

UNILEVER N V  
Form 6-K  
March 07, 2014  
Table of Contents

## Form 6-K

### REPORT OF FOREIGN PRIVATE ISSUER PURSUANT TO RULE 13a-16 OR

15d-16

### UNDER THE SECURITIES EXCHANGE ACT OF 1934

For the month of March, 2014.

Commission File Number 001-04547

## UNILEVER N.V.

(Translation of registrant's name into English)

WEENA 455, 3013 AL, P.O. BOX 760, 3000 DK, ROTTERDAM, THE NETHERLANDS

(Address of principal executive office)

Indicate by check mark whether the registrant files or will file annual reports under cover of

Form 20-F or Form 40-F.

Form 20-F  Form 40-F

Indicate by check mark if the registrant is submitting the Form 6-K in paper as permitted by

Regulation S-T Rule 101(b)(1):

**Note:** Regulation S-T Rule 101(b)(1) only permits the submission in paper of a Form 6-K if submitted

solely to provide an attached annual report to security holders.

Indicate by check mark if the registrant is submitting the Form 6-K in paper as permitted by

Regulation S-T Rule 101(b)(7):

**Note:** Regulation S-T Rule 101(b)(7) only permits the submission in paper of a Form 6-K if submitted to furnish a report or other document that the registrant foreign private issuer must furnish and make public under the laws of the jurisdiction in which the registrant is incorporated, domiciled or legally organized (the registrant's home country), or under the rules of the home country exchange on which the registrant's securities are traded, as long as the report or other document is not a press release, is not required to be and has not been distributed to the registrant's security holders, and, if discussing a material event, has already been the subject of a Form 6-K submission or other Commission filing on EDGAR.

Indicate by check mark whether the registrant by furnishing the information contained in this Form is also thereby furnishing the information to the Commission pursuant to Rule 12g3-2(b) under the Securities Exchange Act of 1934.

Yes  No

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If  Yes  is marked, indicate below the file number assigned to the registrant in connection with

Rule 12g3-2(b): 82- \_\_\_\_\_.

**Table of Contents**

**CAUTIONARY STATEMENT**

This document may contain forward-looking statements, including forward-looking statements within the meaning of the United States Private Securities Litigation Reform Act of 1995. Words such as will, aim, expects, anticipates, intends, looks, believes, vision, or the negative terms and other similar expressions of future performance or results, and their negatives, are intended to identify such forward-looking statements. These forward-looking statements are based upon current expectations and assumptions regarding anticipated developments and other factors affecting the Group. They are not historical facts, nor are they guarantees of future performance.

Because these forward-looking statements involve risks and uncertainties, there are important factors that could cause actual results to differ materially from those expressed or implied by these forward-looking statements. Among other risks and uncertainties, the material or principal factors which cause actual results to differ materially are: Unilever's global brands not meeting consumer preferences; Unilever's ability to innovate and remain competitive; Unilever's investment choices in its portfolio management; inability to find sustainable solutions to support long-term growth; customer relationships; the recruitment and retention of talented employees; disruptions in our supply chain; the cost of raw materials and commodities; the production of safe and high quality products; secure and reliable IT infrastructure; successful execution of acquisitions, divestitures and business transformation projects; economic and political risks and natural disasters; financial risks; failure to meet high and ethical standards; and managing regulatory, tax and legal matters. Further details of potential risks and uncertainties affecting the Group are described in the Group's filings with the London Stock Exchange, Euronext Amsterdam and the US Securities and Exchange Commission, including in the Group's Annual Report on Form 20-F for the year ended 31 December 2013 and the Annual Report and Accounts 2013. These forward-looking statements speak only as of the date of this document. Except as required by any applicable law or regulation, the Group expressly disclaims any obligation or undertaking to release publicly any updates or revisions to any forward-looking statements contained herein to reflect any change in the Group's expectations with regard thereto or any change in events, conditions or circumstances on which any such statement is based.

**Table of Contents**

**Table of Contents**

**Table of Contents**

**CONTENTS**

**Strategic report**

- 2 Unilever at a glance
- 4 Chairman's statement
- 6 Chief Executive Officer's review
- 8 Our business model
- 10 Our brands
- 14 Our people
- 18 Our operations
- 22 Unilever Sustainable Living Plan
- 26 Financial review 2013
- 34 Risks

**Governance**

- 40 Biographies
- 42 Corporate governance
- 53 Report of the Audit Committee
- 56 Report of the Corporate Responsibility Committee
- 58 Report of the Nominating and Corporate Governance Committee
- 60 Directors' Remuneration Report

**Financial statements**

- 85 Statement of Directors' responsibilities
- 86 Independent auditors' reports
- 90 Consolidated income statement
- 90 Consolidated statement of comprehensive income
- 91 Consolidated statement of changes in equity
- 92 Consolidated balance sheet
- 93 Consolidated cash flow statement
- 94 Notes to the consolidated financial statements
- 136 Company accounts

**Shareholder information**

- 146 Financial calendar
- 146 Contact details
- 147 Website
- 147 Share registration

147 [Publications](#)

148 [Index](#)

**Unilever** Annual Report and Accounts 2013

**Strategic report**

**1**

## **Table of Contents**

UNILEVER

AT A GLANCE

## **WHO WE ARE**

Unilever is one of the world's leading fast-moving consumer goods companies. Our products are sold in over 190 countries and, on any given day, 2 billion consumers worldwide use them. We own some of the best known and best loved brands, from long-established names like Dove, Sunlight, Knorr and Lipton to new innovations such as Pureit, our unique in-home water purifier. We are passionate about them and proud of the way they help people get more out of life.

## **WHAT WE DO**

We build our brands and develop our products through extensive consumer insight, relentless innovation, and crystal-clear design and marketing. This is a powerful blend that helps us excite and inspire customers and consumers in established and emerging markets in every corner of the globe. We are committed to making sustainable living commonplace and work to develop new ways of doing business that will reduce our environmental footprint and increase our positive social impact.

## **OPERATIONAL HIGHLIGHTS**

In 2013 we again demonstrated the progress we are making in transforming Unilever into a sustainable growth company. Turnover was 49.8 billion, down 3.0% with a negative impact from foreign exchange of 5.9% and net acquisitions and disposals of 1.1%. Underlying sales grew 4.3%. Gross margin rose 1.1 percentage points driven by better mix, margin accretive innovations and savings. Despite higher spend on advertising and promotions, core operating margin rose by 0.4 percentage points.

Underlying sales growth of 4.3% was well balanced with volume 2.5% and price 1.8%.

Emerging markets, now 57% of our business, grew underlying sales by 8.7% but were flat in current currency.

Developed markets reported negative underlying sales growth for the year of 1.3%, with Europe down 1.1% and North America 1.5%.



**2**      **Strategic report**

**Table of Contents**

**OUR KEY PERFORMANCE INDICATORS**

We report our performance against the four key financial and six key non-financial performance indicators below. Our financial KPIs are described in the Financial review starting on page 26 and our non-financial KPIs are on pages 14, 16 and 20. Total recordable accident frequency rate and the three manufacturing KPIs were reported in 2012, while the two people-related KPIs

covering diversity and employee engagement are being reported for the first time. In 2012, we also reported against four other key non-financial indicators which are no longer reported as KPIs but are incorporated into the reporting against our Unilever Sustainable Living Plan (USLP) commitments on pages 22 and 23. They will continue to be included in our online Unilever Sustainable Living Report for 2013 to be published in April 2014.

Unilever Annual Report and Accounts 2013

Strategic report

3

## **Table of Contents**

### **CHAIRMAN'S**

### **STATEMENT**

**Over the last five years we have seen the steady transformation of Unilever into a sustainable growth company, underpinned by an energising and purpose-driven business model. 2013 was another year of progress in that journey and the Boards remain confident that Unilever's strategy will continue to generate sustainable returns for shareholders.**

Although the economic environment remains challenging, Unilever's financial highlights point towards a business that is delivering long-term financial performance. Strong dependable cash flow has led to steadily increasing dividends year on year. The full-year dividend paid in 2013 rose to 1.05, a 10% increase from 2012.

### **FIVE YEARS OF PROGRESS**

Five years ago, under a new Chief Executive Officer, the Group set out a new direction, captured in the Compass strategy. The emphasis was on restoring confidence in Unilever's ability to deliver consistent top and bottom line growth. Every aspect of the business was reviewed and wide-ranging changes followed.

