RETRACTABLE TECHNOLOGIES INC
Form 10-K/A
February 27, 2008

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K/A

(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, 2006

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 000-30885

Retractable Technologies, Inc.

(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)	**75068-0009** (Zip Code)

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

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

Title of each class	Name of each exchange on which registered
Common	The American Stock Exchange

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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K 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/A or any amendment to this Form 10-K/A. o

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act (check one):

Large accelerated filer o Accelerated filer o Non-accelerated filer 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 is $36,649,107, assuming a price of $3.70, which was computed with reference to the closing price as of June 30, 2006.

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 equity, as of the latest practicable date. As of March 1, 2007, there were 23,674,164 shares of our Common Stock issued and outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

None except exhibits

EXPLANATORY NOTE

This amendment to the Annual Report of Retractable Technologies, Inc. for the fiscal year 2006 filed on Form 10-K/A is being filed primarily: 1) to amend **Item 9A. Controls and Procedures** to provide greater detail regarding the disclosed material weakness discovered regarding the initial booking of a significant entry in the wrong period and 2) to amend Exhibit No. 31.2 to re-insert the introductory language to paragraph 4 which was inadvertently deleted from the certification.

This Form 10-K/A has also been amended where necessary to reflect material events that have occurred subsequent to April 2, 2007, including but not limited to, the conclusion of the 2007 fiscal year, the termination of a lease from an affiliate, changes in key employees, subsequent litigation filed by us against Becton, Dickinson & Company (BD) and by BD and MDC Investment Holdings, Inc. against us, our annual meeting, the resignation of an independent Director, and the appointment of an independent Director.

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PART I

Item 1. Business.

DESCRIPTION OF BUSINESS

General Description

We design, develop, manufacture, and market innovative patented safety needle devices for the healthcare industry. Our VanishPoint® products utilize a unique friction ring mechanism patented by Thomas J. Shaw, our Founder, President, and Chief Executive Officer. VanishPoint® products are designed specifically to prevent needlestick injuries and to prevent reuse. The friction ring mechanism permits the automated retraction of the syringe needle into the barrel of the syringe, directly from the patient, after delivery of the medication is completed. The VanishPoint® blood collection tube holder utilizes the same mechanism to retract the needle after blood has been drawn from the patient. Closure of an attached end cap of the blood collection tube holder causes the needle to retract directly from the patient into the closed tube holder. The IV catheter also operates with a friction ring mechanism whereby the needle is retracted after insertion of the catheter into the patient. We introduced an IV safety catheter in the first quarter of 2006. Advantages of our products include protection from needlestick injuries, prevention of cross contamination through reuse, and reduction of disposal and other associated costs. Federal regulation now requires the use of safe needle devices. We have an exclusive license from Thomas J. Shaw, our President and Chief Executive Officer, for the patent rights for our safety needle products.

We and Thomas J. Shaw entered into a Technology License Agreement dated effective as of the 23rd day of June 1995, whereby Mr. Shaw granted us a worldwide exclusive license to manufacture, market, sell, and distribute Licensed Products and Improvements until the expiration of the last to expire of the last Licensed Patents unless sooner terminated under certain conditions without right to sublicense. Licensed Products , Improvements , and Licensed Patents are all terms that are extensively defined in the Technology License Agreement. In exchange, we paid Mr. Shaw a $500,000 initial licensing fee and a 5 percent royalty on gross sales after returns of Licensed Products . Mr. Shaw entered into an agreement whereby Suzanne August, his former spouse, is entitled to $100,000 per quarter out of any royalty payments. See Patents, Licenses and Proprietary Rights for a more detailed discussion. Our goal is to become a leading provider of automated retraction safety devices.

Development of the Company

While owning and operating Checkmate Engineering, a sole proprietorship, Thomas J. Shaw, our President and Chief Executive Officer, developed and patented the idea and early prototypes of the syringe that were to become the VanishPoint® safety syringe. On May 9, 1994, the Company was incorporated in Texas to design, develop, manufacture, and market medical safety devices for the healthcare industry.

We have been manufacturing and marketing our products into the market place since 1997. Our products have been and continue to be distributed nationally through numerous distributors. However, we have been blocked from access to the market by exclusive marketing practices engaged in by Becton Dickinson and Company, Inc. (BD) who dominates our market.

We continue to attempt to gain access to the market through our sales efforts, our innovative technology, and introduction of new products. We are focusing on methods of upgrading our manufacturing capability and efficiency in order to enable us to offer our technology at a reduced price. We believe our current capitalization provides the resources necessary to implement these changes and greatly improve our manufacturing capacity and efficiency, thereby reducing our unit cost.

Principal Products

Our products with Notice of Substantial Equivalence to the FDA include the VanishPoint® IV Safety Catheter, 1cc tuberculin, insulin, and allergy antigen VanishPoint® syringes; 3cc, 5cc, and 10cc

VanishPoint® syringes; and the VanishPoint® blood collection tube holder and small tube adapter. Syringe sales comprised 97.5%, 98.6%, and 98.8% of revenues in 2004, 2005, and 2006.

We also have begun selling allergy trays with 25 syringes per tray. The trays accounted for approximately 1.4% of U.S. sales in 2006. The tray design eliminates the need to individually unwrap each syringe.

We introduced the IV safety catheter into the market in the first quarter of 2006. We have completed the construction of automated assembly equipment in the first quarter of 2007 and we expect it will be placed in service in the second quarter of 2007.

Our products (without Notice of Substantial Equivalence to the FDA) also include a dental syringe, a butterfly IV, and an autodisable syringe. From 1999 to 2001 and in 2003 ECRI (formerly known as the Emergency Care Research Institute), a recognized authority in evaluating medical devices, awarded the VanishPoint® syringe and blood collection tube holder its highest possible rating.

Principal Markets

The VanishPoint® syringe and needle device products are sold to and used by healthcare providers primarily in the United States (with 12.2% of revenues in 2006 generated from sales outside the United States) which include, but are not limited to, acute care hospitals, alternate care facilities, doctors offices, clinics, emergency centers, surgical centers, convalescent hospitals, Veterans Administration facilities, military organizations, public health facilities, and prisons.

The syringe and needle device market continues to be a market in transition. The nature of the products comprising the market is slowly changing from standard to safety devices. The impetus for the change to safety devices is the risk that is carried with each needlestick injury which includes the 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 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, many hospitals are neglecting to follow the law intended to protect healthcare workers.

According to Greystone Associates, the worldwide market for safety syringes was a little over $1 billion in 2003 and is projected to be approximately $1.6 billion by 2007. The safety syringe market made up approximately 43% of the total 2003 syringe market and is expected to make up 57% of the market in 2007.

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) rather than the end-users of the product (nurses,

doctors, and testing personnel). The GPOs and manufacturers often enter into long-term exclusive contracts which can prohibit entry in the marketplace by competitors.

We distribute our products throughout the United States and its territories through general line and specialty distributors. We also utilize 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 calls on target markets that are users of syringes, blood collection tube holders and IV safety catheters. Our marketers make contact with all of the departments that affect the decision-making process for safety products, including the purchasing agents. They call on acute care and alternate care sites and speak directly with the decision-makers of these facilities. We employ trained

clinicians, including registered nurses and/or medical technologists that educate healthcare providers and healthcare workers on the use of safety devices through exhibits at related tradeshows and publications of relevant articles in trade journals and magazines. These nurses 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, long-term exclusive contracts which have restricted our entry into the market.

We have numerous agreements with organizations for the distribution of our products in foreign markets. Sales to these markets increased from 7.9% to 12.2% of revenues in 2006. The total population of Western Europe exceeds 310 million, and the recognition for the urgency of safe needle devices in parts of Europe has followed the United States model. In France, England, Germany, and Italy, organized healthcare worker unions have taken action to force hospitals and government agencies to place safety as a priority. Regions within Asia and Africa are also recognizing the need for our products. Beginning in 2004, we were awarded a federal contract to supply syringes to various African countries. The 2004 award from PATH was for 1,530,000 units. The 2005 award was for 11,700,000 units. The 2006 award was for 16,400,000 units. All awards were filled over multiple quarters due principally to logistical requirements for the orders. We are hopeful that these awards will continue although there is currently no funding to continue this program.

Key components of our strategy to increase our market share are to: (a) focus on methods of upgrading our manufacturing capability and efficiency in order to enable us to offer products at a reduced price and improved profit margins; (b) continue marketing emphasis in the U.S.; (c) continue to add Veterans Administration facilities, health departments, emergency medical services, federal prisons, long-term care and home healthcare facilities as customers; (d) 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 VanishPoint® products; (e) supply product through GPOs and Integrated Delivery Networks where possible; (f) consider possibilities for future licensing agreements and joint venture agreements for the manufacture and distribution of safety products in the United States and abroad; (g) introduce new products where market access is possible; and (h) continue to increase international sales.

Status of New Products

We have patented and are in the process of developing additional safety needle products. Such products include a ½ cc insulin syringe, an autodisposable syringe, a dental syringe, and a winged butterfly IV for which we have developed early stage prototypes. We have preproduction prototypes for our autodisable syringe. Our limited access to the market has slowed the introduction of these products into the market. We launched an IV safety catheter in the first quarter of 2006.

Competitive Conditions

We believe VanishPoint® products continue to be the most effective safety devices in today s market. Our products include passive safety activation, require less disposal space, and are activated while in the patient. The Company has three major competitors: BD, Tyco, and Terumo.

Founded in 1897, BD is headquartered in New Jersey. BD s safety-engineered device sales accounted for approximately 11.3 percent of BD s total 2006 sales. BD currently manufactures the SafetyLok, a syringe that utilizes a tubular plastic sheath that must be manually slid over the needle after an injection, and the SafetyGlide, a needle which utilizes a hinged lever to cover the needle tip. BD also manufactures a safety blood collection and hypodermic needle that utilizes the Eclipse needle cover. BD also manufactures a 3cc and 1cc retracting needle product based on a license agreement with Specialized Health Products International, Inc. (formerly the Med-Design Corporation). The Integra, a retractable syringe offered by BD, does not offer a full product line and cannot be used with highly viscous medication due to leakage (as described on their labels). The introduction of this syringe has had little impact on our sales due to BD s historic market dominance. BD s Vacutainer® blood collection products are commonly used as industry jargon to refer to blood collection products in general.

Sherwood was acquired by Tyco International Ltd., a company headquartered in Bermuda. Sherwood manufactures the Monoject®, a safety syringe that utilizes a sheath similar to the BD SafetyLok syringe. Sherwood also manufactures the Magellan safety syringe, a product similar to the BD SafetyGlide.

Founded in 1974, Terumo was the first company to sell disposable syringes in Japan. Today Terumo manufactures standard syringes and blood collection tube holders, operates internationally, and has sales in some 120 countries.

Both BD s SafetyLok® and Sherwood s Monoject® safety syringes require the use of two hands and several extra steps to activate the tubular plastic shield which must be slid and locked into place to protect the needle. These products must be removed from the patient in order for the safety mechanism to be activated. In contrast, use of the VanishPoint® syringe is identical to that of a standard syringe until the end of an injection, when the automated retraction mechanism retracts the needle directly from the patient safely into the barrel of the syringe. This allows both hands to remain safely out of harm s way. BD s Integra operates in a similar way but may have to be removed from the patient in order to have retraction of the needle occur.

BD and Sherwood have controlling market share, greater financial resources, larger and more established sales, marketing and distribution organizations, and greater market influence, including the long-term and/or exclusive contracts with GPOs described earlier. The current conditions have restricted competition in the needle and syringe market. BD may be able to use its resources to improve its products through research or acquisitions or develop new products, which may compete more effectively with our products. We continue to attempt to gain access to the market through our sales efforts and our innovative technology. We are focusing on methods of upgrading our manufacturing capability and efficiency in order to enable us to compete by offering our technology at a reduced price. We believe our current capitalization provides the resources necessary to implement these changes and greatly improve our manufacturing capacity and efficiency, thereby reducing our unit cost.

Our competitive strengths include that the VanishPoint® syringe is one of four syringes given the highest possible rating by ECRI. Our blood collection tube holder is one of only two safety products given the highest possible rating. Our products also have an advantage over non-retracting safety needles because minimal training and changes to practitioners normal routines are required. Use of our products also prohibits unfortunate and improper reuse. 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. Outsourcing arrangements such as our purchases from Double Dove have increased our manufacturing capacity with little or no capital outlay and provide a competitive cost. Licensing agreements such as the one with Baiyin Tonsun Medical Device Co., Ltd. (BTMD) could provide entry into new markets and generate additional revenue. A discussion of the BTMD agreement can be found elsewhere herein.

Our competitive weaknesses include our current lack of market share because two well-established companies control most of the market. Our competitive position is also weakened by the method that providers use for making purchasing decisions and the fact that our initial price per unit may be higher. However, our price per unit is competitive or even lower than the competition once all the costs incurred during the life cycle of a syringe are considered. Such life cycle costs include disposal costs, testing and treatment costs for needlestick injuries, and treatment for contracted illnesses through needlestick injuries. Demand for our products could decrease due to the introduction of the Integra, a retractable syringe manufactured by BD, which dominates the market. Although, to date, the introduction of the Integra has not noticeably impacted our sales, BD has a wider range of product offerings and more capital resources.

Principal Suppliers and Sources 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. Our suppliers include Magor Mold, Inc., APEC,

Multivac, Inc., Exacto Spring Corporation, Sterigenics, and ISPG. We have also received shipments of product from Double Dove since early 2004.

Dependence on Major Customers

Two distributors accounted for an aggregate of 31.3% of our revenue in 2006. We have numerous other 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.

Patents, Licenses, and Proprietary Rights

Thomas J. Shaw and the Company entered into a Technology License Agreement dated effective as of the 23rd day of June, 1995, whereby Mr. Shaw granted us a worldwide exclusive license and right under the Licensed Patents and Information , to manufacture, market, sell and distribute Licensed Products and Improvements without right to sublicense and subject to such nonexclusive rights as may be possessed by the Federal Government Licensed Patents , Information , Licensed Products , and Improvements are all defined extensively in the Technology Lic Agreement. We may enter into sublicensing arrangements with Mr. Shaw s written approval of the terms and conditions of the licensing agreement. The Licensed Products include all retractable syringes and retractable fluid sampling devices and components thereof, assembled or unassembled, which comprise an invention described in Licensed Patents , and improvements thereof including any and all Products which employ the inventive concept disclosed or claimed in the Licensed Patents .

In exchange, we paid Mr. Shaw a licensing fee and agreed to pay a 5 percent royalty on gross sales after returns. The license terminates upon expiration of the last licensed patents unless sooner terminated under certain circumstances. The licensing fees have been paid in accordance with this agreement with the exception of $1,500,000 in fees which were waived by Mr. Shaw and his wife.

We have the right and obligation to obtain protection of the invention, including prosecution of patent properties. The license unilaterally changes to a nonexclusive license in the event of a hostile takeover. Also, if Mr. Shaw involuntarily loses control of the Company, the license becomes a nonexclusive license and a right to information.

We have sought foreign patent protection through the Patent Cooperation Treaty and have filed applications for regional and national patent protection in selective countries where we believe the VanishPoint® syringe can be utilized most.

We hold numerous United States patents related to our automated retraction technology, including patents for dental syringes, IV safety catheters, winged IV sets, syringes, and blood collection tube holders. In addition, we have multiple applications for patents currently pending. The principal syringe patents in the U.S., as well as their foreign counterparts, will expire in May 2015.

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

There are currently no patent infringement claims pending against the VanishPoint® retraction technology other than those set forth 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.

We currently obtain roughly 72.8% of our finished products through Double Dove, a Chinese manufacturer. We believe we could make up any long-term disruption in these supplies by utilizing more

of the capacity at the Little Elm facility, except for 5cc and 10cc syringes which comprised about 5.8% of our 2006 revenues.

We have a Licensing Agreement with Baiyin Tonsun Medical Device Co., Ltd. (BTMD) which expires on May 13, 2008. Royalties that were expected in 2007 were not received due to the time needed to build the factory, assembly equipment, and the related infrastructure as well as the need of BTMD to meet the requisite government requirements. The facility has been completed and BTMD is in the process of meeting government requirements. We are in the process of formally extending our agreement with BTMD. Accordingly, although we still continue to expect royalty payments we are unable to predict the date we will begin to receive such royalties. Royalties will begin once government requirements are met and BTMD is able to produce and sell products.

Seasonal Effect on Business

We have generally experienced higher syringe sales during the last half of the year which we believe is due to flu season.

Working Capital Practices

Cash and cash equivalents include unrestricted cash and investments with original maturities of three months or less.

Our credit policy has provided for negligible reserve requirements on our Accounts Receivable. Outstanding accounts are reviewed regularly and reserves provided for potential write off, if applicable.

Inventories are valued at lower of cost or market. We maintain a reserve for potential write-downs or write offs, and obsolete inventory is 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 carry backs.

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 2006 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, a copy of which is incorporated by reference in Exhibit number 10.1. 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 international contracts do not provide for any returns.

