, 2023	Nine Months Ended September 30, 2022
Net income (loss)	\$ (4,060,496)	\$ 5,385,254	\$ (6,938,090)	\$ 9,360,113
Preferred stock dividend requirements	(58,111)	(58,111)	(174,335)	(174,333)
Income (loss) applicable to common shareholders	<u>\$ (4,118,607)</u>	<u>\$ 5,327,143</u>	<u>\$ (7,112,425)</u>	<u>\$ 9,185,780</u>
Average common shares outstanding	<u>29,937,159</u>	<u>32,936,959</u>	<u>29,937,159</u>	<u>33,049,411</u>
Average common and common equivalent shares outstanding — assuming dilution	<u>29,937,159</u>	<u>33,229,866</u>	<u>29,937,159</u>	<u>33,358,225</u>
Basic earnings (loss) per share	<u>\$ (0.14)</u>	<u>\$ 0.16</u>	<u>\$ (0.24)</u>	<u>\$ 0.28</u>
Diluted earnings (loss) per share	<u>\$ (0.14)</u>	<u>\$ 0.16</u>	<u>\$ (0.24)</u>	<u>\$ 0.28</u>

## Shipping and handling costs

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

### **Share-based Compensation**

The Company's share-based payments are accounted for using the Black-Scholes fair value method. The Company generally records share-based compensation expense on a straight-line basis over the requisite service period. The Company records forfeitures as they occur.

### **Self-insured employee benefit costs**

The Company self-insures certain health insurance benefits for its employees under certain policy limits. The Company has additional coverage provided by an insurance company for any individual with claims in excess of \$100,000 and/or total plan claims in excess of \$ 1.7 million for the plan year.

### **Research and development costs**

Research and development costs are expensed as incurred.

### **Technology Investment Agreement (TIA)**

Effective July 1, 2020, the Company entered into a Technology Investment Agreement ("TIA") with the United States Government Department of Defense, U.S. Army Contracting Command-Aberdeen Proving Ground, Natick Contracting Division & Edgewood Contracting Division (ACC-APG, NCD & ECD) on behalf of the Biomedical Advanced Research and Development Authority (BARDA), as amended, for \$81,029,518 in government funding for expanding the Company's domestic production of needles and syringes. Pursuant to the terms of the TIA, the Company has made significant additions to its facilities which allows the Company to increase domestic production capacity.

The amounts set forth as Receivable from Technology Investment Agreement (TIA) in the Condensed Balance Sheets represent amounts receivable under the TIA. The amounts represented advance requests or reimbursement requests for expenditures. As reimbursements were received from the U.S. government for such expenditures, the Company recorded a deferred liability. In 2021, the deferred liability began to be systematically amortized as a gain over the life of the related property, plant, and equipment and is presented as Other income – TIA on the Condensed Statements of Operations. For any reimbursements received for expenditures not capitalized as property, plant, and equipment, Other income – TIA was recognized in the same period as the expense.

### **Recently Issued Pronouncements**

In June 2022, the FASB issued ASU 2022-03, "Fair Value Measurement (Topic 820): Fair Value Measurement of Equity Securities Subject to Contractual Sale Restrictions", intended to clarify that a contractual restriction on the sale of an equity security is not considered part of the unit of account of the equity security and, therefore, is not considered in measuring fair value. The amendment also clarifies that an entity cannot, as a separate unit of account, recognize and measure a contractual sale restriction. ASU No. 2022-03 is effective for public business entities for fiscal years, including interim periods within those fiscal years, beginning after December 15, 2023. Early adoption is permitted. For all other entities, it is effective for fiscal years, including interim periods within those fiscal years beginning after December 15, 2024. Early adoption is permitted for both interim and annual financial statements that have not yet been issued or made available for issuance. The adoption of the amendments is unlikely to have a material effect on the Company's financial statements or disclosures.