The progress since has been significant. Growth has been strong and well ahead of Unilever's own markets, with a majority of the business winning share despite the tough environment. Moreover, there has been a marked step-up in the quality of the performance. Significant investments have been made, for example, behind the

long-term drivers of growth, including R&D, brand support and people development. Today, as a result, Unilever's organisational structure is stronger, its portfolio of brands is more competitive and Unilever is benefiting from a much sharper focus on performance and delivery. Around 10 billion in turnover has been added to the top line and shareholders have undoubtedly benefited from the changes at Unilever with a 98% cumulative Total Shareholder Return (TSR) over the last five years.

At the same time, the Group has been energised around its commitment to sustainable and equitable growth, as set out in the Unilever Sustainable Living Plan (USLP). By focusing Unilever's business strategy around the need to develop solutions to some of the world's most deep-seated social and environmental challenges, the USLP is motivating employees and inspiring a growing number of customers and suppliers to partner with us.

Five years on, the Boards believe that the Compass and the USLP provide the right framework for Unilever and that they will become increasingly relevant in helping to address tomorrow's challenges and ensuring long-term success for the Group.

### **MAINTAINING GOOD GOVERNANCE**

The Boards believe that a business built on the principles of good governance is more likely to succeed over the long term. We responded constructively to an increased number of government and regulatory consultation exercises in 2013. Helping to shape an environment conducive to good governance is an important investment for the Group. On remuneration, we remain committed to linking pay to the longer-term objectives of Unilever and, in turn, the longer-term interests of shareholders. We believe our current remuneration framework, set out later in the Directors Remuneration Report, reflects this.

## **BOARD FOCUS**

In 2013 the Boards continued to visit a range of Unilever operations with meetings held at Unilever's international management centre at Four Acres, UK; in New York, US; and in Barcelona, Spain in addition to London and Rotterdam. Unilever US remains our largest operation in terms of turnover so it was a fitting location for 2013's corporate strategy review which included increased interaction between the Directors and members of the Unilever Leadership Executive. In Spain the Boards saw the robustness of Unilever's business model in a challenging market. Visits such as these allow the Non-Executive Directors to gain a deeper understanding of the business, to gain more exposure to Unilever's talent pipeline and to participate in Unilever events, sharing their experience and meeting senior managers. Given the volatile environment, the Boards have during the year paid particular attention to sharpening our focus on key risk areas.

## **EFFECTIVENESS**

2013 was the third year in our three-year Board evaluation cycle. The interviews with Directors coupled with the evaluation questionnaires completed by Directors provided the Boards with important insights and enabled us to assess individual contributions and areas for improvement. The process confirmed that no major modifications were required and that the Boards continue to operate in an effective manner.

You, our shareholders, have the opportunity to vote on both the Group's and Boards' effectiveness at the Annual General Meetings in May. Although we always strive to improve, we were pleased, at our AGMs in May 2013, to receive votes in favour on all resolutions between 93.53% and 99.98% for NV and between 88.50% and 99.95% for PLC.

**Table of Contents**

**STRENGTHENING ALREADY DIVERSE BOARDS**

A key role for the Boards is to provide adequately for their succession, and I was very pleased that you voted to elect Laura Cha, Mary Ma and John Rishton as Directors at the AGMs in May 2013. They all bring knowledge and an understanding of emerging markets, a prime driver of Unilever's growth, and further strengthen the financial expertise of the Boards.

I am pleased that over 40% of our Non-Executive Directors are women. We understand the importance of diversity within our workforce, not least because of the wide range of consumers we serve. This goes right through our organisation, starting with the Boards. We are committed to gender diversity at Board level and are tracking the major efforts being made by Unilever management to increase the number of women in our workforce.

**SHAREHOLDER AND STAKEHOLDER ENGAGEMENT**

Unilever values open, constructive and effective communication with our shareholders. I continue to meet with a number of investors and industry representatives to answer their questions and to gain a better understanding of their policies on governance and voting. We expect and welcome further engagement with our institutional investors.

Reflecting therefore on a successful 2013, let me express my thanks and appreciation to my fellow Directors on the Boards, our Chief Executive Officer, Unilever's senior executives and to all the other 174,000 employees around the world. Looking forward, I am confident that we have the strategy, people and resources to continue to deliver sustainable and equitable growth in the years ahead.

**Michael Treschow**

Chairman

**BOARD OF**

**DIRECTORS**

**1 Michael Treschow**  
Chairman

**2 Kees Storm**  
Vice-Chairman & Senior  
Independent Director

**3 Paul Polman**

Chief Executive Officer

**4 Jean-Marc Huët**  
Chief Financial Officer

**5 Laura Cha**  
Non-Executive Director

**6 Louise Fresco**

Non-Executive Director

**7 Ann Fudge**  
Non-Executive Director

**8 Charles Golden**  
Non-Executive Director

**9 Byron Grote**  
Non-Executive Director

**10 Mary Ma**  
Non-Executive Director

**11 Hixonia Nyasulu**  
Non-Executive Director

**12 Sir Malcolm Rifkind**  
Non-Executive Director

**13 John Rishton**  
Non-Executive Director

**14 Paul Walsh**  
Non-Executive Director

## THE UNILEVER GROUP

Unilever N.V. (NV) is a public limited company registered in the Netherlands. It has listings of shares and depositary receipts for shares on Euronext Amsterdam and of New York Registry Shares on the New York Stock Exchange. Unilever PLC (PLC) is a public limited company registered in England and Wales. It has shares listed on the London Stock Exchange and, as American Depositary Receipts, on the New York Stock Exchange.

The two parent companies, NV and PLC, together with their group companies, operate as a single economic entity (the Unilever Group, also referred to as Unilever or the Group). NV and PLC and their group companies, regardless of legal ownership, constitute a single reporting entity for the purposes of presenting consolidated financial statements. Accordingly, the accounts of the Unilever Group are presented by both NV and PLC as their respective consolidated financial statements. The same people sit on the Boards of NV and PLC and other officers are officers of both companies. Any references to the Board in this document mean the Boards of NV and PLC.

Names are listed in alphabetical order with the exception of the Chairman, Vice-Chairman, Chief Executive Officer and Chief Financial Officer.

For Directors' biographies,

please see page 40.

**Unilever** Annual Report and Accounts 2013

**Strategic report**

**5**

## **Table of Contents**

### **CHIEF EXECUTIVE**

### **OFFICER S REVIEW**

## **TRANSFORMATION TO A CONSISTENT, COMPETITIVE, PROFITABLE AND RESPONSIBLE GROWTH COMPANY**

2013 was another year of turbulence in many parts of the world. Widespread citizen protests in countries as far apart as Brazil, Turkey and Egypt, the devastating typhoon in the Philippines, and the significant weakening of many emerging market currencies were all reminders of today s increasingly VUCA world volatile, uncertain, complex and ambiguous. While emerging markets slowed, there were only limited signs of recovery in Europe and the US, with little improvement in either consumer confidence or unemployment.

While today s VUCA world is certainly more difficult to navigate, it does present opportunities if managed well. This is the thinking behind the Unilever Sustainable Living Plan (USLP) and our vision to double the size of the business while reducing our environmental footprint and increasing our positive social impact. This Annual Report seeks to highlight the integral link between our long-term business purpose of making sustainable living commonplace and Unilever s overall results.

### **2013 RESULTS**

2013 was another year of top and bottom line growth. Underlying sales growth was once again ahead of the market, at 4.3%, and our core operating margin was up 0.4 percentage points, to a record 14.1%, though weaker currencies impacted on our reported turnover and earnings. The quality of results was equally good, with 55% of our business winning share. Growth was driven by Personal Care and Home Care, which continue to outperform the markets and our competitive set. Most of the growth came from emerging markets, which now account for 57% of our business.

### **CATEGORY PERFORMANCE**

In 2013, Personal Care, our largest category, showed strong broad-based momentum. The acquisitions of Alberto Culver, Sara Lee, Kalina and Toni & Guy have helped to transform the portfolio. Dove had a particularly impressive year. Home Care also delivered strong underlying growth. The implementation of low-cost business models and higher margin innovations, including concentrated detergents, helped to drive better gross margins in laundry, and household cleaners benefited from growth in new territories Domestic toilet cleaner was our fastest growing global brand.