Our return policy also provides that a customer may return product that is overstocked. Overstocking returns are limited to two times in each twelve month period up to 1% of distributor s total purchase of products for the prior twelve month period upon the following terms: i) an overstocked product is that portion of distributor s inventory of the product (individual catalog number) 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 (individual catalog number) during the preceding four months, iii) overstocked product held by distributor in excess of twelve (12) months from the date of original invoice will not be eligible for return; iv) 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; v) 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 products less a 10% restocking fee which will be assessed against distributor s subsequent purchase of product; vi) distributor must obtain an authorization code from our distribution department and affix the code to the returned product; and vii) distributor shall bear the cost of shipping the returned products to us. All product overstocks and returns are subject to inspection and acceptance by manufacturer.

Regulatory Status and Effect of Regulation

We and our products are regulated by the FDA. The syringe and the IV safety catheter are Class II medical devices which require assurance by the manufacturer that the device is safe and effective and that they meet certain performance standards. The FDA issued its Notice of Substantial Equivalence declaring the VanishPoint® syringe products to be substantially equivalent to a legally marketed predicate device (i.e., granted us permission to market our safety syringes in interstate commerce) the VanishPoint® blood collection tube holder and small tube adapter. In September 2005, the FDA granted permission to market our IV safety catheter in interstate commerce.

In addition to the Notice of Substantial Equivalence, we must register with the FDA on an annual basis and provide the FDA with a list of commercially distributed products. Texas has similar registration requirements. The FDA tries to inspect all medical device manufacturing facilities at least once every two years to determine the extent to which they are complying with Quality System Regulation. The most recent inspection occurred in July 2005 after which the auditor determined No Action Indicated.

TUV-USA, a member of the TUV Nord Group, performs our quality management system certification. We were originally certified to ISO 9001:1994 in 1997 and received annual surveillance audits, maintaining that certification until March of 2004 with no major non-conformances. We received certification to ISO 13485:2000, CAN/CSA:13485:1996 and EN 13485:2000 in August 2004. We have since received certification to the most current version of these standards. In addition, the VanishPoint product line was certified for a CE Mark by TUV-USA. The CE Mark authorizes us to sell in the European Union. TUV-USA performs annual surveillance audits to ensure our compliance with ENISO 13485:2003, CAN/CSA:13485:2003 and the Medical Device Directive, 93/42/EEC.

Government Funding of Research and Right to License

Thomas J. Shaw developed his initial version of a safety syringe with the aid of grants by the National Institute of Drug Abuse, a subsidiary of the National Institutes of Health. As a result, the federal government has the right, where the public interest justifies it, to disperse the technology to multiple manufacturers so that the safety syringe can be made widely available to the public. However, the funding was only used to develop and patent the earlier syringe design as of 1991. That syringe was a bulkier, less effective, and more expensive version of the current product. Accordingly and on the advice of counsel, Management believes that the risk of the government demanding manufacture of this alternative product is minimal.

Research and Development

We spent $626,941, $934,209, and $958,798 in fiscal 2004, 2005, and 2006 respectively, on research and development. Costs in 2006 were primarily for compensation, validation and engineering costs, and consulting costs. Our ongoing research and development activities are performed by an internal research and development staff. This team of engineers is developing process improvements for current and future automated machines. Products currently in development by our internal team include the winged butterfly IV, the dental syringe, a ½ cc insulin syringe and an autodisable syringe. Our limited access to the market has slowed the introduction of these products into the market. Possible future products include all needle medical devices to which the automated retraction mechanism can be applied.

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 that is sold for recycling. The Company also grinds dirty plastics, syringes, and needles for disposal by Waste Management. All other nonhazardous waste produced is considered municipal solid waste and sent to a sanitary landfill by Waste Management.

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 1, 2007, we had 146 full-time employees, 5 part-time employees, and 6 independently contracted consultants. Of the 146 full-time employees, 5 persons were engaged in research and development activities, 61 persons were engaged in manufacturing and engineering, 18 persons were engaged in quality assurance and regulatory affairs, 42 persons were engaged in sales and marketing, 19 persons were engaged in general and administrative functions, and one person in facilities. No employees are covered by collective bargaining agreements. We are dependent upon a number of key management and technical personnel, and the loss of services of one or more key employees could have a material adverse effect on us. Our President and Chief Executive Officer, Thomas J. Shaw, has an employment contract with an initial term that ended on September 2002 that contains an automatic and continuous renewal provision for consecutive two-year periods.

FINANCIAL INFORMATION

We have no 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 United States currency.

		2006		2005		2004
Domestic sales	$	22,240,347	$	22,310,150	$	20,193,999
International sales		3,084,172		1,924,866		1,327,701
Total sales	$	25,324,519	$	24,235,016	$	21,521,700
Long-lived assets						
Domestic	$	12,212,140	$	11,925,976	$	11,056,865
Foreign	$		$		$	

Please see the financial statements in Item 8 for information about our revenues, profits and losses for the last three years, and total assets for the last two years.

Item 1A. Risk Factors.

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

The Majority of our International Sales are Filled using one Supplier

Most international sales are filled by production from Double Dove. In the event that we were unable to purchase such product from Double Dove, we would need to find an alternate supplier for the 5 cc and 10 cc syringes and increase domestic production for 1 cc and 3 cc syringes to avoid a disruption in supply. Currently, approximately 72.8% of our production is provided by Double Dove.

Our Cash Position is Decreasing

Due to continuing barriers to the market place, coupled with the completion of the discount reimbursement program and increases in accounts receivable and inventory, mitigated by an increase in accounts payable, the Company s cash position declined $5.7 million. The negative impact in the third and fourth quarter of the ending of the discount reimbursement program is approximately $6.0 million.

In the event we continue to have only limited market access and the cash provided by the litigation settlements and generated from operations becomes insufficient and royalties from BTMD are not forthcoming, the Company would take cost cutting measures to reduce cash requirements. Such measures could result in reduction of units being produced, reduction of workforce, reduction of salaries of officers and other nonhourly employees, and deferral of royalty payments.

We Compete in a Monopolistic Marketplace

We operate in an environment that is dominated by the major syringe manufacturer in the United States, BD. We believe that its monopolistic business practices continue despite its paying the Company $100 million to settle a lawsuit for anticompetitive practices, business disparagement, and tortious interference. Although we made limited progress in some areas, such as the alternate care and international markets, our volumes are not as high as they should be given the nature and quality of our product, the federal and state legislation requiring use of safe needle devices, and the Senate Subcommittee hearings on GPOs.

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

We have incurred net operating losses in all fiscal quarters of 2006 and 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.

Our Patent Protection Is Aging

Our main competitive strength is our technology. As it ages (and the associated patent life expires), our competitive position in the marketplace will weaken. The initial patents protecting our revolutionary spring action syringe will expire beginning in May 2015. Patent life may be extended, not through the original patents, but related improvements. Eventually, however, our patent protection may decrease and we will be vulnerable to other competitors utilizing our technology.

We Are Vulnerable to New Technologies

Because we have a narrow focus on a particular product line and technology (retractable needles), 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.

We May Lack Future Financial Resources to Capture Increased Market Share

The three leading manufacturers of hypodermic syringes and blood collection products are BD with a worldwide market share in the safety syringe market of approximately 68 percent, Sherwood with approximately 18 percent, and Terumo with a market share of approximately 4 percent. All three companies offer both standard syringes and at least one safety syringe alternative. BD also offers a retractable syringe. BD and Sherwood have greater financial resources, larger and more established sales and marketing and distribution organizations, and greater market influence, including long-term contracts with GPOs. 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 the ability of our company to continue would be weakened.

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 supplier arrangements and relationships could result in the need to manufacture all (as opposed to 27.2%) of the products in the United States. This could temporarily increase unit costs as we ramp up domestic production.

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 in the event of product failure or claim of harm caused by product operation. Product failure could result in injury to the patient or loss of blood and could expose healthcare workers to the risk of blood borne pathogens. If any of our products prove to be defective, we may be required to recall those products. 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. We have products liability coverage with St. Paul Insurance Company covering up to $1,000,000 per occurrence, with coverage up to $2,000,000 in the aggregate. Each claim is subject to a $25,000 deductible. Additionally, we have additional products liability protection under an Umbrella Liability Policy. This policy provides an additional $10,000,000 per occurrence and aggregate limits in the event claims exceed the primary commercial general liability policy limit. We have not had any product liability claims.

We Have Limited Access to the Capital Markets

The volume of trading in our Common Stock on the American Stock Exchange (the AMEX) is low. Accordingly, it is unclear if there is any significant market for our shares. This may reduce our ability to raise cash through public or private offerings in the future.

Our Company Is Controlled by Two Shareholders

Thomas J. Shaw, our President and a Director, Ms. Suzanne August, and Lillian E. Salerno, a consultant to the Company, own 35.8%, 11.8%, and 10.5%, respectively, of the Common Stock as of March 1, 2007. The shares held by Ms. August are controlled by Mr. Shaw pursuant to a voting agreement, which terminates upon sale of all the shares for value or if terminated by both parties in writing. These shareholders 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. The interests of these persons may not always coincide with the Company s 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 of the Company, impeding a merger, consolidation, takeover or other business combination involving the Company or discouraging a potential acquirer from making a tender offer or otherwise attempting to obtain control of the Company, which in turn could materially adversely affect the market price of the Common Stock. Of the 23,674,164 shares of Common Stock outstanding as of March 1, 2007, Officers and Directors owned 12,761,500 of the shares.

Current Investigations Could Result in Beneficial Legislation Increasing Our Access to the Hospital Market

On March 15, 2006, the Senate Judiciary Subcommittee on Antitrust, Competition Policy and Consumer Rights held its fourth hearing on the anti-competitive practices of GPOs. As the Senate s four-year inquiry has revealed, these purchasing cartels, in collusion with the dominant medical supply manufacturers, have harmed competition, stifled innovation, and increased the cost of healthcare. Senate testimony, government studies, and media reports have exposed a long list of abuses, including conflicts of interest, kickbacks, sole-source and long-term contracts, and other exclusionary practices that have kept patients and healthcare workers in GPO-member hospitals from gaining access to better, safer, and more

cost-effective medical products. The U. S. Department of Justice and the Connecticut Attorney General are also conducting wide-ranging criminal investigations of GPO practices and have issued subpoenas to many of the nation s largest medical suppliers, GPOs, and hospital systems.

Item 1B. Unresolved Staff Comments.

Not applicable

Item 2. Properties.

Our 22,500 square foot headquarters is located at 511 Lobo Lane, on 35 acres, which we own, overlooking Lake Lewisville in Little Elm, Texas. The building is a modular portion of a larger planned building for which the engineering design has been finalized which could be expanded with minimal disruption of production. The headquarters are in good condition and house our administrative offices and manufacturing facility. We put a 45,000 square foot warehouse in service in March 2005. The manufacturing facility produced approximately 27.2% of the units that were sold in 2006. In the event of a disruption in service of our outside supplier, we believe we could produce quantities sufficient to meet demand under current circumstances except for demand for 5cc and 10cc syringes which are sold principally in the international market. In that event, we would attempt to engage another manufacturer.

The Company obtained a loan from 1st International Bank (st International) for $2,500,000, secured by the land and existing buildings, which provided interim funding for the construction of the 45,000 square foot warehouse. The proceeds from the loan were used to pay off the remaining $475,000 of the revolving credit agreement with 1st International in addition to funding the new warehouse and related infrastructure. Payments on the note were interest only during the first twelve months. The payments for the permanent funding are based on a twenty-year amortization with a five-year maturity. Interest rates are based on the amount of funds kept on deposit with the bank. Accordingly, interest will vary from the Wall Street Journal Prime Rate (the WSJPR) to the WSJPR plus 1 percent, with floors that may range from 4.25 percent to 6.50 percent. Compensating balances at 1st International affecting the interest rate will range from $0 to $500,000.

Additional capital expenditures may include additional assembly lines, molding equipment, manufacturing space, warehousing, and related infrastructure. The expansion could include those products that have been developed but not yet marketed, as well as expanding manufacturing capacity for existing products.

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

Item 3. Legal Proceedings.

On August 12, 2005, we filed a lawsuit against Abbott Laboratories Inc. in the United States District Court in the Eastern District of Texas, Texarkana Division. We are alleging fraud and breach of contract in connection with the National Marketing and Distribution Agreement dated as of May 4, 2000 which was terminated on October 15, 2003. We are seeking damages which we estimate to be in millions of dollars of lost

profits, out of pocket expenses and other damages. In addition, we are seeking punitive damages, pre-judgment and post-judgment interest and attorney s fees. Abbott has appealed a trial court determination that the dispute does not need to be decided by arbitration. Oral argument is scheduled for March 3, 2008.

In August 2006, we were sued by Occupational and Medical Innovations Limited (OMI) in Federal Court of Australia, alleging that two letters written to OMI by our outside counsel contained unjustified threats. OMI is not seeking monetary damages in the action, but was awarded its costs. The Court subsequently held that one of the letters written by outside counsel contained an unjustified threat. OMI amended its complaint to seek a declaratory judgment that OMI s syringe does not infringe RTI s Australian patents. Trial of that claim is set for April 2008.

On June 15, 2007, we filed a lawsuit against BD in the United States District Court for the Eastern District of Texas, Marshall Division. We are alleging antitrust violations, violations of the Lanham Act and patent infringement. Please see Exhibit No. 99 to our Form 8-K filed on June 19, 2007 for details regarding the factual basis underlying the action as well as the relief sought. BD has counterclaimed for a declaration that our patents are invalid and unenforceable. All other claims have been stayed until resolution of the patent claims. The patent case is set for trial in March 2009.

On September 6, 2007, BD and MDC Investment Holdings, Inc. filed a complaint against us in the United States District Court for the Eastern District of Texas, Texarkana Division. Plaintiffs allege that our VanishPoint® product line infringes U.S. patent nos. 6,179,812 and 7,090,656. Plaintiffs seek a declaration of infringement, an injunction against further infringement, compensatory damages (with interest), the costs of the litigation, and such other relief as the Court deems just and proper. We have counterclaimed for a declaration that the asserted patents are invalid and unenforceable. We believe that we have meritorious defenses to such allegations and we intend to defend this lawsuit vigorously. No trial date has been set.

Item 4. Submission of Matters to a Vote of Security Holders.

No matters were submitted to a vote during the fourth quarter of 2006.

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 AMEX since May 4, 2001. Shown below are the high and low sales prices of our Common Stock as reported by the AMEX for each quarter of the last two fiscal years:

	Common Stock	
	High	**Low**
2006		
Fourth Quarter	$ 3.44	$ 2.20
Third Quarter	$ 3.96	$ 3.16
Second Quarter	$ 4.02	$ 3.22
First Quarter	$ 4.11	$ 3.45
2005		
Fourth Quarter	$ 4.83	$ 3.51
Third Quarter	$ 6.49	$ 2.65
Second Quarter	$ 4.04	$ 2.60
First Quarter	$ 4.80	$ 3.70

SHAREHOLDERS

As of March 1, 2007, there were 23,674,164 shares of Common Stock held by 297 shareholders of record not including shareholders who beneficially own Common Stock held in nominee or street name.

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, to support operations and future growth.

The Board of Directors declared a dividend on the Series I and II Class B Convertible Preferred Stock in 2004. The cumulative dividend arrearage through June 30, 2004, on the Series I and II Class B Convertible Preferred Stock of $7,118,583 was paid on August 27, 2004, to the holders of record as of August 17, 2004. As of December 31, 2006, $12,163,000 in dividends were in arrears on the Class B stock. Dividends may not be paid on the Common Stock until all dividends on the Preferred Stock have been paid.

On March 27, 2007, the Board of Directors declared a dividend on the Series I and Series II Class B Convertible Preferred Stock to be paid on July 24, 2007 to Shareholders of Record on July 2, 2007. Arrearages will be paid through June 30, 2007 in the amount of $1.1 million.

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.

RECENT SALES OF UNREGISTERED SECURITIES

Sales of unregistered securities in the first and second quarters of 2006 were reported in the Company s Form 10-Q quarterly reports filed with the United States Securities and Exchange Commission (the Commission) which are available via EDGAR. There were no sales of unregistered securities in the third or fourth quarter.

PERFORMANCE GRAPH

The following graph compares the cumulative total return for our Common Stock from December 31, 2001, (the year in which the Company became a public company) to December 31, 2006, to the total returns for the Russell Microcap and Becton Dickinson (BD), a peer issuer. The graph assumes an investment of $100 in Common Stock and in the Russell Microcap index as of January 1, 2001, and that all dividends are reinvested.

The comparisons in the graph are required by the SEC. You should be careful about drawing any conclusions from the data contained in the graph, because past results do not necessarily indicate future performance. The information contained in this graph shall not be deemed to be soliciting material or filed with the SEC or subject to the liabilities of Section 18 of the Exchange Act, except to the extent that we specifically incorporate it by reference into a document filed under the Securities Act of 1933, as amended or the Exchange Act.

Item 6. Selected Financial Data.

The following selected financial data are 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 Statement of Operations data presented below for the years ended December 31, 2003 and 2002, and the Balance Sheet data as of December 31, 2004, 2003, and 2002, have been derived from our audited financial statements, which are not included herein.