### 3. INVENTORIES

Inventories consist of the following:

	September 30, 2023	December 31, 2022
Raw materials	\$ 4,534,246	\$ 4,896,904
Finished goods	17,932,708	15,787,264
	<u>\$ 22,466,954</u>	<u>\$ 20,684,168</u>

### 4. FAIR VALUE OF FINANCIAL INSTRUMENTS

ASC 820, "Fair Value Measurements", defines fair value, establishes a framework for measuring fair value and requires additional disclosures regarding certain fair value measurements. ASC 820 establishes a three-tier hierarchy for measuring fair value, as follows:

- Level 1 – quoted market prices in active markets for identical assets and liabilities
- Level 2 – inputs other than quoted prices that are directly or indirectly observable
- Level 3 – unobservable inputs where there is little or no market activity

The following tables summarize the values of assets designated as Investments in debt and equity securities:

	September 30, 2023			
	Level 1	Level 2	Level 3	Total
Equity securities	\$ 17,635,793	—	—	\$ 17,635,793
Mutual funds	15,389,017	—	—	15,389,017
Municipal bonds	624,331	—	—	624,331
	<u>\$ 33,649,141</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 33,649,141</u>

	December 31, 2022			
	Level 1	Level 2	Level 3	Total
Equity securities	\$ 27,692,459	\$ —	\$ —	\$ 27,692,459
Mutual funds	1,302,973	—	—	1,302,973
Municipal bonds	661,882	—	—	661,882
	<u>\$ 29,657,314</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 29,657,314</u>

The investment assets are readily marketable and are carried at fair value as of the date of the Condensed Balance Sheets. The Company intends to hold these assets for possible future operating requirements. The following table summarizes gross unrealized gains and losses from Investments in debt and equity securities:

	September 30, 2023			
	Cost	Cumulative Unrealized Gains	Cumulative Unrealized Losses	Aggregate Fair Value
Equity securities	24,074,113	—	(6,438,320)	17,635,793
Mutual funds	15,381,743	7,274	—	15,389,017
Municipal bonds	635,177	—	(10,846)	624,331
	<u>\$ 40,091,033</u>	<u>\$ 7,274</u>	<u>\$ (6,449,166)</u>	<u>\$ 33,649,141</u>

	December 31, 2022			
	Cost	Cumulative Unrealized		Aggregate Fair Value
		Gains	Losses	
Equity securities	\$ 22,913,739	\$ 4,778,720	\$ —	\$ 27,692,459
Mutual funds	1,252,804	50,169	—	1,302,973
Municipal bonds	634,455	27,427	—	661,882
	<u>\$ 24,800,998</u>	<u>\$ 4,856,316</u>	<u>\$ —</u>	<u>\$ 29,657,314</u>

Unrealized losses on investments in debt and equity securities were \$(11.3) million and \$(1.2) million for the nine months ended September 30, 2023 and 2022, respectively.

## 5. INCOME TAXES

The Company's effective tax rate on the net loss before income taxes was 23.3% and 1,522% for the three months ended September 30, 2023 and 2022, respectively. The Company's effective tax rate on the net income (loss) before income taxes was 22.4% and (19.8)% for the nine months ended September 30, 2023 and 2022, respectively.

A reconciliation of the federal statutory corporate tax rate to the Company's effective tax rate is as follows:

	Nine Months Ended September 30, 2023	Nine Months Ended September 30, 2022
U.S. statutory federal tax rate	21.00 %	21.0 %
State tax, net of federal tax	0.13 %	0.6 %
Stock options	0.15 %	8.9 %
State tax nexus study	— %	(89.5)%
Rate Change	— %	34.3 %
Return-to-provision and other	1.14 %	4.9 %
Effective tax rate	<u>22.42 %</u>	<u>(19.8)%</u>

The Company uses the recognition and measurement provisions of the FASB ASC Topic 740, *Income Taxes* ("Topic 740"), to account for income taxes. The provisions of Topic 740 require a company to record a valuation allowance when the "more likely than not" criterion for realizing net deferred tax assets cannot be met. Furthermore, the weight given to the potential effect of such evidence should be commensurate with the extent to which it can be objectively verified. The Company reviewed the operating results, as well as all of the positive and negative evidence related to realization of such deferred tax assets, to evaluate the need for a valuation allowance at September 30, 2023 and 2022. As a result of this review, the Company concluded that a \$283 thousand valuation allowance is needed for state net operating losses as of September 30, 2023.