Foods has been a major cash contributor for Unilever, allowing us to finance faster

expansions in Home Care and Personal Care. Although we saw solid performances in savoury and dressings, with both Knorr and Hellmann s building share, sales declined in spreads due to falling markets in Europe and North America. While we are encouraged by the early signs of recovery in our spreads business, we haven t yet seen the broader improvements we were expecting and it remains an important focus for us. As part of our strategy of making Foods fit for growth, we sharpened the portfolio further in 2013 with the divestment of a number of less strategic, underperforming brands, like Wish-Bone, Skippy and Unipro.



It was a mixed year for Refreshment, with solid growth in tea but a contrasting performance from ice cream where two of our biggest markets – the US and Italy – struggled. We continued to expand into the profitable out-of-home ice cream sector with brands like Cornetto, Ben & Jerry's, Magnum and Fruttare. Additionally, we expanded our low-cost business models and further sharpened our choices in capital expenditure. In tea, we have renewed our focus on driving the core business through our Lipton brand and we were pleased to welcome the premium T2 business to our portfolio.

## **FINANCIAL PERFORMANCE**

Over the last five years, we have established a simple framework for driving long-term success – to grow ahead of our markets, expand our margin and deliver strong cash flow. We achieved this again in 2013, despite further investments in advertising and promotion to strengthen the business. Gross margin expansion of 1.1 percentage points was the best for ten years, while free cash flow of \$3.9 billion reflected improved margins as well as tight capital management.

We used the strong balance sheet position to increase our holdings in Hindustan Unilever in 2013, from 52% to 67%, and we bought out the remaining holding in Unilever Pakistan. Our pension fund deficit decreased from \$3.3 billion at the end of 2012 to \$2.0 billion at the end of 2013, reflecting mainly strong investment returns.

## **A STRONGER ORGANISATION**

A VUCA world requires continued investment in our long-term pillars of growth: brands, people, and operations. We increased investment further in manufacturing, with the construction of five plants currently under way, as well as continuing to upgrade our IT systems. Employee engagement scores rose again

and our commitment to building world-class leaders was re-affirmed with the opening of our state-of-the-art management development centre in Singapore.

We made changes to strengthen the organisation in 2013, integrating R&D into our category structure, sharpening and streamlining our marketing organisation. We also embarked on a major simplification exercise, Project Half for growth, which aims to rework our most complex processes and systems to free up time and resource to put behind our principal growth opportunities.

## **LOOKING FORWARD**

2014 will be as challenging as 2013, with continuing volatility in the external environment. We will position Unilever accordingly and drive out complexity and cost to fund growth opportunities. The good news is that we have no shortage of opportunities: increasing our presence in places like Africa, returning our Foods business to competitive growth and extending our categories into more premium spaces. We are making good progress in driving bigger innovations faster across the world but we need to continue to set the bar higher.

Once again, we will remain focused on delivering profitable volume growth ahead of our markets, steady and sustainable core operating margin improvement and strong cash flow.

## **A BETTER WORLD, A BETTER BUSINESS – THE USLP AS A DRIVER OF GROWTH**

Every year, the USLP becomes more firmly embedded in all aspects of the business. As this Annual Report highlights, the USLP is driving waste and inefficiencies out of the system and helping us transform the supply chain. Suppliers and customers are increasingly keen to work with us under the USLP and, by helping to grow our business in a responsible and equitable way, the USLP is benefiting all our stakeholders, including our shareholders.

It is in stimulating the growth of our brands that the USLP really comes to life. By developing strong social missions our brands are showing that they can make a real difference to people's lives while at the same time growing our business. There were many inspiring examples in 2013,

## **Table of Contents**

some of them featured in this report. Lifebuoy, for instance, with its handwashing campaign to reduce diarrhoea and pneumonia; Pureit, helping to bring safe drinking water into the home; Dove, promoting self-esteem among young girls and women; Knorr, helping smallholder farmers to produce sustainably; and Domestos, bringing better sanitation to communities in desperate need of it.

However, the scale of the challenges we are trying to tackle through the USLP – whether food security, climate change, sanitation, job creation or the many others – is just too great for one organisation to address alone, which is why we are so pleased that our approach is gaining support from a growing number of external organisations, many of which we are fortunate to partner with. It was particularly satisfying in 2013 to see the launch of the Tropical Forest Alliance (TFA), a public-private partnership committed to reducing deforestation, which Unilever did so much to help get off the ground.

We will continue to bring our scale and our expertise to bear wherever we can to help solve the world’s challenges. Last year, for example, we took this commitment to another level, with the launch of Project Sunlight, a corporate campaign based on making sustainable living desirable and achievable by inspiring people to help build a world where everyone lives well and within the natural limits of the planet. Already 70 million people have been on to the website to make a pledge.

As the Project Sunlight campaign proclaims, we believe that there has never been a better time to create a better world for all, including for those yet to come. My own work as part of the UN Secretary-General’s High Level Panel on the post-2015 Development Agenda has strongly reinforced that view. In fact, I am more than ever convinced that this generation has it within its reach to eradicate poverty irreversibly and, yes, in a more sustainable and equitable way.

At Unilever we don’t just want to be a part of this, we want to lead actively in the areas related to our business. That is what the USLP is all about and I want to thank all of our employees, business partners and others for the remarkable contribution they made again in 2013 towards this goal.

Warm regards

**Paul Polman**

Chief Executive Officer

**UNILEVER LEADERSHIP**

**EXECUTIVE (ULE)**

**1 Paul Polman<sup>D</sup> 10 Harish Manwani**

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Chief Executive Officer      Chief Operating Officer

**2 Doug Baillie**  
Chief Human Resources Officer

**11 Nitin Paranjpe**  
Home Care

**3 Geneviève Berger**  
Chief Science Officer

**12 Antoine de Saint-Affrique**  
Foods

**4 David Blanchard**  
Chief Category Research & Development Officer

**13 Pier Luigi Sigismondi**  
Chief Supply Chain Officer

**5 Kevin Havelock**

Refreshment      Chief Legal Officer

**6 Jean-Marc Huët<sup>D</sup>**  
Chief Financial Officer

**15 Keith Weed**  
Chief Marketing and

**7 Alan Jope**  
Russia, Africa and Middle East

Communication Officer  
**16 Jan Zijderveld**  
Europe

**8 Kees Kruythoff**  
North America      <sup>D</sup> Board member

**9 Dave Lewis**  
Personal Care      For ULE biographies, please see page 41.



**Table of Contents**

**8 Strategic report**

**Unilever Annual Report and Accounts 2013**

**Table of Contents**

**A VIRTUOUS CIRCLE OF GROWTH**

**PROFITABLE VOLUME**

**GROWTH**

Profitable volume growth is the basis of the virtuous circle of growth. The drivers of our volume growth are innovation and investment behind our brands. Consistently strong volume growth builds brand equity as we reach more consumers, more often.

**COST LEVERAGE +**

**EFFICIENCY**

Profitable volume growth allows us to optimise the utilisation of our infrastructure and spread fixed costs over a larger number of units produced, reducing the average cost per unit. It improves our profitability and allows us to invest in the business.

**INNOVATION +**

**MARKETING INVESTMENT**

Lower costs and improved efficiency enable us to strengthen our business further. New and improved products are the result of investment in R&D and, together with effective marketing, strengthen our brand equity. This results in profitable volume growth, self-perpetuating the virtuous circle of growth.

## **Table of Contents**

### **OUR BRANDS**

**Our brands make a difference. They succeed when we create high-quality products which make a connection with people's lives and needs, bringing a promise to the consumer and driving sustainable, profitable growth. A stream of innovations is helping us create brands with purpose. We aim to grow our business and improve our margins by building on our brands' strength especially our 14 billion brands, where our impact can be greatest.**

#### **BUILDING BRAND EQUITIES**

Behind every brand should be a unique insight into the purpose it will serve in the life of the person who buys it. We build brand equity by ensuring not only that our brands have a purpose, but also that it is clearly understood, and valued, by our consumers.

#### **BRANDS WITH PURPOSE**

Whether it is Lifebuoy or Domestos helping to prevent the spread of diarrhoea and other serious diseases; Becel improving heart health; reminding parents that dirt is good for their child's development and giving them the best laundry detergents like Omo to clean up afterwards; giving people the confidence to get more out of life through our Personal Care brands; or providing delicious food and refreshments made with more and more sustainably-sourced ingredients our brands make a difference.

