SHARPS COMPLIANCE CORP
Form 10QSB
May 15, 2008

**UNITED STATES**
**SECURITIES AND EXCHANGE COMMISSION**

WASHINGTON, D.C. 20549

**FORM 10-QSB**

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

For the quarterly period ended March 31, 2008

o **TRANSITION REPORT UNDER SECTION 13 or 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from _________ to _________.

Commission File Number: 0-22390

**SHARPS COMPLIANCE CORP.**
(Exact name of small business issuer as specified in its charter)

| | |
|---|---|
| **Delaware** | **74-2657168** |
| (State or other jurisdiction of incorporation or organization) | (I.R.S. Employer Identification No.) |
| **9220 Kirby Drive, Suite 500, Houston, Texas** | **77054** |
| (Address of principal executive offices) | (Zip Code) |

**(713) 432-0300**
(Issuer's telephone number)

Check whether the issuer (1) has filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act during the past 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 x No o

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

**APPLICABLE ONLY TO CORPORATE ISSUERS**

State the number of shares outstanding of each of the issuer's classes of common equity, as of the latest practicable date:
12,565,183 shares of Common Stock, $0.01 par value as of May 13, 2008.

Transitional Small Business Disclosure Format (check one): Yes o No x

**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**

| | March 31, 2008 (Unaudited) | June 30, 2007 |
|---|---|---|
| ASSETS | | |
| CURRENT ASSETS | | |
| Cash and cash equivalents | $ 2,212,359 | $ 2,134,152 |
| Restricted cash | 10,010 | 10,010 |
| Accounts receivable, net of allowance for doubtful accounts of $15,605 and $15,793, respectively | 1,261,729 | 1,330,731 |
| Inventory | 529,995 | 364,005 |
| Prepaid and other assets | 206,947 | 186,101 |
| TOTAL CURRENT ASSETS | 4,221,040 | 4,024,999 |
| | | |
| PROPERTY AND EQUIPMENT, net of accumulated depreciation of $867,156 and $878,248, respectively | 1,206,300 | 590,567 |
| | | |
| INTANGIBLE ASSETS, net of accumulated amortization of $134,461 and $120,327, respectively | 125,570 | 75,002 |
| | | |
| TOTAL ASSETS | $ 5,552,910 | $ 4,690,568 |
| | | |
| LIABILITIES AND STOCKHOLDERS' EQUITY | | |
| | | |
| CURRENT LIABILITIES | | |
| Accounts payable | $ 490,449 | $ 557,302 |
| Accrued liabilities | 222,451 | 613,851 |
| Deferred revenue | 1,040,338 | 883,678 |
| Current maturities of capital lease obligations | - | 1,809 |
| TOTAL CURRENT LIABILITIES | 1,753,238 | 2,056,640 |
| | | |
| LONG-TERM DEFERRED REVENUE | 524,462 | 392,803 |
| | | |
| RENT ABATEMENT | - | 72,000 |
| | | |
| TOTAL LIABILITIES | 2,277,700 | 2,521,443 |
| | | |
| COMMITMENTS AND CONTINGENCIES | | |
| | | |
| STOCKHOLDERS' EQUITY | | |
| Common stock, $0.01 par value per share; 20,000,000 shares authorized; 12,505,183 and 11,998,453 shares issued and outstanding, respectively | 125,052 | 119,985 |
| Additional paid-in capital | 9,159,420 | 8,596,321 |
| Accumulated deficit | (6,009,262) | (6,547,181) |

| | | | | |
|---|---|---|---|---|
| TOTAL STOCKHOLDERS' EQUITY | | 3,275,210 | | 2,169,125 |
| TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY | $ | 5,552,910 | $ | 4,690,568 |

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

**SHARPS COMPLIANCE CORP. AND SUBSIDIARIES**
**CONDENSED CONSOLIDATED STATEMENTS OF INCOME (LOSS)**

| | For the Three Months Ended March 31, 2008 | 2007 |
|---|---|---|
| | (Unaudited) | |
| REVENUES | | |
| Product | $ 2,852,682 | $ 2,803,128 |
| Environmental services | 75,018 | 90,523 |
| TOTAL REVENUES | 2,927,700 | 2,893,651 |
| | | |
| COSTS AND EXPENSES | | |
| Cost of revenues | 1,786,892 | 1,681,437 |
| Selling, general and administrative | 1,174,449 | 952,608 |
| Special Charge | - | 138,000 |
| Depreciation and amortization | 69,684 | 52,313 |
| TOTAL COSTS AND EXPENSES | 3,031,025 | 2,824,358 |
| | | |
| OPERATING INCOME (LOSS) | (103,325) | 69,293 |
| | | |
| OTHER INCOME (EXPENSE) | | |
| Interest income | 20,565 | 16,133 |
| Interest expense | - | (322) |
| Other income | 500 | - |
| TOTAL OTHER INCOME | 21,065 | 15,811 |
| | | |
| INCOME (LOSS) BEFORE INCOME TAXES | (82,260) | 85,104 |
| | | |
| INCOME TAXES | (1,329) | (3,134) |
| | | |
| NET INCOME (LOSS) | $ (83,589) | $ 81,970 |
| | | |
| NET INCOME (LOSS) PER COMMON SHARE | | |
| Basic | $ ( .01) | $ .01 |
| | | |
| Diluted | $ (.01) | $ .01 |
| | | |
| WEIGHTED AVERAGE SHARES USED IN COMPUTING NET INCOME (LOSS) PER COMMON SHARE: | | |
| | | |
| Basic | 12,478,315 | 11,552,360 |
| Diluted | 12,478,315 | 13,395,644 |

