FIRST DATA CORP
Form 11-K/A
July 15, 2004
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 11-K/A

(Mark One)

x **ANNUAL REPORT PURSUANT TO SECTION 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 (FEE REQUIRED).**

For the fiscal year ended December 31, 2003

OR

¨ **TRANSITION REPORT PURSUANT TO 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 (NO FEE REQUIRED).**

For the transition period from _________ to _________

Commission file number 1-11073

A. Full title of the plan and the address of the plan, if different from that of the issuer named below:

WESTERN UNION FINANCIAL SERVICES, INC.

RETIREMENT SAVINGS PLAN

FOR BARGAINING UNIT EMPLOYEES

B. Name of issuer of the securities held pursuant to the plan and the address of its principal executive office:

FIRST DATA CORPORATION

6200 S. Quebec Street

Greenwood Village, CO 80111

Explanatory Note

This Form 11-K/A amends and restates the Annual Report on Form 11-K filed June 25, 2004, to revise the report of the independent registered accounting firm to only make reference to their audits having been conducted in accordance with standards of the Public Company Accounting Oversight Board (United States). There were no other changes to the previously filed financial statements of the Western Union Financial Services, Inc. Retirement Savings Plan for Bargaining Unit Employees as of December 31, 2003 and 2002 and for the year ended December 31, 2003.

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WESTERN UNION FINANCIAL SERVICES, INC.

RETIREMENT SAVINGS PLAN

FOR BARGAINING UNIT EMPLOYEES

Financial Statements and Supplemental Schedule

As of December 31, 2003 and 2002 and for the Year Ended December 31, 2003

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Western Union Financial Services, Inc.

Retirement Savings Plan for Bargaining Unit Employees

Financial Statements and Supplemental Schedule

As of December 31, 2003 and 2002

and for the Year Ended December 31, 2003

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Report of Independent Registered Public Accounting Firm

Western Union Employee Benefits Fund Committee

We have audited the accompanying statement of net assets available for benefits of the Western Union Financial Services, Inc. Retirement Savings Plan for Bargaining Unit Employees (the Plan) as of December 31, 2003, and the related statement of changes in net assets available for benefits for the year then ended. These financial statements are the responsibility of the Plan s management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit 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 audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the net assets available for benefits of the Plan as of December 31, 2003 and the changes in its net assets available for benefits for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

Our audit was performed for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying supplemental schedule of assets (held at end of year) as of December 31, 2003 is presented for the purpose of additional analysis and is not a required part of the basic financial statements but is supplementary information required by the Department of Labor s Rules and Regulations for Reporting and Disclosure under the Employee Retirement Income Security Act of 1974. This supplemental schedule is the responsibility of the Plan s management. The supplemental schedule has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

/s/ Anton Collins Mitchell LLP

Denver, Colorado

June 24, 2004

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Report of Independent Registered Public Accounting Firm

Western Union Employee Benefits Fund Committee

We have audited the accompanying statement of net assets available for benefits of the Western Union Financial Services, Inc. Retirement Savings Plan for Bargaining Unit Employees as of December 31, 2002. This financial statement is the responsibility of the Plan s management. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit 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 statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. 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 audit provides a reasonable basis for our opinion.

In our opinion, the financial statement referred to above presents fairly, in all material respects, the net assets available for benefits of the Plan at December 31, 2002, in conformity with U.S. generally accepted accounting principles.

/s/ Ernst & Young LLP

Denver, Colorado

June 13, 2003

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Western Union Financial Services, Inc.

Retirement Savings Plan for Bargaining Unit Employees

Statements of Net Assets Available for Benefits

	December 31,	
	2003	**2002**
Investments: *(see Note 2)*		
Participant loans	$ 2,761,634	$ 2,889,305
Investment in First Data Corporation Master Trust	33,053,572	29,212,737
Total investments	35,815,206	32,102,042
Receivables:		
Employer contributions	697,170	668,872
Participant contributions and loan repayments	51,087	40
Total receivables	748,257	668,912
Net assets available for benefits	$ 36,563,463	$ 32,770,954

See accompanying notes.

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Western Union Financial Services, Inc.

Retirement Savings Plan for Bargaining Unit Employees

Statement of Changes in Net Assets Available for Benefits

Year ended December 31, 2003

Additions to net assets attributed to:	
Contributions:	
Employer	$ 2,284,232
Participant	1,812,677
Rollover	85,139
	4,182,048
Investment income:	
Plan s interest in First Data Corporation Master Trust investment income	3,594,183
Loan interest	204,038
	3,798,221
Total additions	7,980,269
Deductions from net assets attributed to:	
Transfers to other plans	652,987
Benefit payments	3,534,773
Total deductions	4,187,760
Net increase in net assets	3,792,509
Net assets available for benefits at beginning of year	32,770,954
Net assets available for benefits at end of year	$ 36,563,463

See accompanying notes.

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Western Union Financial Services, Inc.

Retirement Savings Plan for Bargaining Unit Employees

Notes to Financial Statements

December 31, 2003

1. Plan Description

The following description of the Western Union Financial Services, Inc. Retirement Savings Plan for Bargaining Unit Employees (the Plan) provides only general information. Participants should refer to the Plan document for a more complete description of the Plan s provisions.

General

Effective November 15, 1994, the Plan was established by Western Union Financial Services, Inc. (the Company), which became a wholly-owned subsidiary of First Data Corporation (FDC) on October 27, 1995.

