

SHARPS COMPLIANCE CORP  
Form 10-Q  
May 06, 2013

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UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

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FORM 10-Q

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

For the quarterly period ended March 31, 2013

OR

TRANSITION REPORT PURSUANT TO SECTION 13 or 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from to .

Commission File Number: 001-34269

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SHARPS COMPLIANCE CORP.  
(Exact name of registrant as specified in its charter)

Delaware  
(State or other jurisdiction of  
incorporation or organization)

74-2657168  
(I.R.S. Employer Identification No.)

9220 Kirby Drive, Suite 500, Houston, Texas 77054  
(Address of principal executive offices) (Zip Code)

(713) 432-0300  
(Registrant's telephone number, including area code)

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T

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(§232.405 this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, a non-accelerated filer, or a smaller reporting company. See definition of "large accelerated filer", "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Securities Exchange Act of 1934.

Large Accelerated Filer <input type="checkbox"/>	Accelerated Filer <input type="checkbox"/>	Non-accelerated Filer <input type="checkbox"/> (Do not check if a smaller reporting company)	Smaller reporting company <input type="checkbox"/>
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Indicate by check mark whether the registrant is a shell company (as defined in Rule 12(b)-2 of the Exchange Act). Yes  No

As of May 2, 2013, there were 15,329,458 outstanding shares of the Registrant's common stock, par value \$0.01 per share.

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## SHARPS COMPLIANCE CORP. AND SUBSIDIARIES

PART I	FINANCIAL INFORMATION	PAGE
Item 1.	<u>Financial Statements</u>	
	<u>Condensed Consolidated Balance Sheets as of March 31, 2013 and June 30, 2012</u>	3
	<u>Condensed Consolidated Statements of Operations for the three months ended March 31, 2013 and 2012</u>	4
	<u>Condensed Consolidated Statements of Operations for the nine months ended March 31, 2013 and 2012</u>	5
	<u>Condensed Consolidated Statements of Stockholders' Equity for the nine months ended March 31, 2013 and year ended June 30, 2012</u>	6
	<u>Condensed Consolidated Statements of Cash Flows for the nine months ended March 31, 2013 and 2012</u>	7
	<u>Notes to Condensed Consolidated Financial Statements</u>	8
Item 2.	<u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	12
Item 3.	<u>Quantitative and Qualitative Disclosures About Market Risk</u>	20
Item 4.	<u>Controls and Procedures</u>	20
Part II	<u>OTHER INFORMATION</u>	
Item 1.	<u>Legal Proceedings</u>	20
Item 1A.	<u>Risk Factors</u>	20
Item 2.	<u>Unregistered Sales Of Equity Securities And Use Of Proceeds.</u>	21
Item 6.	<u>Exhibits</u>	21
	<u>SIGNATURES</u>	22



PART I FINANCIAL INFORMATION  
 ITEM 1. FINANCIAL STATEMENTS

SHARPS COMPLIANCE CORP. AND SUBSIDIARIES  
 CONDENSED CONSOLIDATED BALANCE SHEETS  
 (In thousands, except share and par value)

	March 31, 2013	June 30, 2012
	(Unaudited)	
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	\$ 16,079	\$ 17,498
Accounts receivable, net of allowance for doubtful accounts of \$29 and \$28, respectively	3,044	2,427
Inventory	1,904	2,219
Prepaid and other current assets	502	398
<b>TOTAL CURRENT ASSETS</b>	<b>21,529</b>	<b>22,542</b>
<b>PROPERTY, PLANT AND EQUIPMENT, net</b>	<b>4,368</b>	<b>4,632</b>
<b>INTANGIBLE ASSETS, net of accumulated amortization of \$272 and \$257, respectively</b>	<b>607</b>	<b>464</b>
<b>TOTAL ASSETS</b>	<b>\$ 26,504</b>	<b>\$ 27,638</b>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
<b>CURRENT LIABILITIES</b>		
Accounts payable	\$ 1,405	\$ 752
Accrued liabilities	1,393	1,302
Deferred revenue	1,376	1,881
<b>TOTAL CURRENT LIABILITIES</b>	<b>4,174</b>	<b>3,935</b>
<b>LONG-TERM DEFERRED REVENUE</b>	<b>728</b>	<b>358</b>
<b>OTHER LONG-TERM LIABILITIES</b>	<b>47</b>	<b>165</b>
<b>TOTAL LIABILITIES</b>	<b>4,949</b>	<b>4,458</b>
<b>COMMITMENTS AND CONTINGENCIES</b>		
<b>STOCKHOLDERS' EQUITY</b>		
Common stock, \$0.01 par value per share; 20,000,000 shares authorized; 15,304,818 and 15,206,127 shares issued and outstanding, respectively	153	152
Treasury stock, at cost, 25,360 and 0 shares repurchased, respectively	(74 )	-
Additional paid-in capital	23,007	22,537
Retained earnings (accumulated deficit)	(1,531 )	491
<b>TOTAL STOCKHOLDERS' EQUITY</b>	<b>21,555</b>	<b>23,180</b>

TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$26,504	\$27,638
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The accompanying notes are an integral part of these condensed consolidated financial statements.

SHARPS COMPLIANCE CORP. AND SUBSIDIARIES  
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS  
(In thousands, except per-share data)

	Three-Months Ended March 31,	
	2013	2012
	(Unaudited)	
REVENUES	\$5,410	\$5,291
Cost of revenues	3,894	3,766
GROSS PROFIT	1,516	1,525
Selling, general and administrative	2,351	2,218
Depreciation and amortization	107	115
TOTAL COSTS AND EXPENSES	2,458	2,333
OPERATING LOSS	(942 )	(808 )
OTHER INCOME		
Interest income	6	8
TOTAL OTHER INCOME	6	8
LOSS BEFORE INCOME TAXES	(936 )	(800 )
INCOME TAX EXPENSE (BENEFIT)		
Current	5	63
Deferred	14	(343 )
TOTAL INCOME TAX EXPENSE (BENEFIT)	19	(280 )
NET LOSS	\$(955 )	\$(520 )
NET LOSS PER COMMON SHARE		
Basic	\$(0.06 )	\$(0.03 )
Diluted	\$(0.06 )	\$(0.03 )
WEIGHTED AVERAGE SHARES USED IN COMPUTING NET LOSS PER COMMON SHARE:		
Basic	15,246	15,111
Diluted	15,246	15,111

The accompanying notes are an integral part of these condensed consolidated financial statements.



