

SHARPS COMPLIANCE CORP
Form 10-Q
November 04, 2015

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

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

For the quarterly period ended September 30, 2015

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

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 (§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 Accelerated Filer Non-accelerated Filer Smaller reporting company
(Do not check if a smaller reporting company)

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12(b)-2 of the Exchange Act).

Yes No

As of November 2, 2015, there were 15,487,716 outstanding shares of the Registrant's common stock, par value \$0.01 per share.

SHARPS COMPLIANCE CORP. AND SUBSIDIARIES

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PART I FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

SHARPS COMPLIANCE CORP. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS

(Unaudited)

(In thousands, except share and par value)

	September 30, 2015	June 30, 2015
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 15,956	\$ 15,157
Accounts receivable, net of allowance for doubtful accounts of \$39 and \$34, respectively	4,892	6,647
Inventory	3,419	2,738
Prepaid and other current assets	553	733
TOTAL CURRENT ASSETS	24,820	25,275
PROPERTY, PLANT AND EQUIPMENT, net	4,175	3,810
GOODWILL	413	-
INTANGIBLE ASSETS, net of accumulated amortization of \$406 and \$385, respectively	912	666
TOTAL ASSETS	\$ 30,320	\$ 29,751
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES		
Accounts payable	\$ 1,439	\$ 1,770
Accrued liabilities	2,034	1,917
Deferred revenue	1,910	1,877
TOTAL CURRENT LIABILITIES	5,383	5,564
LONG-TERM DEFERRED REVENUE, net of current portion	501	483
OTHER LONG-TERM LIABILITIES	221	118
TOTAL LIABILITIES	6,105	6,165
COMMITMENTS AND CONTINGENCIES		
STOCKHOLDERS' EQUITY		
Common stock, \$0.01 par value per share; 20,000,000 shares authorized; 15,676,466 and 15,575,041 shares issued, respectively and 15,485,216 and 15,383,791 shares outstanding, respectively	157	156
Treasury stock, at cost, 191,250 shares repurchased	(809)	(809)
Additional paid-in capital	24,752	24,344
Retained earnings (accumulated deficit)	115	(105)
TOTAL STOCKHOLDERS' EQUITY	24,215	23,586

TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$ 30,320	\$29,751
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The accompanying notes are an integral part of these condensed consolidated financial statements.

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CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(Unaudited)

(In thousands, except per-share data)

	Three-Months Ended September 30,	
	2015	2014
REVENUES	\$7,869	\$7,047
Cost of revenues	4,990	4,713
GROSS PROFIT	2,879	2,334
Selling, general and administrative	2,596	2,323
Depreciation and amortization	52	85
OPERATING INCOME (LOSS)	231	(74)
INTEREST INCOME	9	8
TOTAL INTEREST INCOME	9	8
INCOME (LOSS) BEFORE INCOME TAXES	240	(66)
INCOME TAX EXPENSE - Current	20	8
TOTAL INCOME TAX EXPENSE	20	8
NET INCOME (LOSS)	\$220	\$(74)
NET INCOME (LOSS) PER COMMON SHARE		
Basic	\$0.01	\$(0.00)
Diluted	\$0.01	\$(0.00)
WEIGHTED AVERAGE SHARES USED IN COMPUTING NET INCOME (LOSS) PER COMMON SHARE:		
Basic	15,419	15,288
Diluted	15,926	15,288

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

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SHARPS COMPLIANCE CORP. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

(Unaudited)

(In thousands, except share data)