The effective tax rate for the nine months ended September 30, 2023 was different from the federal statutory rate due primarily to stock-based compensation and compensation limits under IRC Section 162(m). In the third quarter of 2022, the Company, in conjunction with its state and local tax advisors, began a thorough analysis of the income tax imposition and apportionment statutes, including the application of Public Law 86-272. As a result of this analysis, the Company's state income tax rate is lower for the nine months ended September 30, 2023 as compared to September 30, 2022.



## 6. OTHER ACCRUED LIABILITIES

Other accrued liabilities consist of the following:

	September 30, 2023	December 31, 2022
Prepayments from customers	\$ 286,388	\$ 435,916
Accrued property taxes	1,683,679	—
Accrued professional fees	489,088	254,584
Current portion – preferred stock repurchase	6,000	1,097,954
Other accrued expenses	124,690	203,690
Total	\$ 2,589,845	\$ 1,992,144

## 7. OTHER LONG-TERM LIABILITIES

Other long-term liabilities are comprised of the Technology Investment Agreement (TIA) which was \$ 71,517,656 at September 30, 2023 and \$75,459,612 at December 31, 2022. The TIA provides for reimbursement to the Company for the purchase of equipment and supplies related to the expansion of the Company's domestic production of needles and syringes. Under the TIA, reimbursable amounts are reflected as a liability until the time its deferred income can be systematically amortized over a period matching the useful life of the purchased assets.

## 8. COMMITMENTS AND CONTINGENCIES

On November 7, 2019, the Company filed a lawsuit in the 44<sup>th</sup> District Court of Dallas County, Texas (No. DC-19-17946) against Locke Lord, LLP and Roy Hardin in connection with their legal representation of the Company in its previous litigation against Becton, Dickinson and Company ("BD"). The Company alleged that the defendants breached their fiduciary duties, committed malpractice, and were negligent in their representation of the Company. The Company seeks actual and exemplary damages, disgorgement, costs, and interest. On September 2, 2022, the Company filed a Second Amended Petition alleging legal malpractice and negligence. Following an agreed motion for continuance, a jury trial date of February 26, 2024 has been set for this case.

## 9. BUSINESS SEGMENT

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

Revenues by geography are as follows:

	Three Months Ended September 30, 2023	Three Months Ended September 30, 2022	Nine Months Ended September 30, 2023	Nine Months Ended September 30, 2022
U.S. sales (excluding U.S. government)	\$ 9,392,737	\$ 9,197,133	\$ 22,116,861	\$ 28,971,783
Sales to U.S. government	—	—	—	15,731,136
North and South America sales (excluding U.S.)	839,730	9,841,536	5,823,282	24,657,232
Other international sales	102,564	4,022,616	1,367,270	12,780,053
Total sales	\$ 10,335,031	\$ 23,061,285	\$ 29,307,413	\$ 82,140,204

Long-lived assets by geography are as follows:

	September 30, 2023	December 31, 2022
Long-lived assets		
U.S.	\$ 90,705,204	\$ 95,587,561
International	4,320,645	4,565,207
Total	\$ 95,025,849	\$ 100,152,768

## 10. DIVIDENDS

A cash dividend of \$39,050 was paid within one month of each quarter's end in 2022 and in January, April, July, and October of 2023 to Series II preferred shareholders. Series III preferred shareholders were paid a cash dividend of \$39,495 in January 2022 and \$19,061 within one month of each remaining quarter's end in 2022 as well as in January, April, July, and October of 2023.

In June 2021, the Board of Directors approved payments to its Series II, Series III, and former Series IV and Series V Class B Preferred Shareholders in the cumulative amount of \$5,056,945 representing all current dividends, dividends in arrears, as well as dividends still owed to shareholders who converted their preferred stock in the past. The dividends were paid on July 22, 2021 to all shareholders who had been contacted and confirmed as the rightful owner entitled to payment. The Company has not yet established contact with all former shareholders, most of whom converted their shares prior to 2001. The Company is continuing its efforts to establish contact with approximately 90 former shareholders who are entitled to approximately \$1.4 million. This, along with the current declared dividends, are reflected in Dividends payable on the Condensed Balance Sheets.