#### **PRODUCTS THAT DELIVER MORE**

By combining human insight with technological innovation we find new ways to connect with consumers. In February 2013, for example, we launched a radical new compressed aerosol deodorant for women from Dove, Sure and Vaseline in the UK. The new cans are half the size and use half the propellant of their predecessors, while lasting just as long and delivering the same excellent protection. Not only does this reduction in packaging and material deliver environmental benefits including an overall carbon footprint reduction of an average of 25% per can but the format was an immediate success. More than 9 million cans have been sold since launch, representing a 9.6% share of the female antiperspirant aerosol market.

Another Personal Care innovation, Vaseline Spray & Go moisturiser, features a continuous-spray system which delivers a targeted application easily and evenly across the body. In developing a formulation which was thin enough to be sprayed but contained the right balance of moisturising ingredients, we were working on the insight that people wanted moisturisers which could be applied rapidly and did not need to be rubbed in. Since its launch, in North America alone Vaseline Spray & Go has added more than \$25 million turnover to the Vaseline brand.

#### **INNOVATING TO FIND NEW CHANNELS**



Innovation can also build the equity of brands by bringing established products to consumers through novel channels. For example, Lipton introduced new hot and iced-tea varieties for the Keurig K-Cup brewing system by sales value, the leading single cup coffee and tea dispenser in the US. The innovation, combined with a campaign that includes reaching 2.5 million consumers through Twitter, has seen Lipton gain over 10% of the tea capsules market

## **Table of Contents**

since launch. The roll-out of Magnum Pleasure Stores and Wall's Happiness Station ice cream parlours in shopping malls and at events has connected with people across the world.

### **BUILDING ON OUR HERITAGE**

Our portfolio contains many brands which are embedded in people's lives and with which consumers feel a long-standing connection. We want to reward that loyalty by ensuring that they continue to serve existing consumers while exciting new ones. In 2013, for instance, we celebrated the 100th anniversary of Hellmann's mayonnaise. With strong leadership, Hellmann's is number one globally in mayonnaise and continues to inspire consumers through its industry-leading commitment to using cage-free eggs and high-quality ingredients such as sustainably-sourced oils and tomatoes, and by offering new recipes and tips on how mayonnaise, ketchup and other dressings products can enhance their food. Hellmann's reaches around 450 million consumers in over 50 countries and in 2013 delivered 4.9% underlying sales growth in comparison with the prior year.

### **LEVERAGE BIGGER BRANDS**

Our portfolio of 14 1 billion brands makes up more than 54% of our business and it is where our largest competitive advantage lies. We aim to meet our ambitions for volume growth and margin improvement by growing the presence of these core

brands in new and existing markets, and  
by focusing on bigger, but fewer,  
innovations.

**Unilever** Annual Report and Accounts 2013

**Strategic report**

**11**

## **Table of Contents**

### **OUR BRANDS**

CONTINUED

### **FEWER, BIGGER INNOVATIONS**

Innovations that give competitive advantage to our biggest brands are the most likely to have a positive impact on our business as a whole. We have focused our R&D efforts on innovations that can be deployed with scale. For example, our Dirt is Good laundry brand has been improved by a combination of a new formulation which delivers better whitening and stain removal technology, and new packaging designed for single-handed opening and containing an integrated pour spout, freshness seal and dosing ball. The new concentrated Small & Mighty, launched in the UK, Ireland, Portugal, the Netherlands and France, has gained significant market share, up by 1.4 percentage points in the UK and by two percentage points in Portugal.

Similarly, our patented TESS technology, which uses the natural essence pressed from freshly picked tea leaves, has enabled the global re-launch of Lipton Yellow Label, the world's best-selling tea brand. The re-launch has introduced this innovation to 44 countries in two years, resulting in an underlying growth of 5.6% in global turnover for Lipton Yellow Label.

### **HARNESSING SCIENCE STRATEGICALLY**

In 2013 we launched the Strategic Science Group, designed to forecast evolving science trends, identify opportunities, and deliver growth through innovation. The Strategic Science Group is the third pillar in our New Ways to Innovate strategy, alongside Open Innovation and the New Business Unit. Together, they aim to harness rapidly-evolving science and leverage the work of external academia, small and medium sized enterprises, and start-ups, to develop new science and breakthrough technologies.

### **ACHIEVING MARKETING CUT-THROUGH IN A DIGITAL WORLD**

Marketing campaigns that are focused on global brands have the potential to achieve greater impact, by engaging people through multiple media achieving what we call cut-through. In January 2013, Axe marked the launch of its range of Apollo deodorants, shampoos and shower gels with a multichannel campaign in more than 60 countries that included a competition to win a place on a space flight resulting in more than a million people registering to participate, and more than 10 million votes on the AxeApollo.com website.

Similarly, Dove's Sketches film, part of Dove's ongoing Real Beauty campaign, became the most watched video advertisement of all time following its launch in April 2013 and achieved more than 175 million views in 2013. These campaigns recognise the importance of truly engaging consumers in a digital age if they are engaged with our brand, they are more likely to be talking about it to others.

### **WINNING MARKET SHARE**

#### **IN EMERGING MARKETS**

Emerging markets now account for 57% of our business and have the potential to provide far greater growth in the future. Brands which identify and respond to the local needs of people within those markets can have a great impact. This is exemplified by our Foods category: in Africa, for example, our Rama and Blue Band margarines are now fortified with seven vitamins including vitamin A, strengthening their proposition in a region which contains 33% of

the world's vitamin A-deficient children. Knorr, which celebrated its 175th anniversary in 2013, continues to innovate through relevant products such as the Baking Bag. This has gained share in all of our key markets in Latin America. In Brazil, one of the largest markets, Knorr's Baking Bag has achieved more than two percentage points in market share. Laundry brands like Surf, launched in Morocco, and Omo, launched in the Philippines, have also gained market share.

### **WIN CONSUMER PREFERENCE**

Brands with real purpose mean more to consumers – but to increase sales and margins, we also need to ensure that this sense of purpose is aligned with a product that delivers superiority in quality or functionality. Winning consumer preference is essential to our ambition to grow faster than our markets and, by allowing us to grow our premium offerings, helps us increase margins, making our business more profitable.

### **BRANDS THAT PEOPLE CHOOSE**

We want all our brands to be preferred in their markets. In 2013, our global product benchmarking programme showed that 97.19% of products in scope are considered equal to, or better than, our key competitors' products.

## **Table of Contents**

When the promise of one of our brands is clearly understood by consumers, and they are persuaded of its benefits, we create the conditions for rapid growth. For example, in 2013 we launched Cif and Vim (sold as Domestos in other countries) in Brazil.

While the slow-down in the Brazilian economy in particular has made this market more challenging for some of our brands in 2013, the combination of Cif's and Vim's improved formulae with a fast roll-out and local activation has led to a market share gain of 7.6 percentage points.

## **ALWAYS SEEKING IMPROVEMENT**

During the year, all our categories have been profitable, despite signs that the global economic slow-down is having an effect in emerging markets. But we are under no illusions about the need to keep improving and strengthening our brands if we are to achieve growth. In Foods, for example, we are investing in ways to strengthen our margarines, through product renovation – our foods taste good because they are made from simple recognisable ingredients, a growing number of which are sustainably sourced – as well as launching new, innovative products such as mélanges, a blend of butter and margarine. Supported by better quality advertising, the mélanges started very successfully in Europe. In Refreshment, we are looking at ways to improve and premiumise our ice creams which, due to factors including a poor start to the summer particularly in Europe and

the US as well as intense competitive activity in key markets, did not grow as expected in 2013. Our Personal Care category continued to grow significantly and accounted for 36% of Group turnover in 2013, but could improve its share of the more premium segments of the market. Our Home Care category saw good underlying growth, with household care approaching the 2 billion mark and fabric conditioners 1 billion, but we would like to improve our profitability and roll out innovations even faster. Overall, as a business, we intend to simplify our offering further reducing the total number of stock-keeping units (SKUs) that we sell, in order to focus on those which will best drive our growth and margins.

## **PREMIUM PRODUCTS, HIGHER MARGINS**

Products which consumers prefer can command higher prices than their competitors – and we are increasingly focusing on the premium segments of our markets, which offer the potential for better margins and higher profits.

This segmentation is taking place across most of our categories and is fuelled by innovation, collaboration with partners, and selective acquisition. We have, for example, acquired T2, a fast-growing premium tea brand in Australia generating sales of around 37 million a year; and IOMA, a premium skin care brand, which uses state-of-the-art diagnostic technology to study an individual's skin and tailor

a bespoke skin care regime. IOMA is a strategic acquisition that gives us access to the premium skin care market and channels where we are under-represented. Innovation is creating products such as Magnum 5 Kisses, a premium Rainforest Alliance Certified ice cream inspired by French patisserie, which was launched in 13 markets in 2013. Meanwhile our gourmet Maille brand, founded in 1747, opened its first store outside France, La Maison Maille in London's Piccadilly, providing premium mustards, vinegars, gifts and accessories.