	Common Stock Shares	Common Stock Amount	Treasury Stock Shares	Treasury Stock Amount	Additional Paid-in Capital	Retained Earnings (Accumulated Deficit)	Total Stockholders' Equity
Balances, June 30, 2014	15,460,940	\$ 155	(161,801)	\$ (681)	\$ 23,695	\$ (1,265)	\$ 21,904
Exercise of stock options	61,109	-	-	-	139	-	139
Stock-based compensation	-	-	-	-	511	-	511
Issuance of restricted stock	52,992	1	-	-	(1)	-	-
Shares repurchased	-	-	(29,449)	(128)	-	-	(128)
Net income	-	-	-	-	-	1,160	1,160
Balances, June 30, 2015	15,575,041	156	(191,250)	(809)	24,344	(105)	23,586
Exercise of stock options	101,425	1	-	-	267	-	268
Stock-based compensation	-	-	-	-	141	-	141
Net income	-	-	-	-	-	220	220
Balances, September 30, 2015	15,676,466	\$ 157	(191,250)	\$ (809)	\$ 24,752	\$ 115	\$ 24,215

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

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

	Three-Months Ended September 30, 2015 2014	
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income (loss)	\$220	\$(74)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation and amortization	188	242
Stock-based compensation expense	141	116
Changes in operating assets and liabilities, net of effects of business acquisition:		
Restricted cash	-	111
Accounts receivable	1,806	255
Legal settlement receivable	-	1,538
Inventory	(681)	(113)
Prepaid and other current assets	180	(144)
Accounts payable and accrued liabilities	(282)	331
Deferred revenue	51	334
NET CASH PROVIDED BY OPERATING ACTIVITIES	1,623	2,596
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property, plant and equipment	(462)	(46)
Payments for acquisition, net of cash acquired	(630)	-
NET CASH USED IN INVESTING ACTIVITIES	(1,092)	(46)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from exercise of stock options	268	-
Shares repurchased	-	(128)
NET CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES	268	(128)
NET INCREASE IN CASH AND CASH EQUIVALENTS	799	2,422
CASH AND CASH EQUIVALENTS, beginning of period	15,157	13,717
CASH AND CASH EQUIVALENTS, end of period	\$15,956	\$16,139
SUPPLEMENTAL CASH FLOW DISCLOSURES:		
Income taxes paid	\$85	\$10
Escrow related to acquisition	\$70	\$-

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

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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.), Sharps Safety, Inc. and Alpha Bio/Med Services LLC (collectively, “Sharps” 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 September 30, 2015, the results of its operations for the three months ended September 30, 2015 and 2014, cash flows for the three months ended September 30, 2015 and 2014 and stockholders’ equity for the three months ended September 30, 2015 and the year ended June 30, 2015. The results of operations for the three months ended September 30, 2015 are not necessarily indicative of the results to be expected for the entire fiscal year ending June 30, 2016. 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, 2015.

NOTE 3 - SIGNIFICANT ACCOUNTING POLICIES

Revenue Recognition: The Company recognizes revenue from product sales and services when goods are shipped or delivered, services provided, and title and risk of loss pass to the customer except for those sales via multiple-deliverable revenue 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. Service agreements which include a vendor managed inventory program include terms that meet the “bill and hold” criteria and as such are recognized when the order is completed at which point title has transferred, there are no acceptance provisions and amounts are segregated in the Company’s warehouse. During the three months ended September 30, 2015 and 2014, the Company recorded revenue from inventory builds that are held in vendor managed inventory under these service agreements of \$0.6 million and \$0.8 million respectively. As of September 30, 2015 and June 30, 2015, \$1.9 and \$1.6 million, respectively, of solutions sold through that date were held in vendor managed inventory pending fulfillment or shipment to patients of pharmaceutical manufacturers who offer these solutions to patients in an ongoing patient support program.

Certain products offered by the Company have revenue producing components that are recognized over multiple delivery points (Sharps Recovery System™ and various other solutions like the 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 owned or contracted facilities. The compliance and container system is mailed or delivered by an alternative logistics provider to the Company's owned or contracted facilities. 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, 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 compliance and container systems sold may not be returned. Accordingly, a portion of the transportation and treatment elements are recognized at the point of sale.

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Income Taxes: 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 a valuation allowance 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 our deferred tax assets to an amount that is more likely than not to be realized and is based on the uncertainty of the realization of certain federal and state deferred tax assets related to net operating loss carryforwards and other tax attributes.

Accounts Receivable: Accounts receivable consist primarily of amounts due to the Company 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.