The Plan is a defined contribution plan which covers employees of the Company included in a collective bargaining agreement providing for their participation in the Plan, with the exception of employees who do not receive compensation in United States dollars, leased employees and independent contractors. Covered employees become eligible to participate in the Plan on the first of the month following completion of one year of service. The Plan is subject to the provisions of the Employee Retirement Income Security Act of 1974, as amended (ERISA), and is an individual account plan intended to satisfy the requirements of Section 404(c) of ERISA. Benefits of the Plan are not guaranteed by the Pension Benefit Guaranty Corporation.

Administration

Prior to February 5, 2003, the Plan Administrator was FDC s Employee Benefits Administration and Investment Committee (the EBAIC), which was appointed by the Compensation and Benefits Committee of FDC s Board of Directors. Effective February 5, 2003, the EBAIC was replaced by the First Data Investment Council (FDIC) and the First Data Employee Benefits Committee (FDEBC), which are also appointed by the Compensation and Benefits Committee of FDC s Board of Directors. In addition, effective March 31, 2003, the FDEBC established a subcommittee, the Western Union Employee Benefits Fund Committee (WUEBFC) who administers and operates the Plan, hears, reviews, investigates and determines employee appeals and adopts and implements plan amendments. The FDIC establishes, amends and monitors compliance with investment policies, and selects and monitors trustees, outside advisors, investment managers and consultants of the Plan.

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Western Union Financial Services, Inc.

Retirement Savings Plan for Bargaining Unit Employees

Notes to Financial Statements (continued)

1. Plan Description (continued)

The Plan, along with the First Data Corporation Incentive Savings Plan (the ISP Plan), participates in the First Data Corporation Master Trust for Defined Contribution Plans (the Master Trust), of which State Street Bank and Trust Company (State Street or Trustee) is the trustee. Hewitt Associates (Hewitt or Recordkeeper) is the recordkeeper of the Plan. Assets in participants self-directed brokerage accounts are held by Harrisdirect.

Administrative expenses of the Plan, to the extent not paid for by the Company, are paid by the Master Trust, which reduces net investment earnings realized by participants.

Contributions

Each participant may make pre-tax contributions to the Plan of not less than 1% or more than 25% of their eligible compensation and after-tax contributions of up to 16% of their eligible compensation as defined by the Plan, not to exceed the maximum allowed under Section 402(g) of the Internal Revenue Code (the Code). In addition, the pre-tax and after-tax contributions combined cannot exceed 25% of eligible compensation. Participants may also roll over qualified distributions into the Plan, including personal Individual Retirement Accounts.

Participants age 50 or over by the close of the Plan year are eligible to make an additional tax-deferred payroll contribution (catch-up contribution), subject to certain limitations imposed by the Code.

The Company matches 25% of the first 6% of a participant s eligible compensation contributed to the Plan to a maximum of 1.5% of the participant s eligible compensation (matching contribution) for the year. Additionally, the Company makes a contribution each pay period to all participants with at least one year of service in an amount equal to 4% of each participant s eligible compensation (basic contribution). The Company makes an annual contribution of $650 per participant to all participants who are employees of the Company and eligible to participate in the Plan as of the last day of the Plan year (annual contribution). On December 31, 2003 and 2002, the annual contribution was approximately $668,000 and $669,000, respectively, in the aggregate, and is included as a receivable in the accompanying financial statements. In addition, the

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Western Union Financial Services, Inc.

Retirement Savings Plan for Bargaining Unit Employees

Notes to Financial Statements (continued)

1. Plan Description (continued)

Company may make a contribution determined by the Board of Directors and allocated based on the participant s compensation as compared to the compensation of other participants (special contribution). The special contribution can be made in cash, FDC common stock or a combination thereof. No such contribution was made during 2003. All elective and company contributions are invested in fund options as directed by the participants.

Vesting

The amount contributed by a participant, including rollover contributions and earnings thereon, are vested immediately. The Company s matching, basic, annual and special contributions vest over a five-year service period: 20% after one year, 40% after two years, 60% after three years, 80% after four years, and 100% after five years. Upon death, disability or retirement (age 65), the participant s entire account becomes vested.

Participant Loans

The Plan has a loan provision that allows participants to borrow from their accounts a minimum of $1,000 up to a maximum equal to the lesser of $50,000 or 50% of the vested account balances. Loans made under the Plan bear interest at the prime rate plus 1%. The rate is fixed for the term of the loan, which can range from 12 months to five years, or twenty-five years for primary residential loans, subject to certain exceptions. A maximum of two loans, one short-term and one residential, is allowed to be outstanding at a time.

Participant Accounts

Each participant s account is credited with the participant s contributions, rollovers and the Company s contributions and is credited or charged with investment income or loss, net of expenses. Participant accounts are charged for withdrawals and forfeitures. Participants are responsible for directing the investment of assets held in their accounts among the various investment funds available in the Plan.

Payment of Benefits

At the time of death, disability, termination of service, retirement, or reaching age 59½, the participant or his/her beneficiary may receive a distribution of his/her vested account balance. In addition, hardship withdrawals prior to such time are permitted if certain

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Western Union Financial Services, Inc.