SHARPS COMPLIANCE CORP. AND SUBSIDIARIES  
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS  
(In thousands, except per-share data)

	Nine-Months Ended March 31,	
	2013	2012
	(Unaudited)	
REVENUES	\$ 16,280	\$ 17,246
Cost of revenues	11,512	11,755
GROSS PROFIT	4,768	5,491
Selling, general and administrative	6,451	6,425
Depreciation and amortization	331	338
TOTAL COSTS AND EXPENSES	6,782	6,763
OPERATING LOSS	(2,014 )	(1,272 )
OTHER INCOME (EXPENSE)		
Interest income	22	27
Other expense	-	(13 )
TOTAL OTHER INCOME (EXPENSE)	22	14
LOSS BEFORE INCOME TAXES	(1,992 )	(1,258 )
INCOME TAX EXPENSE (BENEFIT)		
Current	15	63
Deferred	15	(504 )
TOTAL INCOME TAX EXPENSE (BENEFIT)	30	(441 )
NET LOSS	\$(2,022 )	\$(817 )
NET LOSS PER COMMON SHARE		
Basic	\$(0.13 )	\$(0.05 )
Diluted	\$(0.13 )	\$(0.05 )
WEIGHTED AVERAGE SHARES USED IN COMPUTING NET LOSS PER COMMON SHARE:		
Basic	15,229	15,084
Diluted	15,229	15,084

The accompanying notes are an integral part of these condensed consolidated financial statements.

SHARPS COMPLIANCE CORP. AND SUBSIDIARIES  
CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY  
(In thousands, except share data)

	Common Stock		Treasury Stock		Additional Paid-in Capital	Retained	Total Stockholders' Equity
	Shares	Amount	Shares	Amount		Earnings (Accumulated Deficit)	
Balances, June 30, 2011	15,053,316	\$ 151	-	\$ -	\$ 21,602	\$ 4,112	\$ 25,865
Exercise of stock options	89,443	-	-	-	65	-	65
Stock-based compensation	-	-	-	-	786	-	786
Issuance of restricted stock	63,368	1	-	-	(1 )	-	-
Excess tax benefit from stock-based award activity	-	-	-	-	85	-	85
Net loss	-	-	-	-	-	(3,621 )	(3,621 )
Balances, June 30, 2012	15,206,127	152	-	-	22,537	491	23,180
Exercise of stock options*	50,445	1	-	-	41	-	42
Stock-based compensation*	-	-	-	-	414	-	414
Issuance of restricted stock*	48,246	-	-	-	-	-	-
Excess tax benefit from stock-based award activity*	-	-	-	-	15	-	15
Shares repurchased*	-	-	(25,360)	(74 )	-	-	(74 )
Net loss*	-	-	-	-	-	(2,022 )	(2,022 )
Balances, March 31, 2013*	15,304,818	\$ 153	(25,360)	\$ (74 )	\$ 23,007	\$ (1,531 )	\$ 21,555

\* unaudited

The accompanying notes are an integral part of these condensed consolidated financial statements.

6

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SHARPS COMPLIANCE CORP. AND SUBSIDIARIES  
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS  
(In thousands)

	Nine-Months Ended	
	March 31,	
	2013	2012
	(Unaudited)	
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net loss	\$(2,022 )	\$(817 )
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	827	829
Loss on disposal of fixed assets	-	13
Stock-based compensation expense	414	569
Excess tax benefits from stock-based award activity	(15 )	(61 )
Deferred tax expense (benefit)	15	(504 )
Changes in operating assets and liabilities:		
Accounts receivable	(617 )	(886 )
Inventory	315	(686 )
Prepaid and other current assets	(104 )	(39 )
Accounts payable and accrued liabilities	626	60
Deferred revenue	(135 )	162
<b>NET CASH USED IN OPERATING ACTIVITIES</b>	<b>(696 )</b>	<b>(1,360 )</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchase of property, plant and equipment	(548 )	(362 )
Additions to intangible assets	(158 )	(94 )
<b>NET CASH USED IN INVESTING ACTIVITIES</b>	<b>(706 )</b>	<b>(456 )</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Excess tax benefits from stock-based award activity	15	61
Proceeds from exercise of stock options	42	57
Shares repurchased	(74 )	-
<b>NET CASH (USED IN) PROVIDED BY FINANCING ACTIVITIES</b>	<b>(17 )</b>	<b>118</b>
<b>NET DECREASE IN CASH AND CASH EQUIVALENTS</b>	<b>(1,419 )</b>	<b>(1,698 )</b>
<b>CASH AND CASH EQUIVALENTS, beginning of period</b>	<b>17,498</b>	<b>18,280</b>
<b>CASH AND CASH EQUIVALENTS, end of period</b>	<b>\$16,079</b>	<b>\$16,582</b>

The accompanying notes are an integral part of these condensed consolidated financial statements.



SHARPS COMPLIANCE CORP. AND SUBSIDIARIES  
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
(UNAUDITED)

NOTE 1 - ORGANIZATION AND BACKGROUND

The accompanying unaudited condensed consolidated financial statements include the financial transactions and accounts of Sharps Compliance Corp. and its wholly owned subsidiaries, Sharps Compliance, Inc. of Texas (dba Sharps Compliance, Inc.), Sharps e-Tools.com, Inc. (“Sharps e-Tools”), Sharps Manufacturing, Inc., Sharps Environmental Services, Inc. (dba Sharps Environmental Services of Texas, Inc.) and Sharps Safety, Inc. (collectively, “Sharps”, “We” or the “Company”). All significant intercompany accounts and transactions have been eliminated upon consolidation.

NOTE 2 - BASIS OF PRESENTATION

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with the rules and regulations of the Securities and Exchange Commission (“SEC”) for interim financial information and with instructions to Form 10-Q and, accordingly, do not include all information and footnotes required under accounting principles generally accepted in the United States of America for complete financial statements. In the opinion of management, these interim condensed consolidated financial statements contain all adjustments (consisting of normal recurring adjustments) considered necessary for a fair presentation of the consolidated financial position of the Company as of March 31, 2013, the results of its operations and cash flows for the three and nine months ended March 31, 2013 and 2012 and stockholders’ equity for the year ended June 30, 2012 and nine months ended March 31, 2013. The results of operations for the three and nine months ended March 31, 2013 are not necessarily indicative of the results to be expected for the entire fiscal year ending June 30, 2013. These unaudited condensed consolidated financial statements should be read in conjunction with the Company’s Annual Report on Form 10-K for the year ended June 30, 2012.

NOTE 3 - SIGNIFICANT ACCOUNTING POLICIES

**Revenue Recognition:** The Company recognizes revenue from product sales when goods are shipped or delivered, and title and risk of loss pass to the customer except for those sales via multiple-deliverable arrangements. Provisions for certain rebates, product returns and discounts to customers are accounted for as reductions in sales in the same period the related sales are recorded. Product discounts granted are based on the terms of arrangements with direct, indirect and other market participants, as well as market conditions, including prices charged by competitors. Rebates are estimated based on contractual terms, historical experience, trend analysis and projected market conditions in the various markets served.

The Company recognizes revenue in accordance with guidance on revenue recognition of multiple-deliverable revenue arrangements. Under this guidance, certain products offered by the Company have revenue producing components that are recognized over multiple delivery points (Sharps® Recovery System (formerly the Sharps Disposal by Mail Systems®) and various TakeAway Environmental Return Systems™ referred to as “Mailbacks” and Sharps® Pump and Asset Return Boxes, referred to as “Pump Returns”) and can consist of up to three separate elements, or units of measure, as follows: (1) the sale of the compliance and container system, (2) return transportation and (3) treatment service.