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 INCOME**

| | For the Nine Months Ended March 31, 2008 | 2007 |
|---|---|---|
| | (Unaudited) | |
| REVENUES | | |
| Product | $ 9,784,250 | $ 8,819,371 |
| Environmental services | 285,364 | 246,941 |
| TOTAL REVENUES | 10,069,614 | 9,066,312 |
| | | |
| COSTS AND EXPENSES | | |
| Cost of revenues | 5,890,095 | 5,194,825 |
| Selling, general and administrative | 3,514,876 | 2,831,152 |
| Special Charge | - | 138,000 |
| Depreciation and amortization | 193,301 | 142,002 |
| TOTAL COSTS AND EXPENSES | 9,598,272 | 8,305,979 |
| | | |
| OPERATING INCOME | 471,342 | 760,333 |
| | | |
| OTHER INCOME (EXPENSE) | | |
| Interest income | 73,005 | 27,601 |
| Interest expense | (44) | (4,500) |
| Other Income | 500 | 32,500 |
| TOTAL OTHER INCOME | 73,461 | 55,601 |
| | | |
| INCOME BEFORE INCOME TAXES | 544,803 | 815,934 |
| | | |
| INCOME TAXES | (6,884) | (21,180) |
| | | |
| NET INCOME | $ 537,919 | $ 794,754 |
| | | |
| NET INCOME PER COMMON SHARE | | |
| Basic | $ .04 | $ .07 |
| Diluted | $ .04 | $ .07 |
| WEIGHTED AVERAGE SHARES USED IN COMPUTING NET INCOME PER COMMON SHARE: | | |
| Basic | 12,231,333 | 10,918,402 |
| Diluted | 13,515,878 | 11,971,720 |

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

**SHARPS COMPLIANCE CORP. AND SUBSIDIARIES**
**CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**

| | For the Nine Months Ended March 31, 2008 | 2007 |
|---|---|---|
| | (Unaudited) | |
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Net income | $ 537,919 | $ 794,754 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Depreciation and amortization | 193,301 | 142,002 |
| Stock based compensation expense | 44,212 | 1,762 |
| Excess tax benefits from stock-based award activity | (16,064) | - |
| Changes in operating assets and liabilities: | | |
| (Increase) decrease in accounts receivable | 69,002 | (392,557) |
| Increase in inventory | (165,990) | (144,284) |
| Increase in prepaid and other assets | (20,846) | (86,595) |
| Increase (decrease) in accounts payable and accrued liabilities | (442,052) | 180,771 |
| Increase in deferred revenue | 288,319 | 218,857 |
| NET CASH PROVIDED BY OPERATING ACTIVITIES | 487,801 | 714,710 |
| | | |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Purchase of property and equipment | (472,205) | (250,098) |
| Purchase of treatment facility | (350,000) | - |
| Improvements to treatment facility | (44,832) | - |
| Additions to intangible assets | (64,702) | (2,207) |
| NET CASH USED IN INVESTING ACTIVITIES | (931,739) | (252,305) |
| | | |
| CASH FLOWS FROM FINANCING ACTIVITIES | | |
| Payments on capital lease obligations | (1,809) | (37,657) |
| Excess tax benefits from stock-based award activity | 16,064 | - |
| Proceeds from exercise of stock options | 507,890 | 869,407 |
| NET CASH PROVIDED BY FINANCING ACTIVITIES | 522,145 | 831,750 |
| | | |
| NET INCREASE IN CASH AND CASH EQUIVALENTS | 78,207 | 1,294,155 |
| | | |
| CASH AND CASH EQUIVALENTS, beginning of period | 2,134,152 | 296,959 |
| | | |
| CASH AND CASH EQUIVALENTS, end of period | $ 2,212,359 | $ 1,591,114 |
| | | |
| SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION | | |
| Cash paid for interest | $ 44 | $ 4,498 |

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 it's 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" 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-QSB 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, 2008 and the results of its operations and cash flows for the three and nine months ended March 31, 2008 and 2007. The results of operations for the three and nine months ended March 31, 2008, are not necessarily indicative of the results to be expected for the entire fiscal year ending June 30, 2008. These unaudited condensed consolidated financial statements should be read in conjunction with the Company's Annual Report on Form 10-KSB for the year ended June 30, 2007.

## NOTE 3 - SIGNIFICANT ACCOUNTING POLICIES

### REVENUE RECOGNITION

The Company complies with the Securities and Exchange Commission's ("SEC") Staff Accounting Bulletin ("SAB") No. 101, "Revenue Recognition", which provides guidance related to revenue recognition based on interpretations and practices followed by the SEC. Under SAB No. 101, certain products offered by the Company have revenue producing components that are recognized over multiple delivery points (Sharps Disposal by Mail Systems, referred to as "Mailback" and Sharps Return Boxes, referred to as "Pump Returns") and can consist of up to three separate elements as follows: (1) the sale of the container system, (2) the transportation of the container system and (3) the treatment and disposal (incineration) of the container system. The individual fair value of the transportation and incineration services are determined by the sales price of the service offered by third parties, with the fair value of the container being the residual value. Revenue for the sale of the container is recognized upon delivery to the customer, at which time the customer takes title and assumes risk of ownership. Transportation revenue on Mailbacks is recognized when the customer returns the mailback container system and the container has been received at the Company's treatment facility. The Mailback container system is mailed to the incineration facility using the United States Postal Service ("USPS") or United Parcel Service ("UPS"). Incineration revenue is recognized upon the destruction and certification of destruction having been prepared on the container. Since the transportation element and the incineration elements are undelivered services at the point of initial sale of the container, the Mailback 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 incineration elements is recognized at the point of sale.