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

	As of and for the Years Ended December 31,				
	2006	**2005**	**2004**	**2003**	**2002**
Sales, net	$ 20,898	$ 21,157	$ 21,136	$ 19,078	$ 20,316
Reimbursed discounts	4,427	3,078	386		
Total sales	25,325	24,235	21,522	19,078	20,316
Cost of sales	17,779	15,429	16,411	14,654	15,472
Gross profit	7,546	8,806	5,111	4,424	4,844
Total operating expenses	14,260	11,683	13,110	10,327	11,234
Loss from operations	(6,714)	(2,877)	(7,999)	(5,903)	(6,390)
Interest income	1,976	1 ,373	475	45	10
Interest expense, net	(411)	(340)	(243)	(308)	(446)
Litigation settlements, net			74,635	13,880	
Net income (loss) before income taxes	(5,149)	(1,844)	66,868	7,714	(6,826)
Provision (benefit) for income taxes	(1,280)	(605)	12,177	266	
Net income (loss)	(3,869)	(1,239)	54,691	7,448	(6,826)
Preferred Stock dividend requirements	(1,451)	(1,503)	(1,993)	(2,560)	(2,266)
Earnings (loss) applicable to common shareholders	$ (5,320)	$ (2,742)	$ 52,698	$ 4,888	$ (9,092)
Earnings (loss) per share basic	$ (0.23)	$ (0.12)	$ 2.33	$ 0.23	$ (0.45)
Earnings (loss) per share diluted	$ (0.23)	$ (0.12)	$ 2.08	$ 0.20	$ (0.45)
Weighted average shares outstanding	23,591,999	23,332,277	22,600,166	21,001,004	20,300,454
Current assets	$ 57,780	$ 61,485	$ 64,674	$ 13,497	$ 7,065
Current liabilities	$ 6,891	$ 5,458	$ 7,852	$ 5,773	$ 8,021
Property, plant, and equipment, net	$ 12,212	$ 11,926	$ 11,057	$ 9,679	$ 10,515
Total assets	$ 70,794	$ 73,756	$ 76,123	$ 23,631	$ 18,059
Long-term debt	$ 4,399	$ 4,646	$ 3,807	$ 2,934	$ 3,441
Stockholders equity	$ 59,746	$ 63,625	$ 63,665	$ 15,135	$ 7,437
Redeemable Preferred Stock (in shares)	2,441,166	2,498,666	2,572,116	3,591,216	5,379,366
Cash dividends per common share	$	$	$	$	$
Gross profit margin	29.8%	36.3%	23.7%	23.2%	23.8%

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, the impact of dramatic increases in demand, our ability to quickly increase capacity in the event of a dramatic increase in demand, our ability to access the market, our ability to decrease production costs, our ability to continue to finance research and development as well as operations and expansion of production, the recently increased interest of larger market players, specifically BD, in providing safety needle devices, and other factors listed 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 into the marketplace since 1997. Our products have been and continue to be distributed nationally through numerous distributors. However, we have been blocked from access to the market by exclusive marketing practices engaged in by BD who dominates the market. We believe that their monopolistic business practices continue despite their paying $100 million to settle a lawsuit with the Company for anticompetitive practices, business disparagement, and tortious interference. Although we made limited progress in some areas, such as the alternate care and international markets, our volumes are not as high as they should be given the nature and quality of our product, the federal and state legislation requiring use of safe needle devices, and the Senate Subcommittee hearings on GPOs. 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 and innovative technology.

We are focusing on methods of upgrading our manufacturing capability and efficiency in order to enable us to offer our technology at a reduced price. We believe our current capitalization provides the resources necessary to implement these changes, improve profit margins, and greatly improve our manufacturing capacity and efficiency, thereby reducing our unit cost. We are also marketing more products internationally. Beginning in 2004, we were awarded a federal contract to supply syringes to various African countries. The 2004 award from PATH was for 1,530,000 units. The 2005 award was for 11,700,000 units. The 2006 award was for 16,400,000 units. All awards were filled over multiple quarters due principally to logistical requirements for the orders. We are hopeful that these awards will continue although there is currently no funding to continue this program. We continue to produce syringes and blood collection tube holders in Little Elm, Texas.

Additionally, the Company was awarded a one-year contract to supply its VanishPoint® automated retraction syringes to all of Queensland Health s 202 acute care facilities. Queensland Health is a department within the government of Queensland, Australia. The contract is effective immediately and renewable for two years. VanishPoint® products are distributed in Australia by Brisbane-based Scientific Educational Supplies Pty Ltd.

Product purchases from Double Dove have enabled us to increase manufacturing capacity with little capital outlay and provided a competitive manufactured cost. These purchases have enabled improved profit margins in spite of limited revenues. The cost of production per unit has generally declined as volumes increased. We currently obtain roughly 72.8% of our finished products through Double Dove, a Chinese manufacturer. We believe we could make up any long-term disruption in these supplies by utilizing more of the capacity at the Little Elm facility, except for 5cc and 10cc syringes which comprised about 5.8% of our 2006 revenues.

We have a Licensing Agreement with BTMD which expires on May 13, 2008. Royalties that were expected in 2007 were not received due to the time needed to build the factory, assembly equipment, and the related infrastructure as well as the need of BTMD to meet the requisite government requirements. The facility has been completed and BTMD is in the process of meeting government requirements. We are in the process of formally extending our agreement with BTMD. Accordingly, although we still continue to expect royalty payments we are unable to predict the date we will begin to receive such royalties. Royalties will begin once government requirements are met and BTMD is able to

produce and sell products.

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

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 2006, 2005 or 2004. Dollar amounts have been rounded for ease of reading.

Comparison of Year Ended
December 31, 2006, and Year Ended December 31, 2005

Revenues increased 4.5%, due principally to increased sales in the alternate care and international markets. Domestic sales were 87.8% of revenues with international sales comprising the remainder. Unit sales of the 1cc syringe increased 39.1% and 3cc unit sales increased 19.7%. Unit sales of all products increased 32.6%. The hospital market continues to lag despite very favorable promotional pricing under the discount program. The increase in discount reimbursements in 2006 is due principally to the reduction of the promotional prices initiated in April 2005, resulting in larger reimbursements, mitigated by the ending of the reimbursement of the discounts in the third quarter of 2006. The discount reimbursement program expired since the settlement agreement under which it was established provided for a total of $8.0 million in reimbursements. We had recognized $8.0 million in cumulative discount reimbursements in the third quarter of 2006. Sales to two distributors accounted for 31.3% and 34.8% of our revenues in 2006 and 2005, respectively.

Cost of sales as a percentage of revenues increased due to the lower average selling price resulting from the ending of the discount reimbursement program mitigated by higher volumes of product produced and sold. The increased volume of production resulted in a lower unit cost. The effect of the reduction in staff in August 2005 also contributed to the lower unit cost in 2006. Royalty expenses were higher due to an increase in gross revenues.

As a result, gross profits decreased, and gross profit margins declined from 36.3% in 2005 to 29.8% in 2006.

Operating expenses increased from the prior year due to increases in sales and marketing costs and general and administrative costs.

Sales and marketing expenses increased as we continued to grow our sales force, resulting in higher compensation costs, marketing and promotional costs, and travel and entertainment. We also had increased consulting expense mitigated by a reduction in stock option expense. We expect sales and marketing costs will continue to increase as we work to get our products into U.S. hospitals and in the international market.

Research and development costs were flat. We had increases in consulting costs and decreases in engineering costs due principally to validation testing and the development work on the IV safety catheter in 2005. We began marketing the IV safety catheter in the first quarter of 2006. We anticipate that until we reach economies of scale in manufacturing this product, we will incur losses on its sale.

General and administrative costs increased due principally to higher legal costs, compensation costs, consulting, and taxes other than income taxes. Decreases in expenses include stock option expense, shareholder expenses, outside accounting costs, severance pay and training. The legal costs incurred in 2006 in regard to the Abbott Laboratories litigation are higher than those in 2005. We expect such costs to continue until the litigation is resolved. We also have litigation expenses concerning OMI, an Australian company, which is discussed elsewhere herein. Compensation costs increased as officers and other salaries were brought into a more appropriate range in 2005, the full effect being reflected in 2006. The Company also awarded merit increases to our employees in 2006. Consulting costs increased due to our continuing

efforts to penetrate U.S. and international markets. We had increases in taxes other than income taxes in 2006. We donated product in an international humanitarian effort in 2006. There have been no stock options awarded since 2004, therefore this expense continues to decline as the costs become fully amortized.

Preferred Stock dividend requirements declined due to conversion of Preferred Stock into Common Stock. The dividend arrearage at December 31, 2006, on all classes of Preferred Stock was approximately $12,200,000.

Interest income increased due to higher interest rates. Interest expense increased due to higher interest rates mitigated by lower debt balances.

Provision for income tax benefits consists primarily of federal tax subject to carry back provisions. State income taxes are also subject to the various states carry back rules. The Company also has a valuation reserve for all deferred taxes, with the exception of deferred taxes on the beneficial conversion feature associated with its note payable to Katie Petroleum, Inc.

Cash flow from operations was negative for 2006 due principally to the loss for the year. The effect of non-cash expenses and the change in working capital were a positive $500,000. Investing activities utilized $2.0 million in cash.

Comparison of Year Ended
December 31, 2005, and Year Ended December 31, 2004

Revenues increased, due principally to increased sales in the alternate care and international market. Domestic sales were 92.1% of revenues with international sales comprising the remainder. Unit sales of the 1cc syringe increased 20.9% and 3cc unit sales increased 12.7%. Unit sales of all products increased 19.1%. The hospital market continued to lag despite very favorable promotional pricing under the discount reimbursement program. The increase in discount reimbursements in 2005 was due principally to the reduction of the promotional prices in April 2005. We recognized $3.5 million in discount reimbursements through December 31, 2005. Sales to two distributors accounted for 34.8% of our revenues in 2005 and sales to one distributor accounted for 16.6% of our revenues in 2004.

Cost of sales as a percentage of revenues improved as higher volumes of product were produced and sold. The increased volume resulted in a lower unit cost of production. The effect of the reduction in staff in August 2005 also contributed to the lower unit cost. Royalty expenses declined due to a reduction in gross revenues.

Operating expenses decreased from the prior year due to decreases in general and administrative costs, mitigated by increases in sales and marketing costs as well as an increase in research and development costs.

Sales and marketing expenses increased as we continued to grow our sales force, resulting in higher compensation and travel expense. This increase in sales and marketing costs was mitigated by a reduction in consulting expenses.

Research and development costs increased due principally to validation testing and the development work on the IV safety catheter. We began marketing the IV safety catheter in the first quarter of 2006. We also anticipate that until we reach economies of scale in manufacturing this product, we will incur losses on its sale.

General and administration costs decreased significantly due principally to lower legal costs incurred in 2005. The legal costs incurred in 2005 in regard to the Abbott Laboratories litigation were substantially less than the legal costs we incurred for the BD and NMT litigation in 2004. However, we expect such costs to increase as our litigation against Abbott continues.

Preferred Stock dividend requirements declined due to conversions of Preferred Stock into Common Stock. The dividend arrearage at December 31, 2005, on all classes of Preferred Stock was approximately $10,700,000.

Interest income increased due to a higher average outstanding cash balance and higher interest rates. Interest expense increased due to higher debt balances incurred for the warehouse financing and higher interest rates.

Provision for income tax benefits consisted primarily of federal tax subject to carry back provisions. State income taxes were also subject to the various states carry back rules.

Cash flow from operations was negative for 2005 due principally to the loss for the year and changes in working capital.

SIGNIFICANT ACCOUNTING POLICIES

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

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. An additional allowance has been established based on a percentage of receivables outstanding. These provisions are 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.

Revenue Recognition

Revenue is recognized for sales to distributors when title and risk of ownership passes to the distributor, generally upon shipment. Revenue is recorded on the basis of sales price to distributors, less contractual pricing allowances. Contractual pricing allowances consist of (i) rebates granted to distributors who provide tracking reports which show, among other things, the facility that purchased the products, and (ii) a provision for estimated contractual pricing allowances for products that the Company has not received tracking reports. Rebates are recorded when issued and are applied against the customer s receivable balance. The provision for contractual pricing allowances is reviewed at the end of each quarter and adjusted for changes in levels of products for which there is no tracking report. Additionally, if it becomes clear that tracking reports will not be provided by individual distributors, the provision is further adjusted. The estimated contractual allowance is netted against individual distributors accounts receivable balances for financial reporting purposes. The resulting net balance is reflected in accounts receivable or accounts payable, as appropriate. 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 passes from the Company. Any product shipped or distributed for evaluation purposes is expensed.

Inventories

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

Marketing Fees

Under a sales and marketing agreement with Abbott, the Company paid marketing fees until the Company terminated the contract for breach. The contracted services were to include participation in promotional activities, development of educational and promotional materials, representation at trade shows, clinical demonstrations, inservicing and training, and tracking reports detailing the placement of our products to end-users. Marketing fees were accrued at the time of the sale of product to Abbott. These fees were paid after Abbott provided us a tracking report of product sales to end-users. These costs were included in Sales and marketing expense in the Statements of Operations. No marketing fees have been accrued since October 15, 2003, the date the National Marketing and Distribution Agreement with Abbott was terminated.

Litigation Proceeds

Proceeds from litigation settlements in our federal antitrust lawsuit, Retractable Technologies, Inc. v. BD, et al. were recognized when realized. Generally, realization was not reasonably assured and expected until proceeds were collected. Such amounts were net of attorneys fees, court costs, legal expenses, and amounts payable under the Covenant Not to Sue. Liability for attorneys fees was not incurred until proceeds were collected.

Reimbursed Discounts

The Company received reimbursed discounts from one of the settlement agreements reached in its federal antitrust lawsuit, Retractable Technologies, Inc. v. BD, et al. Payments under the discount reimbursement program were recognized upon delivery of the product, provided collection was reasonably assured. Such amounts are presented in the Statements of Operations as a separate component of revenues. The program reimbursed $8.0 million for discounts, the limit provided by the settlement agreement. This limit was reached during the third quarter of 2006 and negatively affected profit margin for the third and fourth quarters. The discount program ended on December 31, 2006.

LIQUIDITY AND FUTURE CAPITAL REQUIREMENTS

Historical Sources of Liquidity

We have historically funded operations primarily from proceeds from private placements, loans, and litigation settlements. We were capitalized with approximately $52,600,000 raised from six separate private placement offerings. We raised $47,375,600 in cash from the private sales of an aggregate of 11,710,221 shares of Convertible Preferred Stock. In addition, we obtained a cancellation of $3,679,284 in debt and $1,550,000 in Accounts Payable in exchange for Series V Class B Convertible Preferred Stock.

We obtained $3,910,000 in 2000 from bank loans of which $3,435,000 has been repaid and $475,000 was refinanced with a new note with 1st International. Additionally, we received a Small Business Administration loan of $1,000,000 in 1996 to pay for portions of automated assembly equipment, multi-cavity molds, and other equipment. This loan has been repaid. Furthermore, we borrowed $5,000,000 in 2000 under our Credit Agreement with Abbott Laboratories. In October 2002 we repaid the Abbott Laboratories note with proceeds from a new note from Katie

Petroleum, Inc. (Katie Petroleum) for $3,000,000 and a portion of the proceeds from a private placement.

We obtained a loan from 1st International for $2,500,000 for interim and long-term financing of our warehouse. Principal and interest payments began in the first part of 2005. See Note 7 to the Financial Statements for a discussion of the terms of the note.

Internal Sources of Liquidity

Beginning in early 2004 we began to receive shipment of product from Double Dove, a Chinese manufacturer. Fluctuations in the cost and availability of raw materials and inventory and the ability to maintain favorable supplier arrangements and relationships could result in the need to manufacture all (as opposed to 27.2%) of the products in the United States. This could temporarily increase unit costs as we ramp up domestic production.

To achieve break even quarters we need minimal access to hospital markets which has been difficult to obtain due to the monopolistic marketplace which was the subject of our antitrust lawsuit against BD. We will continue to attempt to gain access to the market through our sales efforts and innovative technology. We are focusing on methods of upgrading our manufacturing capability and efficiency in order to enable us to offer our technology at a reduced price. We believe our current capitalization provides the resources necessary to implement these changes and greatly improve our manufacturing capacity and efficiency, thereby reducing our unit cost.

We have a Licensing Agreement with BTMD which expires on May 13, 2008. Royalties that were expected in 2007 were not received due to the time needed to build the factory, assembly equipment, and the related infrastructure as well as the need of BTMD to meet the requisite government requirements. The facility has been completed and BTMD is in the process of meeting government requirements. We are in the process of formally extending our agreement with BTMD. Accordingly, although we still continue to expect royalty payments we are unable to predict the date we will begin to receive such royalties. Royalties will begin once government requirements are met and BTMD is able to produce and sell products.

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

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

In the event we continue to have only limited market access and cash generated from operations and cash reserves become insufficient to support operations, the Company would take cost cutting measures to reduce cash requirements. Such measures could result in reduction of units being produced, reduction of workforce, reduction of salaries of officers and other nonhourly employees, and deferral of royalty payments.

The Company had a reduction in force in August 2005.

External Sources of Liquidity

We have obtained several loans over the past seven years, which have, together with proceeds from the sales of equities and litigation settlements, enabled us to pursue development and production of our products. Currently we believe we could obtain additional funds through loans if needed. Furthermore, the shareholders have previously authorized an additional 5,000,000 shares of a Class C stock that could, if necessary, be authorized and used to raise funds through the sale of equity.