In accordance with the relative selling price methodology, an estimated selling price is determined for all deliverables that qualify for separate units of accounting. The actual consideration received in a multiple-deliverable arrangement is then allocated to the units based on their relative sales price. The selling price for the transportation revenue and the

treatment revenue utilizes third party evidence. The Company estimates the selling price of the compliance and container system based on the product and services provided including compliance with local, state and Federal laws, adherence to stringent manufacturing and testing requirements, safety to the patient and the community as well as storage and containment capabilities.

Revenue for the sale of the compliance and container is recognized upon delivery to the customer, at which time the customer takes title and assumes risk of ownership. Transportation revenue is recognized when the customer returns the compliance and container system and the container has been received at the Company's facility. The compliance and container system is mailed or delivered by an alternative logistics provider to the Company's facility. Treatment revenue is recognized upon the destruction or conversion and proof of receipt and treatment having been performed on the container. Since the transportation element and the treatment elements are undelivered services at the point of initial sale of the compliance and container system, transportation and treatment revenue is deferred until the services are performed. The current and long-term portions of deferred revenues are determined through regression analysis and historical trends. Furthermore, through regression analysis of historical data, the Company has determined that a certain percentage of all container systems sold may not be returned. Accordingly, a portion of the transportation and treatment elements are recognized at the point of sale.



**Income Taxes:** The liability method is used in accounting for deferred income taxes. Under this method, deferred tax assets and liabilities are determined based on differences between financial reporting and tax bases of assets and liabilities and are measured using the enacted tax rates and laws that will be in effect when the differences are expected to reverse. A valuation allowance is established when it is more likely than not that some portion or all of the deferred tax assets will not be realized. The establishment of valuation allowances and development of projected annual effective tax rates requires significant judgment and is impacted by various estimates. Both positive and negative evidence, as well as the objectivity and verifiability of that evidence, is considered in determining the appropriateness of recording a valuation allowance on deferred tax assets.

**Accounts Receivable:** Accounts receivable consist primarily of amounts due to us from our normal business activities. Accounts receivable balances are determined to be delinquent when the amount is past due based on the contractual terms with the customer. The Company maintains an allowance for doubtful accounts to reflect the expected uncollectibility of accounts receivable based on past collection history and specific risks identified among uncollected accounts. Accounts receivable are charged to the allowance for doubtful accounts when the Company determines that the receivable will not be collected and/or when the account has been referred to a third party collection agency. The Company has a history of minimal uncollectible accounts.

#### NOTE 4 – RECENTLY ISSUED ACCOUNTING STANDARDS

There are no recently issued accounting pronouncements that impact the Company's condensed consolidated financial statements as of March 31, 2013.

#### NOTE 5 - INCOME TAXES

During the year ended June 30, 2012, the Company recorded \$2.0 million to establish a deferred tax valuation allowance on net deferred tax assets. The establishment of valuation allowances and development of projected annual effective tax rates requires significant judgment and is impacted by various estimates. Both positive and negative evidence, as well as the objectivity and verifiability of that evidence, is considered in determining the appropriateness of recording a valuation allowance on deferred tax assets. Under generally accepted accounting principles, the valuation allowance has been recorded to reduce the Company's net deferred tax asset to an amount that is more likely than not to be realized and is based upon the uncertainty of the realization of certain federal and state deferred assets related to net operating loss carryforwards and other tax attributes.

The Company's effective tax rate for the nine months ended March 31, 2013 was 1.5% reflecting estimated state income taxes and the excess tax benefit from stock-based award activity. The Company's effective tax rate for the nine months ended March 31, 2012 was 35.1%. The Company's tax benefit associated with taxable losses during the nine months ended March 31, 2013 was fully offset by a deferred tax valuation allowance.

#### NOTE 6 - NOTES PAYABLE AND LONG-TERM DEBT

Effective April 30, 2013, the Company executed a Credit Agreement (the "Restated Credit Agreement") with Wells Fargo, National Association (the "Bank") which extends the maturity date of the Credit Agreement executed on July 15, 2010 ("Prior Agreement") from July 15, 2014 to July 15, 2015 and reduces the line from \$5 million to \$200,000. The Company's Restated Credit Agreement with the Bank provides for a two-year, cash-collateralized \$200,000 line of credit facility, the proceeds of which may be utilized for: (i) working capital, (ii) capital expenditures and (iii) letters of credit (up to \$200,000). As of March 31, 2013, the Company had no outstanding borrowings and \$108 thousand in letters of credit outstanding. The Company did not borrow any amounts under the Prior Agreement as a result of its strong cash position and lack of need for borrowings.

Borrowings bear interest at either (i) a fluctuating rate per annum equal to LIBOR plus a margin of 250 basis points or (ii) at the Company's option, a fixed rate for a 30, 60, or 90 day period set at the option date's LIBOR plus a margin of 250 basis points. Any outstanding revolving loans, and accrued and unpaid interest, will be due and payable on July 15, 2015, the maturity date set under the Restated Credit Agreement. The Company pays a fee of 0.2% per annum on the unused amount of the line of credit. We estimate that the interest rate applicable to the borrowings under the Restated Credit Agreement would be approximately 2.8% as of March 31, 2013.

The Restated Credit Agreement also contains customary events of default. Upon the occurrence of an event of default that remains uncured after any applicable cure period, the lender's commitment to make further loans may terminate and the Company may be required to make immediate repayment of all indebtedness to the lender.

## NOTE 7 – STOCK-BASED COMPENSATION

Stock-based compensation cost is measured at the grant date, based on the calculated fair value of the award, and is recognized as an expense over the employee's requisite service period (generally the vesting period of the equity grant). Reductions in taxes payable resulting from tax deductions that exceed the recognized tax benefit associated with compensation expense (excess tax benefits) are classified as financing cash flows and as an increase to additional paid in capital. During the three and nine months ended March 31, 2013 and 2012, stock-based compensation amounts are as follows (in thousands):

	Three-Months Ended		Nine-Months Ended	
	March 31,		March 31,	
	2013	2012	2013	2012
	(Unaudited)		(Unaudited)	
Stock-based compensation expense included in:				
Cost of revenue	\$ 6	\$ 15	\$ 14	\$ 53
General and administrative expense	85	178	400	516
Total	\$ 91	\$ 193	\$ 414	\$ 569
Excess tax benefits in cash flows from				
financing activities	\$ 14	\$ 49	\$ 15	\$ 61

## NOTE 8 - EARNINGS PER SHARE

Earnings per share are measured at two levels: basic per share and diluted per share. Basic per share is computed by dividing net income by the weighted average number of common shares outstanding during the period. Diluted per share is computed by dividing net income by the weighted average number of common shares after considering the additional dilution related to common stock options and restricted stock. In computing diluted earnings per share, the outstanding common stock options are considered dilutive using the treasury stock method. Vested restricted shares are included in basic common shares outstanding, and unvested restricted shares are included in the diluted common shares outstanding, if the effect is dilutive.