**NOTE 4 – RECENTLY ISSUED ACCOUNTING STANDARDS**

In June 2006, the FASB issued Interpretation No. 48 ("FIN 48"), Accounting for Uncertainty in Income Taxes - an interpretation of FASB Statement No. 109*,* to clarify certain aspects of accounting for uncertain tax position, including issues related to the recognition and measurement of those tax positions. The Company adopted the provisions of FIN 48 as of July 1, 2007. The adoption of FIN 48 did not have a material effect on the Company's consolidated financial statements. The Company classifies interest and penalties associated with the payment of income taxes in the Other Income (Expense) section of its consolidated statement of income (loss). Tax return filings which are subject to review by local tax authorities by major jurisdiction are as follows:

· United States – fiscal years ended June 2004, 2005, 2006 and 2007
· State of Texas – fiscal years ended June 2004, 2005, 2006 and 2007

In September 2006, the FASB issued Statement No. 157, "Fair Value Measurements." SFAS 157 defines fair value, establishes a framework and gives guidance regarding the methods used for measuring fair value, and expands disclosures about fair value measurements. SFAS 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years. The Company is currently evaluating the impact that this pronouncement may have on our consolidated financial statements.

In February 2007, the FASB issued SFAS No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities — including an Amendment of FASB Statement No. 115." This statement permits entities to choose to measure many financial instruments and certain other items at fair value that are not currently required to be measured at fair value and establishes presentation and disclosure requirements designed to facilitate comparisons between entities that choose different measurement attributes for similar types of assets and liabilities. SFAS 159 is effective as of the beginning of an entity's first fiscal year that begins after November 15, 2007. Early adoption is permitted as of the beginning of a fiscal year that begins on or before November 15, 2007, provided the entity also elects to apply the provisions of SFAS No. 157. The Company expects to adopt SFAS 159 beginning July 1, 2008. The Company is currently evaluating the impact that this pronouncement may have on our consolidated financial statements.

**NOTE 5 - INCOME TAXES**

During the three and nine months ended March 31, 2008 the Company recorded a provision of $1,329 and $6,884 for estimated income taxes. During the three and nine months ended March 31, 2007 the Company recorded a provision of $3,134 and $21,180 for estimated incomes taxes. For federal income tax purposes the Company is in an Alternative Minimum Tax ("AMT") situation. During the nine months ended March 31, 2008 the Company recorded a reduction to income taxes of $21,180 for prior year tax estimates to the tax return. The Company expects to utilize its net operating loss carry forwards to offset any ordinary taxable income for the year ending June 30, 2008.

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

Effective February 5, 2007, the Company entered into an Amended Credit Agreement with JPMorgan Chase Bank, N.A. ("Credit Agreement") which provides for a $2.5 million Line of Credit Facility the proceeds of which may be utilized for, (i) working capital, (ii) letters of credit (up to $200,000), (iii) acquisitions (up to $500,000) and (iv) general corporate purposes. Indebtedness under the Credit Agreement is secured by substantially all of the Company's assets. Borrowings bear interest at a fluctuating rate per annum equal to either, (i) prime rate or (ii) LIBOR plus a margin of 2.75%. Any outstanding revolving loans, and accrued and unpaid interest, will be due and payable on March 27, 2009, the maturity date of the facility. The aggregate principal amount of advances outstanding at any time under the Facility shall not exceed the Borrowing Base which is equal to, (i) 80% of Eligible Accounts Receivable (as defined) plus (ii) 50% of Eligible Inventory (as defined). The Credit Agreement contains affirmative and negative covenants that, among other items, require the Company to maintain a specified tangible net worth and fixed charge coverage ratio. The 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 lenders' commitment to make further loans may terminate and the Borrower may be required to make immediate repayment of all indebtedness to the lenders. The lender would also be entitled to pursue other remedies against the Company and the collateral. As of March 31, 2008, there were no borrowings under this Line Of Credit Facility and the Company was in compliance with all loan covenants. Under the Credit Agreement, and based upon the Company's March 31, 2008 level of accounts receivable and inventory, the amount available to borrow at quarter end was $1.3 million.

**NOTE 7 – STOCK-BASED COMPENSATION**

In December 2004, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards ("SFAS") No. 123 (revised 2004), *Share-Based Payment* ("SFAS 123R") that addresses the accounting for share-based payment transactions in which an enterprise receives employee services in exchange for equity instruments of the enterprise or liabilities that are based on the fair value of the enterprise's equity instruments or that may be settled by the issuance of such equity instruments. SFAS 123R eliminates the ability to account for share-based compensation transactions using the intrinsic value method under Accounting Principles Board Opinion No. 25, *Accounting for Stock Issued to Employees* ("APB 25"), and generally requires instead that such transactions be accounted for using a fair-value-based method. We adopted SFAS 123R beginning July 1, 2006. There is no compensation expense related to the unvested portion of stock options granted prior to July 1, 2006 since the Company's Board of Directors approved, in June 2006, the acceleration of the vesting of all unvested stock options previously awarded.

