

DYCOM INDUSTRIES INC

Form 10-Q

November 26, 2008

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**UNITED STATES SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549  
FORM 10-Q**

**(Mark One)**

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

**For the quarterly period ended October 25, 2008**

**OR**

**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 0-5423  
DYCOM INDUSTRIES, INC.**

(Exact name of registrant as specified in its charter)

Florida

59-1277135

(State or other jurisdiction of incorporation or organization)

(I.R.S. Employer Identification No.)

11770 US Highway 1, Suite 101, Palm Beach Gardens,

Florida 33408

(Address of principal executive offices)

(Zip Code)

Registrant's telephone number, including area code (561) 627-7171

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes  No

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

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

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

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

Common stock  
Common stock, par value of \$0.33 1/3

Outstanding shares November 23, 2008  
39,369,764



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**Table of Contents****Part 1 FINANCIAL INFORMATION****Item 1. Financial Statements**

**DYCOM INDUSTRIES, INC. AND SUBSIDIARIES**  
**CONDENSED CONSOLIDATED BALANCE SHEETS**  
(Unaudited)

	<b>October 25, 2008</b>	<b>July 26, 2008</b>
<b>(Dollars in thousands)</b>		
<b>ASSETS</b>		
<b>CURRENT ASSETS:</b>		
Cash and equivalents	\$ 45,723	\$ 22,068
Accounts receivable, net	155,791	146,420
Costs and estimated earnings in excess of billings	96,231	94,270
Deferred tax assets, net	16,779	19,347
Income taxes receivable	2,241	6,014
Inventories	10,135	8,994
Other current assets	11,945	7,301
Current assets of discontinued operations	618	667
<b>Total current assets</b>	<b>339,463</b>	<b>305,081</b>
Property and equipment, net	164,597	170,479
Goodwill	240,138	240,138
Intangible assets, net	61,035	62,860
Other	11,428	10,478
<b>Total non-current assets</b>	<b>477,198</b>	<b>483,955</b>
<b>TOTAL</b>	<b>\$ 816,661</b>	<b>\$ 789,036</b>
 <b>LIABILITIES AND STOCKHOLDERS EQUITY</b>		
<b>CURRENT LIABILITIES:</b>		
Accounts payable	\$ 32,994	\$ 29,835
Current portion of debt	2,064	2,306
Billings in excess of costs and estimated earnings	311	483
Accrued insurance claims	29,883	29,834
Other accrued liabilities	47,934	66,275
Current liabilities of discontinued operations	1,828	2,731
<b>Total current liabilities</b>	<b>115,014</b>	<b>131,464</b>
<b>LONG-TERM DEBT</b>	<b>180,621</b>	<b>151,049</b>
<b>ACCRUED INSURANCE CLAIMS</b>	<b>39,118</b>	<b>37,175</b>
<b>DEFERRED TAX LIABILITIES, net non-current</b>	<b>19,947</b>	<b>19,514</b>
<b>OTHER LIABILITIES</b>	<b>5,717</b>	<b>5,314</b>

NON-CURRENT LIABILITIES OF DISCONTINUED OPERATIONS	437	427
Total liabilities	360,854	344,943
COMMITMENTS AND CONTINGENCIES, Notes 10, 11, 15 and 16		
STOCKHOLDERS EQUITY:		
Preferred stock, par value \$1.00 per share:		
1,000,000 shares authorized: no shares issued and outstanding		
Common stock, par value \$0.33 1/3 per share:		
150,000,000 shares authorized: 39,366,150 and 39,352,020 issued and outstanding, respectively		
	13,121	13,117
Additional paid-in capital	173,628	172,167
Accumulated other comprehensive (loss) income	(114)	186
Retained earnings	269,172	258,623
Total stockholders equity	455,807	444,093
TOTAL	\$ 816,661	\$ 789,036

See notes to the condensed consolidated financial statements.

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**DYCOM INDUSTRIES, INC. AND SUBSIDIARIES**  
**CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS**  
**(Unaudited)**

	<b>For the Three Months Ended</b>	
	<b>October 25, 2008</b>	<b>October 27, 2007</b>
	<b>(Dollars in thousands, except per share amounts)</b>	
<b>REVENUES:</b>		
Contract revenues	\$ 333,967	\$ 329,672
 <b>EXPENSES:</b>		
Costs of earned revenues, excluding depreciation and amortization	268,646	261,312
General and administrative (including stock-based compensation expense of \$1.5 million and \$2.1 million, respectively)	27,540	25,608
Depreciation and amortization	16,612	16,047
 Total	 312,798	 302,967
 Interest income	 135	 210
Interest expense	(4,052)	(3,556)
Other income, net	402	1,572
 INCOME FROM CONTINUING OPERATIONS BEFORE INCOME TAXES	 17,654	 24,931
 PROVISION (BENEFIT) FOR INCOME TAXES:		
Current	4,104	12,193
Deferred	2,964	(2,519)
 Total	 7,068	 9,674
 INCOME FROM CONTINUING OPERATIONS	 10,586	 15,257
 LOSS FROM DISCONTINUED OPERATIONS, NET OF TAX	 (38)	 (330)
 NET INCOME	 \$ 10,548	 \$ 14,927
 <b>EARNINGS PER COMMON SHARE BASIC:</b>		
Income from continuing operations	\$ 0.27	\$ 0.37

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Loss from discontinued operations				(0.01)
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Net income	\$	0.27	\$	0.37
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EARNINGS PER COMMON SHARE DILUTED:

Income from continuing operations	\$	0.27	\$	0.37
Loss from discontinued operations				(0.01)

Net income	\$	0.27	\$	0.36
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SHARES USED IN COMPUTING EARNINGS PER COMMON SHARE:

Basic		39,321,662		40,718,872
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Diluted		39,421,590		41,174,497
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Earnings per share amounts may not add due to rounding.