**Unilever** Annual Report and Accounts 2013

**Strategic report**

**13**

**Table of Contents**

**We believe that talent will determine our ability to become an 80 billion business. Every day, our people are working hard to make us more competitive and to achieve our Vision of doubling the size of our business while reducing our environmental footprint and increasing our positive social impact. We are determined that everything we do has openness, diversity and inclusion at its heart. It is only by helping all our people to be the best they can be that we can reach our own objectives.**

**CAPABILITY AND LEADERSHIP**

To achieve our Vision, we need to continue to build a talented workforce. We believe that the Unilever Sustainable Living Plan (USLP) is one of the reasons why our attractiveness as a potential employer is at an all-time high as well as helping to energise our own people.

In 2013, we were rated the third most in-demand employer by business social network LinkedIn, behind only Google and Apple. And on Facebook, our global careers page continues to spiral with over 500,000 likes, up from 110,000 in 2012. We were named fast-moving consumer goods (FMCG) employer of

choice among students in 26 countries and number five in the Hay Group's Best Companies for Leaders, moving up from tenth in 2011/2012. We also scored top spot in both Europe and Latin America, and came third in Asia. And our Made By You campaign, which has sustainable living at its heart, is making us a more attractive employer to graduates.

This external recognition is encouraging and has a clear business benefit in helping us grow our talent.

**CHAMPIONING TALENT**

We believe that nurturing talent will be the determining factor in our ability to double the size of our business. Our leadership and development programmes are helping all our people to be the best they can be, irrespective of level or role, from growing functional skills linked to our business strategy and priorities, to leadership skills for now and the future. For example, more than 600 people from our Personal Care category have been trained in five key capabilities essential to excellence in Personal Care marketing. In our manufacturing operations we intend to train 90,000 employees in technical capabilities and in different functions so they can work across the factory. And our leaders



are playing a primary role in championing talent.

The Four Acres Learning and Leadership Centre in Singapore opened in 2013 with a global leadership programme. We know that the role and requirements of leadership must adapt as the world changes, so we tasked a global steering board to discuss what attributes a leader will need in 2020. Teams of young Unilever leaders took part and agreed six leadership principles – purpose at the centre, encircled by authenticity, adaptability, resilience, systemic thinking and results orientation.

## **Table of Contents**

Investment in our people stretches beyond careers to their well-being, which is just as important for our success as a business. For example, our mental health and resilience initiative in the UK and Ireland trains managers to spot symptoms and support employees who are struggling, offers a confidential web and telephone support service, and encourages team workshops to manage workloads and pressure.

## **SHAPING LEADERS OF THE FUTURE**

During 2013 in Singapore, we launched the Future Leaders League, our first global employer brand-building competition, to motivate young leaders about our business, brands, the USLP and our views on future leadership. Finalists representing ten countries across our markets created a holistic campaign for Lifebuoy that was designed to touch millions of people in 2013. And, at the One Young World summit in Johannesburg in October 2013, our Chief Executive Officer urged 1,200 delegates from 190 countries to become a force for good.

As well as generating a positive buzz around our employer brand, our aim with initiatives like these is to create a generation of advocates for sustainable growth.

## **AGILE, FLEXIBLE AND DIVERSE ORGANISATION**

Inclusion is at the heart of being an agile, flexible and diverse organisation. It means having a representative workforce, empowering our people with policies and infrastructure to help them work quickly and effectively, and creating flexible ways of working to suit their circumstances. The smarter we work, the more effective and efficient we will be at meeting the needs of our consumers in a rapidly changing world.

**Table of Contents**

**OUR PEOPLE**

CONTINUED

**FROM DIVERSITY TO INCLUSION**

Women are Unilever's core consumers, controlling nearly two thirds of consumer spending, so it's important that we represent them in our workforce. As at 31 December 2013, 119,139 (68%) of our global workforce of 174,381 employees were male and 55,242 (32%) female. Of these, 115 are considered senior leadership executives (96 male, 19 female). If you include employees who are statutory directors of the corporate entities whose financial information is included in the Group's 2013 consolidated accounts in this Annual Report, the number increases to 681 males and 181 females. 35% (five out of 14) of the Board are female. Our needs 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
<b>Long-lived assets</b>					
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 1<sup>st</sup> International Bank ( "1<sup>st</sup> 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 1<sup>st</sup> 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 1<sup>st</sup> 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

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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.

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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

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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, 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 1<sup>st</sup> 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

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

We obtained a loan from 1<sup>st</sup> 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:

Contractual Obligations	Total	Payments Due by Period			
		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**

F-1

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**RETRACTABLE TECHNOLOGIES, INC.**

**INDEX TO FINANCIAL STATEMENTS**

	<b>Page</b>
<u>Report of Independent Registered Public Accounting Firm</u>	F-3
Financial Statements:	
<u>Balance Sheets as of December 31, 2006 and 2005</u>	F-4
<u>Statements of Operations for the years ended December 31, 2006, 2005 and 2004</u>	F-5
<u>Statements of Changes in Stockholders' Equity for the years ended December 31, 2006, 2005 and 2004</u>	F-6
<u>Statements of Cash Flows for the years ended December 31, 2006, 2005 and 2004</u>	F-8
<u>Notes to Financial Statements</u>	F-9
<u>Selected Quarterly Financial Data- Unaudited</u>	F-24
Financial Statement Schedule:	
<u>Schedule II: Valuation and Qualifying Accounts for the years ended December 31, 2006, 2005, and 2004</u>	43

**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
<b>ASSETS</b>		
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
<b>LIABILITIES AND STOCKHOLDERS EQUITY</b>		
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

F-4

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**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	

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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	\$
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See accompanying notes to financial statements

F-6

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**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
<b>Cash flows from operating activities:</b>			
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
<b>Cash flows from investing activities:</b>			
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)
<b>Cash flows from financing activities:</b>			
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
<b>Supplemental schedule of cash flow information:</b>			
Interest paid	\$ 425,429	\$ 334,127	\$ 202,572
Income taxes paid	\$ 45,893	\$ 2,062,493	\$ 12,439,212
<b>Supplemental schedule of noncash investing and financing activities:</b>			
Debt assumed to acquire assets	\$	\$ 78,453	\$ 121,837
Closing costs rolled into long-term debt	\$	\$	\$ 24,154

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Conversion of long-term debt into Common Stock	\$	\$	\$	163,740
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See accompanying notes to financial statements

F-8

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## 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:

F-11

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	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

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

F-12

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**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	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 1 <sup>st</sup> 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 1 <sup>st</sup> International affecting the interest rate will range from \$0 to \$500,000. The Company had in excess of \$500,000 on deposit with 1 <sup>st</sup> 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:



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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

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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

F-18

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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:

	2006		Years Ended December 31, 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

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



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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		\$		\$		\$

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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:

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

F-21

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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.

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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.

F-22

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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**

	<b>Quarter 1</b>	<b>Quarter 2</b>	<b>Quarter 3</b>	<b>Quarter 4</b>
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**

	<b>Quarter 1</b>	<b>Quarter 2</b>	<b>Quarter 3</b>	<b>Quarter 4</b>
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

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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%

F-24



**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

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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
<b>EXECUTIVES</b>			
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

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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.