Contractual Obligations and Commercial Commitments

The following chart summarizes all of our material obligations and commitments to make future payments under contracts such as debt and lease agreements as of December 31, 2006:

	Payments Due by Period				
Contractual Obligations	**Total**	**2007**	**2008-2009**	**2010-2011**	**Thereafter**
Long-Term Debt Obligations	$ 4,669,468	$ 382,397	$ 873,976	$ 3,057,707	$ 355,388
Capital Lease Obligations					
Operating Lease Obligations	17,400	17,400			
Purchase Obligations					
Other Long-Term Liabilities Reflected on Balance Sheet					
Total Contractual Cash Obligations	$ 4,686,868	$ 399,797	$ 873,976	$ 3,057,707	$ 355,388

Material Commitments for Expenditures

Assuming we are able to access the market, we may obtain additional capital to fund capital expenditures and working capital needs. Management would fund these expenditures through debt and equity offerings. Capital expenditures could include additional assembly lines, manufacturing space, warehousing, and related infrastructure. The expansion could include those products that have been developed but not yet marketed, as well as expanding manufacturing capacity for existing products.

We had $1.5 million in capital expenditures in 2006 and $2.0 million in 2005. The Company invested $500,000 in a limited liability company (LLC) in which we will be a minority interest holder. The funds are held in escrow until the LLC has raised the majority of its capital. The Company has the option to have its investment returned. The purpose of this project is to provide information and insight to the public regarding healthcare. Capital expenditures in 2007 are dependent upon several factors, including, but not limited to, projects to decrease production costs, the introduction of new products, and access to debt financing.

On March 27, 2007, the Board of Directors declared a dividend on the Series I and Series II Class B Convertible Preferred Stock that was paid on July 24, 2007 to Shareholders of Record on July 2, 2007. Arrearages were paid through June 30, 2007 in the amount of $1.1 million.

OFF-BALANCE SHEET ARRANGEMENTS

We have no off-balance sheet transactions.

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

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

Item 8. Financial Statements and Supplementary Data.

RETRACTABLE TECHNOLOGIES, INC.

FINANCIAL STATEMENTS AND
REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

DECEMBER 31, 2006 AND 2005

RETRACTABLE TECHNOLOGIES, INC.

INDEX TO FINANCIAL STATEMENTS

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, 2006 and 2005, 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, 2006. 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 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. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes 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, 2006 and 2005, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2006 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
April 2, 2007, except for Note 8
as to which the date is February 27, 2008

RETRACTABLE TECHNOLOGIES, INC.

BALANCE SHEETS

	December 31,	
	2006	**2005**
ASSETS		
Current assets:		
Cash and cash equivalents	$ 46,814,689	$ 52,513,935
Accounts receivable, net of allowance for doubtful accounts of $87,030 and $267,174, respectively	1,956,756	3,404,908
Inventories, net	6,385,780	3,297,726
Income taxes receivable	2,355,732	561,062
Current deferred tax asset		1,245,508
Other current assets	267,707	462,150
Total current assets	57,780,664	61,485,289
Property, plant, and equipment, net	12,212,140	11,925,976
Intangible assets, net	279,846	316,926
Other assets	522,294	27,334
Total assets	$ 70,794,944	$ 73,755,525
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities:		
Accounts payable	$ 4,247,630	$ 2,345,613
Current portion of long-term debt	261,905	295,417
Accrued compensation	472,573	388,726
Marketing fees payable	1,419,760	1,419,760
Accrued royalties to shareholder	2,755	540,888
Other accrued liabilities	440,253	467,812
Current deferred tax liability	45,697	
Total current liabilities	6,890,573	5,458,216
Long-term debt, net of current maturities	4,137,231	4,350,625
Long-term deferred tax liability	56,828	711,443
Total liabilities	11,084,632	10,520,284
Stockholders equity:		
Preferred Stock $1 par value:		
Class B; authorized: 5,000,000 shares		
Series I, Class B; issued: 1,000,000 shares; outstanding: 164,000 and 171,000 shares, respectively (liquidation preference of $1,025,000 and $1,068,750, respectively)	164,000	171,000
Series II, Class B; issued: 1,000,000 shares; outstanding 224,700 and 255,200 shares, respectively (liquidation preference of $2,808,750 and $3,190,000, respectively)	224,700	255,200
Series III, Class B; issued: 1,160,445 shares; outstanding: 135,245 and 135,245 shares, respectively (liquidation preference of $1,690,563 and $1,690,563, respectively)	135,245	135,245
Series IV, Class B; issued: 1,133,800 shares; outstanding 553,500 and 556,000 shares, respectively (liquidation preference of $6,088,500 and $6,116,000, respectively)	553,500	556,000
Series V, Class B; issued 2,416,221 shares; outstanding: 1,363,721 and 1,381,221 shares, respectively (liquidation preference of $6,000,372 and $6,077,372, respectively)	1,363,721	1,381,221
Common Stock, no par value; authorized: 100,000,000 shares; issued and outstanding: 23,644,164 and 23,511,884 shares, respectively		
Additional paid-in capital	54,709,108	54,307,053
Retained earnings	2,560,038	6,429,522
Total stockholders equity	59,710,312	63,235,241
Total liabilities and stockholders equity	$ 70,794,944	$ 73,755,525

See accompanying notes to financial statements

RETRACTABLE TECHNOLOGIES, INC.

STATEMENTS OF OPERATIONS

	Years Ended December 31,		
	2006	**2005**	**2004**
Sales, net	$ 20,897,207	$ 21,156,666	$ 21,135,943
Reimbursed discounts	4,427,312	3,078,350	385,757
Total sales	25,324,519	24,235,016	21,521,700
Cost of Sales			
Costs of manufactured product	15,684,450	13,713,675	14,564,404
Royalty expense to shareholder	2,093,822	1,715,024	1,846,195
Total cost of sales	17,778,272	15,428,699	16,410,599
Gross profit	7,546,247	8,806,317	5,111,101
Operating expenses:			
Sales and marketing	5,545,500	4,148,688	3,648,454
Research and development	958,798	934,209	626,941
General and administrative	7,756,647	6,600,133	8,834,527
Total operating expenses	14,260,945	11,683,030	13,109,922
Loss from operations	(6,714,698)	(2,876,713)	(7,998,821)
Interest income	1,976,406	1,372,715	475,121
Interest expense, net	(411,154)	(339,688)	(243,922)
Litigation settlements, net			74,635,362
Net income (loss) before income taxes	(5,149,446)	(1,843,686)	66,867,740
Provision (benefit) for income taxes	(1,279,962)	(605,363)	12,176,345
Net income (loss)	(3,869,484)	(1,238,323)	54,691,395
Preferred Stock dividend requirements	(1,451,321)	(1,502,887)	(1,993,516)
Earnings (loss) applicable to common shareholders	$ (5,320,805)	$ (2,741,210)	$ 52,697,879
Earnings (loss) per share -basic	$ (0.23)	$ (0.12)	$ 2.33
Earnings (loss) per share -diluted	$ (0.23)	$ (0.12)	$ 2.08
Weighted average common shares outstanding	23,591,999	23,332,277	22,600,166

See accompanying notes to financial statements

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, 2003	229,400	$ 229,400	418,500	$ 418,500	145,245	$ 145,245	1,066,000	$ 1,066,000	1,732,071	$ 1,732,071	22,141,964	$
Conversion of debt into Common Stock											40,934	
Conversion of Preferred Stock into Common Stock	(30,000)	(30,000)	(129,500)	(129,500)	(7,500)	(7,500)	(510,000)	(510,000)	(342,100)	(342,100)	1,019,100	
Recognition of stock option compensation												
Dividends declared and paid on Series I Class B Stock												
Dividends declared and paid on Series II Class B Stock												
Net income												
Balance as of December 31, 2004	199,400	199,400	289,000	289,000	137,745	137,745	556,000	556,000	1,389,971	1,389,971	23,201,998	
Conversion of Preferred Stock into Common Stock	(28,400)	(28,400)	(33,800)	(33,800)	(2,500)	(2,500)			(8,750)	(8,750)	73,450	
Recognition of stock option exercise											236,436	
Recognition of stock option compensation												
Net loss												
Balance as of December 31, 2005	171,000	171,000	255,200	255,200	135,245	135,245	556,000	556,000	1,381,221	1,381,221	23,511,884	
Conversion of debt into Common Stock	(7,000)	(7,000)	(30,500)	(30,500)			(2,500)	(2,500)	(17,500)	(17,500)	57,500	
Recognition of stock option											74,780	

exercise																						
Recognition of stock option compensation																						
Net loss																						
Balance as of December 31, 2006	164,000	$	164,000	224,700	$	224,700	135,245	$	135,245	553,500	$	553,500	1,363,721	$	1,363,721	23,644,164	$					

See accompanying notes to financial statements

RETRACTABLE TECHNOLOGIES, INC.
STATEMENTS OF CHANGES IN STOCKHOLDERS EQUITY

	Additional Paid-in Capital	Retained Earnings	Total
Balance as of December 31, 2003	51,448,561	(39,904,967)	15,134,810
Conversion of debt into Common Stock	163,736		163,736
Conversion of Preferred Stock into Common Stock	1,019,100		
Recognition of stock option compensation	793,347		793,347
Dividends declared and paid on Series I Class B Stock		(2,550,338)	(2,550,338)
Dividends declared and paid on Series II Class B Stock		(4,568,245)	(4,568,245)
Net income		54,691,395	54,691,395
Balance as of December 31, 2004	53,424,744	7,667,845	63,664,705
Conversion of Preferred Stock into Common Stock	73,450		
Recognition of stock option exercise	236,436		236,436
Recognition of stock option compensation	572,423		572,423
Net loss		(1,238,323)	(1,238,323)
Balance as of December 31, 2005	54,307,053	6,429,522	63,235,241
Conversion of Preferred Stock into common Stock	57,500		
Recognition of stock option exercise	74,780		74,780
Recognition of stock option compensation	269,775		269,775
Net loss		(3,869,484)	(3,869,484)
Balance as of December 31, 2006	$ 54,709,108	$ 2,560,038	$ 59,710,312

See accompanying notes to financial statements

RETRACTABLE TECHNOLOGIES, INC.
STATEMENTS OF CASH FLOWS

	Years Ended December 31,		
	2006	**2005**	**2004**
Cash flows from operating activities:			
Net income (loss)	$ (3,869,484)	$ (1,238,323)	$ 54,691,395
Adjustments to reconcile net income (loss) to net cash provided (used) by operating activities:			
Depreciation and amortization	1,426,748	1,366,907	1,294,297
Capitalized interest	(135,857)	(104,961)	(52,788)
Stock option compensation	372,298	572,423	793,347
Provision for inventory valuation	(61,296)	13,977	
Provision for doubtful accounts	65,362	64,299	146,049
Accreted interest	138,155	101,120	101,120
Deferred income taxes	534,065	(88,863)	(445,202)
Loss on disposal of assets		4,474	
Change in assets and liabilities:			
(Increase) decrease in inventories	(3,026,759)	467,246	197,635
(Increase) decrease in accounts receivable	1,382,790	(1,604,693)	(840,332)
(Increase) decrease in prepaid income taxes	(1,794,670)	788,082	(1,349,144)
(Increase) decrease in other current assets	194,443	(163,701)	(75,817)
Increase (decrease) in accounts payable	1,902,016	(1,056,423)	1,066,648
Increase (decrease) in other accrued liabilities	(481,842)	456,621	(595,683)
Increase (decrease) in income taxes payable		(1,813,084)	1,547,611
Net cash provided (used) by operating activities	(3,354,031)	(2,234,899)	56,479,136
Cash flows from investing activities:			
Purchase of property, plant and equipment	(1,530,357)	(2,015,345)	(2,437,847)
Investment in LLC	(500,000)		
Acquisitions of patents, trademarks, licenses, and intangibles	(4,576)		
Net cash used by investing activities	(2,034,933)	(2,015,345)	(2,437,847)
Cash flows from financing activities:			
Repayments of long-term debt and notes payable	(385,062)	(391,629)	(159,802)
Proceeds from long-term debt		1,050,846	950,000
Proceeds from the exercise of stock options	74,780	236,436	
Payment of Preferred Stock dividends			(7,118,582)
Net cash provided (used) by financing activities	(310,282)	895,653	(6,328,384)
Net increase (decrease) in cash and cash equivalents	(5,699,246)	(3,354,591)	47,712,905
Cash and cash equivalents at:			
Beginning of period	52,513,935	55,868,526	8,155,621
End of period	$ 46,814,689	$ 52,513,935	$ 55,868,526
Supplemental schedule of cash flow information:			
Interest paid	$ 425,429	$ 334,127	$ 202,572
Income taxes paid	$ 45,893	$ 2,062,493	$ 12,439,212
Supplemental schedule of noncash investing and financing activities:			
Debt assumed to acquire assets	$	$ 78,453	$ 121,837
Closing costs rolled into long-term debt	$	$	$ 24,154

Conversion of long-term debt into Common Stock	$	$	$ 163,740

See accompanying notes to financial statements

NOTES TO FINANCIAL STATEMENTS

1. BUSINESS OF THE COMPANY

Retractable Technologies, Inc. (the Company) was incorporated in Texas on May 9, 1994, to design, develop, manufacture and market safety syringes and other safety medical products for the healthcare profession. The Company began to develop its manufacturing operations in 1995. The Company s manufacturing and administrative facilities are located in Little Elm, Texas. The Company s primary products are the VanishPoint® 1cc, 3cc, 5cc and 10cc syringes, blood collection tube holders, allergy trays, and IV catheters. The Company has conducted preliminary clinical evaluations and worked with national distributors to encourage healthcare facilities to transition from the use of standard syringes to the VanishPoint® syringe.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Accounting estimates

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

Cash and cash equivalents

For purposes of reporting cash flows, cash and cash equivalents include unrestricted cash 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. An additional allowance has been established based on a percentage of receivables outstanding. These provisions are 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

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

Property, plant and equipment

Property, plant and equipment are stated at cost. Expenditures for maintenance and repairs are charged to operations as incurred. Cost includes major expenditures for improvements and replacements which extend useful lives or increase capacity and interest cost associated with significant capital additions. For the years ended December 31, 2006, 2005, and 2004, the Company capitalized interest of approximately $136,000; $105,000; and $53,000, respectively. Gains or losses from property disposals are included in income.

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

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

Long-lived assets

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

Reclassifications

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

Intangible assets

Intangible assets are stated at cost and consist primarily of patents, a license agreement granting exclusive rights to use patented technology, and trademarks which are amortized using the straight-line method over 17 years.

Financial instruments

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

Concentration risks

The Company s financial instruments exposed to concentrations of credit risk consist primarily of cash, cash equivalents and accounts receivable. Cash balances, some of which exceed the federally insured limits, are maintained in financial institutions; however, management believes the institutions are of high credit quality. The majority of accounts receivable are due from companies which are well-established entities. As a consequence, management considers any exposure from concentrations of credit risks to be limited. The Company had a high concentration of sales with two significant customers. For the year ended December 31, 2006, the aforementioned customers accounted for $7.9 million, or 31.3%, of net sales.

The Company purchases most of its product components from single suppliers, including needle adhesives and packaging materials. There are multiple sources of these materials. The Company currently obtains roughly 72.8% of its finished products through Double Dove, a Chinese manufacturer. In the event that the Company was unable to purchase such product from Double Dove, the Company would need to find an alternate supplier for its 5 cc and 10 cc syringes and increase domestic production for 1 cc and 3 cc syringes to avoid a disruption in supply.

Revenue recognition

Revenue is recognized for sales to distributors when title and risk of ownership passes to the distributor, generally upon shipment. Revenue is recorded on the basis of sales price to distributors, less contractual pricing allowances. Contractual pricing allowances consist of (i) rebates granted to distributors who provide tracking reports which show, among other things, the facility that purchased the products, and (ii) a provision for estimated contractual pricing allowances for products that the Company has not received tracking reports. Rebates are recorded when issued and are applied against the customer s receivable balance. The provision for contractual pricing allowances is reviewed at the end of each quarter and adjusted for changes in levels of products for which there is no tracking report. Additionally, if it becomes clear that tracking reports will not be provided by individual distributors, the provision is further adjusted. The estimated contractual allowance is netted against individual distributors accounts receivable balances for financial reporting purposes. The resulting net balance is reflected in accounts receivable or accounts payable, as appropriate. 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 passes from the Company. Any product shipped or distributed for evaluation purposes is expensed.

Marketing fees

The Company paid Abbott Laboratories, Inc. (Abbott) marketing fees for services they provided. The contracted services were to include participation in promotional activities, development of educational and promotional materials, representation at trade shows, clinical demonstrations, inservicing and training, and tracking reports detailing the placement of the Company s products to end-users. Marketing fees were accrued at the time of the sale of product to Abbott. These fees were paid after Abbott provided the Company a tracking report of product sales to end-users. These costs were included in sales and marketing expense in the Statements of Operations. No marketing fees have been accrued since October 15, 2003, the date the National Marketing and Distribution Agreement with Abbott was terminated.