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).

NOTE 4 – RECENTLY ISSUED ACCOUNTING STANDARDS

In May 2014, guidance for revenue recognition was issued which supersedes the revenue recognition requirements currently followed by the Company. The new guidance provides for a single five-step model to be applied in determining the amount and timing of the recognition of revenue related to contracts with customers. The new standard also requires additional financial statement disclosures that will enable users to understand the nature, amount, timing and uncertainty of revenue and cash flows relating to customer contracts. Companies have an option to use either a retrospective approach or cumulative effect adjustment approach to implement the standard. In July 2015, the FASB decided to defer the original effective date by one year to be effective for annual reporting periods beginning after December 15, 2017 instead of December 15, 2016 for public entities (effective July 1, 2018 for the Company). The Company is still evaluating the impact that the new accounting guidance will have on its consolidated financial statements and related disclosures and has not yet determined the method by which it will adopt the standard.

In July 2015, guidance for inventory measurement was issued, which supersedes the policy currently followed by the Company. The new guidance requires the Company to measure inventory at the lower of cost or net realizable value. The provisions of the new guidance are effective for annual reporting periods beginning after December 15, 2016 (effective July 1, 2017 for the Company) including interim periods within the reporting period. The Company is currently evaluating the impact of the new guidance on its consolidated financial statements.

In September 2015, guidance for business combinations was issued, which simplifies the accounting for measurement-period adjustments. The new guidance eliminates the requirement to restate prior period financial statements for measurement period adjustments following a business combination and requires that the cumulative impact of a measurement period adjustment (including the impact on prior periods) be recognized in the reporting period in which the adjustment is identified. The provisions of the new guidance are effective for annual reporting periods beginning after December 15, 2015 (effective July 1, 2016 for the Company) including interim periods within the reporting period. The Company is currently evaluating the impact of the new guidance on its consolidated financial statements.

NOTE 5 - INCOME TAXES

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 tax assets related to net operating loss carryforwards and other tax attributes. The Company's net deferred tax assets have been fully reserved by a tax valuation allowance.

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The Company's effective tax rate for the three months ended September 30, 2015 and 2014 was 8.3% and (12.1%), respectively, reflecting estimated state income taxes. The Company's tax expense associated with taxable income during the three months ended September 30, 2015 was offset by the utilization of net operating loss carryforwards. The Company's tax benefit associated with taxable losses during the three months ended September 30, 2014 was offset by a deferred tax valuation allowance.

NOTE 6 - NOTES PAYABLE AND LONG-TERM DEBT

On April 9, 2015, the Company entered into a credit agreement with a commercial bank ("Credit Agreement"). The Credit Agreement, which replaces, in its entirety, the Company's prior credit agreement, which was executed effective January 28, 2014 with the same commercial bank, provides for a two-year, \$9.0 million line of credit facility, the proceeds of which may be utilized as follows: (i) \$4.0 million for working capital, letters of credit (up to \$500,000) and general corporate purposes and (ii) \$5.0 million for acquisitions. Indebtedness under the Credit Agreement is secured by the Company's accounts receivable and inventory with advances outstanding under the working capital portion of the credit facility at any time limited to a Borrowing Base (as defined in the Credit Agreement) equal to 80% of eligible accounts receivable plus 50% of eligible inventory. Advances under the acquisition portion of the credit facility are limited to 75% of the purchase price of an acquired company and convert to a five-year term note. Borrowings bear interest at WSJ Prime (for the working capital line) and WSJ Prime plus 0.25% (for the acquisition line), which was approximately 3.25% and 3.50%, respectively, as of September 30, 2015. The Company pays a fee of 0.25% per annum on the unused amount of the line of credit. As of September 30, 2015, the Company had no outstanding borrowings other than \$0.3 million in letters of credit, which left \$8.7 million of credit available under the Credit Agreement.