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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



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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](http://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



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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

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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 (\$)	All Other Compensation (\$)	Total (\$)
(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)	(i)	(j)
Thomas J. Shaw President and CEO (principal executive officer)	2004	259,632	0	0	0	0			259,632
	2005	307,702	0	0	0	0			307,702
	2006	400,000	0	0	0	0			400,000
Douglas W. Cowan Vice President, CFO (principal financial officer)	2004	249,231	0	0	112,950	0			362,181
	2005	248,318	0	0	114,260	0			362,578
	2006	290,130	0	0	58,372	0			348,502
Steven R. Wisner Executive Vice President, Engineering and Production	2004	249,231	0	0	12,939	0			262,170
	2005	247,693	0	0	14,240	0			261,933
	2006	290,000	0	0	8,367	0		6,750	305,117
Michele M. Larios Vice President, General Counsel	2004	249,231	0	0	112,631	0			361,862
	2005	258,676	0	0	113,977	0			372,653
	2006	351,299	0	0	58,265	0			409,564
Russell B. Kuhlman Vice President, Sales	2004	120,692	5,000	0	71,603	0			197,295
	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:			STOCK AWARDS		Equity Incentive Plan Awards:	
			Number of Securities Underlying Unexercised 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: 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
	7,500	(19)		10	07/08/08
	15,600	(20)		10	06/30/09
	10,000	(21)		10	11/01/10
	20,000	(22)		6.90	09/30/12
	79,400	(23)		8.65	06/23/13
			1,900 (24)	8.87	05/11/14

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- (1) Options for the purchase of 12,500 shares vested on July 1, 2001 and for the remaining shares vested on July 1, 2002.
- (2) These options vested on November 1, 2003.
- (3) These options vested on September 30, 2005.
- (4) These options vested on June 23, 2006.
- (5) These incentive stock options will vest on May 11, 2007 assuming the recipient is still employed by the Company. At such time, these options will be reflected in future filings under column b in the above chart.
- (6) One half vested on October 25, 2001 and the remainder vested on October 25, 2002.
- (7) These shares vested on November 1, 2003.
- (8) These shares vested on September 30, 2005.
- (9) These shares vested on June 23, 2006.
- (10) These incentive stock options will vest on May 11, 2007 assuming the recipient is still employed by the Company. At such time, these options will be reflected in future filings under column b in the above chart.
- (11) These shares vested on July 9, 2001.
- (12) These shares vested on March 9, 2001.
- (13) One half vested on July 1, 2001 while the remainder vested on July 1, 2002.
- (14) These shares vested on November 1, 2003.
- (15) These shares vested on September 30, 2005.
- (16) These shares vested on June 23, 2006.





- (17) These incentive stock options will vest on May 11, 2007 assuming the recipient is still employed by the Company. At such time, these options will be reflected in future filings under column b in the above chart.
- (18) These shares vested on May 5, 2000.
- (19) These shares vested on July 9, 2001.
- (20) One half of these shares vested on July 1, 2001 and the remainder vested on July 1, 2002.
- (21) These shares vested on November 1, 2003.
- (22) These shares vested on September 30, 2005.
- (23) These shares vested on June 23, 2006.
- (24) These incentive stock options will vest on May 11, 2007 assuming the recipient is still employed by the Company. At such time, these options will be reflected in future filings under column b in the above chart.

Option exercises and stock vested

The following Option Exercises and Stock Vested Table sets forth information regarding the exercise of stock options during the last fiscal year by the principal executive officer, the principal financial officer, and the three highest paid additional executive officers.

**2006 OPTION EXERCISES AND STOCK VESTED TABLE**

Name (a)	OPTION AWARDS		STOCK AWARDS	
	Number of Shares Acquired on Exercise	Value Realized on Exercise	Number of Shares Acquired on	Value Realized on Vesting

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	(#) (b)	(\$) (c)	Vesting (#) (d)	(\$) (e)
Thomas J. Shaw President and CEO (principal executive officer)				
Douglas W. Cowan Vice President, CFO (principal financial officer)				
Steven R. Wisner Executive Vice President, Engineering and Production	2,500	\$ 6,750	(1)	
Michele M. Larios Vice President, General Counsel				
Russell B. Kuhlman Vice President, Sales				



(1) This value is calculated by subtracting the cost to purchase the shares via exercise of the option (\$2,500) from the market price of the underlying securities (based on the closing price of \$3.70 on the date of exercise).



## Pension benefits

The Company does not have a pension plan other than the 401(k) plan available to all employees.

401(k) Plan

We 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. We may, at our discretion, match employee contributions. As of December 31, 2006, we made no matching contributions.

## NON-QUALIFIED DEFERRED COMPENSATION

The Company does not have a Non-Qualified Deferred Compensation plan.

## Potential Payments Upon Termination or Change in Control

The following table identifies the types and amounts of payments that shall be made to Mr. Thomas Shaw, our Chief Executive Officer, in the event of a termination of his employment or a change in control of the Company. Such payments shall be made by the Company and shall be one-time, lump sum payments.

## SUMMARY OF PAYMENTS UPON TERMINATION OR CHANGE IN CONTROL

Payment Triggering Event	Salary Through Trigger Event Date	Amounts Owed Under Benefit Plans(1)	Pro-Rata Portion of Eligible Bonus	A Payment Equal to the Greater of Salary Through Trigger Date or for 24 Months	Payment Equal to 90 Days Salary	Value of Payments(2)
Death	x	x	x			
Disability	x	x	x	800,000		800,000
Termination With Cause	x		x			
Termination Without Cause	x	x	x	800,000		800,000

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Resignation (Other Than After a Change in Control)	x	x	x	98,630	98,630
Resignation (After a Change in Control)	x	x	x	800,000	800,000

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(1) Mr. Shaw participates in the Company's benefit plans which do not discriminate in scope, terms, or operation in favor of executive officers. Such plans are generally available to all salaried employees. Accordingly, the value of such payments is not included in the "Value of Payments" column.

(2) This value does not include payments under the Company's benefit plans for reasons set forth in footnote 1 above. In addition, it does not include a value for a bonus as bonuses are authorized only periodically and there is currently no authorized bonus program. Furthermore, Mr. Shaw has never been given a bonus. In addition, this value assumes that the triggering event occurred on December 29, 2006. Authorized payments under the Agreement are also capped to one dollar less than the amount that would cause Mr. Shaw to be the recipient of a parachute payment under Section 280G(b) of the Internal Revenue Code of 1986.



Mr. Shaw is obligated under the Agreement for one year not to compete with the Company, to recruit or attempt to recruit our employees or to solicit our customers or accounts or otherwise to make known our customers and accounts to others unless his termination was without cause or occurs after a change in control.

## COMPENSATION OF DIRECTORS

The following table identifies the types and amounts of compensation earned by our Directors (with the exception of those that are named Executive Officers as described in footnote 1 to the table) in the last Fiscal Year:

### 2006 DIRECTOR COMPENSATION TABLE

Name (a) <sup>(1)</sup>	Fees Earned or Paid in Cash (\$) (b)	Stock Awards (\$) (c)	Option	Non-Equity Incentive Plan Compensation (\$) (e)	Change in Pension Value and Nonqualified Deferred Compensation Earnings (\$) (f)	All Other Compensation (\$) (g)	Total (\$) (j)
			Awards (\$) (d) <sup>(2)</sup>				
Marco Laterza	\$ 2,500						\$ 2,500
Marwan Saker	\$ 1,500						\$ 1,500
Patti S. King, Former Director	\$ 1,000					\$ 139,882 (3)	\$ 140,882
Jimmie Shiu	\$ 2,500						\$ 2,500
Clarence Zierhut	\$ 2,500						\$ 2,500

(1) Messrs. Thomas J. Shaw, Douglas W. Cowan and Steven Wisner are Named Executive Officers who are also Directors. Their compensation is reflected in the Summary Compensation and other tables presented earlier. Mr. Kuhlman, a former Director, is also included in the prior disclosures as a Named Executive.

(2) The following identifies the aggregate number of option awards outstanding for each of the above persons as of year end:

### OPTIONS HELD BY DIRECTORS AT FISCAL YEAR END 2006

Director	No. Awards	No. Shares	No. Shares
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	Outstanding	Underlying Option Awards	Currently Underlying Exercisable Options
Marco Laterza	0	0	NA
Marwan Saker	5	106,000	106,000
Patti King, Former Director	0	0	NA
Jimmie Shiu	5	255,000	255,000
Clarence Zierhut	6	56,000	56,000

(3) Ms. Patti King, a former Director, has also received \$139,882 in payments in 2006 for her services as a consultant. Only a fraction of these payments were incurred during her tenure as director in 2006.

Narrative Explanation of 2006 Director Compensation Table and Supplementary Options Table

In 2006 we paid each non-employee Director a fee of \$500 per meeting and reimbursed travel expenses. In the past, we have granted to each Director (except Mr. Shaw) stock options for Common Stock. We do not pay any additional amounts for committee participation or special assignment.

Generally, employee Directors are compensated as discussed in the Compensation Discussion Analysis. However, one employee, Mr. Thomas J. Shaw, our President and CEO, is compensated pursuant to an employment agreement. Please see the Compensation Discussion Analysis for an in depth summary of the terms of such agreement.