Retirement Savings Plan for Bargaining Unit Employees

Notes to Financial Statements (continued)

1. Plan Description (continued)

criteria are met. Payout options for withdrawals upon termination of employment, retirement or disability include lump-sum, installment or annuities. Distributions upon death will be in the form of a lump-sum payment. Effective March 2, 2003, all distributions are made in the form of a lump-sum payment.

Investment Options

Upon enrolling in the Plan, participants are responsible for designating how contributions are apportioned among the Plan s investment options. Participants may choose among investment funds, including a self-directed brokerage account, which allows participants to buy and sell almost any mutual fund or other public security available, and an FDC Stock Fund. FDC stock, however, may not be traded in the self-directed brokerage account. A participant may elect to change their investment options daily.

Forfeitures

Forfeitures of terminated participants nonvested accounts may be used to reduce future Company contributions or pay administrative expenses of the Plan. During the year ended December 31, 2003, the Company did not use forfeitures to reduce Company contributions. Approximately $64,000 of forfeitures were used to pay expenses through the Master Trust (Note 3). At December 31, 2003 and 2002, forfeitures of approximately $69,000 and $3,000, respectively, were held in an unallocated account in the Master Trust.

Net Transfers to Other Plans

Plan assets may be transferred into and out of the Plan directly from and to other FDC-sponsored qualified defined contribution plans as a result of employee status changes. The following summarizes the transfers of Plan assets for the year ended December 31, 2003:

Transfers to other plans:	
First Data Corporation Incentive Savings Plan	$ 652,987

	$ 652,987

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Western Union Financial Services, Inc.

Retirement Savings Plan for Bargaining Unit Employees

Notes to Financial Statements (continued)

2. Summary of Significant Accounting Policies

Basis of Accounting

The accompanying financial statements have been prepared using the accrual basis of accounting.

Investment Valuation and Income Recognition

Investments are stated at fair value. Stocks and mutual funds are valued at fair value, based on current market prices. The collective trust funds are reflected at the net asset value of units of participation as established by the Trustee, based on quoted market prices of the underlying assets. The Stable Value, PIMCO Total Return, Vanguard Institutional Index and FDC Stock funds are valued on a unitized basis. Participant loans are valued at cost, which approximates fair market value.

Interest and dividend income is recorded as earned, with dividend income being recognized at the ex-dividend date. Purchases and sales are recorded on a trade date basis.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America require estimates to be made that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

Payment of Benefits

Benefits are recorded when paid. At December 31, 2003 and 2002, there were approximately $30,000 and $70,000, respectively, in benefits approved but not paid.

3. First Data Corporation Master Trust

The Master Trust was established in 2002 for the investment of assets of the Plan and the ISP Plan. The Plan held an ownership interest in the Master Trust of approximately 4% at December 31, 2003 and 2002. The Plan s interest in the net investment income from the Master Trust was approximately 3% for the year ending December 31, 2003.

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Western Union Financial Services, Inc.

Retirement Savings Plan for Bargaining Unit Employees

Notes to Financial Statements (continued)

3. First Data Corporation Master Trust (continued)

The Trustee maintains the assets of the Plan. Each participating plan has an individual interest in the Master Trust. Investment income or loss, net of expenses, relating to the Master Trust is allocated to the individual plans based upon the balances invested by each plan based on participant elections.

As of December 31, 2003 and 2002, the condensed statements of net assets for the Master Trust are as follows:

	2003	2002
Investments, at fair value:		
Cash	$ 7,527,537	$ 5,126,942
Mutual funds	515,409,324	360,257,423
Collective trust fund	184,263,000	180,518,227
FDC common stock	152,817,942	136,021,814
Other common stock	14,254,311	9,356,279
Government obligations	262,398	122,609
Preferred stock	34,688	31,005
Corporate bonds	100,528	
Other	103,102	14
	874,772,830	691,434,313
Dividends and interest receivable	988,025	954,642
Total assets	$ 875,760,855	$ 692,388,955

The following investments represent 5 percent or more of the Master Trust s net assets as of December 31, 2003 and 2002:

	2003	2002
Invesco Stable Value Fund	$ 184,263,000	$ 180,518,227
Vanguard Institutional Index Fund	130,290,421	98,502,234
FDC Common Stock	152,817,942	136,021,814
Fidelity Dividend Growth Fund	80,870,248	66,295,270

Fidelity Freedom 2020 Fund	73,088,389	60,241,784

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Western Union Financial Services, Inc.

Retirement Savings Plan for Bargaining Unit Employees

Notes to Financial Statements (continued)

3. First Data Corporation Master Trust (continued)

The investment balance includes 3,719,103 and 3,841,339 shares of FDC common stock having fair value of $152,817,942 and $136,021,814 as of December 31, 2003 and 2002, respectively. As of December 31, 2003 and 2002, respectively, the Master Trust had accrued approximately $75,000 and $77,000 in dividends from FDC common stock.

Participants are allowed to vote in their share of the FDC common stock fund if the vote is submitted within a specified time period. For those voting interests that are not received within that time period, the Trustee will vote on the participants behalf.