See notes to the condensed consolidated financial statements.



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**DYCOM INDUSTRIES, INC. AND SUBSIDIARIES**  
**CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**(Unaudited)**

	<b>For the Three Months Ended</b>	
	<b>October</b>	<b>October 27,</b>
	<b>25, 2008</b>	<b>2007</b>
	<b>(Dollars in thousands)</b>	
<b>OPERATING ACTIVITIES:</b>		
Net income	\$ 10,548	\$ 14,927
Adjustments to reconcile net cash inflow from operating activities:		
Depreciation and amortization	16,612	16,047
Bad debts (recovery) expense, net	(138)	66
Gain on sale of fixed assets	(1,022)	(1,178)
Deferred income tax (benefit) provision	3,052	(2,507)
Stock-based compensation expense	1,547	2,140
Amortization of debt issuance costs	231	194
Write-off of deferred financing costs	551	
Excess tax benefit from share-based awards		(79)
Change in operating assets and liabilities, net of acquisitions:		
(Increase) decrease in operating assets:		
Accounts receivable, net	(9,232)	(10,288)
Costs and estimated earnings in excess of billings, net	(2,134)	(1,499)
Other current assets and inventory	(5,786)	(5,821)
Other assets	220	403
Increase (decrease) in operating liabilities:		
Accounts payable	2,609	1,560
Accrued insurance claims and other liabilities	(16,638)	(8,018)
Income taxes receivable/payable	3,690	11,740
Net cash provided by operating activities	4,110	17,687
<b>INVESTING ACTIVITIES:</b>		
Restricted cash	(210)	(369)
Capital expenditures	(9,290)	(21,168)
Proceeds from sale of assets	1,259	1,842
Net cash used in investing activities	(8,241)	(19,695)
<b>FINANCING ACTIVITIES:</b>		
Proceeds from long-term debt	30,000	15,000
Principal payments on long-term debt	(670)	(10,930)
Debt issuance costs	(1,547)	
Repurchases of common stock		(2,754)
Excess tax benefit from share-based awards		79
Restricted stock tax withholdings	(14)	(130)
Exercise of stock options and other	17	1,113

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Net cash provided by financing activities	27,786		2,378
Net increase in cash and equivalents	23,655		370
CASH AND EQUIVALENTS AT BEGINNING OF PERIOD	22,068		18,862
CASH AND EQUIVALENTS AT END OF PERIOD	\$ 45,723	\$	19,232

SUPPLEMENTAL DISCLOSURE OF OTHER CASH FLOW  
ACTIVITIES AND NON-CASH INVESTING AND FINANCING  
ACTIVITIES:

Cash paid during the period for:

Interest	\$ 6,657	\$	6,234
Income taxes	\$ 231	\$	132
Purchases of capital assets included in accounts payable or other accrued liabilities at period end	\$ 2,020	\$	6,737

See notes to the condensed consolidated financial statements.

**Table of Contents****NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS*****1. Basis of Presentation***

Dycom Industries, Inc. ( Dycom or the Company ) is a leading provider of specialty contracting services. These services are provided throughout the United States and include engineering, construction, maintenance and installation services to telecommunications providers, underground facility locating services to various utilities including telecommunications providers, and other construction and maintenance services to electric utilities and others. Additionally, Dycom provides services on a limited basis in Canada.

The condensed consolidated financial statements include the results of Dycom and its subsidiaries, all of which are wholly-owned. All intercompany accounts and transactions have been eliminated. The accompanying condensed consolidated balance sheets of the Company and the related condensed consolidated statements of operations and cash flows for the three month periods reflect all adjustments (consisting of normal recurring accruals) which are, in the opinion of management, necessary for a fair presentation of such statements. The results of operations for the three months ended October 25, 2008 are not necessarily indicative of the results that may be expected for the entire year. For a fuller understanding of the Company and its financial statements, the Company recommends reading these condensed consolidated financial statements in conjunction with the Company's audited financial statements for the year ended July 26, 2008 included in the Company's 2008 Annual Report on Form 10-K, filed with the Securities and Exchange Commission ( SEC ) on September 4, 2008.

*Use of Estimates* The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. For the Company, key estimates include: recognition of revenue for costs and estimated earnings in excess of billings, allowance for doubtful accounts, accrued insurance claims, the fair value of goodwill and intangible assets, asset lives used in computing depreciation and amortization, compensation expense for performance-based stock awards, income taxes and the outcome of contingencies, including legal matters. While at the time they are made the Company believes that such estimates are fair when considered in conjunction with the condensed consolidated financial position and results of operations taken as a whole, actual results could differ from those estimates and such differences may be material to the financial statements.

*Restricted Cash* As of October 25, 2008 and July 26, 2008, the Company had approximately \$5.0 million and \$4.8 million, respectively, in restricted cash which is held as collateral in support of the Company's insurance obligations. Restricted cash is included in other current assets and other assets in the condensed consolidated balance sheets and changes in restricted cash are reported in cash flows from investing activities in the condensed consolidated statements of cash flows.