Compensation Committee Interlocks and Insider Participation

The Compensation and Benefits Committee is currently composed of Messrs. Clarence Zierhut and Marco Laterza. From January 2006 through May 9, 2006, Ms. Patti King, a former independent Director, served on the committee. Dr. Shiu, also a former independent Director, was appointed to the committee on August 8, 2006. Dr. Shiu resigned as a Director on November 19, 2007. Each of these current and former members of this committee is/was an independent Board member at the time of their service on the committee and none have ever been employees. Ms. King currently serves the Company as a consultant. However, she was not compensated in excess of \$60,000 until after resignation from the Board of Directors.

There are no interlocking Directors or executive officers between our Company and any other public Company. Accordingly, none of our executive officers or Directors served as a Director for another entity one of whose executives or Directors served on our Board of Directors.

Compensation Committee Report

The Compensation and Benefits Committee has reviewed and discussed the Compensation Discussion and Analysis with Management and, based on the review and discussions, has recommended to the Board of Directors that the Compensation Discussion and Analysis be included in this report.

The Compensation and Benefit Committee's members' names at the time this report was approved were Mr. Clarence Zierhut, Mr. Marco Laterza, and Jimmie Shiu, M.D. The current committee consists of Messrs. Zierhut and Laterza.

**Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters.**

EQUITY COMPENSATION PLAN INFORMATION

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The following table sets forth information relating to our equity compensation plans as of December 31, 2006:

Plan category	Number of securities to be issued upon exercise of outstanding options, warrants, and rights (a)	Weighted average exercise price of outstanding options, warrants, and rights (b)	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a)) (c)
Equity compensation plans approved by security holders	2,710,995	\$ 8.67	2,289,005
Equity compensation plans not approved by security holders*	286,000	\$ 7.56	N/A
<b>Total</b>	<b>2,996,995</b>	<b>N/A</b>	<b>2,289,005</b>

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\* In conjunction with a \$3 million Loan Agreement and the purchase of 525,000 Series V shares by Katie Petroleum, we issued options for the purchase of 136,439 shares of Common Stock of the Company at an exercise price of \$1 per share to Katie Petroleum and two affiliates. Options for 136,436 shares were exercised in 2005.

In conjunction with a \$2.5 million working capital loan, purchase of a real estate note and a \$1,000,000 construction loan (which was never drawn on) we issued an option to Katie Petroleum for the purchase of 100,000 shares of Common Stock of the Company at an exercise price of \$1 per share. The options were exercised in 2005.

We authorized the issuance of an option for the purchase of 200,000 shares of Common Stock to Jimmie Shiu, M.D., for his past services in introducing the Company to purchasers of various series of Preferred Stock as well as for introducing the Company to Mr. Jack Jackson, who controlled Katie Petroleum. The option is exercisable at \$6.90 per share and will terminate in 2012.

We authorized the issuance of an option for the purchase of 25,000 shares of Common Stock to Mr. Harry Watson for his past services in assisting the Company in protecting its intellectual property. The option is exercisable at \$6.90 per share and will terminate in 2012.

In connection with a Consulting Agreement with International Export and Consulting, we issued an option for the purchase of 61,000 shares of Common Stock to Marwan Saker, a Director. The option is exercisable at \$10.00 and will expire in 2010.

#### SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS

The following table sets forth certain information regarding the beneficial ownership of our capital stock as of January 28, 2008, for each person known by us to own beneficially 5 percent or more of the voting capital stock. Each shareholder identified in the table possesses sole voting and investment power with respect to his or her shares except as noted below.

Title of Class	Name and Address of Beneficial Owner	Amount and Nature of Beneficial Ownership	Percent of Class <sup>(1)</sup>
Common Stock	Thomas J. Shaw <sup>(2)</sup> 511 Lobo Lane, P.O. Box 9 Little Elm, TX 75068-0009	11,280,000	47.3% <sup>(2)</sup>
	Suzanne M. August <sup>(3)</sup> 5310 Buena Vista Drive Frisco, TX 75034	2,800,000	11.7% <sup>(3)</sup>
	Lillian E. Salerno <sup>(4)</sup> 432 Edwards Lewisville, TX 75067	2,434,500	10.2%
	Signia Capital Management, LLC <sup>(5)</sup> 108 N.Washington St., Ste 305 Spokane, Washington 99201	1,549,462	6.5%
	Class B Stock	Thomas J. Shaw	80,000
	Lillian E. Salerno	12,500	1%

(1) The percentages of Common Stock are based on 23,848,914 shares of Common Stock equivalents consisting of 23,756,414 shares of Common Stock outstanding and 92,500 shares of Preferred Stock convertible by the above

persons within 60 days of this Report. The percentages of Class B Stock are based on 2,328,916 shares of Class B Stock outstanding.

(2) 80,000 of the shares identified as Common Stock are preferred shares which are eligible for conversion into Common Stock within 60 days of the Report. 2,800,000 of the shares are owned by Ms. Suzanne August (see footnote 3) but are controlled by Mr. Shaw, pursuant to a Voting Agreement. These shares are permanently controlled by Mr. Shaw until such time as they are sold by Ms. August. These shares are included in calculating Mr. Shaw's Common Stock equivalents and percentages in the above table.

(3) Ms. August's 2,800,000 shares are controlled by Mr. Thomas J. Shaw, pursuant to a voting agreement. See footnote 2 for a more detailed explanation. Accordingly, they are also included in the Common Stock equivalents and percentages for Thomas Shaw in the above table.

(4) 12,500 of the shares identified as Common Stock are preferred shares which are eligible for conversion into Common Stock within 60 days of the Report.

(5) The number of shares held by this entity was obtained from a Schedule 13G/A filed on February 4, 2008. Pursuant to the Schedule 13G/A, Signia Capital Management, LLC has sole voting power for 635,938 of the shares and sole dispositive power for a total of 1,549,462 shares (inclusive of the sole voting power shares).

There are no arrangements the operation of which would result in a change in control of the Company other than the fact that Ms. August's shares shall cease to be controlled by Mr. Shaw under their Voting Agreement upon their sale to a third party.

#### SECURITY OWNERSHIP OF MANAGEMENT

Title of Class	Name of Beneficial Owner	Amount and Nature of Beneficial Ownership	Percent of Class <sup>(1)</sup>
<b>Common Stock</b>			
As a Group	Officers and Directors	12,436,500	49.6%
As Individuals	Thomas J. Shaw <sup>(2)</sup>	11,280,000	45.0%
	Marwan Saker <sup>(3)</sup>	461,000	1.8%
	Clarence Zierhut <sup>(4)</sup>	61,000	Less than 1%
	Douglas W. Cowan <sup>(5)</sup>	204,000	1%
	Steve R. Wisner <sup>(6)</sup>	206,400	1%
	Michele M. Larios <sup>(7)</sup>	214,100	1%
	Marco Laterza	10,000	Less than 1%
<b>Class B Stock</b>			
As a Group	Officers and Directors	435,000	18.7%
As Individuals	Thomas J. Shaw	80,000	3.4%
	Marwan Saker	355,000	15.2%

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(1) The percentages of Common Stock are based on 25,092,314 shares of Common Stock equivalents consisting of 23,756,414 shares of Common Stock outstanding at January 28, 2008, 435,000 shares of Preferred Stock convertible by the above persons and options for the purchase of 900,900 shares of Common Stock obtainable by the above persons within 60 days of this Report. The percentages of Class B stock are based on 2,328,916 shares of Class B Stock outstanding.



(2) 80,000 of the shares identified as Common Stock are preferred shares which are eligible for conversion into Common Stock within 60 days of the Report. 2,800,000 of the shares are Common Stock shares owned by Ms. Suzanne August but are controlled by Mr. Shaw, pursuant to a Voting Agreement. These shares are permanently controlled by Mr. Shaw until such time as they are sold by Ms. August. These shares are included in calculating Mr. Shaw's Common Stock equivalents and percentages in the above table.

(3) 355,000 shares identified as Common Stock are preferred shares which are eligible for conversion into Common Stock within 60 days of this Report. The shares are held as follows: Saker Investments holds 15,500 shares of Series IV Stock and 25,000 shares of Series V Stock, Sovana Cayman Islands, Inc. holds 300,000 shares of Series IV Stock, and My Investments holds 14,500 shares of Series IV Stock. Mr. Saker is an Officer or Director and shareholder for each of these companies. The remaining 106,000 shares identified as Common Stock are shares obtainable through the exercise of options held by Mr. Saker within 60 days of the Report

(4) 51,000 of these shares identified as Common Stock are shares acquirable by the exercise of stock options within 60 days of the Report.