SFAS 123R requires the use of a valuation model to calculate the fair value of stock-based awards. The Company has elected to use the Black-Scholes-Merton ("BSM") pricing model to determine the fair value of stock- options on the dates of grant, consistent with that used for pro forma disclosures under SFAS No. 123, *Accounting for Stock-Based Compensation*. Restricted Stock Units ("RSUs") are measured based on the fair market values of the underlying stock on the dates of grant. The Company first awarded RSUs on July 2, 2007 (49,500 units).

The Company elected the modified prospective transition method as permitted by SFAS 123R, and accordingly, prior periods have not been restated to reflect the impact of SFAS 123R. Under this method, the Company is required to recognize stock-based compensation for all new and unvested stock-based awards that are ultimately expected to vest as the requisite service is rendered beginning July 1, 2006. Stock-based compensation is measured based on the fair values of all stock-based awards on the dates of grant.

For the three and nine months ended March 31, 2008, the Company recognized stock-based compensation expense of $23,774 and $44,212, respectively, which is included in the line item “selling, general and administrative expenses” of the Condensed Consolidated Statement of Income (Loss). Stock-based compensation expense recognized for the three and nine months ended March 31, 2007 was $1,762.

**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. In computing diluted earnings per share, the outstanding common stock options are considered dilutive using the treasury stock method. The following information is necessary to calculate earnings per share for the periods presented:

| | Nine Months Ended March 31, | | | |
|---|---|---|---|---|
| | **2008** | | **2007** | |
| | (Unaudited) | | | |
| Net income, as reported | $ | 537,919 | $ | 794,754 |
| | | | | |
| Weighted average common shares outstanding | | 12,231,333 | | 10,918,402 |
| Effect of Dilutive stock options | | 1,284,545 | | 1,053,318 |
| Weighted average diluted common shares outstanding | | 13,515,878 | | 11,971,720 |
| | | | | |
| Net income per common share | | | | |
| Basic | $ | 0.04 | $ | 0.07 |
| | | | | |
| Diluted | $ | 0.04 | $ | 0.07 |
| | | | | |
| Employee stock options excluded from computation of diluted income per share amounts because their effect would be anti-dilutive | | 150,000 | | - |

**NOTE 9 - STOCK TRANSACTIONS**

During the quarter ended March 31, 2008 stock options to purchase 320,000 of common shares were exercised. Total proceeds to the Company were $354,850 (average price of $1.11 per share). During the quarter ended March 31, 2007 stock options to purchase 992,802 of common shares were exercised. Total proceeds to the Company were $748,767 (average price of $0.75 per share).

During the nine months ended March 31, 2008, stock options to purchase 506,730 shares of common stock were exercised. Total proceeds to the Company were $507,890 (average price of $1.00 per share). During the nine months ended March 31, 2007, stock options to purchase 1,153,790 were exercised. Total proceeds to the company were $869,407 (average price of $0.75 per share).

**ITEM 2.**

**MANAGEMENT'S DISCUSSION AND ANALYSIS OR PLAN OF OPERATION**

**INFORMATION REGARDING FORWARD-LOOKING STATEMENTS**

*This quarterly report on Form 10-QSB contains certain forward-looking statements and information relating to Sharps 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," "estimate" and "intend" and words or phrases of similar import, as they relate to Sharps 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, estimated, expected or intended. The Company does not intend to update these forward-looking statements.*

**GENERAL**

Sharps is a leading developer and manufacturer of cost effective solutions for improving safety, efficiency and costs related to the proper disposal of medical waste by industry and consumers. Sharps primary markets include healthcare, retail, agriculture, hospitality, professional, industrial, commercial, governmental and pharmaceutical. The Company's products and services represent solutions for industries and consumers dealing with the complexity of managing regulatory compliance, environmental sensitivity, employee and customer safety, corporate risk and operating costs related to medical waste disposal. Sharps is a leading proponent and participant in the development of public awareness and solutions for the safe disposal of needles, syringes and other sharps in the community setting.

The Company's primary products include Sharps Disposal by Mail System®, Pitch-It™ IV Poles, Trip LesSystem®, Sharps Pump Return Box, Sharps Enteral Pump Return Box, Sharps Secure®, Sharps SureTemp Tote®, IsoWash® Linen Recovery System, Biohazard Spill Clean-Up Kit and Disposal System, Sharps e-Tools, Sharps Environmental Services and Sharps Consulting. Some products and services facilitate compliance with state and federal regulations by tracking, incinerating and documenting the disposal of medical waste. Additionally, some products and services facilitate compliance with educational and training requirements required by federal, state, and local regulatory agencies.