The following information is necessary to calculate earnings per share for the periods presented (in thousands, except per-share data):

	Three-Months Ended		Nine-Months Ended	
	March 31,		March 31,	
	2013	2012	2013	2012
	(Unaudited)		(Unaudited)	

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Net loss, as reported	\$ (955 )	\$ (520 )	\$ (2,022 )	\$ (817 )
Weighted average common shares outstanding	15,246	15,111	15,229	15,084
Effect of dilutive stock options	-	-	-	-
Weighted average diluted common shares outstanding	15,246	15,111	15,229	15,084
Net loss per common share				
Basic	\$ (0.06 )	\$ (0.03 )	\$ (0.13 )	\$ (0.05 )
Diluted	\$ (0.06 )	\$ (0.03 )	\$ (0.13 )	\$ (0.05 )
Employee stock options excluded from computation of dilutive loss per share amounts because their effect would be anti-dilutive	887	833	883	833

## NOTE 9 - EQUITY TRANSACTIONS

During the three and nine months ended March 31, 2013 and 2012, stock options to purchase shares of the Company's common stock were exercised as follows:

	Three-Months Ended		Nine-Months Ended	
	March 31,		March 31,	
	2013	2012	2013	2012
	(Unaudited)		(Unaudited)	
Options exercised	46,945	65,648	50,445	79,751
Proceeds (in thousands)	\$ 40	\$ 43	\$ 42	\$ 57
Average price paid per share	\$ 0.85	\$ 0.66	\$ 0.84	\$ 0.71

As of March 31, 2013, there was \$471 thousand of stock option and restricted stock compensation expense related to non-vested awards which is expected to be recognized over a weighted average period of 2.9 years.

On January 7, 2013, the Company announced that its Board of Directors approved a stock repurchase program effective January 3, 2013, authorizing the Company to repurchase in the aggregate up to \$3 million of its outstanding common stock over a two-year period. During the three and nine months ended March 31, 2013 and 2012, shares were repurchased as follows:

	Three-Months Ended		Nine-Months Ended	
	March 31,		March 31,	
	2013	2012	2013	2012
	(Unaudited)		(Unaudited)	
Shares repurchased	25,360	-	25,360	-
Cash paid for shares repurchased (in thousands)	\$ 74	\$ -	\$ 74	\$ -
Average price paid per share	\$ 2.93	\$ -	\$ 2.93	\$ -

## NOTE 10 – INVENTORY

The components of inventory are as follows (in thousands):

	March 31,	June 30,
	2013	2012
	(Unaudited)	
Raw materials	\$ 1,047	\$ 1,218
Finished goods	857	1,001
Total	\$ 1,904	\$ 2,219

NOTE 11 – FAIR VALUE OF FINANCIAL INSTRUMENTS

The Company considers the fair value of all financial instruments, including cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities, not to be materially different from their carrying values at March 31, 2013 due to their short-term nature.

ITEM 2.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

INFORMATION REGARDING FORWARD-LOOKING STATEMENTS

This quarterly report on Form 10-Q contains certain forward-looking statements and information relating to the Company and its subsidiaries that are based on the beliefs of the Company's management as well as assumptions made by and information currently available to the Company's management. When used in this report, the words "anticipate", "believe", "expect", "estimate", "project" and "intend" and words or phrases of similar import, as they relate to the Company, its subsidiaries or Company management, are intended to identify forward-looking statements. Such statements reflect the current risks, uncertainties and assumptions related to certain factors, including without limitations, competitive factors, general economic conditions, customer relations, relationships with vendors, governmental regulation and supervision, seasonality, distribution networks, product introductions and acceptance, technological change, changes in industry practices, onetime events and other factors described herein. Based upon changing conditions, should any one or more of these risks or uncertainties materialize, or should any underlying assumptions prove incorrect, actual results may vary materially from those described herein as anticipated, believed, expected, estimated or intended. The Company does not intend to update these forward-looking statements.

GENERAL

Sharps Compliance Corp. is a leading full-service provider of solutions for the cost-effective management of medical waste, used health care materials and unused dispensed medications. Our solutions facilitate the proper collection, containment, transportation and treatment of numerous types of healthcare-related materials, including hypodermic needles, lancets and other devices or objects used to puncture or lacerate the skin, or sharps, and unused consumer dispensed medications and over-the-counter drugs. We serve customers in multiple markets such as home health care, retail clinics and immunizing pharmacies, pharmaceutical manufacturers, professional offices (physicians, dentists and veterinarians), hospitality (including assisted living facilities, hotels, motels and restaurants), government (federal, state and local), consumers, commercial, industrial and agriculture, and distributors to many of the aforementioned markets. We assist our customers in determining which of our solution offerings best fit their needs for the collection, containment, return transportation and treatment of medical waste, used healthcare materials and unused dispensed medications. Our differentiated approach provides our customers the flexibility to return and properly treat medical waste, used healthcare materials or unused dispensed medications through a variety of solutions and products transported primarily through the United States Postal Service ("USPS"). Furthermore, we provide comprehensive tracking and reporting tools that enable our customers to meet complex medical waste disposal and unused dispensed patient medication compliance requirements. We believe the fully-integrated nature of our operations is a key factor leading to our success and continued recurring revenue growth. We continue to take advantage of the many opportunities in all markets served as we educate the market place and as prospective customers become more aware of alternatives to traditional methods of disposal (i.e., route-based pick-up services).

The Company's solutions include Sharps® Recovery System™ (formerly Sharps Disposal by Mail System®), TakeAway™ Recovery System, Complete Needle Collection & Disposal System™, TakeAway Environmental Return System™, Compliance TRACSM, Sharps Secure® Needle Collection and Containment System™, Pitch-It™ IV Poles, Trip LesSystem®, Sharps® Pump and Asset Return System, and Spill Kit TakeAway Recovery System™.

## RESULTS OF OPERATIONS

The following analyzes changes in the consolidated operating results and financial condition of the Company during the three and nine months ended March 31, 2013 and 2012. The following table sets forth, for the periods indicated, certain items from the Company's Condensed Consolidated Statements of Operations, dollars in thousands and percentages expressed as a percentage of revenue:

	Three-Months Ended March 31,				Nine-Months Ended March 31,			
	2013	%	2012	%	2013	%	2012	%
	(Unaudited)				(Unaudited)			
Revenues	\$ 5,410	100.0%	\$ 5,291	100.0%	\$ 16,280	100.0%	\$ 17,246	100.0%
Cost of revenues	3,894	72.0 %	3,766	71.2 %	11,512	70.7 %	11,755	68.2 %
Gross profit	1,516	28.0 %	1,525	28.8 %	4,768	29.3 %	5,491	31.8 %
SG&A expense	2,351	43.5 %	2,218	41.9 %	6,451	39.6 %	6,425	37.3 %
Depreciation and amortization	107	2.0 %	115	2.2 %	331	2.0 %	338	2.0 %
Operating loss	(942 )	(17.4 %)	(808 )	(15.3 %)	(2,014 )	(12.4 %)	(1,272 )	(7.4 %)
Other income	6	0.1 %	8	0.2 %	22	0.1 %	14	0.1 %
Loss before income taxes	(936 )	(17.3 %)	(800 )	(15.1 %)	(1,992 )	(12.2 %)	(1,258 )	(7.3 %)
Income tax expense (benefit)	19	0.4 %	(280 )	(5.3 %)	30	0.2 %	(441 )	(2.6 %)
Net loss	\$ (955 )	(17.7 %)	\$ (520 )	(9.8 %)	\$ (2,022 )	(12.4 %)	\$ (817 )	(4.7 %)