(5) These shares identified as Common Stock are shares acquirable by the exercise of stock options within 60 days of the Report.

(6) 201,400 of these shares identified as Common Stock are shares acquirable by the exercise of stock options within 60 days of the Report.

(7) 204,100 of the shares identified as Common Stock are shares acquirable by the exercise of stock options within 60 days of the Report.

**Item 13. Certain Relationships and Related Transactions.**

Related Party Transactions

We believe that all of the transactions set forth below were made on terms no less favorable to us than could have been obtained from unaffiliated third parties. In accordance with our Audit Committee Charter, the Audit Committee has reviewed and approved all related party transactions. In particular, the Audit Committee reviews all transactions where the amount involved exceeded \$120,000.

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Thomas J. Shaw, our President and Chief Executive Officer who beneficially owned 35.4% percent of the outstanding Common Stock (and controlled another 11.8% pursuant to a voting agreement with Ms. Suzanne August) as of January 28, 2008, was paid a licensing fee of \$500,000 (amortized over 17 years) by us for the exclusive worldwide licensing rights to manufacture, market, sell, and distribute retractable medical safety products. In addition, Mr. Shaw and Ms. August together receive an aggregate 5 percent royalty on gross sales of all

licensed products sold to customers over the life of the technology licensing agreement. A royalty of \$2,631,955 was paid in 2006.

#### Director Independence

The Board of Directors has the responsibility for establishing corporate policies and for the overall performance of the Company, although it is not involved in day-to-day operations. Currently, a majority (four of seven) of the Directors serving on our Board of Directors are independent Directors as defined in Section 121(A) of the listing standards of The American Stock Exchange (the AMEX ). Our current independent Directors are Messrs. Clarence Zierhut, Marwan Saker, Marco Laterza, and Amy Mack.

The Board, in reviewing the independence of its members, further considered the fact that Ms. Patti King, a former Director, was compensated as a consultant while a Director. The Board determined that Ms. King was paid less than \$60,000 as a consultant while a Director and, accordingly, determined that her independence was not compromised.

#### **Item 14. Principal Accounting Fees and Services.**

##### AUDIT FEES

The aggregate fees billed by CF & Co., L.L.P. for professional services rendered for the audit of the Company's annual financial statements for 2006 and 2005 and the reviews of the financial statements included in the Company's Forms 10-Q or services normally provided by the accountant in connection with statutory and regulatory filings for those fiscal years were \$160,671 and \$146,125, respectively.

##### AUDIT RELATED FEES

The audit related fees for the Form S-8 Registration Statement filed in 2005 were \$4,060. There were no such fees in 2006.

##### TAX FEES

The aggregate fees billed by CF & Co., L.L.P. for preparation of federal and state income tax returns and tax consulting costs related to notices from taxing authorities for 2006 and 2005 were \$56,118 and \$36,360, respectively.

##### ALL OTHER FEES

There were no fees incurred with any accounting firm other than those mentioned above.

#### PRE-APPROVAL POLICIES AND PROCEDURES

The engagement of CF & Co., L.L.P. was entered into pursuant to the approval policies and procedures of the Audit Committee. The engagement is for audit and tax services which were detailed separately. The Audit Committee implemented its approval procedures i.e. they were not delegated to any other party. All of the services provided were pre-approved by the Audit Committee.

## PART IV

**Item 15. Exhibits, Financial Statement Schedules.**

- (a) 1. Financial Statements: See Retractable Technologies, Inc. Index to Financial Statements on Page F-2.
2. Financial Statement Schedules required to be filed: Schedule II Schedule of Valuation and Qualifying Accounts: *Schedule II Schedule of Valuation and Qualifying Accounts:*

	Balance at beginning of period	Additions	Deductions	Balance at end of period
<b>Provision for Inventories</b>				
Fiscal year ended 2004	\$ 97,319	\$	\$	\$ 97,319
Fiscal year ended 2005	\$ 97,319	\$ 25,273	\$ (11,296)	\$ 111,296
Fiscal year ended 2006	\$ 111,296	\$	\$ (61,296)	\$ 50,000
<b>Provision for Accounts Receivable</b>				
Fiscal year ended 2004	\$ 146,452	\$ 50,000	\$ (132)	\$ 196,320
Fiscal year ended 2005	\$ 196,320	\$ 70,854	\$	\$ 267,174
Fiscal year ended 2006	\$ 267,174	\$	\$ 180,144	\$ 87,030
<b>Deferred tax valuation</b>				
Fiscal year ended 2004	\$ 13,679,891	\$	\$ (13,679,891)	\$
Fiscal year ended 2005	\$	\$ 99,280	\$	\$ 99,280
Fiscal year ended 2006	\$ 99,280	\$ 541,143	\$	\$ 640,423

All other schedules have been omitted as they are not required, not applicable, or the required information is otherwise included.

## 3. Exhibits:

The following exhibits are filed herewith or are incorporated herein by reference to exhibits previously filed with the Commission.

## (b) EXHIBITS

Exhibit No.	Description of Document
3(i)	Third Amended and Restated Articles of Incorporation of RTI filed on November 1, 2004*
3(ii)	Amended and Restated Bylaws of RTI dated as of the 12th day of July, 2004**

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- 10.1 Sample United States Distribution Agreement\*\*\*
- 10.2 Sample Foreign Distribution Agreement\*\*\*
- 10.3 Employment Agreement between RTI and Thomas J. Shaw dated as of September 28, 1999 \*\*\* (This is a management compensation contract.)
- 10.4 Technology License Agreement between Thomas J. Shaw and RTI dated the 23<sup>rd</sup> day of June 1995\*\*\*

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Exhibit No.	Description of Document
10.5	Loan Agreement among RTI, Katie Petroleum and Thomas J. Shaw as of the 30 <sup>th</sup> day of September, 2002 and Promissory Note****
10.6	RTI s 1999 Stock Option Plan***
10.7	First Amendment to 1999 Stock Option Plan**** *
10.8	1996 Incentive Stock Option Plan of RTI***
10.9	1996 Stock Option Plan for Directors and Other Individuals***
10.10	Settlement Agreement and Release by and among RTI, Thomas J. Shaw, New Medical Technology, Inc., New Medical Technology, LTD and NMT Group PLC dated effective as of April 27, 2004***** **
10.11	Covenant Not to Sue between Thomas J. Shaw and Retractable Technologies, Inc.**
10.12	Settlement Agreement and Release between Retractable Technologies, Inc. and Becton Dickinson and Company, Inc. dated effective July 2, 2004
10.13	License Agreement by and between RTI and Baiyin Tonsun Medical Device Co., Ltd. dated as of May 13, 2005
23	Consent of Independent Registered Public Accounting Firm
31.1	Certification of Principal Executive Officer
31.2	Certification of Principal Financial Officer
32	Section 1350 Certifications

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\* Incorporated herein by reference to RTI s Form 10-Q filed on November 14, 2005

\*\* Incorporated herein by reference to RTI s Form 10-QSB filed on August 16, 2004

\*\*\* Incorporated herein by reference to RTI s Registration Statement on Form 10-SB filed on June 23, 2000

\*\*\*\* Incorporated herein by reference to RTI s Form 8-K filed on October 10, 2002

\*\*\*\*\* Incorporated herein by reference to RTI s Form 10-KSB filed on March 31, 2003

\*\*\*\*\* Incorporated herein by reference to RTI s Form 8-K filed on April 29, 2004

Incorporated herein by reference to RTI s Form 8-K filed on July 6, 2004

Incorporated herein by reference to RTI s Form 10-Q filed on August 15, 2005

Incorporated herein by reference to RTI s Form 10KSB-A2 filed on September 24, 2004

Filed herewith



SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) 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.

RETRACTABLE TECHNOLOGIES, INC.  
(Registrant)

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

Date: February 26, 2008

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

/s/ Steven R. Wisner  
Steven R. Wisner  
Executive Vice President, Engineering &  
Production and Director

February 22, 2008

/s/ Douglas W. Cowan  
Douglas W. Cowan  
Vice President, Chief Financial Officer, Treasurer, and  
Director

February 26, 2008

/s/ Clarence Zierhut  
Clarence Zierhut  
Director

February 20, 2008

/s/ Amy Mack  
Amy Mack  
Director

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February 23, 2008

/s/ Marco Laterza  
Marco Laterza  
Director

February 19, 2008

/s/ Marwan Saker  
Marwan Saker  
Director

February 27, 2008

45

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