**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, 2008 and 2007.

The following table sets forth, for the periods indicated, certain items from the Company's Condensed Consolidated Statements of Income (Loss), expressed as a percentage of revenue (unaudited):

| | Three Months Ended March 31, | | Nine Months Ended March 31, | |
|---|---|---|---|---|
| | 2008 | 2007 | 2008 | 2007 |
| Net revenues | 100% | 100% | 100% | 100% |
| Costs and expenses: | | | | |
| Cost of revenues | (61)% | (58)% | (59)% | (57)% |
| Selling, general and administrative | (41)% | (33)% | (35)% | (31)% |
| Special Charge | - | (5)% | - | (2)% |
| Depreciation and amortization | (2)% | (2)% | (2)% | (2)% |
| Total operating expenses | (104)% | (98)% | (96)% | (92)% |
| Income (Loss) from operations | (4)% | 2% | 4% | 8% |
| Total other income | 1% | 1% | 1% | 1% |
| Net income (loss) | (3)% | 3% | 5% | 9% |

**THREE MONTHS ENDED MARCH 31, 2008 AS COMPARED TO THREE MONTHS ENDED MARCH 31, 2007**

Total revenues for the three months ended March 31, 2008 of $2,927,700 increased by $34,049, or 1.2%, over the total revenues for the three months ended March 31, 2007 of $2,893,651. Billings by market are as follows:

| | Three Months Ended March 31, | | |
|---|---|---|---|
| | **2008** | **2007** | **Variance** |
| | (Unaudited) | (Unaudited) | (Unaudited) |
| Billings by Market: | | | |
| Health Care | $ 1,734,401 | $ 1,650,912 | $ 83,489 |
| Pharmaceutical | 413,296 | 450,678 | (37,382) |
| Hospitality | 244,377 | 330,403 | (86,026) |
| Professional | 190,433 | 157,706 | 32,727 |
| Commercial/Industrial | 136,796 | 100,882 | 35,914 |
| ProTec | 106,920 | 93,424 | 13,496 |
| Agriculture | 96,848 | 98,073 | (1,225) |
| Retail | 43,951 | 49,413 | (5,462) |
| Other | 22,863 | 23,056 | (193) |
| Government | 17,759 | 43,158 | (25,399) |
| Subtotal | 3,007,644 | 2,997,705 | 9,939 |
| GAAP Adjustment* | (79,944) | (104,054) | 24,110 |
| Revenue Reported | $ 2,927,700 | $ 2,893,651 | $ 34,049 |

*Represents the net impact of the revenue recognition adjustment required to arrive at reported GAAP revenue. Customer billings includes 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 product 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 Part I, "Notes to Consolidated Financial Statements".

The increase in revenues is primarily attributable to increased billings in the Health Care ($83,489), Commercial/Industrial ($35,914), Professional ($32,727), and ProTec ($13,496) markets. These increases were partially offset by decreased billings in the Hospitality ($86,026), Pharmaceutical ($37,382), Government ($25,399), Retail ($5,462) and Agriculture ($1,225) markets. The increase in the Health Care market billings is a result of the growing number of patients in the health care industry and the increased utilization of the Sharps Disposal by Mail System® by home care branches. The increase in the Commercial/Industrial, Professional and ProTec markets is being driven by higher demand for the Company's products as industry and consumers become more aware of the proper disposal of medical sharps (syringes, lancets, etc.). The decrease in Hospitality is due to a large order completed in March 2007 for the Sharps Disposal by Mail System ® from a national hair care chain that is using the product to dispose of razor blades.

Cost of revenues for the three months ended March 31, 2008 of $1,786,892 was 61% of revenues. Cost of revenues for the three months ended March 31, 2007 of $1,681,437 was 58% of revenues. The decrease in gross margin is a result of increased costs, customers and product mix.

Selling, general and administrative ("S, G & A") expenses for the three months ended March 31, 2008 of $1,174,449, increased by $221,841, or 23%, over the S, G & A expenses for the three months ended March 31, 2007. The increase in S, G & A expense is primarily due to higher, (i) compensation expense ($92,519), (ii) professional fees ($41,112), (iii) non-cash stock-based compensation expense ($22,011) (iv) investor relations expenses ($21,931), (v) the cash portion of Board of Director compensation expense ($20,000) and (vi) office lease and related expense ($30,448). The increase in compensation expense was due primarily to the addition of personnel including increased sales and sales support staff. The professional fees increase is attributable to large contract sales initiative. The increase in investor relations expense is due to the Company's increased investor relations activity (conferences and presentations).

The Company generated an operating loss of ($103,325) for the three months ended March 31, 2008 compared to operating income of $69,293 for the three months ended March 31, 2007. The decrease in operating income is a result of the increase in S, G & A and decrease in Gross Margin as noted above.

Interest income increased from $16,133 to $20,565 as a result of higher cash balances for the respective periods.

The Company generated a pre-tax loss of $82,260 for the three months ended March 31, 2008 versus pre-tax income of $85,104 for the three months ended March 31, 2007. The decrease in the earnings for the period is a result of the increase in S, G & A and decrease in Gross Margin as noted above.

The Company reported a loss per share of ($0.01) for the three months ended March 31, 2008 versus earnings per share of $0.01 for the three months ended March 31, 2007. The reduction in diluted earnings per share is a result of decreased net income for the current fiscal year.