## THREE MONTHS ENDED MARCH 31, 2013 AS COMPARED TO THREE MONTHS ENDED MARCH 31, 2012

Total revenues for the three months ended March 31, 2013 of \$5.4 million increased by \$0.1 million, or 2.2%, over the total revenues for the three months ended March 31, 2012 of \$5.3 million. Billings by market are as follows (in thousands):

	Three-Months Ended March 31,		
	2013	2012	Variance
	(Unaudited)		
<b>BILLINGS BY MARKET:</b>			
Retail	\$ 1,744	\$ 1,399	\$ 345
Home Health Care	1,539	1,478	61
Professional	875	815	60
Assisted Living / Hospitality	408	368	40



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Pharmaceutical	339	870	(531 )
Core Government	96	110	(14 )
Other	255	189	66
U.S Government Contract	-	241	(241 )
Subtotal	5,256	5,470	(214 )
GAAP Adjustment *	154	(179 )	333
Revenue Reported	\$ 5,410	\$ 5,291	\$ 119

\*Represents the net impact of the revenue recognition adjustment required to arrive at reported generally accepted accounting principles (“GAAP”) revenue. Customer billings include all invoiced amounts associated with products shipped during the period reported. GAAP revenue includes customer billings as well as numerous adjustments necessary to reflect, (i) the deferral of a portion of current period sales and (ii) recognition of certain revenue associated with products returned for treatment and destruction. The difference between customer billings and GAAP revenue is reflected in the Company’s balance sheet as deferred revenue. See Note 3 “Revenue Recognition” in “Notes to Condensed Consolidated Financial Statements”.

This quarter-to-date table contains certain financial information not derived in accordance with GAAP, including customer billings information. The Company believes this information is useful to investors and other interested parties as customer billings represents all invoiced amounts associated with products shipped during the period reported. Such information should not be considered as a substitute for any measures derived in accordance with GAAP, and may not be comparable to other similarly titled measures of other companies. Reconciliation of this information to the most comparable GAAP measures is included above.

The decrease in billings was primarily attributable to decreased billings in the Pharmaceutical (\$0.5 million) and U.S. Government contract (\$0.2 million) markets. The decrease in billings was partially offset by increased billings in the Retail (\$0.3 million), Home Health Care (\$0.1 million), Professional (\$0.1 million) and Other (\$0.1 million) markets. Pharmaceutical market billings tend to be program related and, therefore, can be highly variable from quarter to quarter until programs mature. The comparable period for the prior year period was atypically strong as it included the roll-out for two new Patient Support Programs and the initial launch of a third Patient Support Program during the third quarter of fiscal 2012. The programs include the direct fulfillment of the Sharps® Recovery System to the pharmaceutical manufacturers' program participants which provides the proper containment, return and treatment of the needles or injection devices utilized in therapy. U.S. Government Contract billings are associated with the Company's contract with a major U.S. government agency announced in February 2009. The decrease in the U.S. Government contract market billings is associated with the January 31, 2012 termination of the maintenance portion of a U.S. Government contract with the Division of Strategic National Stockpile ("DSNS") of the Centers for Disease Control ("CDC"). The increase in Retail market billings is primarily due to increased sales of the Complete Needle Collection & Disposal System™ and TakeAway Environmental Return System™ solutions. The increase in the Home Health Care market was primarily due to timing of sales to home health care related distributors addressing the growing trend of patient volumes in the home health care industry. The increase in the Professional market billings was a direct result of the Company's targeted telemarketing initiatives and promotional activities to inform doctors, dentists and veterinarians of the significant cost advantage and convenience of the Company's Sharps® Recovery System when compared with the traditional pick-up service in the small quantity generator sector. The increase in the Other market was due to timing of orders. Revenue was positively impacted by an increase in the GAAP adjustment of \$0.3 million primarily related to the mix of products sold and returned for treatment in the comparable periods.

Cost of revenues for the three months ended March 31, 2013 of \$3.9 million was 72.0% of revenues. Cost of revenues for the three months ended March 31, 2012 of \$3.8 million was 71.2% of revenues. The lower gross margin for the quarter ended March 31, 2013 of 28.0% (versus 28.8% for the quarter ended March 31, 2012) reflected the impact of \$89 thousand, or 160 basis points, associated with additional accrued loss for lease related liabilities upon the complete sublease of the Atlanta facility during the quarter.

Selling, general and administrative ("SG&A") expenses for the three months ended March 31, 2013 of \$2.4 million, increased by \$0.2 million, from SG&A expenses of \$2.2 million for the three months ended March 31, 2012. The increase in SG&A expense is primarily due to severance costs for a former officer of the Company of \$0.2 million.

The Company generated an operating loss of \$0.9 million for the three months ended March 31, 2013 compared to an operating loss of \$0.8 million for the three months ended March 31, 2012. The operating margin was (17.4%) for the three months ended March 31, 2013 compared to (15.3%) for the three months ended March 31, 2012. The increase in operating loss is a result of severance costs and accrued loss for lease related liabilities partially offset by higher revenue (discussed above).

The Company generated a loss before income tax expense of \$0.9 million for the three months ended March 31, 2013 versus a loss before tax of \$0.8 million for the three months ended March 31, 2012. The increase in the loss before income tax is a result of the higher operating loss (discussed above).

The Company's effective tax rate for the three months ended March 31, 2013 was 2.0% reflecting estimated state income taxes. The Company's effective tax rate for the three months ended March 31, 2012 was 35.0%. During the year ended June 30, 2012, the Company recorded \$2.0 million to establish a deferred tax valuation allowance on net deferred tax assets. The Company's tax benefit associated with taxable losses during the three months ended March 31, 2013 was offset by a deferred tax valuation allowance.

The Company generated a net loss of \$1.0 million for the three months ended March 31, 2013 compared to a net loss of \$0.5 million for the three months ended March 31, 2012. The higher net loss is a result of a higher operating loss and lower tax benefit (discussed above).

The Company reported diluted loss per share of (\$0.06) for the three months ended March 31, 2013 versus diluted loss per share of (\$0.03) for the three months ended March 31, 2012. The decrease in diluted earnings per share is a result of a higher net loss in the current quarter (discussed above).