## 11. EXCHANGE OF COMMON STOCK FOR PREFERRED STOCK

In 2020, the Company entered into several agreements with shareholders to purchase its outstanding Class B Convertible Preferred Stock. The consideration for these purchases consisted of both cash and Common Stock. In addition, in each such transaction, the preferred shareholder counterparty waived all rights to unpaid dividends in arrears. The aggregate cash consideration equaled \$3,786,000, of which \$482,670 was paid in 2020. The balance was paid in equal installments of \$1,101,110 over a three-year period which began in February 2021 and the last payment was made in February 2023.

## 12. STOCK OPTION EXPENSE

In March 2021, three officers were granted stock options for the purchase of a total of 1,350,000 shares under the 2021 Stock Option Plan. The options had a ten-year term and were to vest in their entirety three years from the grant date. The fair value of the 2021 grant was \$10.21 per share using the Black-Scholes option pricing model with a risk-free rate of 1.20%, an exercise price of \$13.00 per share and a volatility factor of 92.66%. The options as of December 2022 were considered deeply out-of-the-money as the exercise price was significantly higher than the then-current average market price. In December 2022, the board of directors canceled these options with no replacement awards or compensation to be provided to the three officers of the Company.

Stock options granted to executives and other employees are expensed for accounting purposes under the Stock Compensation Topic of the FASB Accounting Standards Codification (ASC). ASC 718-20-35-9 provides that a cancellation of an award that is not accompanied by the concurrent grant of (or offer to grant) a replacement award or other valuable consideration shall be accounted for as a repurchase for no consideration. Accordingly, any previously unrecognized compensation cost shall be recognized at the cancellation date. Under this guidance, the Company accelerated the recognition of all future stock option expense related to the option grants cancelled in December 2022. The impact to the financial statements for the year ended December 31, 2022 was the recognition of an additional \$5.5 million in stock option expense. Stock option expense was \$0 and \$3.4 million for the nine months ended September 30, 2023 and 2022, respectively.

### 13. TECHNOLOGY INVESTMENT AGREEMENT

Effective July 1, 2020, the Company entered into the TIA with the U.S. government to expand the Company's manufacturing capacity for hypodermic safety needles in response to the worldwide COVID-19 global pandemic. The award is an expenditure-type TIA, whereby the U.S. government has made payments to the Company for the Company's expenditures for equipment and supplies related to the expansion. The Company's contributions under the terms of the TIA include providing facilities, technical expertise, labor and maintenance for the TIA-funded equipment for a ten-year term. In May of 2021, the Company and the U.S. government amended the TIA agreement to include two additional assembly lines and additional controlled environment space.

As of September 30, 2023, the Company has received all equipment, has completed all property construction required by the TIA, and all reimbursement requests have been submitted. No further amounts for expansion under the TIA are expected to be submitted or collected.

### 14. STOCK REPURCHASES

The Company entered into a repurchase plan (the "Plan") dated June 4, 2021 with an independent broker for the purchase of up to \$10 million of the Company's Common Stock. The Plan was terminated on April 14, 2022. A total of 1,087,145 shares were purchased under the Plan for a total purchase price of \$ 8.1 million.

The Company entered into a private stock repurchase agreement effective December 2022 for the purchase of 3.0 million shares of Common Stock at \$1.60 per share for an aggregate purchase price of \$4.8 million.

These treasury share purchases are accounted for under the cost method and are included as a component of treasury stock in the Company's balance sheets.

Of the 100 million authorized shares of Common Stock, 34,024,304 shares were issued and 29,937,159 shares outstanding as of both December 31, 2022 and September 30, 2023.

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

### FORWARD-LOOKING STATEMENT WARNING

Certain statements included by reference in this filing containing the words "could," "may," "believes," "anticipates," "intends," "expects," and similar such words constitute forward-looking statements within the meaning of the Private Securities Litigation Reform Act. Any forward-looking statements involve known and unknown risks, uncertainties, and other factors that may cause 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: material changes in demand; potential tariffs; our ability to maintain liquidity; our maintenance of patent protection; our ability to maintain favorable third party manufacturing and supplier arrangements and relationships; foreign trade risk; our ability to access the market; production costs; the impact of larger market players in providing devices to the safety market; and any other factors referenced in Item 1A. Risk Factors in Part II. Given these uncertainties, undue reliance should not be placed on forward-looking statements.