The net investment income of the Master Trust for the year ending December 31, 2003 is as follows:

	2003
Interest and dividends	$ 17,681,746
Net appreciation in fair value of investments	117,990,660
Administrative expenses	(2,413,428)
Net investment income	$ 133,258,978

For the year ending December 31, 2003, the Master Trust s investments (including investments purchased, sold, as well as held during the year) appreciated (depreciated) in fair value as follows:

	2003
Mutual funds	$ 92,157,319
FDC common stock	21,718,111
Other common stock	4,169,901
Government obligations	1,355
Preferred stock	1,722
Corporate bonds	(1,742)
Other	(56,006)

	$ 117,990,660

Expenses of the Master Trust and expenses of the plans participating in the Master Trust are paid through the Master Trust by allocations of administrative fees and forfeitures from the participating plans. During the year ended December 31, 2003, the Company

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Western Union Financial Services, Inc.

Retirement Savings Plan for Bargaining Unit Employees

Notes to Financial Statements (continued)

3. First Data Corporation Master Trust (continued)

used approximately $1,600,000 of the participating plans forfeitures to pay administrative expenses (Note 1).

4. Income Tax Status

The Plan received a determination letter dated September 20, 2002 from the Internal Revenue Service (IRS), stating that the Plan and the related trust are designed in accordance with the applicable sections of the Code. The Plan has been amended and restated since receiving this determination letter, but the Company continues to believe that the Plan currently is designed and being operated in compliance with the applicable requirements of the Code and that, therefore, the Plan qualifies under Section 401(a) and the related trust is tax-exempt as of December 31, 2003 and 2002.

5. Party-in-Interest Transactions

Certain Plan investments are shares of funds managed by the Trustee and certain Plan investments are in mutual funds managed by Harrisdirect, the custodian of the self-directed brokerage account, therefore, these transactions qualify as party-in-interest transactions.

As further described in Note 3 the Master Trust holds investments in FDC common stock, therefore, these transactions also qualify as party-in-interest transactions.

6. Plan Termination

Although it has not expressed any intent to do so, the Company has the right to terminate the Plan and dispose of the net assets in accordance with the provisions of ERISA. In the event of Plan termination, participants will become fully vested in their accounts.

7. Risks and Uncertainties

The Master Trust provides for various investments in mutual funds, a collective trust fund, common stock, FDC common stock, and other investments. Investments in general are subject to various risks, such as interest rate, credit and overall market volatility risks. The Master Trust s exposure to credit loss in the event of nonperformance of investments is limited to the carrying value of such investments.

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Western Union Financial Services, Inc.

Retirement Savings Plan for Bargaining Unit Employees

Notes to Financial Statements (continued)

7. Risks and Uncertainties (continued)

Due to the level of risk associated with certain investments, it is reasonably possible that changes in the value of investments could occur in the near term and that such changes could materially affect participants account balances and the amounts reported in the Statements of Net Assets Available for Benefits.

8. Differences Between Financial Statements and Form 5500

The following is a reconciliation of net assets available for benefits and benefit payments per the financial statements to the Form 5500:

	December 31, 2003	December 31, 2002
Net assets available for benefits per the financial statements	$ 36,563,463	$ 32,770,954
Amounts allocated to withdrawing participants	(29,578)	(70,352)
Net assets available for benefits per the Form 5500	$ 36,533,885	$ 32,700,602
Benefits paid to participants per the financial statements	$ 3,534,773	
Add: Amounts allocated to withdrawing participants at December 31, 2003	29,578	
Less: Amounts allocated to withdrawing participants at December 31, 2002	(70,352)	
Benefits paid to participants per the Form 5500	$ 3,493,999	

Amounts allocated to withdrawing participants are recorded on the Form 5500 for benefit claims that have been processed and approved for payment prior to year-end but not paid.

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Supplemental Schedule

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Western Union Financial Services, Inc.

Retirement Savings Plan for Bargaining Unit Employees

EIN: 22-2993574 Plan Number: 011

Schedule H, Line 4i Schedule of Assets (Held at End of Year)

December 31, 2003

Identity of Issue, Borrower, Lessor or Similar Party	Description of Investment Including Maturity Date, Rate of Interest, Collateral, Par, or Maturity Value	Shares/Units	Current Value
Participant Loans			
*Plan participants	Interest rates ranging from 5.0% to 10.5%, various maturity dates	2,761,634	$ 2,761,634
Total Investments			$ 2,761,634

* Denotes a party-in-interest to the Plan (see Note 5).

All other investments are held in the FDC Master Trust and have been excluded from this schedule.

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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Trustees (or persons who administer the employee benefit plan) have duly caused this annual report to be signed on its behalf by the undersigned thereunto duly authorized.

WESTERN UNION FINANCIAL SERVICES, INC. RETIREMENT SAVINGS PLAN FOR BARGAINING UNIT EMPLOYEES

WESTERN UNION EMPLOYEE BENEFITS FUND COMMITTEE, as Plan Administrator

Date: July 15, 2004	By:	/s/ Gordon Parry
		Gordon Parry SVP, Compensation and Benefits

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EXHIBIT INDEX

Exhibit No.	Exhibit
23.1	Consent of Anton Collins Mitchell LLP
23.2	Consent of Ernst & Young LLP

em">Building 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 period s presentation.

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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.

Concentrations of credit risk

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 quarter ended March 31, 2004, the aforementioned customers accounted for $1,190,674 or 27.4 percent, of net sales. Two other customers accounts receivable balances aggregated $364,646 or 44.4 percent of net accounts receivable at March 31, 2004. Abbott Laboratories (Abbott) accounted for 56.1 percent of net sales for the three months ended March 31, 2003.

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. Revenues on sales to distributors are recorded net of contractual pricing allowances. 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.