*Goodwill and Intangible Assets* The Company accounts for goodwill in accordance with Statements of Financial Accounting Standards ( SFAS ) No. 142, Goodwill and Other Intangible Assets. The Company's reporting units and related indefinite-lived intangible asset are tested annually during the fourth fiscal quarter of each year in accordance with SFAS No. 142 in order to determine whether their carrying value exceeds their fair value. Should this be the case, the value of a reporting unit's goodwill or indefinite-lived intangible asset may be impaired and written down. Goodwill and indefinite-lived intangible assets are also tested for impairment on an interim basis if an event occurs or circumstances change between annual tests that would more likely than not reduce the fair value below the carrying value. If the Company determines the fair value of the goodwill or other identifiable intangible asset is less than their carrying value, an impairment loss is recognized in an amount equal to the difference. Impairment losses, if any, are reflected in operating income or loss in the condensed consolidated statements of operations.

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In accordance with SFAS No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets*, the Company reviews finite-lived intangible assets for impairment whenever an event occurs or circumstances change which indicates that the carrying amount of such assets may not be fully recoverable. Recoverability is determined based on an estimate of undiscounted future cash flows resulting from the use of the asset and its eventual disposition. An impairment loss is measured by comparing the fair value of the asset to its carrying value. If the Company determines the fair value of the asset is less than the carrying value, an impairment loss is incurred in an amount equal to the difference. Impairment losses, if any, are reflected in operating income or loss in the condensed consolidated statements of operations.

The Company uses judgment in assessing goodwill and intangible assets for impairment. Estimates of fair value are based on the Company's projection of revenues, operating costs, and cash flows considering historical and anticipated future results, general economic and market conditions as well as the impact of planned business or operational strategies. In order to measure fair value, the Company employs a combination of present value techniques which reflect market factors. Changes in the Company's judgments and projections could result in a significantly different estimate of the fair value and could result in an impairment of the goodwill and intangible assets.

*Income Taxes.* The Company accounts for income taxes under the asset and liability method. This approach requires the recognition of deferred tax assets and liabilities for the expected future tax consequences of temporary differences between the carrying amounts and the tax bases of assets and liabilities. The Company adopted the provisions of Financial Accounting Standards Board (FASB) issued Interpretation No. 48, *Accounting for Uncertainty in Income Taxes* an interpretation of FASB Statement No. 109 (FIN 48) on July 29, 2007, the first day of fiscal 2008. See Note 11 for further discussion regarding the Company's income taxes.

*Comprehensive Income* During the three months ended October 25, 2008 and October 27, 2007, the Company did not have any material changes in its equity resulting from non-owner sources. Accordingly, comprehensive income approximated the net income amounts presented for the respective periods in the accompanying condensed consolidated statements of operations.

*Multiemployer Defined Benefit Pension Plan* A wholly-owned subsidiary participates in a multiemployer defined benefit pension plan that covers certain of its employees. The subsidiary makes periodic contributions to the plan to meet the benefit obligations. During the three months ended October 25, 2008 and October 27, 2007, the subsidiary contributed approximately \$1.2 million and \$1.0 million to the plan, respectively.

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*Recently Adopted Accounting Standards* The Company adopted SFAS No. 157, Fair Value Measurements ( SFAS No. 157 ) on July 27, 2008, the first day of fiscal 2009. SFAS No. 157 defines fair value, establishes a measurement framework and expands disclosure requirements. SFAS No. 157 does not require any new fair value measurements, but applies to existing accounting pronouncements that require or permit fair value measurement as the relevant measurement attribute. The Company has no material financial assets or liabilities, or material non-financial assets and liabilities recognized at fair value on a recurring basis, which were impacted by the adoption of SFAS No. 157 during fiscal 2009. However, the Company does have material non-financial assets and liabilities measured on a non-recurring basis, including goodwill and other intangible assets. The effective date of the provisions of SFAS No. 157 for non-financial assets and liabilities, except for items recognized at fair value on a recurring basis, was deferred by FASB Staff Position FAS 157-2, Effective Date of FASB Statement No. 157 and is effective for the Company beginning in fiscal 2010. The Company is currently evaluating the impact of the provisions for non-financial assets and liabilities. The adoption of SFAS No. 157 for financial assets and liabilities did not have an impact on the Company's condensed consolidated financial statements.

The Company also adopted SFAS No. 159 The Fair Value Option for Financial Assets and Financial Liabilities ( SFAS No. 159 ) on July 27, 2008, the first day of fiscal 2009. SFAS No. 159 permits entities to choose to measure many financial instruments and certain other items at fair value. As of October 25, 2008, the Company has elected not to apply the fair value option for any of its financial instruments or other assets and liabilities.

*Recently Issued Accounting Pronouncements* In June 2008, the FASB issued FASB Staff Position No. EITF 03-6-1, Determining Whether Instruments Granted in Share-Based Payment Transactions Are Participating Securities ( EITF 03-6-1 ). EITF 03-6-1 addresses whether unvested share-based payment awards with rights to receive dividends or dividend equivalents should be considered as participating securities for the purposes of applying the two-class method of calculating earnings per share ( EPS ) under SFAS No. 128, Earnings per Share. The FASB staff concluded that unvested share-based payment awards that contain rights to receive non-forfeitable dividends or dividend equivalents are participating securities, and thus, should be included in the two-class method of computing EPS. EITF 03-6-1 is effective for the Company beginning in fiscal 2010 and also requires that all prior-period EPS data presented be adjusted retrospectively.