### MATERIAL CHANGES IN FINANCIAL CONDITION AND RESULTS OF OPERATIONS

#### *Overview*

We have been manufacturing and marketing our products since 1997. VanishPoint® syringes comprised 80.5% of our sales in the first nine months of 2023. EasyPoint® products accounted for 14.1% of sales in the first nine months of 2023.

Our products have been and continue to be distributed nationally and internationally through numerous distributors. Some of our popular syringe products provide low dead-space. Low dead-space syringes reduce residual medication remaining in the syringe after the dose has been administered. In some instances, the low dead-space allows for additional doses of medication to be obtained from the vials.

In 2020 and 2021, we were awarded significant orders and contracts by the U.S. government for safety syringes for COVID-19 vaccination efforts. From 2020 through the first quarter of 2022, the U.S. government was a significant customer. We cannot predict whether any future U.S. government orders may occur.

In 2020, we entered into a Technology Investment Agreement ("TIA") with the U.S. government which provided significant government funding for expanding our domestic production of needles and syringes to meet ongoing and future U.S. COVID-19 medical countermeasures demands. Recent additions of manufacturing equipment and facilities have increased our production capacity and our overhead costs. Additionally, in 2022, we expanded our existing administrative offices at a total cost of \$5.8 million. There are currently no plans to further expand our production or administrative facilities, nor do we have material commitments for additional manufacturing equipment purchases.

The U.S. government orders as well as the TIA are material events particular to the COVID-19 pandemic and are not indicative of future operations.

Although we have recently experienced certain cost increases in raw materials, those costs primarily affected our domestic manufacturing because the finished goods we purchased from China (being 90% of our products) are subject to a long-term fixed price contract. Other factors that could affect our unit costs include increases in tariffs, supplier cost increases, and changing production volumes. Increases in costs may not be recoverable through price increases of our products.

In the first nine months of 2023, 24.5% of our revenues were international sales, predominantly from international sales in the first quarter of the year. The timing and volumes of international sales are more difficult to predict than domestic sales, and international vaccination campaigns tend to lag behind those in the domestic market.

We believe domestic customers have retained products provided for vaccination purposes in inventory, leading to a decrease in our 2023 domestic sales. Customers have reported that demand was diminished due to their remaining syringe inventory. While it is difficult to estimate how much of the remaining inventory might still remain in the market, domestic unit sales have increased each quarter of this year subsequent to the surge in government sales for COVID-19 vaccinations. This trend is consistent with historical sales patterns, coinciding with flu season sales.

As detailed in Note 4 to the financial statements, we held \$33.7 million in debt and equity securities as of September 30, 2023, which represented 18.5% of our total assets. During the first quarter of 2023, we increased our investment in U.S. government-backed mutual funds by approximately \$9.0 million and restructured our investments in equity securities by approximately \$6.0 million. During the second quarter of 2023, we sold our position in certain equity investments and reinvested the funds, investing approximately \$27.8 million in U.S. government-backed mutual funds. During the third quarter of 2023, we sold \$24 million in U.S. government-backed mutual funds and reinvested the proceeds in equity securities. The purchases of new investments have materially decreased our cash position since December 2022.

On July 13, 2023, we received a refund of previously paid estimated state tax payments of approximately \$8 million. The \$8 million was recorded as Income Taxes Receivable on the Condensed Balance Sheets at December 31, 2022 through June 30, 2023.

In June 2022, we reduced our workforce by approximately 16% and we further reduced our workforce by an additional 22% in March 2023. These reductions in force were a result of the substantial completion of our facility expansion and the fulfillment of U.S. government orders to provide products for COVID-19 vaccinations. The result of such cost saving measures represents overall savings in employee related costs of approximately \$1.9 million in the first nine months of 2023 versus 2022. The savings are comprised of overall reductions in gross wages, payroll taxes, and insurance as well as other related employee costs.

Historically, unit sales have increased during the flu season. With the dramatic increase in sales attributable to COVID-19 vaccinations, however, the effect of flu season sales was less impactful in past years. Unit sales in 2023 have increased each quarter domestically for those products associated with administering vaccinations (including the flu shot) which indicates that the seasonal trends are following pre-pandemic patterns.