Litigation proceeds

In connection with a Peer Review request of the Company s independent accountant, the Company is currently evaluating the disclosures with regard to the litigation settlements 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 the Company s federal antitrust lawsuit, Retractable Technologies, Inc. v. Becton Dickinson & Co. et al. Any additional disclosures would set forth more detail regarding the terms of the settlements; however, such disclosures would not affect the Company s previously reported financial position or results of operations.

Marketing fees

The Company paid 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 Condensed 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.

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

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differences reverse in future periods. Deferred tax assets are periodically reviewed for realizability. Valuation allowances are recorded when realizability of deferred tax assets is not likely.

Earnings per share

The Company has adopted Statement of Financial Accounting Standards (SFAS) No. 128, *Earnings Per Share*, which establishes standards for computing and presenting earnings per share. Basic earnings per share are computed by dividing net earnings for the period (adjusted for any cumulative preferred dividends for the period) by the weighted average number of common shares outstanding during the period. The Company s potentially dilutive Common Stock equivalents, including preferred stock, options, and convertible debt, are all antidilutive for the three months ended March 31, 2004 and 2003, as the Company was in a loss position. Accordingly, basic loss per share is equal to diluted loss per share.

Research and development costs

Research and development costs are expensed as incurred.

Stock-based compensation

The Company has three stock-based director, officer, and employee compensation plans. Prior to 2002, the Company accounted for those plans under the recognition and measurement provisions (intrinsic value method) of APB Opinion No. 25, *Accounting for Stock Issued to Employees,* and related Interpretations. Effective January 1, 2002, the Company adopted the fair value recognition provisions of SFAS No. 123, *Accounting for Stock-Based Compensation,* prospectively to all director, officer, and employee awards granted, modified, or settled after December 31, 2001. The prospective method is one of three alternative methods of transition under SFAS No. 148, *Accounting for Stock Based Compensation and Disclosure on Amendment of FASB Statement No. 123*. Awards under the Company s plans vest over periods up to three years. Therefore, the cost related to stock-based compensation included in the determination of net income for 2003 is less than what would have been recognized if the fair value method had been applied to all awards since the original effective date of SFAS No. 123. SFAS No. 123 indicates that the fair value method is the preferable method of accounting. The following table indicates the effect on net income and earnings per share if the fair value method had been applied to all outstanding and unvested awards in each period.

	Three Months Ended March 31,	
	2004	**2003**
Net income (loss), as reported	$ (2,106,891)	$ (657,240)
Add: Stock-based employee compensation expense included in reported net income, net of related tax effects	171,393	
Deduct: Total stock-based employee compensation expense determined by fair value based method for all awards, net of related tax effects	(171,393)	(38,317)
Pro forma net income	$ (2,106,891)	$ (695,557)

Earnings (loss) per share (basic)-as reported	$ (0.12)	$ (0.07)
Earnings (loss) per share (diluted)-as reported	$ (0.12)	$ (0.07)
Earnings (loss) per share (basic)-pro forma	$ (0.12)	$ (0.07)
Earnings (loss) per share (diluted)-pro forma	$ (0.12)	$ (0.07)

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4. SUBSEQUENT EVENTS

On April 6, 2004, the Company received $8,051,250 in connection with the settlement agreements reached in the second quarter of 2003 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. This amount is net of attorneys fees, court costs, legal expenses, and the amount paid to Thomas J. Shaw.

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

Effective as of April 27, 2004, the Company and Mr. 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 and within three days of the entry of a Stipulation and Consent Judgment, NMT was required to cause the delivery of One Million Dollars ($1,000,000) to the Company. This amount was received on April 30, 2004.

On May 11, 2004, the Board of Directors approved issuance of stock options to employees and directors under the 1999 Stock Option Plan. Employees, except for Thomas J. Shaw, will be issued incentive stock options for 115,775 shares of Common Stock. Vesting will occur over a three-year period and the option exercise period will be ten years. The number of options or the exercise price, or a combination of both, will be adjusted if their fair value exceeds $232,000. Independent Directors will be issued nonqualified options for the purchase of Common Stock aggregating 25,000 shares. These options will vest immediately and be exercisable over a five-year period.

Item 2. Management s Discussion and Analysis or Plan of Operation.

OVERVIEW

We have been manufacturing and marketing our products into the market place since 1997. In May 2000 we signed a National Marketing and Distribution Agreement with Abbott Laboratories (Abbott). We terminated this agreement in October 2003. Our products have been and continue to be distributed nationally through numerous distributors. However, we have been blocked from access to the market by exclusive marketing practices engaged in by Becton Dickinson & Co. (BD) who dominates the market. As a result of the anticompetitive practices of BD, we entered into litigation. This litigation resulted in settlements in 2003 with all parties except BD. We continue to attempt to gain access to the market through our sales efforts and through our litigation against BD.

FORWARD-LOOKING STATEMENT WARNING

Certain statements included by reference in this Form 10-QSB containing the words believes, anticipates, intends, expects, and similar such words constitute forward-looking statements within the meaning of the Private Securities Litigation Reform Act. Any forward-looking statements involve known and unknown risks, uncertainties, and other factors that may cause actual results, performance, or achievements of the Company 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 production capacity in the event of a dramatic increase in demand, our ability to access the market, our ability to decrease production costs through our manufacturing agreement with Double Dove, our ability to successfully resolve our litigation with BD, our ability to continue to finance research and development as well as operations and expansion of production through equity and debt financing, as well as sales, and the increased interest of larger market players, specifically BD in providing safety needle devices such as the competing retractable syringe, the Integra. Given these uncertainties, undue reliance should not be placed on forward-looking statements.