In May 2008, the FASB issued Statement No. 162, The Hierarchy of Generally Accepted Accounting Principles ( SFAS No. 162 ). SFAS No. 162 defines the order in which accounting principles that are generally accepted should be followed. SFAS No. 162 is effective 60 days following the SEC's approval of the Public Company Accounting Oversight Board ( PCAOB ) amendments to AU Section 411, The Meaning of Present Fairly in Conformity with Generally Accepted Accounting Principles. SFAS No. 162 is not expected to have a material effect on the Company's results of operations, financial position, or cash flows.

In April 2008, the FASB issued FASB Staff Position 142-3, Determination of the Useful Life of Intangible Assets ( FSP 142-3 ), which amends the factors that should be considered in developing renewal or extension assumptions used to determine the useful life of a recognized intangible asset under SFAS No. 142. FSP 142-3 will be effective for the Company in fiscal 2010 and the Company is currently evaluating its impact.

In December 2007, the FASB issued SFAS No. 141 (Revised 2007), Business Combinations ( SFAS No. 141(R) ). SFAS No. 141(R) retains the fundamental acquisition method of accounting established in SFAS No. 141; however, among other things, SFAS No. 141(R) requires fair value measurement of consideration and contingent consideration, expense recognition for transaction costs and certain integration costs, and adjustments to income tax expense for changes in an acquirer's existing valuation allowances or uncertain tax positions that result from the business combination. SFAS No. 141(R) will be effective for the Company for any acquisition completed subsequent to July 26, 2009 (fiscal 2010). The Company is currently evaluating the impact of SFAS No. 141(R).

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During fiscal 2007, a wholly-owned subsidiary of the Company, Apex Digital, LLC ( Apex ) notified its primary customer of its intention to cease performing installation services in accordance with its contractual rights. Effective December 2006, this customer, a satellite broadcast provider, transitioned its installation service requirements to others and Apex ceased providing these services. As a result, the Company has discontinued the operations of Apex and presented its results separately in the accompanying condensed consolidated financial statements for all periods presented.

The summary comparative financial results of the discontinued operations were as follows:

	<b>For the Three Months Ended</b>	
	<b>October</b>	<b>October 27,</b>
	<b>25, 2008</b>	<b>2007</b>
	<b>(Dollars in thousands)</b>	
Contract revenues of discontinued operations	\$	\$
Loss from discontinued operations before income taxes	\$ (64)	\$ (539)
Loss from discontinued operations, net of tax	\$ (38)	\$ (330)

In December 2006, two former employees of Apex commenced a lawsuit against the subsidiary in Illinois State Court on behalf of themselves and purporting to represent other similarly situated employees in Illinois. The lawsuit alleged that Apex violated certain minimum wage laws under the Fair Labor Standards Act and related state laws by failing to comply with applicable minimum wage and overtime pay requirements. In June 2008, the subsidiary reached an agreement to settle these claims through a structured mediation process. While the subsidiary denies the allegations underlying the dispute, it agreed to the mediated settlement to avoid additional legal fees, the uncertainty of a jury trial and the management time that would have been devoted to litigation. In November 2008, the Court approved this settlement and the sole objecting plaintiff will have thirty days from the entry of the court's order approving the settlement to file the appeal. During the fourth quarter of fiscal 2008, the Company incurred a charge of approximately \$1.2 million which represents management's best estimate of the amount to be paid pursuant to the settlement. Actual payments could differ from our estimate.

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The following table represents the assets and the liabilities of the discontinued operations:

	<b>October 25, 2008</b>	<b>July 26, 2008</b>
	<b>(Dollars in thousands)</b>	
Deferred tax assets, net	\$ 618	\$ 667
Current assets of discontinued operations	\$ 618	\$ 667
Accounts payable	\$ 79	\$ 129
Accrued liabilities	1,749	2,602
Total current liabilities of discontinued operations	\$ 1,828	\$ 2,731
Other accrued liabilities and deferred taxes	\$ 437	\$ 427
Non-current liabilities of discontinued operations	\$ 437	\$ 427

***3. Computation of Earnings Per Common Share***

The following is a reconciliation of the numerator and denominator of the basic and diluted earnings per common share computation as required by SFAS No. 128, Earnings Per Share. Basic earnings per common share is computed based on the weighted average number of shares outstanding during the period, excluding unvested restricted shares and restricted share units. Diluted earnings per common share includes the weighted average common shares outstanding for the period plus dilutive potential common shares, including unvested restricted shares and restricted share units. Performance vesting restricted shares and restricted share units are only included in diluted earnings per common share calculations for the period if all the necessary performance conditions are satisfied and their impact is not anti-dilutive. Common stock equivalents related to stock options are excluded from diluted earnings per common share calculations if their effect would be anti-dilutive.