The Credit Agreement contains affirmative and negative covenants that, among other things, require the Company to maintain a minimum level of tangible net worth of \$12.5 million, minimum liquidity of \$7.0 million and a minimum debt service coverage ratio of not less than 1.15 to 1.00. The Credit Agreement, which expires on April 9, 2017, also contains customary events of default which, if uncured, may terminate the Credit Agreement and require immediate repayment of all indebtedness to the lenders. The Company was in compliance with all the financial covenants under the Credit Agreement as of September 30, 2015.

NOTE 7 – STOCK-BASED COMPENSATION

Stock-based compensation cost for options and restricted stock awarded to employees and directors is measured at the grant date, and subsequent reporting periods, 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). Stock-based compensation costs from performance-based stock option awards are estimated at the date when key terms and conditions of the performance-based stock option award are known (the "service inception date"), and subsequent reporting periods, trued up at the grant date and recognized as expense over the employee's requisite period (from the service inception date through the end of the vesting period). During the three months ended September 30, 2015 and 2014, stock-based compensation amounts are as follows (in thousands):

Three-Months
Ended
September
30,
2015 2014
(Unaudited)

Stock-based compensation expense included in:

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Cost of revenues	\$ 8	\$ 4
Selling, general and administrative	133	112
Total	\$ 141	\$ 116

NOTE 8 - EARNINGS PER SHARE

Basic earnings per share is computed by dividing net income (loss) by the weighted average number of common shares outstanding during the period. Diluted per share is computed by dividing net income (loss) by the weighted average number of common shares after considering the additional dilution related to common stock options, restricted stock and performance-based stock option awards. In computing diluted earnings per share, the outstanding common stock options and performance-based stock option awards are considered dilutive using the treasury stock method.

The Company's restricted stock awards are treated as outstanding for earnings per share calculations since these shares have full voting rights and are entitled to participate in dividends declared on common shares, if any, and undistributed earnings. As participating securities, the shares of restricted stock are included in the calculation of basic EPS using the two-class method. For the periods presented, the amount of earnings allocated to the participating securities was not material.

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

	Three-Months Ended September 30, 2015 2014 (Unaudited)	
Net income (loss), as reported	\$220	\$(74)
Weighted average common shares outstanding	15,419	15,288
Effect of dilutive stock options	507	-
Weighted average diluted common shares outstanding	15,926	15,288
Net income (loss) per common share		
Basic	\$0.01	\$(0.00)
Diluted	\$0.01	\$(0.00)
Employee stock options excluded from computation of dilutive income per share amounts because their effect would be anti-dilutive	216	237

NOTE 9 - EQUITY TRANSACTIONS

During the three months ended September 30, 2015 and 2014, stock options to purchase shares of the Company's common stock were exercised as follows:

	Three-Months Ended September 30, 2015 2014 (Unaudited)	
Options Exercised	101,425	-
Proceeds (in thousands)	\$268	\$ -
Average exercise price per share	\$2.64	\$ -

As of September 30, 2015, there was \$0.6 million 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 2.95 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 \$3.0 million of its outstanding common stock over a two-year period. On March 5, 2015, the Board approved a two-year extension on the stock repurchase program through January 1, 2017. During the three months ended September 30, 2015 and 2014, shares were repurchased as follows:

Three-Months
Ended
September
30,

20152014
(Unaudited)

Shares repurchased	-	29,449
Cash paid for shares repurchased (in thousands)	\$ -	\$ 128
Average price paid per share	\$ -	\$ 4.35

Total shares repurchased under the program are 191,250 shares at a cost of \$0.8 million. As of September 30, 2015, approximately \$2.2 million remained of the Company's \$3.0 million repurchase program. Sharps purchased all shares with cash resources.

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NOTE 10 – INVENTORY

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

	September	
	30,	30,
	2015	2015
	(Unaudited)	
Raw materials	\$1,207	\$1,345
Finished goods	2,212	1,393
Total	\$3,419	\$2,738

NOTE 11 – FAIR VALUE OF FINANCIAL INSTRUMENTS

The Company considers the fair value of all financial instruments, including cash and cash equivalents, accounts receivable and accounts payable to approximate their carrying values at September 30, 2015 due to their short-term nature.