**NINE MONTHS ENDED MARCH 31, 2008 AS COMPARED TO NINE MONTHS ENDED MARCH 31, 2007**

Total revenues for the nine months ended March 31, 2008 of $10,069,614 increased by $1,003,302, or 11%, over the total revenues for the nine months ended March 31, 2007 of $9,066,312. Billings by market are as follows:

| | Nine Months Ended March 31, | | |
|---|---|---|---|
| | **2008** (Unaudited) | **2007** (Unaudited) | **Variance** (Unaudited) |
| Billings by Market: | | | |
| Health Care | $ 5,629,418 | $ 5,367,774 | $ 261,644 |
| Retail | 1,044,502 | 921,265 | 123,237 |
| Hospitality | 914,391 | 638,320 | 276,071 |
| Pharmaceutical | 869,579 | 507,611 | 361,968 |
| Professional | 529,934 | 432,758 | 97,176 |
| Agriculture | 363,846 | 439,978 | (76,132) |
| ProTec | 348,443 | 311,497 | 36,946 |
| Other | 107,136 | 103,888 | 3,248 |
| Commercial/Industrial | 413,044 | 417,736 | (4,692) |
| Government | 158,910 | 148,324 | 10,586 |
| Subtotal | 10,379,203 | 9,289,151 | 1,090,052 |
| GAAP Adjustment* | (309,589) | (222,839) | (86,750) |
| Revenue Reported | $ 10,069,614 | $ 9,066,312 | $ 1,003,302 |

*Represents the net impact of the revenue recognition adjustment required to arrive at reported GAAP revenue. Customer billings includes 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 product 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 Part I, "Notes to Consolidated Financial Statements".

The increase in revenues is primarily attributable to increased billings in the Pharmaceutical ($361,968), Hospitality ($276,071), Health Care ($261,644), Retail ($123,237), Professional ($97,176), ProTec ($36,946), Government ($10,586) and Other ($3,248) markets. These increases were partially offset by decreased billings in the Agriculture ($76,132) and Commercial/Industrial ($4,692) markets. The increase in the billings in the Pharmaceutical market is attributable to increased billings to a top ten pharmaceutical manufacturing customer under the previously announced $1.4 million purchase order. The increase in the Hospitality market reflects increased demand of the Sharps Disposal by Mail System® and Biohazard Spill Clean-Up Kit products by hotels, restaurants and assisted living facilities. The increase in the Health Care market billings is a result of the growing number of patients in the health care industry and the increased utilization of the Sharps Disposal by Mail System® by home care branches. The increase in the billings in the Retail market is a result of the use of the Company's Sharps Disposal By Mail System ® products in grocery stores and retail pharmacies to properly dispose of syringes utilized to administer flu and other inoculations. The decrease in the Agriculture market is primarily attributable to decreased demand of the Sharps Disposal by Mail System by a customer who provides the product to facilitate the injection of dairy cattle due to growing public concern over the use of hormones.

Cost of revenues for the nine months ended March 31, 2008 of $5,890,095 was 58% of revenues, which is consistent with the corresponding period of the prior year.

Selling, general and administrative ("S, G & A") expenses for the nine months ended March 31, 2008 of $3,514,876, increased by $683,724, or 24%, over the S, G & A expenses for the nine months ended March 31, 2007. The increase in S, G & A expense is primarily due to higher, (i) compensation expense ($240,950) (ii) office lease expense ($86,988), (iii) investor relations expenses ($82,238), (iv) sales and marketing related expenses ($71,779), (v) the cash portion of Board of Director compensation expense ($60,000), (vi) sales-related professional fees ($52,144), and (vii) non-cash stock-based compensation expense ($44,212). The increase in compensation expense was due primarily to the addition of personnel including increased sales and sales support staff. The increase in investor relations expense is due to the Company's increased investor relations activity (conferences, presentations, etc). The increase in travel is directly related to the Company's increased sales and marketing efforts. The professional fees increase is primarily for consulting work related to major sales initiatives.

The Company generated operating income of $471,342 for the nine months ended March 31, 2008 compared to $760,333 for the nine months ended March 31, 2007. The decrease in operating income is a result of the increase in S, G & A, partially offset by increased gross profit on increased revenue.

Other income included in the Company's statement of income for the nine months ended March 31, 2008 of $73,461 reflects an increase interest income of $45,404 and decrease in interest expense of $4,456. The increase in interest income is a result of higher cash balances during the respective periods. The reduction in interest expense is due to the lower corresponding capital lease balances. Other income for nine months ended March 31, 2007 also reflects the net proceeds of $32,500 from partial recovery and settlement of litigation.

The Company generated income before tax of $544,803 for the nine months ended March 31, 2008 versus a pre-tax income of $815,934 for the nine months ended March 31, 2007. The reduction in net income is due primarily to the increase in S, G & A for the respective periods.

The Company reported diluted earnings per share of $0.04 for the nine months ended March 31, 2008 versus diluted earnings per share of $0.07 for the nine months ended March 31, 2007. The reduction in diluted earnings per share is a result of, (i) decreased net income for the current fiscal year period and (ii) the adverse effect to earnings per share computation of a 1.5 million, or 13%, increase in the diluted shares outstanding (resulting from stock options exercised).

**PROSPECTS FOR THE FUTURE**

The Company continues to take advantage of the many opportunities in the markets served as communities, consumers and industries become more aware of the proper disposal of medical sharps (syringes, lancets, etc.). This education process was enhanced in March 2004 when the U. S. Environmental Protection Agency ("EPA") issued its new guidelines for the proper disposal of medical sharps (see www.epa.gov/epaoswer/other/medical/sharps.htm). Additionally, in July 2006 both the states of California and Massachusetts passed legislation designed to mandate appropriate disposal of sharps waste necessary to protect the general public and workers from potential exposure to contagious diseases and health and safety risks. In August 2007, the U.S. House of Representatives and U.S. Senate introduced bills 3251 and 1909, respectively, which would provide for Medicare reimbursement, under part D, for the safe and effective disposal of used needles and syringes. Among the methods of disposal recommended as part of the above noted regulatory actions are mail-back programs such as those marketed by the Company. The Company estimates that there are an estimated 2 billion used syringes disposed of in the United States outside of the hospital setting. Additionally, the Company estimates that it would require 30 - 40 million Sharps Disposal by Mail System® products to properly dispose of all such syringes, which would equate to a $1 billion small quantity generator market opportunity. Based upon the current level of sales, the Company estimates that this $1 billion market has only been penetrated by approximately 1% or less.