Litigation Proceeds

Proceeds from litigation settlements in the Company s federal antitrust lawsuit, Retractable Technologies, Inc. v. Becton Dickinson & Co., et al. were recognized when realizable. Generally, realization was not reasonably assured and expected until proceeds were collected. Such amounts were net of attorneys fees, court costs, legal expenses, and amounts payable under the Covenant Not to Sue. Liability for attorneys fees was not incurred until proceeds were collected.

Reimbursed Discounts

The Company received reimbursed discounts from one of the settlement agreements reached in its federal antitrust lawsuit, Retractable Technologies, Inc. v. Becton Dickinson & Co et al. Payments under the discount reimbursement program were recognized upon invoicing of amounts due under the agreement provided collection was reasonably assured. Such amounts are presented in the Statements of Operations as a separate component of revenues. All funds available under the discount reimbursement program were recognized by the third quarter of 2006.

Income taxes

The Company provides for deferred income taxes in accordance with Statement of Financial Accounting Standard No. 109, *Accounting for Income Taxes* (SFAS 109). SFAS 109 requires an asset and liability approach for financial accounting and reporting for income taxes based on the tax effects of differences between the financial statement and tax bases of assets and liabilities, based on enacted rates expected to be in effect when such basis differences reverse in future periods. Deferred tax assets are periodically reviewed for realizability. The Company has sufficient taxable income from prior carryback years to realize all of its current taxable losses. The Company has established a valuation allowance for its net deferred tax asset as future taxable income cannot be reasonably assured.

Earnings per share

The Company has adopted Statement of Financial Accounting Standards No. 128, *Earnings Per Share*, which establishes standards for computing and presenting earnings per share. Basic earnings per share is computed by dividing net earnings for the period (adjusted for any cumulative dividends for the period) by the weighted average number of common shares outstanding during the period. The Company s potentially dilutive Common Stock equivalents, consist of options, convertible debt and convertible Preferred Stock and are dilutive or antidilutive in different periods as shown in the schedule below:

	Years Ended December 31,		
	2006	2005	2004
Net Income (loss)	$ (3,869,484)	$ (1,238,323)	$ 54,691,395
Preferred Stock dividend requirements	(1,451,321)	(1,502,887)	(1,993,516)
Earnings (loss) available to common shareholders	(5,320,805)	(2,741,210)	52,697,879
Effect of dilutive securities:			
Preferred Stock dividend requirements			1,993,516
Convertible debt interest and loan fees			(351,860)
Earnings (loss) available to common shareholders after assumed conversions	$ (5,320,805)	$ (2,741,210)	$ 54,339,535
Average common shares outstanding	23,591,999	23,332,277	22,600,166
Dilutive stock equivalents from stock options			269,016
Shares issuable upon conversion of Preferred Stock			2,572,116
Shares issuable upon conversion of convertible debt			685,855
Average common and common equivalent shares outstanding assuming dilution	23,591,999	23,332,277	26,127,153
Basic earnings (loss) per share	$ (0.23)	$ (0.12)	$ 2.33
Diluted earnings (loss) per share	$ (0.23)	$ (0.12)	$ 2.08

Research and development costs

Research and development costs are expensed as incurred.

Share-based compensation

The Company has issued options under three share-based director, officer and employee compensation plans as well as several individual option agreements. The two 1996 plans have terminated; however, the options continue until their expected maturity dates. The Company adopted the fair value recognition provisions of Statement of Financial Accounting Standards No. 123, *Accounting for Stock-Based Compensation*, to all awards granted, modified, or settled after December 31, 2001. Awards generally vest over periods up to three years.

The Company adopted the provisions of Statement of Financial Accounting Standards No. 123 (Revised 2004) (SFAS No. 123R), *Share-Based Payment*, effective January 1, 2006. It did not have a material impact on the financial statements of the Company. In accordance with the disclosure requirements of SFAS No. 123R, the Company incurred the following share-based compensation costs:

	Years Ended December 31,		
	2006	2005	2004
Cost of Sales	$ 67,561	$ 29,131	$ 183,026
Sales and marketing	101,608	182,464	183,064
Research and development	12,418	19,432	15,982

General and Administrative	190,711	341,396	411,271
	$ 372,298	$ 572,423	$ 793,343

Recent Pronouncements

In July 2006 the Financial Accounting Standards Board issued FASB Interpretation No. 48 (FIN 48), *Accounting for Uncertainty in Income Taxes*. FIN 48 is intended to clarify the accounting for uncertainty in income taxes recognized in financial statements in accordance with SFAS 109. This Interpretation prescribes two steps in evaluating uncertainty in income taxes. The steps include a recognition threshold and measurement attribute. In the recognition threshold step the Company determines whether it is more-likely-than-not that a tax position will be sustained based on the technical merits of the position. The Company should presume that the position will be examined by the appropriate taxing authority with their having full knowledge of all relevant information. In the measurement attribute step, the Company will evaluate its tax position that meets the more-likely-than-not recognition threshold. The benefit is measured to determine the amount to recognize in the financial statements. The tax position is measured at the largest amount of benefit that is greater than 50 percent likely of being realized upon ultimate settlement. Tax positions that previously failed to meet the more-likely-than-not recognition threshold should be recognized in the first subsequent financial reporting period in which that threshold is met. Previously recognized tax positions that no longer meet the more-likely-than-not recognition threshold should be derecognized in the first subsequent financial reporting period in which the threshold is no longer met. FIN 48 is effective for fiscal years ending after December 15, 2006. The Company is evaluating the effect, if any, that the adoption of FIN 48 will have on our financial statements.

In September 2006, the Financial Accounting Standards Board (FASB) issued Statement No. 157, *Fair Value Measurements* (SFAS 157). SFAS 157 defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles, and expands disclosures about fair value measurements. SFAS 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007, and interim periods within those years. The provisions of the new standard are to be applied prospectively for most financial instruments and retrospectively for others as of the beginning of the fiscal year in which the standard is initially applied. The Company is evaluating the effect, if any, that the adoption of SFAS 157 will have on our financial statements.

3. INVENTORIES

Inventories consist of the following:

	December 31,	
	2006	**2005**
Raw materials	$ 1,546,288	$ 865,285
Finished goods	4,889,492	2,543,737
	6,435,780	3,409,022
Inventory reserve	(50,000)	(111,296)
	$ 6,385,780	$ 3,297,726

4. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment consist of the following**:**

	December 31,	
	2006	**2005**
Land	$ 261,893	$ 261,893
Buildings and building improvements	5,162,512	5,162,512
Production equipment	14,130,874	13,928,344
Office furniture and equipment	1,226,518	1,258,692
Construction in progress	2,238,387	739,542
Automobiles	102,321	105,311
	23,122,505	21,456,294
Accumulated depreciation and amortization	(10,910,365)	(9,530,318)
	$ 12,212,140	$ 11,925,976

Depreciation expense and capital lease amortization expense for the years ended December 31, 2006, 2005 and 2004 was $1,380,047; $1,325,174; and $1,258,587, respectively.

5. INTANGIBLE ASSETS

Intangible assets consist of the following:

	December 31,	
	2006	**2005**
License agreement	$ 500,000	$ 500,000
Trademarks and patents	231,423	226,847
	731,423	726,847
Accumulated amortization	(451,577)	(409,921)
	$ 279,846	$ 316,926

In 1995, the Company entered into the license agreement with the Chief Executive Officer of the Company 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 such officer of the Company. The initial licensing fee of $500,000 is being amortized over 17 years. The license agreement also provides for quarterly payments of a 5% royalty fee to the officer on gross sales. The royalty fee expense is recognized in the period in which it is earned. Royalty fees of $2,093,822; $1,715,024; and $1,846,195 are included in cost of sales for the years ended December 31, 2006, 2005 and 2004, respectively. Accrued royalties under this agreement aggregated $2,755 and $540,888 at December 31, 2006 and 2005, respectively.

Amortization expense for the years ended December 31, 2006, 2005 and 2004, was $41,657; $41,733; and $35,710, respectively. Future amortization expense for the years 2007 through 2011 is estimated to be $42,000 per year.

6. OTHER ASSETS

The Company invested $500,000 in a limited liability company (LLC) in which we will be a minority interest holder. The funds are held in escrow until the LLC has raised the majority of its capital. If such fundraising is not completed by November 2007 the Company has the option to have its investment returned. The purpose of this project is to provide information and insight to the public regarding healthcare.

7. LONG-TERM DEBT

	December 31, 2006	December 31, 2005
Long-term debt consists of the following:		
Note payable to Katie Petroleum. Interest accrues at prime plus 1%, 9.25% and 8.00% and at December 31, 2006 and 2005, respectively. Interest only was payable monthly through February 1, 2004. The original amount of the note of $3,000,000 was discounted for presentation purposes by $299,346 for stock options issued in conjunction with the debt and $412,500 for the intrinsic value of a beneficial conversion feature of the debt. Beginning March 1, 2004, the loan is payable in equal installments of principal and interest payments (except for changes in the interest rate) of approximately $37,000 and matures on September 30, 2012. Guaranteed by an officer. Approximately $163,736 of the principal payment was converted into 40,934 shares of Common Stock as of March 1, 2006. Not otherwise collateralized. Convertible into Common Stock at $4.00 per share at the option of the holder.	$ 1,918,666	$ 2,059,408
Note payable to 1st International Bank for $2,500,000. The proceeds from the loan paid off the remaining $475,000 of a revolving credit agreement and funded a new warehouse and related infrastructure. Payments were interest only during the first twelve months. After twelve months, payments are based on a twenty-year amortization with a five-year maturity on March 29, 2010. The interest rate at December 31, 2006 and 2005 was 8.25% and 7.25%, respectively and is based on the amount of funds kept on deposit with the bank. Accordingly, interest will vary from the Wall Street Journal Prime Rate (the WSJPR) to the WSJPR plus 1%, with floors that may range from 4.25% to 6.50%. Compensating balances at 1st International affecting the interest rate will range from $0 to $500,000. The Company had in excess of $500,000 on deposit with 1st International Bank throughout the year. The note is secured by the Company s land and buildings.	2,428,713	2,465,077
Note payable to DaimlerChrysler Services North America LLC. Sixty (60) monthly payments at $1,009. Interest is 5.49%. Collateralized by a 2005 Freightliner truck.	34,284	44,217
Note payable to GMAC. Sixty (60) monthly payments at $427. Interest is zero percent. Collateralized by a 2005 Chevrolet van.	17,473	24,318
Note payable to CitiCorp. Vendor Finance; Interest at 4.2%; Collateralized by software; payable in eight quarterly principal and interests payments of $15,955.		46,886
Capital lease obligation was payable in monthly installments of approximately $1,070 until June, 2006. Interest at 14.87% collateralized by certain equipment. Guaranteed by an officer.		6,136
	4,399,136	4,646,042
Less: current portion	(261,905)	(295,417)
	$ 4,137,231	$ 4,350,625

The aggregate maturities of long-term debt as of December 31, 2006 are as follows:

2007	$	261,906
2008		362,938
2009		413,500
2010		2,589,575
2011		419,603
Thereafter		351,614
	$	4,399,136

8. COMMITMENTS AND CONTINGENCIES (as of February 27, 2008)

On August 12, 2005, the Company filed a lawsuit against Abbott Laboratories Inc. in the United States District Court in the Eastern District of Texas, Texarkana Division. The Company is alleging fraud and breach of contract in connection with the National Marketing and Distribution Agreement dated as of May 4, 2000 which was terminated on October 15, 2003. The Company is seeking damages which are estimated to be in millions of dollars of lost profits, out of pocket expenses and other damages. In addition, the Company is seeking punitive damages, pre-judgment and post-judgment interest and attorney s fees. Abbott has appealed a trial court determination that the dispute does not need to be decided by arbitration. Oral argument is scheduled for March 3, 2008.

In August 2006, the Company was sued by Occupational and Medical Innovations Limited (OMI) in Federal Court of Australia, alleging that two letters written to OMI by outside counsel contained unjustified threats. OMI is not seeking monetary damages in the action, but was awarded its costs. The Court subsequently held that one of the letters written by outside counsel contained an unjustified threat. OMI amended its complaint to seek a declaratory judgment that OMI s syringe does not infringe RTI s Australian patents. Trial of that claim is set for April 2008.

On June 15, 2007, the Company filed a lawsuit against BD in the United States District Court for the Eastern District of Texas, Marshall Division. The Company is alleging antitrust violations, violations of the Lanham Act and patent infringement. BD has counterclaimed for a declaration that the Company s patents are invalid and unenforceable. All other claims have been stayed until resolution of the patent claims. The patent case is set for trial in March 2009.

On September 6, 2007, BD and MDC Investment Holdings, Inc. filed a complaint against the Company in the United States District Court for the Eastern District of Texas, Texarkana Division. Plaintiffs allege that the Company s VanishPoint® product line infringes U.S. patent nos. 6,179,812 and 7,090,656. Plaintiffs seek a declaration of infringement, an injunction against further infringement, compensatory damages (with interest), the costs of the litigation, and such other relief as the Court deems just and proper. The Company has counterclaimed for a declaration that the asserted patents are invalid and unenforceable. The Company believes that it has meritorious defenses to such allegations and intends to defend this lawsuit vigorously. No trial date has been set.

The Company is involved in other legal proceedings which have arisen in the ordinary course of business. Management believes that any liabilities arising from these claims and contingencies would not have a material adverse effect on the Company s annual results of operations or financial condition.

9. INCOME TAXES

The provision for income taxes consists of the following:

	For the Years Ended December 31,		
	2006	**2005**	**2004**
Current tax provision (benefit)			
Federal	$ (1,696,318)	$ (500,514)	$ 10,785,856
State	(117,709)	(15,986)	1,835,691
Total current provision (benefit)	(1,814,027)	(516,500)	12,621,547
Deferred tax provision (benefit)			
Federal	458,232	(13,030)	(399,126)
State	75,833	(75,833)	(46,076)
Total deferred tax provision (benefit)	534,065	(88,863)	(445,202)
Total income tax provision (benefit)	$ (1,279,962)	$ (605,363)	$ 12,176,345

The income tax benefit of net operating loss carry forwards utilized in 2004 aggregated $12.1 million for current federal income taxes and $7.5 million for current state income taxes. As of December 31, 2004, the Company had utilized all of its net operating loss carry forwards.

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

The Company has $2,196,832 in tax benefits attributable to carry back losses for federal tax purposes and $158,900 for current state income tax purposes. The Company has $160,608 in tax effected state carry forward losses that will begin to expire in 2010.

	December 31,	
	2006	2005
Current deferred tax assets (liabilities)		
Inventory	$ 299,233	$ 214,625
Accrued expenses and reserves	738,878	1,030,883
Beneficial conversion feature of debt	(45,697)	
Net current deferred tax assets	992,414	1,245,508
Non-current deferred tax assets (liabilities)		
Non-employee option expense	313,557	313,557
Employee option expense	484,212	412,775
Property and equipment	(1,344,050)	(1,376,033)
State net operating loss carry forwards	160,608	37,538
Beneficial conversion feature of debt	(56,828)	
Net non-current deferred tax liabilities	(442,501)	(612,163)
Valuation allowance	(652,438)	(99,280)
Net deferred tax assets (liabilities)	$ (102,525)	$ 534,065

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

	December 31,		
	2006	2005	2004
Income tax (benefit) at the federal statutory rate	(35.0)%	(35.0)%	35.0%
State tax (benefit), net of federal (benefit)	(2.9)	(2.9)	2.9
Increase (decrease) in valuation allowance	10.7	5.4	(19.8)
Permanent differences	4.0	0.4	0.5
Other	(1.7)	(0.7)	(0.4)
Effective tax (benefit) rate	(24.9)%	(32.8)%	18.2%

10. STOCKHOLDERS EQUITY

Preferred Stock

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

Class B

The Company has authorized 5,000,000 shares of $1 par value Class B Stock which have been allocated among Series I, II, III, IV and V in the amounts of 164,000; 224,700; 135,245; 553,500; and 1,363,721 shares, respectively. The remaining 2,558,834 authorized shares have not been assigned a series.

Series I Class B

There were 1,000,000 shares of $1 par value Series I Class B Convertible Preferred Stock (Series I Class B Stock) issued and 164,000 and 171,000 shares outstanding at December 31, 2006 and 2005, respectively. Holders of Series I Class B Stock are entitled to receive a cumulative annual dividend of $.50 per share, payable quarterly if declared by the Board of Directors. In 2004, the Company paid $2,550,000 in dividends. At December 31, 2006 and 2005 approximately $226,000 and $141,000, respectively, of dividends which had not been declared were in arrears.

Series I Class B Stock is redeemable after three years from the date of issuance at the option of the Company at a price of $7.50 per share, plus all accrued and unpaid dividends. Each share of Series I Class B Stock may, at the option of the stockholder, be converted to one share of Common Stock after three years from the date of issuance or in the event the Company files an initial registration statement under the Securities Act of 1933. Pursuant to these terms, a total of 7,000 shares of Series I Class B Stock were converted into Common Stock in 2006. In the event of voluntary or involuntary dissolution, liquidation or winding up of the Company, holders of Series I Class B Stock then outstanding are entitled to $6.25 per share, plus all accrued and unpaid dividends prior to any distributions to holders of Series II Class B Convertible Preferred Stock (Series II Class B Stock), Series III Class B Convertible Preferred Stock (Series III Class B Stock), Series IV Class B

Convertible Preferred Stock (Series IV Class B Stock), Series V Class B Convertible Preferred Stock (Series V Class B Stock) or Common Stock.