NOTE 12 – ACQUISITION

Effective on July 17, 2015, the Company acquired Alpha Bio/Med Services LLC, a route-based pickup service located in Pennsylvania for total cash consideration of \$0.7 million of which \$0.1 million has been withheld for possible settlement amounts through July 2016.

The following amounts represent the fair value of the assets acquired and liabilities assumed:

Accounts receivable	\$51
Fixed assets	70
Intangibles	267
Goodwill	413
Accounts payable and accrued liabilities	(101)
Total purchase price	\$700

During the three months ended September 30, 2015, the Company incurred \$0.1 million of acquisition related expenses for investment banking, legal and accounting fees which are included within selling, general and administrative expenses on our condensed consolidated statements of operations. The results of operations of the acquired business have been included in the condensed consolidated statements of operations from the date of acquisition.

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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 or 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 national provider of comprehensive waste management services including medical, pharmaceutical and hazardous. 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, hazardous waste 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), assisted living and long-term care facilities (assisted living, continuing care, long-term acute care, memory care and skilled nursing), government (federal, state and local), consumers, commercial and agriculture, as well as 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, pharmaceutical waste, hazardous waste 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"). For customers with facilities or locations that may generate larger quantities of medical waste, we integrate the route-based pick-up service into our complete offering. The benefits of this comprehensive offering include single point of contact, consolidated billing, integrated manifest and proof of destruction repository in addition to our cost savings. Furthermore, we provide comprehensive tracking and reporting tools that enable our customers to meet complex medical, pharmaceutical and hazardous waste disposal and 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).

As a leading full-service provider of comprehensive medical waste management services including medical, pharmaceutical and hazardous, our key markets include pharmaceutical manufacturers, home healthcare providers, assisted living/long-term care, retail pharmacies and clinics and the professional market which is comprised of physicians, dentists and veterinary practices. The Company's flagship product, the Sharp® Recovery System, is a comprehensive solution for the containment, transportation, treatment and tracking of medical waste and used

healthcare materials. In October 2014, the Company launched MedSafe[®], a patent pending solution for the safe collection, transportation and proper disposal of unwanted and expired prescription medications including controlled substances from ultimate users. MedSafe has been designed to meet or exceed the new regulations issued by the Drug Enforcement Administration (“DEA”) implementing the Secure and Responsible Drug Disposal Act of 2010 (the “Act”) which became effective October 9, 2014. In July 2015, the Company augmented its network of medical and hazardous waste service providers with an acquisition of a route-based pickup service in the northeast serving Pennsylvania, Maryland and parts of Ohio. Additionally, the Company has begun to service parts of Texas and Louisiana with route-based pickup service. Our other solutions include TakeAway Medication Recovery System[™], ComplianceTRACSM, Route-Based Pick-Up Service, Universal Waste Shipback Systems, TakeAway Environmental Return System[™], SharpsTrac[®], Sharps Secure[®] Needle Disposal System[™], Complete Needle[™] Collection & Disposal System, Pitch-It IV[™] Poles, Trip LesSystem[®], Sharps[®] Pump and Asset Return System, Sharps[®] MWMS[™] (a Medical Waste Management System (“MWMS”)) and Biohazard Spill Clean-up Kit and Recovery System[™].

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RESULTS OF OPERATIONS

The following analyzes changes in the consolidated operating results and financial condition of the Company during the three months ended September 30, 2015 and 2014. 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 September 30, 2015 % 2014 % (Unaudited)			
Revenues	\$7,869	100.0%	\$7,047	100.0%
Cost of revenues	4,990	63.4 %	4,713	66.9 %
Gross profit	2,879	36.6 %	2,334	33.1 %
SG&A expense	2,596	33.0 %	2,323	33.0 %
Depreciation and amortization	52	0.7 %	85	1.2 %
Operating income (loss)	\$231	2.9 %	\$(74)	(1.1 %)
Interest income	9	0.1 %	8	0.1 %
Income (loss) before income taxes	240	3.0 %	(66)	