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	<b>For the Three Months Ended</b>	
	<b>October 25, 2008</b>	<b>October 27, 2007</b>
	<b>(Dollars in thousands, except per share amounts)</b>	
Numerator:		
Income from continuing operations	\$ 10,586	\$ 15,257
Loss from discontinued operations, net of tax	(38)	(330)
Net income	\$ 10,548	\$ 14,927
Denominator:		
<i>Basic</i>		
Weighted-average number of common shares Basic	39,321,662	40,718,872
<i>Diluted</i>		
Weighted-average number of common shares Basic	39,321,662	40,718,872
Potential common stock arising from stock options, unvested restricted shares and unvested restricted share units	99,928	455,625
Weighted-average number of common shares Diluted	39,421,590	41,174,497
Antidilutive weighted shares excluded from the calculation of earnings per common share	2,298,370	1,152,514
<b>EARNINGS PER COMMON SHARE BASIC:</b>		
Income from continuing operations	\$ 0.27	\$ 0.37
Loss from discontinued operations		(0.01)
Net income	\$ 0.27	\$ 0.37
<b>EARNINGS PER COMMON SHARE DILUTED:</b>		
Income from continuing operations	\$ 0.27	\$ 0.37
Loss from discontinued operations		(0.01)
Net income	\$ 0.27	\$ 0.36

Earnings per share amounts may not add due to rounding.

**4. Accounts Receivable**

Accounts receivable consist of the following:



	<b>October 25, 2008</b>	<b>July 26, 2008</b>
	<b>(Dollars in thousands)</b>	
Contract billings	\$ 154,258	\$ 145,346
Retainage	1,338	972
Other receivables	669	871
 Total	 156,265	 147,189
Less: allowance for doubtful accounts	474	769
 Accounts receivable, net	 \$ 155,791	 \$ 146,420

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The allowance for doubtful accounts changed as follows:

	<b>For the Three Months Ended</b>	
	<b>October 25, 2008</b>	<b>October 27, 2007</b>
	<b>(Dollars in thousands)</b>	
Allowance for doubtful accounts at beginning of period	\$ 769	\$ 986
Bad debt (recovery) expense, net	(138)	66
Amounts charged against the allowance	(157)	(73)
Allowance for doubtful accounts at end of period	\$ 474	\$ 979

As of October 25, 2008, the Company expected to collect all retainage balances within the next twelve months.

**5. Costs and Estimated Earnings on Contracts in Excess of Billings**

Costs and estimated earnings in excess of billings, net, consists of the following:

	<b>October 25, 2008</b>	<b>July 26, 2008</b>
	<b>(Dollars in thousands)</b>	
Costs incurred on contracts in progress	\$ 77,681	\$ 75,978
Estimated to date earnings	18,550	18,292
<b>Total costs and estimated earnings</b>	<b>96,231</b>	<b>5,522,730</b>
Cost of sales		
Cost of manufactured product	4,074,914	3,241,962
Royalty expense to shareholder	439,400	369,228
Total cost of sales	4,514,314	3,611,190
Gross profit	1,259,509	1,911,540
Operating expenses:		
Sales and marketing	1,341,922	1,113,006
Research and development	182,035	315,195
General and administrative	2,476,038	1,723,771
Total operating expenses	3,999,995	3,151,972
Loss from operations	(2,740,486)	(1,240,432)
Interest and other income	541,197	462,197
Interest expense, net	(76,794)	(110,707)
Net loss before income taxes	(2,276,083)	(888,942)
Benefit for income taxes		(289,004)
Net loss	(2,276,083)	(599,938)
Preferred stock dividend requirements	(355,051)	(367,078)
Loss applicable to common shareholders	\$ (2,631,134)	\$ (967,016)
Loss per share - basic and diluted	\$ (0.11)	\$ (0.04)
Weighted average common shares outstanding	23,676,664	23,521,551

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See accompanying notes to condensed financial statements

## RETRACTABLE TECHNOLOGIES, INC.

## CONDENSED STATEMENTS OF CASH FLOWS

(unaudited)

	Three Months Ended March 31, 2007	Three Months Ended March 31, 2006
<b>Cash flows from operating activities</b>		
Net loss	\$ (2,276,083 )	\$ (599,938 )
Adjustments to reconcile net loss to net cash provided by (used by) operating activities		
Depreciation and amortization	363,430	346,768
Capitalized interest	(52,002 )	(11,110 )
Stock option compensation	6,478	166,306
Provisions for doubtful accounts		46,689
Accreted interest	31,836	36,114
Deferred income taxes		28,232
Change in assets and liabilities:		
Increase in inventories	(604,057 )	(156,012 )
(Increase) decrease in accounts receivable	(594,006 )	537,145
Increase in income taxes receivable	(2,079 )	(355,440 )
Increase in other current assets	(68,665 )	(164,753 )
Increase in accounts payable	1,344,156	35,774
Increase (decrease) in other accrued liabilities	658,202	(162,961 )
Net cash used by operating activities	(1,192,790 )	(253,186 )
<b>Cash flows from investing activities</b>		
Purchase of property, plant, and equipment	(116,794 )	(569,704 )
Acquisitions of patents, trademarks, licenses and intangibles	(107,418 )	
Net cash used by investing activities	(224,212 )	(569,704 )
<b>Cash flows from financing activities</b>		
Repayments of long-term debt and notes payable	(95,355 )	(135,285 )
Proceeds from the exercise of stock options		5,500
Net cash used by financing activities	(95,355 )	(129,785 )
Net decrease in cash and cash equivalents	(1,512,357 )	(952,675 )
Cash and cash equivalents at:		
Beginning of period	46,814,689	52,513,935
End of period	\$ 45,302,332	\$ 51,561,260
Supplemental disclosures of cash flow information:		
Interest paid	\$ 96,960	\$ 102,275
Income taxes paid	\$	\$ 38,829
Supplemental schedule of noncash financing activities:		
Preferred dividends declared	\$ 979,193	\$

See accompanying notes to condensed financial statements

**RETRACTABLE TECHNOLOGIES, INC.**

**NOTES TO CONDENSED FINANCIAL STATEMENTS**

**(unaudited)**

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

**Business of the Company**

Retractable Technologies, Inc. (the Company) was incorporated in Texas on May 9, 1994, 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® syringe in the 1cc, 3cc, 5cc and 10cc sizes, 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.