NINE MONTHS ENDED MARCH 31, 2013 AS COMPARED TO NINE MONTHS ENDED MARCH 31, 2012  
Total revenues for the nine months ended March 31, 2013 of \$16.3 million decreased by \$1.0 million, or 5.6%, over the total revenues for the nine months ended March 31, 2012 of \$17.2 million. Billings by market are as follows (in thousands):

	Nine-Months Ended March 31,		
	2013	2012	Variance
(Unaudited)			
<b>BILLINGS BY MARKET:</b>			
Home Health Care	\$ 4,845	\$ 4,985	\$ (140 )
Retail	4,343	4,425	(82 )
Professional	2,826	2,237	589
Pharmaceutical	1,811	1,849	(38 )
Assisted Living / Hospitality	1,160	937	223
Core Government	596	325	271
Other	643	892	(249 )
U.S. Government Contract	-	1,685	(1,685 )
Subtotal	16,224	17,335	(1,111 )
GAAP Adjustment *	56	(89 )	145
Revenue Reported	\$ 16,280	\$ 17,246	\$ (966 )

\*Represents the net impact of the revenue recognition adjustment required to arrive at reported generally accepted accounting principles ("GAAP") revenue. Customer billings include all invoiced amounts associated with products shipped during the period reported. GAAP revenue includes customer billings as well as numerous adjustments necessary to reflect, (i) the deferral of a portion of current period sales and (ii) recognition of certain revenue associated with products returned for treatment and destruction. The difference between customer billings and GAAP revenue is reflected in the Company's balance sheet as deferred revenue. See Note 3 "Revenue Recognition" in "Notes to Condensed Consolidated Financial Statements".

This year-to-date table contains certain financial information not derived in accordance with GAAP, including customer billings information. The Company believes this information is useful to investors and other interested parties as customer billings represents all invoiced amounts associated with products shipped during the period reported. Such information should not be considered as a substitute for any measures derived in accordance with GAAP, and may not be comparable to other similarly titled measures of other companies. Reconciliation of this information to the most comparable GAAP measures is included above.

The decrease in revenues is primarily attributable to decreased billings in the U.S. Government Contract (\$1.7 million) market. The decrease in billings was partially offset by increased billings in the Professional (\$0.6 million) and Core Government (\$0.3 million) markets. U.S. Government Contract billings are associated with the Company's contract with a major U.S. government agency announced in February 2009. The decrease in the U.S. Government contract market billings is associated with the January 31, 2012 termination of the maintenance portion of a U.S. Government contract with the DSNS of the CDC. The increase in the Professional market billings was a direct result of the Company's targeted telemarketing initiatives and promotional activities to inform doctors, dentists and veterinarians of the significant cost advantage and convenience of the Sharps® Recovery System when compared with the traditional pick-up service in the small quantity generator sector. The increase in the Core Government market billings reflects distributor sales to a major U.S. agency to facilitate the launch of our solutions in selected military bases.

Cost of revenues for the nine months ended March 31, 2013 of \$11.5 million was 70.7% of revenues. Cost of revenues for the nine months ended March 31, 2012 of \$11.8 million was 68.2% of revenue. The lower gross margin for the nine months ended March 31, 2013 of 29.3% (versus 31.8% for the nine months ended March 31, 2012) was due to (i) ongoing facility costs of \$0.3 million, or 180 basis points, associated with the maintenance portion of the U.S. government contract that was terminated as of January 31, 2012 and (ii) an additional accrued loss for lease related liabilities for the Atlanta facility of \$154 thousand, or 95 basis points.

Selling, general and administrative (“SG&A”) expenses for the nine months ended March 31, 2013 of \$6.45 million was relatively flat compared with SG&A expenses of \$6.43 million for the nine months ended March 31, 2012. SG&A for the current period included severance costs for a former officer of the Company of \$0.2 million (discussed above).

The Company generated an operating loss of \$2.0 million for the nine months ended March 31, 2013 compared to an operating loss of \$1.3 million for the nine months ended March 31, 2012. The operating margin was (12.4%) for the nine months ended March 31, 2013 compared to (7.4%) for the nine months ended March 31, 2012. The increase in operating loss is a result of the lower billings in the first nine months of fiscal year 2013 (discussed above).

The Company generated a loss before tax of \$2.0 million for the nine months ended March 31, 2013 versus a loss before tax of \$1.3 million for the nine months ended March 31, 2012. The increase in loss before tax is a result of a higher operating loss (discussed above).

The Company's effective tax rate for the nine months ended March 31, 2013 was 1.5% reflecting estimated state income taxes compared to 35.1% for the nine months ended March 31, 2012. During the year ended June 30, 2012, the Company recorded \$2.0 million to establish a deferred tax valuation allowance on net deferred tax assets. The Company's tax benefit associated with taxable losses during the nine months ended March 31, 2013 was offset by a deferred tax valuation allowance.

The Company generated a net loss of \$2.0 million for the nine months ended March 31, 2013 compared to a net loss of \$0.8 million for the nine months ended March 31, 2012. The increase is result of a higher operating loss and lower tax benefit (discussed above).

The Company reported diluted loss per share of (\$0.13) for the nine months ended March 31, 2013 versus diluted loss per share of (\$0.05) for the nine months ended March 31, 2012. The decrease in diluted earnings per share is a result of a higher net loss (discussed above).

## PROSPECTS FOR THE FUTURE

The Company continues to take advantage of the many opportunities in the markets served as professional offices, retail pharmacies and clinics, communities, assisted living, home healthcare companies, consumers, pharmaceutical manufacturers, government agencies, health care facilities, individual self-injectors and commercial organizations become more aware of the alternatives to the traditional methods of management of medical sharps waste, used healthcare materials and unused dispensed medications.

The Company's growth strategies are focused on the Retail, Pharmaceutical, Professional, Assisted Living / Hospitality, Home Health Care and Core Government markets. The Company believes its growth opportunities are supported by:

- An increase in the number of used needles improperly disposed of outside the large healthcare setting and into the solid waste system to 7.8 billion each year (tripled volume over the past ten years) and an increase in the number of self-injectors in the country to 13.5 million over the same period;
- An estimated 800,000 doctors, dentists, veterinarians, clinics, tattoo parlors and other businesses in the country that generate smaller quantities of medical waste, including used syringes to whom we offer a lower cost alternative to the traditional pick-up service;
- An estimated 40% of the four billion dispensed medication prescriptions which go unused every year in the United States generating an estimated 200 million pounds of unused medication waste;
- The pace of regulation of sharps and unused dispensed medications disposal which is gaining momentum at both the state and federal level - as of June 30, 2012, approximately 46 percent of U.S. citizens live in states that have enacted legislation or strict guidelines mandating the proper disposal of used syringes while 67 percent live in states that have enacted or proposed legislation mandating the proper disposal of dispensed unused medications;
- New solution offerings including the Complete Needle™ Collection and Disposal System (designed for the traditional under-served home self-injector), the TakeAway line of products for unused medications (including TakeAway Environmental Return System™), the Medical/Professional TakeAway Recovery System and enhanced patient support programs with pharmaceutical manufacturers;
- The opportunity to increase the availability to individuals of our consumer focused solutions like Complete Needle™ Collection and Disposal System and the TakeAway line of products through sponsorship by drug and ancillary product manufacturers;
- The Company's joint marketing alliance with Daniels Sharpsmart ("JMA"), announced in May 2012, to serve the entire U.S. medical waste market, offering clients a blended product portfolio to effectively target prospective customers with multi-site and multi-sized locations; and
- The Company's strong financial position with a cash balance of \$16.1 million and no debt as of March 31, 2013.