The following discussion contains trend information and other forward-looking statements that involve a number of risks and uncertainties. Our actual future results could differ materially from our historical results of operations and those discussed in the forward-looking statements. Variances have been rounded for ease of reading. All period references are to the periods ended March 31, 2004, or March 31, 2003.

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Comparison of Three Months Ended

March 31, 2004, and March 31, 2003

Net sales were $4,338,446 and $4,477,708 for the three months ended March 31, 2004 and 2003, respectively. Even though unit sales increased 6.1 percent, net sales decreased $139,262 due to the decrease of sales to Abbott, which had a higher unit sales price. The decrease in revenues was more than recouped by the decrease in Abbott marketing fees of $522,000. Unit sales of 3cc, 5cc, and 10cc syringes and blood collection tube holders increased whereas 1cc unit sales decreased slightly. Unit sales to Abbott as a percentage of units sold decreased from 51.8 percent to zero percent of total units sold. Unit sales to other distributors increased from 48.2 percent to 100 percent of units sold. Two other distributors each accounted for more than 10 percent of units sold.

Cost of sales increased from $2,812,436 in 2003 to $3,208,705 in 2004, an increase of $396,269. The increase is due to additional units sold, increased royalties of $78,000, increased stock option expense of $40,000, and samples of $31,000.

Gross profit decreased from $1,665,272 in 2003 to $1,129,741 in 2004, a decrease of $535,531 due principally to the effect of terminating the Abbott agreement. The decrease in gross profit was offset by a corresponding decrease in Sales and marketing expense. Gross profit as a percentage of net sales was 37.2 percent and 26.0 percent for the three months ended March 31, 2003 and 2004, respectively.

Sales and marketing expense decreased from $1,012,533 in 2003 to $739,242 in 2004, a decrease of $273,291. The decrease is principally due to reduced marketing fees to Abbott of $522,000 offset by increased payroll of $112,000, stock option expense of $42,000, supplies expense of $23,000, and meetings and trade shows expense of $44,000.

Research and development costs increased from $102,794 in 2003 to $123,087 in 2004, an increase of $20,293. The increase is principally due to increased payroll costs of $25,000.

General and administrative costs increased from $1,130,738 in 2003 to $2,312,343 in 2004, an increase of $1,181,605. Increases in wages were $150,000, legal expenses increased $827,000 due principally to litigation costs, and franchise and property tax increased $32,000. Accounting fees increased $25,000, travel and entertainment increased $44,000, and stock option expense increased $86,000.

Net interest expense declined from $76,447 to $61,960 due principally to the exchange of the Katie Petroleum note for Series V Class B Convertible Preferred Stock (the Series V Stock) of the Company. Interest income increased due to higher invested cash balances.

Preferred stock dividend requirements were $569,643 for 2004 compared to $666,523 in 2003, a decrease of $96,880. The decrease is due to a reduction in the outstanding Preferred Stock as a result of the reduction in dividend requirements due to conversions of preferred stock, principally the Series V Class B Stock, and the conversion of the Series A Stock.

Basic and diluted loss per share was $(0.07) in 2003 and $(0.12) in 2004.

SIGNIFICANT ACCOUNTING POLICIES

The Company considers the following to be its 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.

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. Revenues on sales to distributors are recorded net of contractual pricing allowances. 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.

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Marketing Fees

The Company paid 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 Condensed 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

In connection with a Peer Review request of the Company s independent accountant, the Company is currently evaluating the disclosures with regard to the litigation settlements 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 the Company s federal antitrust lawsuit, Retractable Technologies, Inc. v. Becton Dickinson & Co. et al. Any additional disclosures would set forth more detail regarding the terms of the settlements; however, such disclosures would not affect the Company s previously reported financial position or results of operations.

Stock-Based Compensation

Prior to 2002, the Company accounted for stock-based compensation under the recognition and measurement provisions (intrinsic value method) of APB Opinion No. 25, *Accounting for Stock Issued to Employees*, and related Interpretations. Effective January 1, 2002, the Company adopted the fair value recognition provisions of SFAS No. 123, *Accounting for Stock-Based Compensation*, prospectively to all director, officer, and employee awards granted, modified, or settled after December 31, 2001. The prospective method is one of the alternative transition methods provided in FAS 148 *Accounting for Stock-Based Compensation and Disclosure on Amendment of FASB Statement No. 123*. Awards under the Company s plans vest over periods up to three years. Therefore, the cost related to stock-based compensation included in the determination of net income for 2003 is less than would have been recognized if the fair value method had been applied to all awards since the original effective date of SFAS No. 123. SFAS No. 123 indicates that the fair value method is the preferable method of accounting.