Product purchases from our Chinese manufacturers have enabled us to increase manufacturing capacity with little capital outlay and have provided a competitive manufacturing cost. In the third quarter of 2023, our Chinese manufacturers produced approximately 91% of our products. In the event that we become unable to purchase products from our Chinese manufacturers, we may need to find an alternate manufacturer for the blood collection set, IV catheter, Patient Safe® syringe, 0.5mL insulin syringe, 0.5mL autodisable syringe, and 2mL, 5mL, and 10mL syringes, and we would increase domestic production for the 1mL and 3mL syringes and EasyPoint® needles.

In 1995, we entered into a license agreement with Thomas J. Shaw for the exclusive right to manufacture, market, and distribute products utilizing his patented automated retraction technology and other patented 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 of products subject to the license and he receives fifty percent (50%) of the royalties paid to us by certain sublicensees of the technology subject to the license.

## RESULTS OF OPERATIONS

The following discussion may contain 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 any forward-looking statements. All period references are to periods ended September 30, 2023 or 2022, as applicable. Dollar amounts have been rounded for ease of reading.

### ***Comparison of Three Months Ended September 30, 2023 and September 30, 2022***

Domestic sales accounted for 90.9% and 39.9% of the revenues for the three months ended September 30, 2023 and 2022, respectively. Domestic revenues increased 2.1%. Domestic unit sales increased 1.8%. Domestic unit sales were 87% of total unit sales for the three months ended September 30, 2023. International revenues decreased approximately 93.2% predominately due to fewer international vaccination-related sales. Overall unit sales decreased 66.1%. There is uncertainty as to the timing of future international orders.

Cost of manufactured product decreased 69.0% principally due to lower unit sales. Royalty expense decreased 46.6% due to the associated decrease in gross sales.

Operating expenses decreased 3.1% from the prior year. This is substantially due to decreases in stock option expenses and headcount as well as employee-related expenses as a result of a reduction of labor force in March of 2023.

The loss from operations was \$936 thousand compared to a loss of \$691 thousand for the same period last year. The greater loss was due to an overall decrease in revenues.

The unrealized loss on debt and equity securities was \$6.5 million due to the decreased market values of those securities.

The benefit for income taxes was \$1.2 million for the third quarter of 2023 as compared to a benefit of \$5.8 million in the third quarter of 2022.

### ***Comparison of Nine Months Ended September 30, 2023 and September 30, 2022***

Domestic sales accounted for 75.5% and 54.4% of the revenues for the nine months ended September 30, 2023 and 2022, respectively. Domestic revenues decreased 50.5% principally due to lack of sales to the U.S. government. Domestic unit sales decreased 46%. Domestic unit sales were 66.4% of total unit sales for the nine months ended

September 30, 2023. International revenues decreased approximately 80.8% predominately due to fewer international vaccination-related sales. Overall unit sales decreased 66.9%. There is uncertainty as to the timing of future international orders.

Cost of manufactured product decreased 63.3% principally due to lower unit sales. Royalty expense decreased 55.3% due to the associated decrease in gross sales.

Operating expenses decreased 3.1% from the prior year. This is substantially due to decreases in stock option expense, consulting, and reduced headcount. In the first nine months of 2023, we incurred approximately 30.9% more in sales and marketing expenses, primarily in travel and trade show expenses as well as increased headcount for sales representatives, in an effort to improve future revenues.

The loss from operations was \$8.7 million compared to an income from operations of \$7.0 million for the same period last year. The loss was due to an overall decline in revenues and an increase in cost of manufactured product on a per-unit basis.

The unrealized loss on debt and equity securities was \$11.3 million due to the decreased market values of those securities but we recognized a gain on sales of equity securities in the amount of \$5.6 million.

The benefit for income taxes was \$1.9 million for the first nine months of 2023 as compared to \$1.5 million in the first nine months of 2022.

#### ***Discussion of Balance Sheet and Cash Flow Items***

Cash flow provided by operations was \$873 thousand for the nine months ended September 30, 2023 due to a number of factors. We recognized approximately \$4.5 million in other income from the TIA during the first nine months of 2023. Changes in working capital also impacted cash flows from operating activities. Accounts receivable increased by \$3.8 million, inventories increased by \$2.0 million, and accounts payable decreased by \$3.0 million. This was offset by a decrease of \$9.5 million in income taxes receivable and an increase of \$1.2 million in accrued liabilities.