## TERMINATED CONTRACT

In February 2009, the Company launched Sharps@MWMS™, a Medical Waste Management System ("MWMS"), which is a comprehensive medical waste and dispensed medication solution which includes an array of products and services necessary to effectively collect, store and treat medical waste and unused dispensed medication outside of the hospital or large health care facility setting. In connection with the launch in 2009, the Company signed a five year contract

(one year, plus four option years) with a major U.S. government agency for a \$40 million program to provide our comprehensive Medical Waste Management System™, or Sharps®MWMS™, which is a rapid-deployment solution offering designed to provide medical waste collection, storage and treatment in the event of natural disasters, pandemics, man-made disasters, or other national emergencies. Sharps®MWMS™ is unique in that the solution also offers warehousing, inventory management, training, data and other services necessary to provide a comprehensive solution. We received a purchase order for \$28.5 million (\$6.0 million of which was recognized in fiscal year 2009, and \$22.5 million was recognized in the first half of fiscal year 2010). In January 2010, the Company was awarded the first option year (ending January 31, 2011) valued at approximately \$1.6 million which was recognized from February 1, 2010 through January 31, 2011. In January 2011, we were awarded the second option year (ending January 31, 2012) valued at approximately \$3.0 million and was recognized from February 1, 2011 through January 31, 2012. The Company was notified by an agency of the U. S. Government, acting on behalf of the DSNS, that the maintenance contract would not be renewed for the third option year (beginning February 1, 2012) and that the contract would be terminated effective January 31, 2012. This non-renewal was preceded by a letter dated December 2, 2011 advising the Company of the U.S. Government's intent to exercise the third option year. Although not stated in the notice provided by the U.S. Government, the Company believes the action is part of a budget reduction program being implemented by the DSNS.



## LIQUIDITY AND CAPITAL RESOURCES

### Cash Flow

Cash and cash equivalents decreased by \$1.4 million to \$16.1 million at March 31, 2013 from \$17.5 million at June 30, 2012. The decrease in cash and cash equivalents is primarily due to operating losses generated for the nine months ended March 31, 2013, the timing of collections from orders related to billings in March 2013 and capital expenditures and additions to intangible assets of \$0.7 million (discussed below).

Accounts receivable increased by \$0.6 million to \$3.0 million at March 31, 2013 from \$2.4 million at June 30, 2012. The increase is due to timing of billings and collections.

Inventory decreased by \$0.3 million to \$1.9 million at March 31, 2013 from \$2.2 million at June 30, 2012. The decrease in inventory is due to timing of sales and adjustment of inventory levels to facilitate customer orders.

Working capital decreased \$1.2 million to \$17.4 million at March 31, 2013 from \$18.6 million at June 30, 2012. The decrease is primarily due to decreases in cash and cash equivalents and inventory and increases in accounts payable and accrued liabilities offset by higher accounts receivable (as discussed above).

Property, plant and equipment, net decreased by \$0.3 million to \$4.4 million at March 31, 2013 from \$4.6 million at June 30, 2012. The decrease in property and equipment is related to depreciation expense of \$0.8 million, partially offset by capital expenditures of \$0.5 million. The capital expenditures are attributable primarily to (i) treatment facility improvements of \$406 thousand, (ii) manufacturing and assembly equipment including molds, dies and printing plates of \$64 thousand and (iii) computer equipment and custom software programming of \$69 thousand.

Stockholders' equity decreased by \$1.6 million to \$21.6 million at March 31, 2013 from \$23.2 million at June 30, 2012. This decrease is primarily attributable to a net loss for the nine months ended March 31, 2013 of \$2.0 million. The impact was partially offset by the repurchase of 25,360 shares and the effect on equity (credit) of non-cash stock based award expense of \$0.4 million.

### Off -Balance Sheet Arrangements

The Company was not a party to any off-balance sheet transactions as defined in Item 303 of Regulation S-K for the three and nine months ended March 31, 2013 and for the year-ended June 30, 2012.

### Credit Facility

Effective April 30, 2013, the Company executed a Credit Agreement (the "Restated Credit Agreement") with Wells Fargo, National Association (the "Bank") which extends the maturity date of the Credit Agreement executed on July 15, 2010 ("Prior Agreement") from July 15, 2014 to July 15, 2015 and reduces the line from \$5 million to \$200,000. The Company's Restated Credit Agreement with the Bank provides for a two-year, cash-collateralized \$200,000 line of credit facility, the proceeds of which may be utilized for: (i) working capital, (ii) capital expenditures and (iii) letters of credit (up to \$200,000). As of March 31, 2013, the Company had no outstanding borrowings and \$108 thousand in letters of credit outstanding. The Company did not borrow any amounts under the Prior Agreement as a result of its strong cash position and lack of need for borrowings.

Borrowings bear interest at either (i) a fluctuating rate per annum equal to LIBOR plus a margin of 250 basis points or (ii) at the Company's option, a fixed rate for a 30, 60, or 90 day period set at the option date's LIBOR plus a margin of 250 basis points. Any outstanding revolving loans, and accrued and unpaid interest, will be due and payable on July 15, 2015, the maturity date set under the Restated Credit Agreement. The Company pays a fee of 0.2% per annum on

the unused amount of the line of credit. We estimate that the interest rate applicable to the borrowings under the Restated Credit Agreement would be approximately 2.8% as of March 31, 2013.

The Restated Credit Agreement also contains customary events of default. Upon the occurrence of an event of default that remains uncured after any applicable cure period, the lender's commitment to make further loans may terminate and the Company may be required to make immediate repayment of all indebtedness to the lender.

Management believes that the Company's current cash resources (cash on hand) will be sufficient to fund operations for the twelve months ending March 31, 2014.

#### CRITICAL ACCOUNTING ESTIMATES

**Revenue Recognition:** The Company recognizes revenue from product sales when goods are shipped or delivered, and title and risk of loss pass to the customer except for those sales via multiple-deliverable arrangements. Provisions for certain rebates, product returns and discounts to customers are accounted for as reductions in sales in the same period the related sales are recorded. Product discounts granted are based on the terms of arrangements with direct, indirect and other market participants, as well as market conditions, including prices charged by competitors. Rebates are estimated based on contractual terms, historical experience, trend analysis and projected market conditions in the various markets served.

The Company recognizes revenue in accordance with guidance on revenue recognition of multiple-deliverable revenue arrangements. Under this guidance, certain products offered by the Company have revenue producing components that are recognized over multiple delivery points (Sharps Recovery System™ (formerly the Sharps Disposal by Mail Systems®) and various TakeAway Environmental Return Systems™ referred to as "Mailbacks" and Sharps® Pump and Asset Return Boxes, referred to as "Pump Returns") and can consist of up to three separate elements, or units of measure, as follows: (1) the sale of the compliance and container system, (2) return transportation and (3) treatment service.

In accordance with the relative selling price methodology, an estimated selling price is determined for all deliverables that qualify for separate units of accounting. The actual consideration received in a multiple-deliverable arrangement is then allocated to the units based on their relative sales price. The selling price for the transportation revenue and the treatment revenue utilizes third party evidence. The Company estimates the selling price of the compliance and container system based on the product and services provided including compliance with local, state and Federal laws, adherence to stringent manufacturing and testing requirements, safety to the patient and the community as well as storage and containment capabilities.