LIQUIDITY AND FUTURE CAPITAL REQUIREMENTS

Historical Sources of Liquidity

We have historically funded operations primarily from proceeds from private placements and bank loans. We were capitalized with approximately $52,600,000 raised from six separate private placement offerings. As of September 30, 1995, we sold 5,000,000 shares of Series A Stock at $1 per share, for an aggregate of $5,000,000. As of October 31, 1996, we sold 1,000,000 shares of Series I Class B Stock at $5 per share for an aggregate of $5,000,000. As of January 31, 1998, we sold 1,000,000 shares of Series II Class B Stock at $10 per share for an aggregate of $10,000,000. As of September 30, 1999, we sold 1,160,200 shares of Series III Class B Stock at $10 per share for an aggregate of $11,602,000. As of May 4, 2000, we sold 1,133,800 shares of Series IV Class B Stock at $10 per share for an aggregate of $11,338,000. As of December 31, 2002, we sold 2,416,221 shares of Series V Class B Stock at $4 per share. Of the $12,802,396 raised in this offering, $4,435,600 was in cash; $3,679,284 was in exchange for loans payable to Katie Petroleum; $1,550,000 was in exchange of accounts payable; $1,821,245 of debt conversion cost; and recognized beneficial conversion feature aggregating $1,316,267.

We obtained $3,910,000 in 2000 from bank loans of which $3,435,000 has been repaid and $475,000 was refinanced with the new note with 1st International as discussed below. 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. In October 2002 we repaid the Abbott note with proceeds from a new note from Katie Petroleum for $3,000,000 and a portion of the proceeds from the Series V Class B offering.

The Company has executed a loan from 1st International for $2,500,000. See Note 2 to the Condensed Financial Statements for a discussion of the terms of the new note.

Current Liquidity

We believe we can achieve our break even quarter utilizing our existing equipment. In early 2004 we began to receive shipment of product under our agreement with Double Dove, a Chinese manufacturer. We believe as we

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receive greater quantities our profit margins could increase. To achieve our break even quarter we would need minimal access to hospital markets which has been difficult to obtain due to the monopolistic marketplace which is the subject of our lawsuit against BD. In the event our lawsuit is successfully resolved, it will likely have a beneficial and material impact on our liquidity and demand for our products.

Our primary source of liquidity is sales of product and, historically, sales of stock and bank loans. At the present time Management does not intend to raise additional equity capital in 2004. Due to the recent litigation settlements, we have sufficient cash reserves and intend to rely on operations as the primary ongoing source of cash.

Sales revenues decreased 3.1 percent from 2003 to 2004. Abbott purchases comprised 56.1 percent and zero percent of our net revenues for the three months ended March 31, 2003 and 2004, respectively. Unit sales increased 6.1 percent from 2003 to 2004. Unit sales to Abbott decreased from 51.8 percent in 2003 to zero percent in 2004. Abbott distributed and marketed our products into the acute care market. However, the National Marketing and Distribution Agreement with Abbott was terminated on October 15, 2003. Other distributors may now provide product to the acute care market. Unit sales to customers other than Abbott were 48.2 percent and 100.0 percent of sales in 2003 and 2004, respectively. Two other distributors accounted for 6.6 percent and 27.5 percent of sales in 2003 and 2004, respectively.

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

External Sources of Liquidity

We have obtained several loans over the past six years, which have, together with proceeds from sales of equities, enabled us to pursue development and production of our products. Currently we believe we could obtain additional funds through loans if needed. Furthermore, at March 31, 2004, we had 1,443,784 shares of Class B stock and the shareholders have authorized an additional 5,000,000 shares of a Class C stock that could, if necessary, be 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 March 31, 2004:

	Payments Due by Period				
Contractual Obligations	**Total**	**2004**	**2005-2006**	**2007-2008**	**Thereafter**
Long-Term Debt	$ 3,477,398	$ 237,765	$ 642,243	$ 709,099	$ 1,888,291
Capital Lease Obligations	40,814	23,686	17,128		
Operating Lease Obligations	113,100	26,100	69,600	17,400	

Total Contractual Cash Obligations	$ 3,631,312	$ 287,551	$ 728,971	$ 726,499	$ 1,888,291

Material Commitments for Expenditures

Assuming we are able to access the market, we would need to receive 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. The amount of capital required would be dependent on our analysis of the extent of the potential market penetration if we are able to compete in a free market environment.

We had $249,109 in capital expenditures in the first quarter of 2004. We anticipate capital expenditures of approximately $3,000,000 in 2004 primarily for the construction of a warehouse.

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PLAN OF OPERATION ASSUMING LIMITED ACCESS TO MARKETS

At the present time Management does not intend to raise additional equity capital in 2004. In the event we continue to have only limited market access, we would take cost cutting measures to reduce cash requirements. Such measures could result in reduction of units being produced, reduction of workforce, and reduction of salaries of officers and other nonhourly employees and deferral of royalty payments to Thomas Shaw.

OFF BALANCE SHEET TRANSACTIONS

We have no off-balance sheet transactions with the exception of the personal guarantees of Thomas J. Shaw of our debt with Katie Petroleum.

Item 3. Controls and Procedures.

Pursuant to paragraph (b) of Rule 13a-15 or Rule 15d-15 of the Securities Exchange Act of 1934 (the Exchange Act) and on May 14, 2004, our President, Chairman, and Chief Executive Officer, Thomas J. Shaw (the CEO), and our Vice President and Chief Financial Officer, Douglas W. Cowan (the CFO), acting in their capacities as our principal executive and financial officers, evaluated the effectiveness of our disclosure controls and procedures, as defined in Rule 13a-15(e) or Rule 15d-15(e) and determined that, as of March 31, 2004, and based on the evaluation of these controls and procedures as required by paragraph (b) of 13a-15 or 15d-15 there were no significant deficiencies in these procedures. The CEO and CFO determined that our disclosure controls and procedures are effective.