Cash used by investing activities was \$10.4 million for the nine months ended September 30, 2023 due primarily to the purchase of \$68.3 million of debt and equity securities, which was offset by \$58.6 million of proceeds from the sale of debt and equity securities.

Cash provided by financing activities was \$1.1 million for the nine months ended September 30, 2023. This was primarily due to proceeds from the government under the TIA for payments on our orders for fixed assets but was offset by our payment of \$1.1 million in connection with the private stock exchange discussed in Note 11.

#### **LIQUIDITY AND CAPITAL RESOURCES**

We have historically funded operations primarily from the proceeds from revenues, private placements, litigation settlements, and loans. We may fund operations going forward from revenues, cash reserves, and investments if the need to access those funds arises.

On July 13, 2023, we received a refund of previously paid estimated state tax payments of approximately \$8 million. This amount was reported as cash on the balance sheet at September 30, 2023 and increased cash balances in the third quarter of 2023. The \$8 million was recorded as Income Taxes Receivable on the Condensed Balance Sheets at December 31, 2022 through June 30, 2023.

#### ***Margins***

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. Some international sales of our products are shipped directly from China to the customer. 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. Generally, an overall increase in units sold can positively affect our margins. The cost of raw materials used in manufacturing and transportation costs can also significantly affect our margins. 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.

#### *Cash Requirements*

We believe we will have adequate means to meet our short-term needs to fund operations for at least 12 months from the date of issuance of the financial statements. Besides cash reserves and expected income from operations, we also have access to our investments which may be liquidated in the event that we need to access the funds for operations. Expected short-term uses of cash include payroll and benefits, royalty expense, inventory purchases, contractual obligations, payment of income taxes, quarterly preferred stock dividends, and other operational priorities. Our liabilities are our bank debt as set forth as Long-term debt on our Condensed Balance Sheets and other liabilities detailed herein in Note 7 to the financial statements. We believe we will have adequate means to meet our currently foreseeable long-term liquidity needs. In the event that our long-term cash requirements exceed our current reserves and our ability to generate cash from operations, management would necessarily undertake to reduce our operational cash requirements.

#### *Capital Resources*

Since the execution of the TIA on July 1, 2020, we have significantly expanded our facilities. There are no remaining capital projects.

#### **CRITICAL ACCOUNTING ESTIMATES**

We are responsible for developing estimates for amounts reported as assets and liabilities, and revenues and expenses in conformity with U.S. generally accepted accounting principles ("GAAP"). Those estimates require that we develop assumptions of future events based on past experience and expectations of economic factors. Among the more critical estimates management makes is the estimate for customer rebates. The amount reported as a contractual allowance for rebates involves examination of past historical trends related to our sales to customers and the related credits issued once the contractual obligations of the customers have been met. The establishment of a liability for future claims of rebates against sales in the current period requires that we have an understanding of the relevant sales with respect to product categories, sales distribution channels, and the likelihood of contractual obligations being satisfied. We examine the results of estimates against actual results historically and use the determination to further develop our basis for assumptions in future periods, as well as the accuracy of past estimates. While we believe that we have sufficient historical data, and a firm basis for establishing reserves for contractual obligations, there is an inherent risk that our estimates and the underlying assumptions may not reflect actual future results. In the event that these estimates and/or assumptions are incorrect, adjustments to our reserves may have a material impact on future results.

#### **Item 3. Quantitative and Qualitative Disclosures About Market Risk.**

Not applicable.

#### **Item 4. Controls and Procedures.**

##### *Disclosure Controls and Procedures*

Pursuant to Rule 13a-15(b) of the Securities Exchange Act of 1934, Management, with the participation of our President, Chairman, and Chief Executive Officer, Thomas J. Shaw (the "CEO"), and our Vice President and Chief Financial Officer, John W. Fort III (the "CFO"), acting in their capacities as our principal executive and principal financial officers, evaluated the effectiveness of our disclosure controls and procedures, as defined in Rule 13a-15(e) under the Securities Exchange Act of 1934. The term disclosure controls and procedures means controls and other procedures that are designed to ensure that information required to be disclosed by us in our periodic reports is: i) recorded, processed, summarized, and reported, within the time periods specified in the Securities and Exchange Commission's rules and forms;

and ii) accumulated and communicated to our Management, including our principal executive and principal financial officers, as appropriate to allow timely decisions regarding required disclosure. Based upon this evaluation, the CEO and CFO concluded that, as of September 30, 2023, our disclosure controls and procedures were effective.