Revenue for the sale of the compliance and container is recognized upon delivery to the customer, at which time the customer takes title and assumes risk of ownership. Transportation revenue is recognized when the customer returns the compliance and container system and the container has been received at the Company's facility. The compliance and container system is mailed or delivered by an alternative logistics provider to the Company's facility. Treatment revenue is recognized upon the destruction or conversion and proof of receipt and treatment having been performed on the container. Since the transportation element and the treatment elements are undelivered services at the point of initial sale of the compliance and container system, transportation and treatment revenue is deferred until the services are performed. The current and long-term portions of deferred revenues are determined through regression analysis and historical trends. Furthermore, through regression analysis of historical data, the Company has determined that a certain percentage of all container systems sold may not be returned. Accordingly, a portion of the transportation and treatment elements are recognized at the point of sale.

**Income Taxes:** The liability method is used in accounting for deferred income taxes. Under this method, deferred tax assets and liabilities are determined based on differences between financial reporting and tax bases of assets and liabilities and are measured using the enacted tax rates and laws that will be in effect when the differences are expected to reverse. A valuation allowance is established when it is more likely than not that some portion or all of the deferred tax assets will not be realized. The establishment of valuation allowances and development of projected annual effective tax rates requires significant judgment and is impacted by various estimates. Both positive and negative evidence, as well as the objectivity and verifiability of that evidence, is considered in determining the appropriateness of recording a valuation allowance on deferred tax assets.

#### RECENTLY ISSUED ACCOUNTING STANDARDS

There are no recently issued accounting pronouncements that impact the Company's condensed consolidated financial statements as of March 31, 2013.

#### ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The Company does not have exposure to significant financial market risk including commodity price risk, foreign currency exchange risk or interest rate risk. Management does not use derivative instruments. The Company has limited exposure to changes in interest rates due to its lack of indebtedness. The Company maintains a credit agreement under which we may borrow funds in the future. Currently, the Company does not foresee any borrowing needs.

#### ITEM 4. CONTROLS AND PROCEDURES

##### Evaluation of Disclosure Controls and Procedures

The Company maintains "disclosure controls and procedures", as such term is defined in Rule 13a-15(e) under the Exchange Act, that are designed to ensure that information required to be disclosed in our Exchange Act reports is recorded, processed, summarized and reported within the time periods specified in the SEC rules and forms, and that

such information is accumulated and communicated to management, including, the Chief Executive Officer (“CEO”) and the Chief Financial Officer (“CFO”) as appropriate, to allow timely decisions regarding required disclosure.

As of March 31, 2013, the Company conducted an evaluation (the “Evaluation”), under the supervision and with the participation of the CEO and CFO, of the effectiveness of the design and operation of our disclosure controls and procedures (“Disclosure Controls”), pursuant to Rules 13a-15(e) and 15d-15(e) of the Exchange Act. Based upon this Evaluation, the CEO and CFO concluded that our Disclosure Controls were effective as of March 31, 2013.

#### Changes in Internal Control over Financial Reporting

During the quarter ended March 31, 2013, there were no changes in the Company’s internal controls over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) of the Exchange Act), that have materially affected, or are reasonably likely to materially affect the Company’s internal control over financial reporting.

#### CEO and CFO Certifications

Appearing immediately following the Signatures section of this report are certifications of the CEO and the CFO. The Certifications are required in accordance with Section 302 of the Sarbanes-Oxley Act of 2002 (the Section 302 Certifications). This item of this quarterly report on Form 10-Q, which you are currently reading, is the information concerning the Evaluation referred to in the Section 302 Certification and this information should be read in conjunction with the Section 302 Certifications for a more complete understanding of the topics presented.

## PART II – OTHER INFORMATION

## ITEM 1. LEGAL PROCEEDINGS

The Company is involved in legal proceedings and litigation in the ordinary course of business. In the opinion of management, the outcome of such matters will not have a material adverse effect on the Company's consolidated financial position or consolidated results of operations.

## ITEM 1A. RISK FACTORS

Refer to Item 1A. Risk Factors in the Company's annual report on Form 10-K for the year ended June 30, 2012 for the Company's risk factors. During the nine months ended March 31, 2013, there have been no changes to the Company's risk factors.

## ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS.

Recent Sales of Unregistered Securities.

None.

Issuer Purchases of Equity Securities.

On January 7, 2013, the Company announced that its Board of Directors approved a stock repurchase program effective January 3, 2013, authorizing the Company to repurchase in the aggregate up to \$3 million of its outstanding common stock over a two-year period. The shares would be purchased from time to time on the open market or in privately negotiated transactions, at the Company's discretion, in each case, in compliance with Rule 10b-18 under the Securities Exchange Act of 1934, as amended, subject to market and business conditions, applicable legal requirements, explicit black-out dates and other factors. The purchases will be funded using the Company's available cash balances and cash generated from operations. The program does not obligate the Company to acquire any particular amount of common stock and may be modified, suspended or terminated at any time at the Company's discretion in accordance with Rule 10b-18.

## ISSUER PURCHASES OF EQUITY SECURITIES

Period	(a) Total Number of Shares Purchased	(b) Average Price Paid per Share	(c) Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	(d) Maximum Approximate Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs
January 3 - January 31, 2013	-	\$ -	-	\$ 3,000,000
February 1 - February 28, 2013	-	-	-	3,000,000

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March 1 - March 31, 2013	25,360	2.93	25,360	2,925,579
	25,360		25,360	\$ 2,925,579

ITEM 6. EXHIBITS

(a) Exhibits:

31.1 Certification of Chief Executive Officer in accordance with Section 302 of the Sarbanes-Oxley Act (filed herewith)

31.2 Certification of Chief Financial Officer in accordance with Section 302 of the Sarbanes-Oxley Act (filed herewith)

32.1 Certification of Chief Executive Officer in accordance with Section 906 of the Sarbanes-Oxley Act (filed herewith)

32.2 Certification of Chief Financial Officer in accordance with Section 906 of the Sarbanes-Oxley Act (filed herewith)

101.INS XBRL Instance Document (filed herewith)

101.SCH XBRL Taxonomy Extension Schema Document (filed herewith)

101.CAL XBRL Taxonomy Extension Calculation Linkbase Document (filed herewith)

101.DEF XBRL Taxonomy Extension Linkbase Document (filed herewith)

101.LAB XBRL Taxonomy Extension Label Linkbase Document (filed herewith)

101.PRE XBRL Taxonomy Extension Presentation Linkbase Document (filed herewith)

ITEMS 3, 4 AND 5 ARE NOT APPLICABLE AND HAVE BEEN OMITTED.

SIGNATURES

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

REGISTRANT:  
SHARPS COMPLIANCE CORP.

Dated: May 6, 2013

By: /s/ DAVID P. TUSA  
David P. Tusa  
Chief Executive Officer and President  
(Principal Executive Officer)

Dated: May 6, 2013

By: /s/ DIANA P. DIAZ  
Diana P. Diaz  
Vice President and Chief Financial  
Officer  
(Principal Financial and Accounting  
Officer)