**Basis of presentation**

The accompanying condensed financial statements are unaudited and, in the opinion of management, reflect all adjustments that are necessary for a fair presentation of the financial position and results of operations for the periods presented. All such adjustments are of a normal and recurring nature. The results of operations for the periods presented are not necessarily indicative of the results to be expected for the entire year. The condensed financial statements should be read in conjunction with the financial statement disclosures contained in the Company's audited financial statements filed in Form 10-K on April 2, 2007, for the year ended December 31, 2006.

**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. 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 that are well-established entities. As a consequence, management considers any exposure from concentrations of credit risks to be limited.

The Company manufactures syringes in Little Elm, Texas as well as utilizing a manufacturer in China. During the first three months of 2007, approximately 80.6% of the units were produced in China.

### **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. The Company has a lawsuit against Abbott that will proceed in court and not in arbitration as argued by the defendant.

### **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. ( BD ) 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 Condensed 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 established a valuation allowance for its net deferred tax assets 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 all

antidilutive for the three months ended March 31, 2007 and 2006. Accordingly, basic loss per share is equal to diluted earnings per share.

### Research and development costs

Research and development costs are expensed as incurred.

### Share-based compensation

The Company has issued options under three stock-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. 123 R ), *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. 123 R, the Company incurred the following share-based compensation costs:

	Three Months Ended March 31, 2007	Three Months Ended March 31, 2006
Cost of sales	\$ 6,648	\$ 26,291
Sales and marketing	3,086	46,318
Research and development	(7,863 )	4,625
General and administrative	4,607	89,072
	\$ 6,478	\$ 166,306

### 3. INVENTORIES

Inventories consist of the following:

	March 31, 2007	December 31, 2006
Raw materials	\$ 1,716,535	\$ 1,546,288
Finished goods	5,323,302	4,889,492
	7,039,837	6,435,780
Inventory reserve	(50,000 )	(50,000 )
	\$ 6,989,837	\$ 6,385,780

### 4. INCOME TAXES

The Company's effective tax rates (a benefit for the three months ended March 31, 2006) on the net loss before income taxes were 0.0% and 32.5% for the three months ended March 31, 2007 and 2006, respectively. The effective rates differ from the expected rates due to stock option activity, meals and entertainment, changes in the valuation allowance, and other items that were nondeductible for income tax purposes.

In June 2006, the Financial Accounting Standards Board ( FASB ) issued Financial Interpretation No. 48, *Accounting for Income Tax Uncertainties* ( FIN 48 ). FIN 48 is effective for years beginning after December 15, 2006. FIN 48 prescribes a recognition threshold and measurement attribute for financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. FIN 48 requires



that a company evaluate whether it is more-likely-than-not that a tax position will be sustained based upon the technical merits of the position. Measurement of the tax position is based upon the largest amount of benefit that is greater than 50% likely of being realized upon ultimate settlement. The Company adopted FIN 48 on January 1, 2007. FIN 48 had no material effect on the financial statements upon adoption.

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

**FORWARD-LOOKING STATEMENT WARNING**

Certain statements included by reference in this filing containing the words could, may, believes, anticipates, intends, expects, and similar words constitute forward-looking statements within the meaning of the Private Securities Litigation Reform Act. Any forward-looking statements involve known and unknown risks, uncertainties, and other factors that may cause our actual results, performance, or achievements to be materially different from any future results, performance, or achievements expressed or implied by such forward-looking statements. Such factors include, among others, our ability to maintain liquidity, our maintenance of patent protection, the impact of current litigation, 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 Becton Dickinson & Co., Inc. (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.

The following discussion contains trend information and other forward-looking statements that involve a number of risks and uncertainties. Our actual future results could differ materially from our historical results of operations and those discussed in the forward-looking statements. Variances have been rounded for ease of reading. All period references are to the periods ended March 31, 2007 or 2006.

**OVERVIEW**

We have been manufacturing and marketing our products 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 its monopolistic business practices continue despite its paying \$100 million to settle a lawsuit with the Company for anticompetitive practices, business disparagement, and tortious interference. Although we have 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 various Senate Subcommittee hearings on Group Purchasing Organizations (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. 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, the Company would take cost cutting measures to reduce cash requirements. Such measures could result in reduction of units being produced, reduction of workforce, reduction of salaries of officers and other nonhourly employees, and deferral of royalty payments to Thomas Shaw.

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 are also marketing more product internationally. In 2004, 2005 and 2006, we were awarded a federal contract to supply syringes to various African countries. The first award from PATH was for 1,530,000 units. The second award was for 11,700,000 units. For the third year, the Company was awarded a contract for 16,400,000 units. Shipments of the products are generally filled over multiple quarters due principally to logistical requirements for the orders. We are hopeful that these awards will continue to increase under this program.

Product purchases from Double Dove, a Chinese manufacturer, have enabled us to increase manufacturing capacity with little capital outlay and provided a competitive manufactured cost. Double Dove manufactured, in the first three months of 2007, approximately 80.6% of the units produced by the Company. These purchases have

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improved profit margins in spite of limited revenues. The cost of production per unit has generally declined as volumes increased.