#### Changes in Internal Control Over Financial Reporting

There have been no changes during the third quarter of 2023 or subsequent to September 30, 2023 in our internal control over financial reporting that have materially affected or are reasonably likely to materially affect our internal control over financial reporting.

## PART II—OTHER INFORMATION

### Item 1. Legal Proceedings.

Please refer to Note 8 to the financial statements for a complete description of all legal proceedings.

### Item 1A. Risk Factors.

There were no material changes in our Risk Factors as set forth in our most recent annual and quarterly reports which are available on EDGAR.

### Item 5. Other Information.

On August 22, 2023, Thomas J. Shaw, President, Chairman, and Chief Executive Officer, adopted a written plan for the purchase of Retractable Technologies, Inc. common stock intended to satisfy the affirmative defense conditions of Rule 10b5-1(c). The plan provides that trading may begin November 20, 2023 and may continue through November 19, 2024 if not earlier terminated. During this period, the plan instructs a broker-dealer to purchase common stock for an aggregate purchase price of up to \$800,000 within certain price parameters.

### Item 6. Exhibits.

Exhibit No.	Description of Document
31.1	<a href="#">Certification of Principal Executive Officer</a>
31.2	<a href="#">Certification of Principal Financial Officer</a>
32	<a href="#">Certification Pursuant to 18 U.S.C. Section 1350</a>
101	The following materials from Retractable Technologies, Inc.'s Form 10-Q for the period ended September 30, 2023, formatted in inline XBRL (eXtensible Business Reporting Language): (i) Condensed Balance Sheets as of September 30, 2023 and December 31, 2022, (ii) Condensed Statements of Operations for the three and nine months ended September 30, 2023 and 2022, (iii) Condensed Statements of Cash Flows for the nine months ended September 30, 2023 and 2022, (iv) Condensed Statement of Changes in Stockholders' Equity for the three and nine months ended September 30, 2023 and 2022; and (v) Notes to Condensed Financial Statements
104	Interactive Data File (formatted Inline XBRL and contained in Exhibit 101)



**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.

DATE: November 14, 2023

RETRACTABLE TECHNOLOGIES, INC.  
(Registrant)

By: /s/ John W. Fort III  
JOHN W. FORT III  
VICE PRESIDENT, CHIEF FINANCIAL OFFICER,  
AND CHIEF ACCOUNTING OFFICER

**CERTIFICATION OF PRINCIPAL EXECUTIVE OFFICER**

Exhibit 31.1

I, Thomas J. Shaw, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Retractable Technologies, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations, and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize, and report financial information; and
  - (b) Any fraud, whether or not material, that involves Management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 14, 2023

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

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**CERTIFICATION OF PRINCIPAL FINANCIAL OFFICER**

Exhibit 31.2

I, John W. Fort III, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Retractable Technologies, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations, and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize, and report financial information; and
  - (b) Any fraud, whether or not material, that involves Management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 14, 2023

/s/ John W. Fort III  
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JOHN W. FORT III  
VICE PRESIDENT,  
CHIEF FINANCIAL OFFICER,  
AND CHIEF ACCOUNTING OFFICER

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CERTIFICATION PURSUANT TO  
18 U.S.C. SECTION 1350  
AS ADOPTED PURSUANT TO  
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

Solely in connection with the filing of the Quarterly Report of Retractable Technologies, Inc. (the "Company") on Form 10-Q for the period ended September 30, 2023, as filed with the United States Securities and Exchange Commission on the date hereof (the "Report"), the undersigned Thomas J. Shaw, Chief Executive Officer, and John W. Fort III, Chief Financial Officer, do hereby certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the issuer.

Date: November 14, 2023

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

/s/ John W. Fort III  
JOHN W. FORT III  
VICE PRESIDENT, CHIEF FINANCIAL  
OFFICER, AND CHIEF ACCOUNTING  
OFFICER

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