Series II Class B

There were 1,000,000 shares of $1 par value Series II Class B Stock issued and there were 224,700 and 255,200 shares outstanding at December 31, 2006 and 2005. Holders of Series II Class B Stock are entitled to receive a cumulative annual dividend of $1.00 per share, payable quarterly if declared by the Board of Directors. Holders of Series II Class B Stock generally have no voting rights until dividends are in arrears and unpaid for twelve consecutive quarters. In such case, the holders of Series II Class B Stock have the right to elect one-third of the Board of Directors of the Company. In 2004, the Company paid $4.6 million in dividends. At December 31, 2006 and 2005, approximately $678,000 and $443,000, respectively, of dividends which had not been declared were in arrears.

Series II Class B Stock is redeemable after three years from the date of issuance at the option of the Company at a price of $15.00 per share plus all accrued and unpaid dividends. Each share of Series II Class B Stock may, at the option of the stockholder, be converted to one share of Common Stock after three years from the date of issuance or in the event the Company files an initial registration statement under the Securities Act of 1933. Pursuant to these terms, 30,500 shares of Series II Class B Stock were converted into Common Stock in 2006. In the event of voluntary or involuntary dissolution, liquidation or winding up of the Company, holders of Series II Class B Stock then outstanding are entitled to $12.50 per share, plus all accrued and unpaid dividends, after distribution obligations to holders of Series I Class B Stock have been satisfied and prior to any distributions to holders of Series III Class B Stock, Series IV Class B Stock, Series V Class B Stock or Common Stock.

Series III Class B

There were 1,160,445 shares of $1 par value Series III Class B Stock issued and 135,245 and 135,245 shares outstanding at December 31, 2006 and 2005, respectively. Holders of Series III Class B Stock are entitled to receive a cumulative annual dividend of $1.00 per share, payable quarterly if declared by the Board of Directors. At December 31, 2006 and 2005, approximately $2,853,000 and $2,718,000, respectively, of dividends which have not been declared were in arrears.

Series III Class B Stock is redeemable after three years from the date of issuance at the option of the Company at a price of $15.00 per share, plus all accrued and unpaid dividends. Each share of Series III Class B Stock may, at the option of the stockholder, be converted to one share of Common Stock after three years from the date of issuance or in the event the Company files an initial registration statement under the Securities Act of 1933. Pursuant to these terms, no shares of Series III Class B Stock were converted into Common Stock in 2006. In the event of voluntary or involuntary dissolution, liquidation or winding up of the Company, holders of Series III Class B Stock then outstanding are entitled to $12.50 per share, plus all accrued and unpaid dividends, after distribution obligations to Series I Class B Stock and Series II Class B Stock have been satisfied and prior to any distributions to holders of Series IV Class B Stock, Series V Class B Stock or Common Stock.

Series IV Class B

There were 1,133,800 shares issued and 553,500 and 556,000 shares outstanding at December 31, 2006 and 2005, respectively. Holders of Series IV Class B Stock are entitled to receive a cumulative annual dividend of $1.00 per share, payable quarterly, if declared by the Board of

Directors. Holders of Series IV Class B Stock generally have no voting rights. At December 31, 2006 and 2005, approximately $5,924,000 and $5,368,000, respectively, of dividends which have not been declared were in arrears.

Series IV Class B Stock is redeemable after three years from the date of issuance at the option of the Company at a price of $11.00 per share plus all accrued and unpaid dividends. Each share of

Series IV Class B Stock may, at the option of the stockholder any time subsequent to three years from date of issuance, be converted into one share of Common Stock, or in the event the Company files an initial registration statement under the Securities Act of 1933. Pursuant to these terms, 2,500 shares of Series IV Class B Stock were converted into Common Stock in 2006. In the event of voluntary or involuntary liquidation, dissolution or winding up of the Company, holders of Series IV Class B Stock then outstanding are entitled to receive liquidating distributions of $11.00 per share, plus accrued and unpaid dividends after distribution obligations to Series I Class B Stock, Series II Class B Stock, and Series III Class B Stock have been satisfied and prior to any distribution to holders of Series V Class B Stock or Common Stock.

Series V Class B

There were 2,416,221 shares issued and 1,363,721 and 1,381,221 outstanding at December 31, 2006 and 2005, respectively. Holders of Series V Class B Stock are entitled to receive a cumulative annual dividend of $0.32 per share, payable quarterly, if declared by the Board of Directors. Holders of Series V Class B Stock generally have no voting rights. At December 31, 2006 and 2005, approximately $2,482,000 and $2,041,000, respectively, of dividends which have not been declared were in arrears.

Series V Class B Stock is redeemable after two years from the date of issuance at the option of the Company at a price of $4.40 per share plus all accrued and unpaid dividends. Each share of Series V Class B Stock may, at the option of the stockholder any time subsequent to the date of issuance, be converted into Common Stock. Pursuant to the terms of the certificate of designation, 17,500 shares of Series V Class B Stock were converted into Common Stock in 2006. In the event of voluntary or involuntary liquidation, dissolution, or winding up of the Company, holders of Series V Class B Stock then outstanding are entitled to receive liquidating distributions of $4.40 per share, plus accrued and unpaid dividends after distribution obligations to Series I Class B Stock, Series II Class B Stock, Series III Class B Stock and Series IV Class B Stock have been satisfied and prior to any distribution to the holders of the Common Stock.

Common stock

The Company is authorized to issue 100,000,000 shares of no par value Common Stock, of which 23,644,164 and 23,511,884 shares are issued and outstanding at December 31, 2006 and 2005, respectively.

11. RELATED PARTY TRANSACTIONS

The Company has a lease with Mill Street Enterprises (Mill Street), a sole proprietorship owned by a 10% shareholder for offices and storage in Lewisville, Texas. During the years ended December 31, 2006, 2005 and 2004, the Company paid $34,800; $34,800; and $37,700, respectively, under this lease. This lease term expires in June 2007. Beginning in October 2005 and pursuant to the direction of the owner of Mill Street Enterprises, payments have been made to LES Development. The future lease commitment is $17,400 for 2007.

The Company had a consulting agreement with MediTrade International Corporation, a company controlled by a 10% shareholder. The shareholder was paid $16,667 per month and reimbursed for business expenses incurred on behalf of the Company, not to exceed $5,000 per month without prior approval for the term of the contract. During the years ended December 31, 2005 and 2004, the Company paid $27,217 and $304,282, respectively, under this agreement. During 2006, the Company paid MediTrade $91,883 on a month-to-month consulting agreement whereby MediTrade is paid $6,500 per month plus expenses.

The Company has a license agreement with the Chief Executive Officer of the Company. See Note 5. The officer has a Covenant Not to Sue Agreement with the Company. See Note 13.

During the years ended December 31, 2006, 2005 and 2004, the Company paid $24,162; $15,618; and $13,578, respectively, to family members of its Chief Executive Officer for various consulting services.

12. STOCK OPTIONS

Stock options

The Company had three stock option plans that provided for the granting of stock options to officers, employees and other individuals. During 1999, the Company approved the 1999 Stock Option Plan. The 1999 Plan is the only plan with stock options currently being awarded. The Company has reserved 4,000,000 shares of Common Stock for issuance upon the exercise of options under this plan.

The Company also has options for common shares outstanding under the 1996 Incentive Stock Option Plan and the 1996 Stock Option Plan for Directors and Other Individuals. The two 1996 plans have terminated. However, options issued under those plans are still in effect.

A committee appointed by the Board of Directors administers all plans and determines exercise prices at which options are granted. Shares exercised come from the Company s authorized but unissued Common Stock. The options vest over periods up to three years from the date of grant and generally expire ten years after the date of grant. All unvested options issued under the plans expire three months after termination of employment or service to the Company.

Employee options

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

	Years Ended December 31,					
	2006		2005		2004	
	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price
Outstanding at beginning of period	2,495,125	$ 8.38	2,634,885	$ 8.37	2,589,160	$ 8.36
Granted					131,775	8.61
Exercised	(49,780)	(1.00)				
Forfeited	(28,050)	(4.47)	(139,760)	(8.16)	(86,050)	(8.36)
Outstanding at end of period	2,417,295	$ 8.58	2,495,125	$ 8.38	2,634,885	$ 8.37
Exercisable at end of period	2,325,770	$ 8.57	1,712,100	$ 8.25	1,295,030	$ 8.74

Weighted average fair value of options granted during period	$	$	$ 2.02

The fair value of each option grant is estimated on the date of grant using the Black-Scholes option pricing model with the following weighted average assumptions used for grants in 2004: no dividend yield; expected volatility of 37%; risk free interest rate of 4.89%; and an expected life of 9.0 years. No options were issued in 2005 or 2006.

The following table summarizes information about director, officer and employee options outstanding under the aforementioned plans at December 31, 2006:

Exercise Prices	Shares Outstanding	Weighted Average Remaining Contractual Life	Shares Exercisable
$ 5.00	141,300	0.32	141,300
$ 10.00	872,750	2.89	872,750
$ 6.90	473,420	5.75	473,420
$ 8.65	813,300	5.72	813,300
$ 7.50	25,000	2.36	25,000
$ 8.87	91,525	7.36	

Non-employee options

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

	Years Ended December 31, 2006		2005		2004	
	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price
Outstanding at beginning of period	607,200	$ 8.16	843,639	$ 6.15	843,639	$ 6.15
Granted						
Exercised	(25,000)	(1.00)	(236,436)	(1.00)		
Forfeited	(2,500)	(1.00)	(3)	(1.00)		
Outstanding at end of period	579,700	$ 8.50	607,200	$ 8.16	843,639	$ 6.15
Exercisable at end of period	579,700	$ 8.50	607,200	$ 8.16	843,639	$ 6.15
Weighted average fair value of options granted during period		$		$		$

The fair value of each option grant is estimated on the date of grant using the Black-Scholes option pricing model. No options were issued in 2006, 2005, or 2004.

The following table summarizes information about non-employee options outstanding under the aforementioned plan at December 31, 2006:

Exercise Prices	Shares Outstanding	Weighted Average Remaining Contractual Life	Shares Exercisable
$ 5.00	30,000	0.35	30,000
$ 10.00	317,200	3.11	317,200
$ 6.90	232,500	5.75	232,500

The Company recorded $372,298, $572,423 and $793,343 as stock-based compensation expense in 2006, 2005, and 2004, respectively. The total intrinsic value of options exercised was $207,924; $0; and $0 in 2006, 2005, and 2004, respectively. The aggregate intrinsic value of options outstanding at December 31, 2006 was zero dollars. The total compensation cost related to non-vested stock options to be recognized in the future was $17,791 at December 31, 2006.

13. LITIGATION SETTLEMENTS

In the second quarter of 2003 the Company reached settlement agreements with Premier Inc.; Premier Purchasing Partners, L.P.; VHA, Inc.; Novation, L.L.C.; Tyco International (US) Inc.; and Tyco Healthcare Group L.P. in its federal antitrust lawsuit, Retractable Technologies, Inc. v. Becton Dickinson & Co. et al. As part of the settlements, the litigation against Premier, VHA, Novation, and Tyco has been dismissed.

Although specific terms are confidential, the agreements include cash payments and other financial consideration as well as provisions that are intended to facilitate the sale of our VanishPoint® products to Premier and Novation member facilities. In exchange for the settlement provisions, the Company has agreed to give up its claims against these companies.

The initial cash payment of $29,125,000 was paid in 2003. The Company received net cash payments of $13,879,511 of the cash payment in 2003. These proceeds were net of attorneys fees, court costs, legal expenses, and amounts paid to Mr. Shaw.

Pursuant to a Covenant Not to Sue agreement entered into on September 19, 2001, between the Company and Thomas J. Shaw, individually, Mr. Shaw received $728,609 of the initial cash payment in 2003.

Total attorneys fees, court costs, and legal expenses were $14,516,880 paid in May 2003. An additional payment of $4,250,000 was made by the defendants to the attorneys in December 2003.

As part of the settlement agreements, a discount reimbursement program of $8,000,000, which is net of legal fees, was established whereby the Company is being provided quarterly reimbursements for certain discounts given to participating facilities. The Company offers certain discounts to participating facilities and is being reimbursed for such discounts. These payments are recognized upon delivery of products provided collection is reasonably assured. Cumulative reimbursements of $8,000,000 were recorded through the third quarter of 2006. The termination of the discount reimbursement program resulted in a negative impact to the Company s profit margin during the second half of 2006. The discount program ended December 31, 2006.

In April 2004, $14,125,000 was paid into the registry of the court in the second quarter of 2003 under the terms of settlement agreements reached with Premier Inc; Premier Purchasing Partners, L.P.; VHA, Inc.; Novation, L.L.C.; Tyco International (US) Inc; and Tyco Healthcare Group L.P. in its federal antitrust lawsuit, Retractable Technologies, Inc. v. Becton Dickinson & Co. (BD) et al. The Company received $8,051,250 in connection with this payment. The amount received by the Company is net of attorneys fees, court costs, legal expenses, and the amount paid to Mr. Shaw.

Pursuant to a Covenant Not to Sue agreement, Mr. Shaw received $423,750 as a result of this payment to the Company under the settlement agreements.

The Company s litigation attorneys received $5,650,000 of the April 2004 payment.

Effective July 2, 2004, the Company entered into a Settlement Agreement and Release with BD (the Settlement Agreement). Pursuant to the Settlement Agreement, BD delivered One Hundred Million Dollars ($100,000,000.00) into the registry of the Court. This amount was received on July 7, 2004. The Company received $65.5 million of the proceeds which is net of attorney fees and expenses and approximately $3.4 million paid to Thomas J. Shaw, President and CEO, under a Covenant Not to Sue.

The Company realized an additional $433,808 in December 2004 as the proceeds from the BD Settlement Agreement were distributed. The amount realized is net of $22,832 realized by Mr. Shaw pursuant to a Covenant Not to Sue.

Effective as of April 27, 2004, the Company and Thomas J. Shaw entered into a Settlement Agreement and Release (the NMT Settlement Agreement) with New Medical Technology, Inc.; New Medical Technology, LTD. and NMT Group PLC (collectively NMT). Pursuant to the NMT Settlement Agreement NMT and all parties acting in concert with them are enjoined from importing the NMT Safety Syringe into the United States and from making, using, selling, or offering to sell the NMT Safety Syringe within the United States until the lapse or expiration of the subject patents. In addition NMT paid One Million Dollars ($1,000,000.00) to the Company.

14. 401(k) PLAN

The Company implemented an employee savings and retirement plan (the 401(k) Plan) in 2005 that is intended to be a tax-qualified plan covering substantially all employees. Under the terms of the 401(k) Plan, employees may elect to contribute up to 90% of their compensation, or the statutory prescribed limit, if less. The Company may, at its discretion, match employee contributions. The Company did not make any matching contributions in 2006 and 2005.

15. BUSINESS SEGMENTS

	2006	2005	2004
Domestic sales	$ 22,240,347	$ 22,310,150	$ 20,193,999
International sales	3,084,172	1,924,866	1,327,701
Total sales	$ 25,324,519	$ 24,235,016	$ 21,521,700
Long-lived assets			
Domestic	$ 12,212,140	$ 11,925,976	$ 11,056,865
Foreign	$	$	$

The Company does not operate in separate reportable segments. The Company has no long-lived assets in foreign countries. Shipments to international customers generally require a prepayment either by wire transfer or an irrevocable confirmed letter of credit. The Company does extend credit to international customers on some occasions depending upon certain criteria, including, but not limited to, the credit worthiness of

the customer, the stability of the country, banking restrictions, and the size of the order. All transactions are in United States currency.

16. SUBSEQUENT EVENTS

On March 27, 2007, the Board of Directors declared a dividend on the Series I and Series II Class B Convertible Preferred Stock to be paid on July 24, 2007 to Shareholders of Record on July 2, 2007. Arrearages will be paid through June 30, 2007 in the amount of $1.1 million.

SELECTED QUARTERLY FINANCIAL DATA - UNAUDITED

The selected quarterly financial data for the periods ended December 31, 2006 and 2005, have been derived from our unaudited financial statements and include all adjustments, consisting only of normal recurring adjustments, necessary for a fair presentation of the results of the interim periods.