We also have a license agreement with BTMD, a Chinese company. The factory, assembly equipment, and the related infrastructure are substantially complete for some products. We continue to expect a royalty stream in 2007, pending BTMD's receipt of all necessary government approvals.

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

### *Comparison of Three Months Ended*

*March 31, 2007, and March 31, 2006*

Domestic sales accounted for 70.8% and 90.6% of the revenues for the three months ended March 31, 2007 and 2006, respectively. International sales accounted for the remaining revenues. Domestic revenues decreased 18.3%, principally due to lower domestic pricing in some markets, and international revenues increased 224.7%, due primarily to PATH shipments. The timing of the PATH shipments will vary from quarter to quarter. Overall, unit sales increased 61.5%. Domestic unit sales increased 10.1% and international sales increased 282.1%. Domestic unit sales were 55.3% of total unit sales for the three months ended March 31, 2007.

Gross profit decreased primarily due to lower average selling prices due to higher volume of international sales and lower average sale prices in domestic markets. The average cost of manufactured product sold per unit decreased by 22.2%. Profit margins can fluctuate depending upon, among other things, the cost of product manufactured and the capitalized cost of product recorded in inventory, as well as product sales mix. The lower cost in ending inventory at March 31, 2007, should have a continuing positive effect on profit margins for the second quarter. Royalty expense increased due to higher gross sales.

The Company had offered certain discounts to participating facilities through December 31, 2006. It was reimbursed up to a cumulative amount of \$8.0 million under a litigation settlement agreement. Cumulative reimbursements of \$8.0 million were recorded through September 30, 2006. The Company continued offering such discounts to participating facilities through the end of the year. The discount program ended December 31, 2006.

Operating expenses increased 26.9%. The increase in expense for Sales and marketing was attributable primarily to compensation costs, travel and entertainment, and consulting. The increase was mitigated by a reduction in marketing expenses. The decrease in Research and development costs was due principally to decreased cost related to engineering samples, consulting, and compensation costs. General and administrative costs increased due to additional legal expense. Compensation expense and office expense for general and administrative cost also increased, mitigated by reduced travel and entertainment cost and lower bad debt expense. All departments experienced a reduction in stock option expense.

Loss from operations increased due principally to lower gross profit margins and higher operating expenses.

The Company's effective tax rates (a benefit for the three months ended March 31, 2006) on the net loss before income taxes were 0.0% and 32.5% for the three months ended March 31, 2007 and 2006, respectively. The effective tax rate for the three months ended March 31, 2007, was zero due to the fact that all tax benefits have been fully reserved.

The Company's balance sheet remains strong with cash making up 64.3% of total assets. Working capital was \$47.7 million at March 31, 2007, a decrease of \$3.2 million from December 31, 2006. The current ratio was 8.4 at December 31, 2006, and 5.8 at March 31, 2007. The quick ratio decreased from 7.5 at December 31, 2006, to 5.1 at March 31, 2007. These indicators continue to demonstrate a strong financial position. The liability for Accrued royalties to a shareholder was lower at the end of the year due to the payment of the fourth quarter royalties before the end of the year. This allowed the Company to include that payment as a loss carryback in 2006.

Approximately \$1.2 million in cash flow was used by operating activities. The remaining uses of cash were for capital costs incurred for the acquisition of plant, property and equipment and intangible assets, and the repayment of long-term debt.

## **LIQUIDITY AND FUTURE CAPITAL REQUIREMENTS**

### Historical Sources of Liquidity

We have historically funded operations primarily from proceeds from private placements, loans, and litigation efforts. We were capitalized with approximately \$52.6 million raised from six separate private placement offerings. We also funded operations through loans aggregating over \$15.0 million. We received cash payments of \$88.5 million and discount reimbursements of \$8.0 million from litigation settlements.

### Internal Sources of Liquidity

#### *Margins and Market Access*

In early 2004 we began to receive shipment of product from Double Dove. We believe as we receive and produce greater quantities our unit cost of goods sold could decrease. We believe, if we have market access, our profit margins, for the long-term, could increase as margins tend to improve with additional sales and higher production levels. To be profitable from operations we would need minimal access to hospital markets which has been difficult to obtain due to the monopolistic marketplace which was the subject of our 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.

The mix of domestic and international sales affects the average sales price of our products. Generally, the higher the ratio of domestic sales to international sales, the higher the average sales price will be. Typically international sales are shipped directly from China. Purchases of product manufactured in China, if available, usually decrease the average cost of manufacture for all units as domestic costs, such as indirect labor and overhead, remain relatively constant. The number of units produced by the Company and manufactured in China can have a significant effect on the carrying costs of inventory as well as cost of sales. The Company will continue to evaluate the appropriate mix of products manufactured domestically and those manufactured in China to achieve economic benefits as well as to maintain our domestic manufacturing capability. Currently, approximately 19.4% of our syringes are produced domestically.

#### *Seasonality*

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

#### *Licensing Agreement*

We entered into a License Agreement with BTMD as of May 13, 2005, which was approved by the People's Republic of China (the PRC) on August 1, 2005. We have granted to BTMD a limited exclusive license to manufacture and a limited exclusive right to sell syringes in the PRC having retractable needles that incorporate our technology for a term of three years. This License Agreement is subject to the Technology License Agreement dated June 23, 1995, between Mr. Thomas J. Shaw, our founder and CEO, as licensor and the Company, as licensee. Accordingly, Mr. Shaw will receive 5% of the licensing proceeds we receive. BTMD has agreed to manufacture and sell these products in the PRC and to pay us a quarterly royalty of two and one-half cents per unit on 1/2 cc, 3 cc, and 5 cc syringes and a royalty of three and one-half cents per unit on 1 cc and 10 cc syringes. The factory, assembly equipment, and the related infrastructure are substantially complete for some products. We continue to expect a royalty stream in 2007, pending BTMD's receipt of all necessary government approvals.