The Company continues to develop new products for all of its product lines. The Company believes its future growth will be driven by, among other items, (i) the positive impact and awareness created by the above noted regulatory actions as well as additional potential future legislation, (ii) the effects of the Company's extensive direct marketing efforts and (iii) continued brand awareness of the Sharps Disposal By Mail Systems®. The result of these direct marketing efforts was recognized with the receipt of the first major pharmaceutical manufacturer order, valued at $1.4 million, from a recognized and leading pharmaceutical manufacturer. The initial $0.45 million order was billed during March 2007 with fulfillment services to patients beginning in May 2007. In December 2007, an additional $400 thousand in product was shipped. In February 2008, the remaining approximate $400 thousand was billed, achieving virtually the entire contract value of $1.4 million. The Company is in discussions with this customer regarding renewal of the purchase order. Additionally, the Company is in discussion with several other pharmaceutical manufacturers regarding implementing similar patient support programs.

Demand for the Company's primary product, the Sharps Disposal by Mail System®, which facilitates the proper and cost-effective disposal of medical waste including hypodermic needles, lancets and other devices or objects used to puncture or lacerate the skin (referred to as "sharps"), has been growing rapidly in the small quantity generator sector because of its mail-back convenience and unique data tracking feature. In addition, targeted opportunities continue to expand as a result of the growing awareness of the need to properly handle sharps medical waste for safety and environmental concerns, the expanding need for self-injectable medications and the changing paradigm in the health industry.

**LIQUIDITY AND CAPITAL RESOURCES**

Cash and cash equivalents increased by $78,207 to $2,212,359 at March 31, 2008 from $2,134,152 at June 30, 2007. The increase in cash and cash equivalents is primarily a result of cash generated from operations of $487,801 plus proceeds from the exercise of stock options of $507,890, partially offset by additions to property and equipment of $472,205, purchase of and improvements to treatment facility $394,832, intangible assets of $64,702 and payment on capital lease obligations of $1,809.

Accounts receivable decreased by $69,002 to $1,261,729 at March 31, 2008 from $1,330,731 at June 30, 2007.

Inventory increased by $165,990 to $529,995 at March 31, 2008 from $364,005 at June 30, 2007. This increase is attributable to timing of shipments from overseas for the Pitch-It IV Poles.

Property and equipment increased by $615,733 to $1,206,300 at March 31, 2008 from $590,567 at June 30, 2007. This increase is attributable to capital expenditures of $867,037, partially offset by depreciation expense of $179,169 for the nine months ended March 31, 2008 and rent abatement of $72,135 (recorded in conjunction with the purchase of the previously leased facility. The capital expenditures are attributable to the purchase of, (i) treatment facility and land of $350,000 (ii) custom software programming and new system implementation of $264,973, (iii) warehouse/operations-related equipment $109,145, (iv) treatment facility improvements of $69,863, (v) molds, dies and printing plates for production of $50,119, (vi) computer equipment of $18,193 and (vii) office furniture and equipment of $4,744. The custom software program was incurred to upgrade the Company’s financial and operations system, as well as the Company’s proprietary Sharps Tracer ™ system. The warehouse/operations-related equipment was related to equipment necessary to accommodate the in-house assembly of the Company’s products and racking for additional warehouse space. The treatment facility improvements are related to installing the autoclave technology and facility improvements. The molds and printing plates were procured for development of new product and additional production capacity. The computer equipment was purchased to facilitate the upgrade of outdated equipment.

Accrued liabilities decreased by $391,400 to $222,451 at March 31, 2008 from $613,851 at June 30, 2007. The decrease is a result of (i) inventory received in warehouse and invoice received and paid in Accounts Payable ($164,863), (ii) payroll accrual ($88,812), (iii) Senior VP of Sales severance ($40,654), (iv) rebate accrual ($28,375), (v) contra payable for UPS refund ($20,000) and (iv) commission accrual ($11,797).

Stockholder’s equity increased by $1,106,085 from $2,169,125 at June 30, 2007 to $3,275,210 at March 31, 2008. This increase is attributable to (i) net income for the nine months ended March 31, 2008 of $537,919 and (ii) the effect of stock options to purchase 506,730 common stock exercised with proceeds of $507,890 (average exercise price of $1.00), (iii) the effect on equity of SFAS 123R expense of $44,212 and (iv) the excess tax benefits from stock-based award activity of $16,064.

**Disposal Facility**

In January 2008, Company purchased its previously leased disposal facility in Carthage, Texas. The purchase includes an incinerator with a maximum capacity of thirty (30) tons per day, a 12,000 square foot building and 4.5 acres of land.

Additionally, the Company has executed a purchase order for a state-of-the-art autoclave system and technology capable of treating up to seven (7) tons per day of medical waste at the same facility. Autoclaving is a process that treats medical waste with steam at high temperature and pressure to kill pathogens. An autoclave is environmentally cleaner and is a less costly method of treating most medical waste versus traditional incineration. The autoclave is expected to be placed in service in June of 2008.