There have been no material changes during the first quarter of 2004 in our internal controls over financial reporting or in any other factor that has materially affected or is reasonably likely to materially affect our internal controls over financial reporting.

PART II

OTHER INFORMATION

Item 2. Changes in Securities.

Working Capital Restrictions

The Company maintains restricted cash for use as collateral for letters of credit the Company provides from time to time to enable, among other things, the purchase of product from China. As of March 31, 2004, the Company maintained $182,450 in restricted cash for such purposes. The Board of Directors has authorized Management to borrow and incur indebtedness in the form of letters of credit in an aggregate amount, at any one time, of $3,000,000.

Item 3. Defaults Upon Senior Securities.

Series I Class B Convertible Preferred Stock

For the three months ended March 31, 2004, $27,699 in dividends is in arrears. The total arrearage is $2,588,550.

Series II Class B Convertible Preferred Stock

For the three months ended March 31, 2004, $101,697 in dividends is in arrears. The total arrearage is $4,588,483.

Series III Class B Convertible Preferred Stock

For the three months ended March 31, 2004, $36,311 in dividends is in arrears. The total arrearage is $2,475,972.

Series IV Class B Convertible Preferred Stock

For the three months ended March 31, 2004, $265,370 in dividends is in arrears. The total arrearage is $4,197,868.

Series V Class B Convertible Preferred Stock

For the three months ended March 31, 2004, $138,566 in dividends is in arrears. The total arrearage is $1,236,717.

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Item 5. Other Information.

On February 1, 2002, the Company filed a patent infringement lawsuit alleging willful and intentional infringement of two patents (U.S. Patent Nos. 5,578,011 and 6,090,077) directed to syringes having retractable needles in the United States District Court for the Eastern District of Texas, Sherman Division, styled *Retractable Technologies, Inc. and Thomas J. Shaw v. New Medical Technology, Inc.; New Medical Technology, LTD.; and NMT Group PLC*, Cause No. 4:02-CV-34 (the Infringement Suit). The defendants counterclaimed, alleging noninfringement and invalidity of the patents. On February 18, 2003, the Company and Thomas J. Shaw filed an additional complaint against the same defendants, alleging infringement of a third syringe patent (U.S. Patent No. 5,385,551). (Patent Nos. 5,578,011; 6,090,077; and 5,385,551 are collectively referred to herein as the Asserted Patents.) The two actions were consolidated.

Effective as of April 27, 2004, the Company and Thomas J. Shaw entered into a Settlement Agreement and Release (the Settlement Agreement) with New Medical Technology, Inc.; New Medical Technology, LTD, and NMT Group PLC (collectively NMT). Pursuant to the Settlement Agreement, the parties have filed a Stipulation and Consent Judgment (the Consent Judgment) in full settlement of the claims raised in the Infringement Suit. The Consent Judgment asserts that NMT manufactured the NMT Safety Syringe and imported and sold it in the United States until it ceased the offer and sale of these products in 2003. The Consent Judgment includes admissions that the NMT Safety Syringe infringed the Asserted Patents which were valid and enforceable. The Consent Judgment enjoins NMT and all parties acting in concert with them 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 all the Asserted Patents.

Within three days of the entry of the Consent Judgment, NMT was required to cause the delivery of One Million Dollars ($1,000,000) to the Company. This amount is an amount arrived at by compromise for purposes of settling the Infringement Suit. This payment was received by the Company on April 30, 2004. NMT has agreed to release the Company and Mr. Shaw from all claims asserted in the Infringement Suit and any other claims which existed as of April 27, 2004, but did not release any claim they may have in any action brought by the Company or Mr. Shaw in any jurisdiction outside the United States in relation to the sale of the NMT Safety Syringe made by NMT outside the United States.

In exchange, the Company and Mr. Shaw have released NMT from any causes of action which could have been brought in the Infringement Suit and any other claims which existed as of April 27, 2004, except that this release in no way applies to: 1) Becton Dickinson and Co. or any subsidiary or affiliate, 2) Abbott Laboratories or any subsidiary or affiliate, 3) any claim that the Company or Mr. Shaw may have under any patents against the syringe technology advertised by NMT as Second Generation, 4) any claim under any patent against any medical product of NMT other than the NMT Safety Syringe or 5) any claim that the Company or Mr. Shaw may have against NMT in any jurisdiction outside the United States for infringement of any patent issued by any country or region other than the United States.

Item 6. Exhibits and Reports on Form 8-K.

(a) *Exhibits*

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

(b) *Reports on Form 8-K*

On January 27, 2004, we filed a Form 8-K with an Item 5 disclosure regarding a press release issued on January 26, 2004, announcing the postponement of the trial in our civil antitrust lawsuit against Becton Dickinson until July 6, 2004.

On February 26, 2004, we filed a Form 8-K with an Item 5 disclosure regarding a press release issued on February 18, 2004, praising Congressional action requiring safety syringes in a global AIDS Bill.

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SIGNATURES

In accordance with the requirements of the Exchange Act, the registrant caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

DATE: May 17, 2004	RETRACTABLE TECHNOLOGIES, INC. (Registrant)
	By: /s/ Douglas W. Cowan
	DOUGLAS W. COWAN **VICE PRESIDENT AND** **CHIEF FINANCIAL OFFICER**

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