The obligation to pay the royalties continues even if any and all of our patent rights in the PRC are found to be invalid or unenforceable for any reason. We have the right, but not the obligation, to terminate the agreement if we have not received certain royalty payments. We had the right to terminate the agreement in 2006 because we did not receive royalty payments for at least 25,000,000 units. We have the right to terminate the agreement if we do not receive royalty payments for at least 50,000,000 units in 2007 or 100,000,000 units per year for each year thereafter. We have not received royalties under this agreement; however, we do not plan to terminate the agreement at this time and will continue to work with BTMD to facilitate production.

#### *Cash Requirements*

Due to prior 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 becomes insufficient to support operations, we would take cost cutting measures to reduce cash requirements. Such measures could result in reduction of units being produced, reduction of workforce, reduction of salaries of officers and other nonhourly employees, and deferral of royalty payments to Thomas Shaw.

#### External Sources of Liquidity

We have obtained several loans from the inception of the Company, which have, together with the proceeds from sales of equities and litigation efforts, 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 previously authorized an additional 5,000,000 shares of a Class C Preferred Stock that could, if necessary, be designated and used to raise funds through the sale of equity.

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

None

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

Pursuant to paragraph (b) of Rule 13a-15 or Rule 15d-15 of the Securities Exchange Act of 1934 (the Exchange Act ) and on May 10, 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) under the Exchange Act, and concluded that, as of March 31, 2007, and based on the evaluation of these controls and procedures as required by paragraph (b) of Rule 13a-15 or Rule 15d-15 under the Exchange Act, there were no significant deficiencies in these procedures. The CEO and CFO concluded that our disclosure controls and procedures are effective.

There have been no material changes in our internal controls over financial reporting identified in connection with the evaluation required by paragraph (d) of Rule 13a-15 or Rule 15d-15 under the Exchange Act that occurred during the first fiscal quarter or in any other factor that has materially affected, or is reasonably likely to materially affect, our internal controls over financial reporting.

### **PART II-OTHER INFORMATION**

#### **Item 1A. Risk Factors.**

There were no material changes in Risk Factors applicable to the Company as set forth in our Form 10-K annual report for 2006 which was filed on April 2, 2007, and which is available on EDGAR, other than the following:

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 alternative supplier to avoid a disruption in supply. For the first quarter of 2007, approximately 80.6% of our production was provided by Double Dove.

**Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.**

Unregistered Sales of Equity Securities and Use of Proceeds

None.

Working Capital Restrictions and Limitations on the Payment of Dividends

\$1,060,000 in cash is being held for payment of declared dividends to Series I and Series II Class B Convertible Preferred shareholders. This dividend shall be paid on July 24, 2007.

The certificates of designation for each of the outstanding series of Class B Convertible Preferred Stock each provide that, if a dividend upon any shares of Preferred Stock is in arrears, no dividends may be paid or declared or any other distribution made upon any stock ranking junior to such stock and generally no such junior stock may be redeemed.

We maintain cash for use as collateral for letters of credit we provide from time to time to enable, among other things, the purchase of product from China. As of March 31, 2007, we had no funds held as restricted cash for such purposes. The Board of Directors has authorized management to borrow and incur indebtedness in the form of letters of credit in an aggregate amount, at any one time, of \$5,000,000.

**Item 3. Defaults Upon Senior Securities.**

Series I Class B Convertible Preferred Stock

As of the three months ended March 31, 2007, the amount of dividends in arrears is \$19,000 and the total arrearage is \$245,000. This amount will be included in the dividend payment to be made on July 24, 2007.

Series II Class B Convertible Preferred Stock

As of the three months ended March 31, 2007, the amount of dividends in arrears is \$56,000 and the total arrearage is \$734,000. This amount will be included in the dividend payment to be made on July 24, 2007.

Series III Class B Convertible Preferred Stock

As of the three months ended March 31, 2007, the amount of dividends in arrears is \$34,000 and the total arrearage is \$2,887,000.

Series IV Class B Convertible Preferred Stock

As of the three months ended March 31, 2007, the amount of dividends in arrears is \$138,000 and the total arrearage is \$6,062,000.

Series V Class B Convertible Preferred Stock

As of the three months ended March 31, 2007, the amount of dividends in arrears is \$108,000 and the total arrearage is \$2,590,000.

**Item 5. Other Information.**

The 2007 annual meeting shall be held on September 28, 2007, at 10:00 a.m. at Little Elm City Hall; 100 West Eldorado Parkway; Little Elm, Texas, 75068.

**Item 6. Exhibits.**

<b>Exhibit No.</b>	<b>Description of Document</b>
31.1	Certification of Principal Executive Officer
31.2	Certification of Principal Financial Officer
32	Certification Pursuant to 18 U.S.C. Section 1350

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**SIGNATURES**

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

DATE: May 15, 2007

RETRACTABLE TECHNOLOGIES, INC.  
(Registrant)

BY: /s/ Douglas W. Cowan  
DOUGLAS W. COWAN  
VICE PRESIDENT AND  
CHIEF FINANCIAL OFFICER

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