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

2006

	Quarter 1	Quarter 2	Quarter 3	Quarter 4
Sales, net	$3,882	$5,302	$5,332	$6,381
Reimbursed discounts	1,641	2,135	651	
Total sales	5,523	7,437	5,983	6,381
Cost of Sales	3,611	4,713	4,650	4,804
Gross profit	1,912	2,724	1,333	1,577
Total operating expenses	3,152	3,489	3,472	4,148
Loss from operations	(1,240)	(765)	(2,139)	(2,571)
Interest income	462	489	513	512
Interest expense, net	(111)	(128)	(128)	(44)
Loss before income taxes	(889)	(404)	(1,754)	(2,103)
Benefit for income taxes	(289)	(201)	(531)	(259)
Net loss	(600)	(203)	(1,223)	(1,844)
Preferred stock dividend requirements	(367)	(364)	(361)	(359)
Loss applicable to common shareholders	$(967)	$(567)	$(1,584)	$(2,203)
Loss per share-basic	$(0.04)	$(0.02)	$(0.07)	$(0.09)
Loss per share-diluted	$(0.04)	$(0.02)	$(0.07)	$(0.09)
Weighted average shares outstanding	23,521,551	23,594,117	23,618,164	23,634,164
Profit margin	34.6%	36.6%	22.3%	24.7%

2005

	Quarter 1	Quarter 2	Quarter 3	Quarter 4
Sales, net	$ 4,064	$ 4,517	$ 6,139	$ 6,437
Reimbursed discounts	180	498	900	1,500
Total sales	4,244	5,015	7,039	7,937
Cost of sales	2,732	4,003	4,106	4,588
Gross profit	1,512	1,012	2,933	3,349
Total operating expenses	2,515	2,826	3,104	3,238
Income (loss) from operations	(1,003)	(1,814)	(171)	111
Interest income	252	334	370	417
Interest expense, net	(62)	(61)	(116)	(101)
Net income (loss) before income taxes	(813)	(1,541)	83	427
Provision (benefit) for income taxes	(290)	(481)	55	111
Net income (loss)	(523)	(1,060)	28	316

Preferred Stock dividend requirements	(381)	(377)	(375)	(370)
Earnings (loss) applicable to common shareholders	$ (904)	$ (1,437)	$ (347)	$ (54)
Earnings (loss) per share-basic	$ (0.04)	$ (0.06)	$ (0.01)	$ (0.00)
Earnings (loss) per share-diluted	$ (0.04)	$ (0.06)	$ (0.01)	$ (0.00)
Weighted average shares outstanding	23,203,665	23,251,998	23,371,562	23,501,884
Profit margin	35.6%	20.2%	41.7%	42.2%

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

The Company has had no change in accountants in the last two fiscal years.

Item 9A. Controls and Procedures.

In preparing its financial statements and disclosures relating to the 2006 year, it came to Management s attention that the Company had a material weakness in its internal controls and procedures at December 31, 2006, whereby a significant entry (for $1,708,608) was initially made in the wrong period. The material weakness concerned an under-accrual of rebates due to an error in posting the year-end accrual. This was related to a one-time adjustment specifically associated with the discount program which ended December 31, 2006. The calculation itself was reasonable, but was recorded in January 2007 rather than December 2006.

Extenuating circumstances, including a September 2006 conversion to a new accounting system and the third quarter s termination of the discount reimbursement program (which necessitated a change in the manner in which the estimate for rebates was calculated) contributed to the error.

Since the audit adjustment to correctly record the discounts had been made prior to the filing of our Form 10-K, and no further significant transactions related to the discounts are expected in the future, Management believes that the material weakness no longer existed as of the date of the Form 10-K and therefore no further remediation of the material weakness was necessary.

Even though the Company does not believe that there was a material weakness as of the date of its Form 10-K, it has taken the following steps to enhance its internal controls in case it ever has a similar discount program:

- The Company now reviews the rebate calculation earlier in its timeline in order to have the most up-to-date trial balance for future audits, as well as quarterly reviews;

- The Company has added an additional accountant s position to its staff; and

- The Company has increased its cross training for review of the rebate calculation and timely entry.

Pursuant to paragraph (b) of Rule 13a-15 or Rule 15d-15 of the Securities Exchange Act of 1934 (the Exchange Act) and on March 29, 2007, our President, Chairman, and Chief Executive Officer, Thomas J. Shaw (the CEO), and our Vice President and Chief Financial Officer, Douglas W. Cowan (the CFO), acting in their capacities as our principal executive and financial officers, evaluated the effectiveness of our disclosure

controls and procedures, as defined in Rule 13a-15(e) or Rule 15d-15(e), and determined that, as of December 31, 2006, and based on the evaluation of these controls and procedures as required by paragraph (b) of Rule 13a-15, or Rule 15d-15 there were no significant deficiencies in these procedures. The CEO and CFO determined that our disclosure controls and procedures are effective.

The basis for their conclusion that the Company s disclosure controls and procedures were effective at the end of the period covered by the report (April 2, 2007) (despite the error in internal controls as of December 31, 2006, discussed above) was the fact that the error was both eventually discovered and corrected in time so that the Company s disclosures were both accurate and timely made. Furthermore, the Company has in place additional multiple controls as part of its regular review processes that had not yet been performed when the misposting was discovered. Those reviews, more likely than not, would also have detected a problem of this magnitude. Such reviews include, but are not limited to, analyses of average sales prices, cost of goods sold, profit margins, and the relationships of each to the other.

Finally, the CEO and CFO did not identify fraud that involved our Management or any other employee who had a significant role in our internal controls.

They did not find any other deficiencies or weaknesses which would require changes to be made or corrective actions to be taken related to our internal controls. There have been no changes during the fourth quarter of 2006 or subsequent to December 31, 2006, in our internal controls over financial reporting (other than as set forth above) or in any other factor that has materially affected or is reasonably likely to materially affect our internal controls over financial reporting.

Item 9B. Other Information.

None

PART III

Item 10. Directors and Executive Officers of the Registrant.

The following table sets forth information concerning our Directors, executive officers, and certain of our significant employees as of the date of this filing. Our Board of Directors consists of a total of seven (7) members, two (2) members of which are Class 1 Directors and five (5) of which are Class 2 Directors which serve for two-year terms.

Name	Age	Position	Term as Director Expires
EXECUTIVES			
Thomas J. Shaw	57	Chairman, President, Chief Executive Officer, and Class 2 Director	2008
Douglas W. Cowan	64	Vice President, Chief Financial Officer, Treasurer, and Class 2 Director	2008
Kathryn M. Duesman	44	Executive Director, Global Health	N/A
Russell B. Kuhlman	54	Vice President, Sales	N/A

Michele M. Larios	41	Vice President, General Counsel, and Secretary	N/A
Lawrence G. Salerno	47	Director of Operations	N/A
Steven R. Wisner	50	Executive Vice President, Engineering & Production and Class 2 Director	2008

INDEPENDENT DIRECTORS

Marco Laterza	59	Class 1 Director	2009
Amy Mack	40	Class 1 Director	2009
Marwan Saker	52	Class 2 Director	2008
Clarence Zierhut	79	Class 2 Director	2008

SIGNIFICANT EMPLOYEES

Shayne Blythe	38	Director of Sales and Marketing Logistics	N/A
John W. Fort III	39	Director of Accounting	N/A
James A. Hoover	59	Director of Quality Assurance	N/A
R. John Maday	47	Production Manager	N/A
Jules Millogo	47	Medical Director	N/A
Judy Ni Zhu	49	Research and Development Manager	N/A

EXECUTIVES

Thomas J. Shaw, the Founder of the Company, has served as Chairman of the Board, President, Chief Executive Officer, and Director since the Company s inception. In addition to his duties overseeing the management of the Company, he continues to lead our design team in product development of other medical safety devices that utilize his unique patented friction ring technology. Mr. Shaw has over 25 years of experience in industrial product design and has developed several solutions to complicated mechanical engineering challenges. He has been granted multiple patents and has additional patents pending. Mr. Shaw received a Bachelor of Science in Civil Engineering from the University of Arizona and a Master of Science in Accounting from the University of North Texas.

Douglas W. Cowan is a Vice President and our Chief Financial Officer, Treasurer, and a Director. Mr. Cowan joined the Company as Chief Financial Officer and was elected to the Board of Directors in 1999. He is responsible for the financial, accounting, risk management and forecasting functions of the Company. Mr. Cowan has a Bachelor of Business Administration from Texas Technological College. He is a CPA licensed in Texas.

Kathryn M. Duesman, RN, joined us in 1996 and currently serves as the Executive Director, Global Health. She provides clinical expertise on existing VanishPoint® products as well as those in development. She has been instrumental in developing training and marketing materials and has spoken and been published on needle safety issues. Ms. Duesman works with international agencies to promote the use of safe technologies in developing countries. Ms. Duesman is a 1985 graduate of Texas Woman s University with a Bachelor of Science in Nursing. Ms. Duesman s clinical background as a registered nurse includes diagnostic, acute, and home healthcare nursing.

Russell B. Kuhlman joined us in February 1997 and is our Vice President, Sales. Mr. Kuhlman is responsible for management of the sales force and liaison with GPOs and product training for our sales organization, as well as distribution. Mr. Kuhlman s efforts with us have resulted in bringing onboard Specialty Distributors, influencing legislation, and educating influential healthcare representatives about the benefits of the VanishPoint® product line. Mr. Kuhlman is respected throughout the industry and is a main contributor to the safety effort in this country. He has a sales background in the medical service industry that includes his most recent work for ICU Medical (formerly Bio-Plexus), a medical device manufacturing company, from 1994 to 1997, where he developed strategic marketing plans for new safety products. Prior to his work there, Mr. Kuhlman worked as Director of Sales and Marketing for Ryan Winfield Medical, Inc., a medical device manufacturing company, from 1989 to 1994, where he launched several new products, developed strategic sales territories, and was the trainer for Sales and Regional Managers. Mr. Kuhlman also worked for BD Vacutainer® Systems, a medical products company, in several

territories from 1980 to 1989, where he was recognized as the National Sales Representative for the year 1987. Mr. Kuhlman holds a Bachelor of Science in Finance from the University of Tennessee.

Michele M. Larios joined us in February 1998 and currently serves as a Vice President, General Counsel and Secretary of the Company. Ms. Larios is responsible for the legal and legislative, quality assurance, human resource and regulatory functions of the Company. In addition to working on legal matters and with outside counsel, Ms. Larios works with legislators on pertinent issues and relevant legislation. Ms. Larios received a Bachelor of Arts in Political Science from Saint Mary s College in Moraga, California, and a Juris Doctorate from Pepperdine University School of Law in Malibu, California.

Lawrence G. Salerno has been employed with us since 1995 and has served as Director of Operations for us since 1998. He is responsible for the manufacture of all VanishPoint® products, as well as all product development and process development projects. In addition, he supervised all aspects of the construction of our facilities in Little Elm, Texas. Mr. Salerno is the brother of Lillian E. Salerno, a shareholder holding more than 10 percent of the Common Stock.

Steven R. Wisner joined us in October 1999 as Executive Vice President, Engineering and Production and Director. Mr. Wisner s responsibilities include the management of engineering, production, Chinese operations, and international sales. Mr. Wisner has over 30 years of experience in product design, development, and manufacturing. Mr. Wisner holds a Bachelor of Science in Computer Engineering from Iowa State University.

INDEPENDENT DIRECTORS

Marco Laterza joined us as a Class 1 Director effective as of March 22, 2005. Since 1988, Mr. Laterza has owned and operated a public accounting practice. His practice includes corporate, partnership and individual taxation, compilation/review of financial statements, financial planning, business consulting, and trusts and estates. From 2004 to the present Mr. Laterza has also served as the Chief Financial Officer for EZ Blue Software Corporation, a development stage software company. Formerly, Mr. Laterza was employed in a number of positions from 1977 to 1985 with El Paso Natural Gas Company eventually serving as its Director of Accounting. Mr. Laterza received his Bachelors of Business Administration in Accounting from Pace University in 1972. He is a Certified Public Accountant and has received a Certificate of Educational Achievement in Personal Financial Planning from the American Institute of CPAs.

Ms. Amy Mack joined us as a Director on November 19, 2007. Since April of 2000, she has owned and operated (and served as Chief Nursing Officer for) EmergiStaff & Associates, a nursing staffing company, in Dallas, Texas. She served as a registered nurse from August 1997 to the date she began EmergiStaff & Associates. She obtained her Bachelor of Science degree from Texas A&M University in College Station, Texas in 1991 and an Associate degree in Nursing from El Centro College in Dallas, Texas in 1994. She is a registered nurse in Texas.

Marwan Saker first joined our Board of Directors in June 2000. Since 1983, Mr. Saker has served as Chief Executive Officer of Sovana, Inc., an export management company that supplies agricultural equipment and supplies to overseas markets. Since 2000, he has served as Director of Consolidated Food Concepts Inc. Since 1986, he has served as President of International Exports & Consulting Inc., an export management, consulting, and distribution company. Since 2000, he has served as Vice President of Hanneke Corp., an overseas sourcing company. From 1998 to 2001, he served as a Member of My Investments, LLC, an equity investment company. Since 1999, he has served as President of Saker Investments Inc., a company that manages an investment portfolio. Since 1998, he has served as a General Partner of Maya Investments, Ltd., an investment management limited partnership. He also serves as a Member of MMDA, LLC, a real estate development company. Mr. Saker has acted as a representative for United States companies seeking distribution, licensing, and franchising in the Middle East, Europe, and North Africa. Mr. Saker was instrumental in developing successful partnerships in more than 15 countries. He offices in Dallas, Texas.

Clarence Zierhut has served on our Board of Directors since April 1996. Since 1955, Mr. Zierhut has operated an industrial design firm, Zierhut Design, now Origin Design, that develops new products from concept through final prototypes. During his professional career, Mr. Zierhut has created over 3,000

product designs for more than 350 companies worldwide, in virtually every field of manufacturing, and has won many international awards for design excellence. His clients have included Johnson & Johnson, Abbott Laboratories, Gould, and McDonnell Douglas. He received a Bachelor of Arts from Art Center College of Design in Los Angeles, California.

SIGNIFICANT EMPLOYEES

Shayne Blythe has been with the Company for over ten years and is our Director of Sales and Marketing Logistics. She is responsible for developing and implementing strategic directions, objectives, comprehensive sales and marketing plans, and programs. In addition, she directs and oversees all aspects of the distribution process and customer service policies in order to monitor and maintain customer satisfaction. Prior to joining us, Ms. Blythe served as Office Manager for Checkmate Engineering where she assisted with the original 3cc syringe and other SBIR grant projects. Ms. Blythe has a Bachelors of Business Administration in management from American International University.

John W. Fort III is our Director of Accounting. Mr. Fort joined us in March of 2000 as a Financial Analyst and has served as our Director of Accounting since October of 2002. His primary responsibilities include managing the day-to-day operations of the Accounting and Finance Department, coordination of the annual audits, and interim reviews by our independent accountants, as well as the cost accounting and forecasting functions of the Company. Prior to joining us, he served as the Manager of Financial Planning for the product-marketing department of Excel Communications. Mr. Fort also served as the Manager of Budgeting and Projections for Snelling and Snelling, Inc., an international personnel services firm. Mr. Fort holds a Bachelor of Business Administration in Accounting from Tarleton State University.

James A. Hoover joined us in February 1996 and is our Director of Quality Assurance. Prior to his becoming Director of Quality Assurance he was Production Manager. He is responsible for quality assurance functions of the Company. Mr. Hoover has also developed and implemented FDA required procedures and has been involved in the FDA inspection process. Mr. Hoover joined us after working for Sherwood for 26 years. During his tenure with Sherwood, a medical device manufacturing company, he gained hands-on experience in all aspects of the medical device manufacturing process. Mr. Hoover began his career with Sherwood as a materials handler and worked his way up through a series of positions with added responsibilities to his final position there as Production Manager of Off-Line Molding, Operating Room/Critical Care. In this capacity, he managed several departments, ran several product lines, and hired and supervised over 200 employees. While at Sherwood, he also gained experience with one of the country s first safety syringes, the Monoject®.

R. John Maday joined us in July 1999 and is our Production Manager. He is responsible for supervision of the production of our products. Prior to becoming Production Manager on January 1, 2005, he served as our Production General Supervisor. Mr. Maday has 23 years of manufacturing experience in both class II and III medical devices. He spent three years with Mentor Corp. supervising two production departments and 13 years with Sherwood Medical in which he gained hands-on experience in all aspects of medical device manufacturing including managing the Kit and Packaging department with over 225 employees. Mr. Maday s formal training includes FDA, and Total Quality Management Systems and is certified as a Black Belt of Six Sigma Methodology.

Dr. Jules Millogo has served as our Medical Director since May 2007. His duties include representing the Company at scientific forums and working with Ministries of Health and international organizations on developing injection safety and health workers safety standards and policies. From 2004 to April 2007 Dr. Millogo was employed by John Snow, Inc. as the Project Director for the Washington-based Making Medical Injections Safer Project (MMIS), a $150 million project funded by the US Government to decrease unsafe injections and the medical transmission of HIV/AIDS, hepatitis B and C as part of the US President Emergency Plan for AIDS Relief (PEPFAR). Under his leadership, the MMIS Project trained more than 100,000 health workers in safer injection practices and donated more than 100 million safety syringes to high HIV prevalence countries in Africa and the Caribbean. From 2001 to 2004 Dr. Millogo was a technical advisor for John Snow, Inc. Dr. Millogo s experience includes working in several African and Asian countries under the World Health Organization. Dr. Millogo holds a Master s of Science in Epidemiology of Communicable Diseases from the University College of London, UK, and a MD from the University of

Ouagadougou, Burkina Faso. Dr Millogo is fluent in French, English, and several African languages.

Judy Ni Zhu joined us in 1995 and is our Research and Development Manager. Her primary focus is on new product development and improvement of current products. Prior to joining us, Ms. Zhu worked with Checkmate Engineering, an engineering firm, as a design engineer on the original 3cc syringe and other SBIR grant projects. Ms. Zhu received her Bachelor of Science from Northwest Polytechnic University in Xian, China, and her Master of Engineering from University of Texas at Arlington. Ms. Zhu has assisted in design modifications for the 3cc syringe, which have maximized both product reliability and production efficiency. She also designed and developed a manual needle assembly machine and an automatic lubricating and capping system for the 3cc syringe and developed and assisted in the design of automated blood collection tube holder assembly equipment. Ms. Zhu has collaborated with Ms. Duesman and Mr. Shaw in the filing of several patent applications.

FAMILY RELATIONSHIPS

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

INVOLVEMENT IN CERTAIN LEGAL PROCEEDINGS

None of the above persons or any business in which such person was an executive officer have been involved in a bankruptcy petition, been subject to a criminal proceeding (excluding traffic violations and other minor offenses), been subject to any order enjoining or suspending their involvement in any type of business, or been found by a court or administrative body to have violated a securities law.

DIRECTORSHIPS IN OTHER COMPANIES

No Directors hold Directorships in reporting companies other than as set forth above.

SECTION 16(a) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE

Section 16 of the Exchange Act requires our Directors, executive officers, and persons who own more than 10 percent of a registered class of our equity securities to file with the Commission initial reports of beneficial ownership (Form 3) and reports of changes in beneficial ownership (Forms 4 and 5) of our Common Stock and our other equity securities. Officers, Directors, and greater than 10 percent shareholders are required by the Commission s regulations to furnish us with copies of all Section 16(a) reports they file.

Ms. Suzanne August, a 10% shareholder, filed a Form 3 late. The Form 3 addressed one transaction (her receipt of 2,800,000 shares of Common Stock). The Form 3 was filed on December 5, 2006.

CODE OF ETHICS

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

1. Honest and ethical conduct, including the ethical handling of actual or apparent conflicts of interests between personal and professional relationships;

2. Full, fair, accurate, timely, and understandable disclosure in reports and documents that we file with, or submit to, the Commission and in other public communications;

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

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

5. Accountability for adherence to the code.

We have posted a copy of the code on our website at www.vanishpoint.com/investor.asp. Please follow link to Governance then follow link to Charters, then click RVP Corporate Code of Conduct. Any amendment to this code or waiver of its application to the principal executive officer, principal financial officer, principal accounting officer, or controller or similar person shall be disclosed to investors by means of a Form 8-K filing with the Commission. We will provide to any person without charge, upon request, a copy of such code of ethics. Such requests should be submitted in writing to Mr. Douglas W. Cowan at 511 Lobo Lane, P.O. Box 9, Little Elm, Texas 75068-0009.

AUDIT COMMITTEE

We have a separately-designated standing Audit Committee established in accordance with Section 3(a)(58)(A) of the Exchange Act consisting of Messrs. Clarence Zierhut, Marco Laterza, and Marwan Saker. Each of the members of the Audit Committee is independent as determined by The AMEX rules and Item 7(d)(3)(iv) of Schedule 14A under the Exchange Act.

Audit Committee Financial Expert

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

Item 11. Executive Compensation.

COMPENSATION DISCUSSION AND ANALYSIS

The Objectives of Our Compensation Program

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

attract and retain highly talented and productive executive officers;

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

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

What the Compensation Program is Designed to Award

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

Summary of Each Element of Compensation

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

base salary;

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

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

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

Why We Choose to Pay Each Element of Our Compensation Program

Base Salary

We choose to pay a significant component of our compensation in base salary due to the fact that our financial performance is constrained by the monopolistic activities of BD. We have been blocked from access to the market by exclusive marketing practices engaged in by BD who dominates the market. We believe that their monopolistic business practices continue despite their paying $100 million to settle a lawsuit with the Company for anticompetitive practices, business disparagement, and tortious interference. Until such time as we believe that the Company has access to the market, we believe that it is appropriate to weigh our Compensation Program heavily in favor of base salaries rather than in incentive compensation.

Cash Bonuses

From time to time and when our cash reserves allow (taking into account the continued need to compete in this monopolistic environment and the continued need for significant cash reserves) we grant cash bonuses in order to reward significant efforts or the accomplishment of short term goals. The last bonuses were granted in 2003. The CEO has never been granted any bonuses of any kind.

Long-Term Incentives: Stock Options

Long-term incentives are provided through grants of stock options primarily under the Company s 1999 Stock Option Plan. The grants are designed to align the interests of executive officers with those of stockholders and to provide each executive officer with a significant incentive to manage the Company from the perspective of an owner with an equity stake in the Company.

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

Executive compensation remains the same until there is a review of such compensation by the Compensation and Benefits Committee. Compensation, other than that of the Chief Executive Officer, is not reviewed annually. Under the terms of Mr. Shaw s employment agreement, his compensation is reviewed annually. In the past, when there is a review of executive compensation, we have retained an outside consulting firm, Trinity Executive Recruiters, to provide benchmarks for similar compensation given the multiple and varied positions each executive fulfills as well as the size of the Company and the hostile environment in which it operates.

Base Salary

The base salary for each of the Company s executive officers is subjectively determined primarily on the basis of the following factors: experience, individual performance, contribution to the Company s performance, level of responsibility, duties and functions, salary levels in effect for comparable positions within and without the Company s industry, and internal base salary comparability considerations. These base salaries are reviewed periodically and may be adjusted in the discretion of the Compensation and Benefits Committee, based upon the factors discussed in the previous sentence, as well as upon individual performance during the previous fiscal year, changes in the duties, responsibilities and functions of the executive officer, and general changes in the compensation peer group in which the Company competes for executive talent. The relative weight given to each of these factors differs from individual to individual, as the Compensation and Benefits Committee deems appropriate.

Periodic Cash Bonuses

For 2006, the Company did not grant bonuses to its executive officers. These bonuses, when paid, are paid on a discretionary basis, as determined by the Compensation and Benefits Committee. Factors considered by the Compensation and Benefits Committee in determining discretionary cash bonuses are personal performance, level of responsibility, as well as many of the same factors considered by the Compensation and Benefits Committee and discussed above when it reviews and sets base salaries, except with a greater focus on the prior fiscal year.

Long-Term Incentive: Stock Options

The number of shares subject to each stock option grant is subjectively determined by the Compensation and Benefits Committee or the Board of Directors primarily related to the executive officer s anticipated contributions to the Company s future success, the size of comparable awards made to individuals in similar positions within the industry, the individual s potential for increased responsibility over the option term and the individual s personal performance in recent periods. The Compensation and Benefits Committee also considers the number of unvested stock options held by the executive officer in order to maintain an appropriate level of equity incentive for that individual. However, the Compensation and Benefits Committee does not adhere to any specific guidelines as to the relative stock option holdings of the Company s executive officers. The Company granted no options to executive officers during 2006.

Each stock option grant allows the executive officer to acquire shares of Common Stock at a fixed price per share (typically, and never less than, the closing stock price of the Common Stock on the date of grant) for a fixed period (usually ten years). Each option generally becomes exercisable after three years, contingent upon the executive officer s continued employment with the Company. Accordingly, the stock option grant will provide a return to the executive officer only if the executive officer remains employed by the Company during the vesting period, and then only if the market price of the underlying Common Stock appreciates.

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

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

We expense all of our option costs as we do the costs of salaries and bonuses. Accordingly, the impact of tax treatment of various compensation forms does not impact our compensation decisions.

How Determinations Are Made as to When Awards Are Granted

Generally, option awards are granted at the discretion of the Board. The exercise price is equal to the closing price of the Company s stock on the date of the grant.

Unfortunately, our stock price does not always react as expected to Company achievements. Accordingly, at times options have been granted to aid in retaining competent and experienced executives without regard to the then current stock price.

In addition, there is no relationship between the date of grant of options and the Company s possession of material non-public information. Because we are competing in a contentious antitrust environment, we are often in possession of material non-public information. However, all options granted to executives require a minimum three year vesting period. Furthermore, it is the Company s policy with

regard to options that (although the options could be exercised) the underlying shares could not be sold into the market while the executive was in possession of material non-public information under our insider trading policy. Accordingly, we believe that there is minimal risk of the executive profiting from such material nonpublic information.

What Specific Items of Corporate Performance Are taken Into Account in Making Compensation Decisions and How It Affects the Structure of Compensation

Cash reserves as well as trends in sales and costs are taken into account when considering the advisability of increasing base salaries or granting cash bonuses. At such times that any of these factors make it inadvisable to increase salaries or grant bonuses, then consideration is given to increasing option awards taking into account the value of prior option awards.

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

Factors We Consider in Determining to Change Compensation Materially

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

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

How Amounts Realized From Past Compensation Affect Future Compensation

We are very aware that the vast majority of options granted to our executives are significantly out of the money and that they may remain so until we are able to obtain real access to the market. Accordingly, future compensation will likely continue to be dominated by base salary as well as periodic bonuses when possible.

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

Stock options granted to executives and other employees are expensed for accounting purposes under FAS 123(R). Stock option expense is not recognized for tax purposes, except in the case of non-qualified stock options. For non-qualified stock options, the intrinsic value of the option is recognized when the option is exercised. Incentive stock options do not qualify for any tax deduction.

Bases for Selecting Events as Payment Triggers Under the Employment Agreement with Thomas Shaw

Please see Potential Payments Upon Termination Or Change In Control for a discussion of our Employment Agreement with Mr. Shaw including a discussion of certain triggers that would cause the Company to immediately pay Mr. Shaw certain lump sum payments in the event of a change in control.

Benchmarking of Our Compensation Program

In 2003, the Company hired Trinity Executive Recruiters, Inc. to assist us in providing benchmarks for compensation by similarly sized companies in similar industries for persons that hold positions which are currently fulfilled by various members of our executive team. Trinity Executive Recruiters performed a survey of other publicly held companies with $20-$50 million in revenues in the Medical Equipment and Supplies Industry. 49 companies were included in the search with a total of 346 executives. However, for each executive, the list of executives to use as comparisons was tailored to correspond to each executive s particular job functions.

These benchmarks supported the Compensation and Benefit Committee s recommendations (and Board s approval of) an increase in the base salary of Mr. Wisner, Mr. Cowan, and Ms. Larios in 2003 and in 2005.

Although we have obtained benchmarking information with regard to the CEO s position, such benchmarks were not utilized as a basis for increasing Mr. Shaw s salary in 2005. His salary was increased at the recommendation of the Compensation and Benefits Committee as well as a unanimous vote of the Board of Directors due to the fact that he had never been granted options or any bonuses and had not had a material increase in salary in many years. However, such benchmarks support an increase of at least the amount made.

The Role of Our Executives in Determining Compensation

Management establishes the initial proposed recommendations regarding compensation for all employees, including themselves. Such proposal is then submitted to the Compensation and Benefits Committee. In the event that the proposal is affirmed in its entirety, the proposal is then recommended to the entire Board of Directors for a vote.

Compensation Pursuant to Employment Agreement

We have an Employment Agreement with Mr. Thomas J. Shaw. However, this agreement may be modified due to changes in the tax laws. No other executives (or Directors) are compensated pursuant to employment agreements.

The Employment Agreement with Mr. Shaw (the Employment Agreement) provides for an initial period of three years which ended September 2002 that automatically and continuously renews for consecutive two-year periods. The Employment Agreement is terminable either by us or Mr. Shaw upon 30 days written notice. The Employment Agreement provides for an annual salary of at least $150,000 with an annual salary increase equal to no less than the percentage increase in the Consumer Price Index during the previous calendar year. (However, the Board has authorized a salary increase to $400,000.) The Employment Agreement requires that Mr. Shaw s salary be reviewed by the Board of Directors each January, which shall make such increases as it considers appropriate. Mr. Shaw is also entitled to participate in all executive bonuses as the Board of Directors, in its sole discretion, shall determine. The Employment Agreement is being modified to avoid adverse tax consequences to Mr. Shaw created by the passage of the American Jobs Creation Act of 2004.

Under the Employment Agreement, we will also provide certain fringe benefits, including, but not limited to, participation in pension plans, profit-sharing plans, employee stock ownership plans, stock appreciation rights, hospitalization and health insurance, disability and life insurance, paid vacation, and sick leave. We also reimburse him for any reasonable and necessary business expenses, including travel and entertainment expenses, necessary to carry on his duties. Pursuant to the Employment Agreement, we have agreed to indemnify Mr. Shaw for all legal expenses and liabilities incurred with any proceeding involving him by reason of his being an officer or agent. We have further agreed to pay reasonable attorney fees and expenses in the event that, in Mr. Shaw s sole judgment, he needs to retain counsel or otherwise expend his personal funds for his defense.

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

change in control which is defined as a change in the majority of directors within any 12 month period without two-thirds approval of the shares outstanding and entitled to vote, or a merger where less than 50 percent of the outstanding stock survives and a majority of the Board of Directors remains, or the sale of substantially all of our assets, or any other person acquires more than 50 percent of the voting capital. Mr. Shaw retained the right to participate in other businesses as long as they do not compete with us and so long as he devotes the necessary working time to the Company.

SUMMARY OF TOTAL COMPENSATION

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

SUMMARY COMPENSATION TABLE

Name and principal position	**Year**	**Salary ($)**	**Bonus ($)**	**Stock Awards ($)**	**Option Awards**(1) ($)	**Non-Equity Incentive Plan Compensation ($)**	**Nonqualified Deferred Compensation Earnings ($)**	**All Other Compensation ($)**	**Total ($)**
(a)	**(b)**	**(c)**	**(d)**	**(e)**	(f)	**(g)**	**(h)**	**(i)**	**(j)**
Thomas J. Shaw	2004	259,632	0	0	0	0			259,632
President and CEO	2005	307,702	0	0	0	0			307,702
(principal executive officer)	2006	400,000	0	0	0	0			400,000
Douglas W. Cowan	2004	249,231	0	0	112,950	0			362,181
Vice President, CFO	2005	248,318	0	0	114,260	0			362,578
(principal financial officer)	2006	290,130	0	0	58,372	0			348,502
Steven R. Wisner	2004	249,231	0	0	12,939	0			262,170
Executive Vice President,	2005	247,693	0	0	14,240	0			261,933
Engineering and Production	2006	290,000	0	0	8,367	0		6,750	305,117
Michele M. Larios	2004	249,231	0	0	112,631	0			361,862
Vice President, General	2005	258,676	0	0	113,977	0			372,653
Counsel	2006	351,299	0	0	58,265	0			409,564
Russell B. Kuhlman	2004	120,692	5,000	0	71,603	0			197,295
Vice President, Sales	2005	122,067	0	0	12,182	0			134,249
	2006	132,593	0	0	36,615	0			169,208

(1) The fair value of each option grant is estimated on the date of grant using the Black-Scholes option pricing model with the following weighted average assumptions used for grants in 2004: no dividend yield; expected volatility of 37%; risk free interest rate of 4.89%; and an expected life of 9.0 years. No options were issued in 2005 or 2006.

GRANTS OF PLAN-BASED AWARDS

The Company did not grant any plan-based awards during 2006.

OUTSTANDING EQUITY AWARDS AT FISCAL YEAR-END

The following Outstanding Equity Awards at Fiscal Year-End Table sets forth information regarding unexercised options currently held by the principal executive officer, the principal financial officer, and the three highest paid additional executive officers. There have been no stock awards.

OUTSTANDING EQUITY AWARDS AT FISCAL YEAR-END OF 2006

	OPTION AWARDS					**STOCK AWARDS**			
Name(a)	**Number of Securities Underlying Unexercised Options (#) Exercisable (b)**	**Number of Securities Underlying Unexercised Options (#) Unexercisable (c)**	**Equity Incentive Plan Awards: Number of Securities Underlying Unexercised Unearned Options (#) (d)**	**Option Exercise Price ($) (e)**	**Option Expiration Date (f)**	**Number of Shares or Units of Stock That Have Not Vested (#) (g)**	**Market Value of Shares or Units of Stock That Have Not Vested ($) (h)**	**Equity Incentive Plan Awards: Number of Unearned Shares, Units or Other Rights That Have Not Vested (#) (i)**	**Equity Incentive Plan Awards: Market or Payout Value of Unearned Shares, Units or Other Rights That Have Not Vested (#) (j)**
Thomas J. Shaw President and CEO (principal executive officer)									
Douglas W. Cowan Vice President, CFO (principal financial officer)	25,000 (1)			10	06/30/09				
	25,000 (2)			10	11/01/10				
	25,000 (3)			6.90	09/30/12				
	125,000 (4)			8.65	06/23/13				
			4,000 (5)	8.87	05/11/14				
Steven R. Wisner Executive Vice President, Engineering and Production	150,000 (6)			10	10/24/09				
	15,000 (7)			10	11/01/10				
	20,000 (8)			6.90	09/30/12				
	12,500 (9)			8.65	06/23/13				
			3,900 (10)	8.87	05/11/14				

Michele M. Larios						
Vice President, General Counsel	5,000	(11)			10	07/09/08
	5,000	(12)			10	03/09/08
	15,400	(13)			10	06/30/09
	25,000	(14)			10	11/01/10
	25,000	(15)			6.90	09/30/12
	124,600	(16)			8.65	06/23/13
			4,100	(17)	8.87	05/11/14
Russell B. Kuhlman						
Vice President, Sales	10,000	(18)			5	05/05/07