With the addition of the autoclave, the Company believes it will own one of only approximately ten (10) permitted commercial disposal facilities in the country capable of treating all types of medical waste.

Sharps is also expanding its ability to dispose of unused medications and expired pharmaceutical waste including controlled substances. The Company has installed Drug Enforcement Agency (DEA) approved equipment necessary to obtain DEA certification for the disposal of controlled substances.

The total cost of the treatment facility purchase, addition of the autoclave technology and other planned improvements at the Carthage, Texas facility is estimated to be approximately $900,000 with $419,863 spent to date. The remainder is expected to be incurred in the fourth quarter of fiscal year 2008.

**New Operating and Accounting System**

The Company has recently implemented a project to replace and upgrade its integrated operations and accounting system. The Company’s existing system is approximately five (5) years old. The total cost of the project (including software, hardware and implementation fees) is estimated to range from $225,000 - $250,000 with $192,373 spent to date. The remainder is expected to be incurred during the fourth quarter of fiscal year 2008. The new system is expected to be placed in service by July 1, 2008.

Management believes that the Company’s current cash resources along with its $2.5 million line of credit will be sufficient to fund operations for the twelve months ending March 31, 2009.

**CRITICAL ACCOUNTING ESTIMATES**

Certain products offered by the Company have revenue producing components that are recognized over multiple delivery points and can consist of up to three separate elements as follows: (1) the sale of the container system, (2) the transportation of the container system and (3) the treatment and disposal (incineration) of the container system. Since the transportation element and the incineration elements are undelivered services at the point of initial sale of the container, the 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 incineration elements is recognized at the point of sale.

**Governmental Regulation**

*Operations and Incinerator*

Sharps is required to operate within guidelines established by federal, state, and/or local regulatory agencies. Such guidelines have been established to promote occupational safety and health standards and certain standards have been established in connection with the handling, transportation and disposal of certain types of medical and solid wastes, including mailed sharps. Sharps believes that it is currently in compliance in all material respects with all applicable laws and regulations governing its business. However, in the event additional guidelines are established to more specifically control the business of Sharps, including the environmental services subsidiary, additional expenditures may be required in order for Sharps to be in compliance with such changing regulations. Furthermore, any material relaxation of any existing regulatory requirements governing the transportation and disposal of medical sharps products could result in a reduced demand for Sharps' products and services and could have a material adverse effect on Sharps' revenues and financial condition. The scope and duration of existing and future regulations affecting the medical and solid waste disposal industry cannot be anticipated and are subject to change due to political and economic pressures.

In November 2005, the EPA amended the Clean Air Act which will affect the operations of the leased incineration facility located in Carthage, Texas. The regulation modifies the emission limits and monitoring procedures required to operate an incineration facility. The new rules will necessitate changes to the Company's leased incinerator and pollution control equipment at the facility or require installation of an alternative treatment method to ensure compliance. Such change would require the Company to incur significant capital expenditures in order to meet the requirements of the regulations. The regulation allows a minimum period of three years and a maximum of five years to comply after the date the final rule was published. The Company has studied the amended EPA Clean Air Act and its options, and has decided in the interim to move forward with the process of adding alternative technology, autoclaving, for medical waste disposal with plans to be fully operational in fiscal year 2009 at its current facility in Carthage, Texas. Autoclaving is a process that treats regulated waste with steam at high temperature and pressure to kill pathogens. Combining the autoclaving with a shredding or grinder process allows the waste to be disposed in a landfill operation. The Company believes autoclaving is environmentally cleaner and a less costly method of treating medical waste than incineration. See Disposal Facility section above for further information regarding the purchase of the Carthage, Texas facility and addition of autoclave technology.

*Proper Disposal of Medical Sharps*

The first significant regulatory development occurred in December 2004 with the improved guidance issued by the Environmental Protection Agency ("EPA") regarding the safe disposal of medical sharps (needles, syringes and lancets). This new guidance is a result of disposal problems created by the estimated 2 billion syringes discarded annually by self-injectors of medicines in homes and non-healthcare commercial facilities. Until December 2004, the EPA guidance has instructed consumers to place used sharps in a household container and to place the container in the household garbage. New guidance posted on the EPA website reflects information about alternative disposal methods including mail-back programs. The improved guidance issued by the EPA is a significant step toward the removal of needles, syringes and other sharps from the solid waste stream, consistent with the current practice in healthcare facilities. The Company's products and services, which are included in the EPA list of recommended solutions, are designed to improve safety, efficiency and patient concerns related to the proper disposal of medical sharps.

The next regulatory development was the enactment of California Senate Bill 1362, "The Safe Needle Disposal Act of 2004." This legislation authorizes California agencies to expand the scope of their existing household hazardous waste plans to provide for the safe disposal of medical sharps including hypodermic needles and syringes. Authorized disposal programs include the mail-back programs currently marketed by the Company.

In July 2006, the State of California passed Senate Bill 1305 (“SB 1305”), an amendment to The Medical Waste Management Act. The new law requires the proper disposal of home-generated sharps waste (syringes, needles, lancets, etc.) and acknowledges mail-back programs as one of the most convenient alternatives for the collection and destruction of home-generated sharps. Effective January 1, 2007 (with enforcement beginning September 1, 2008), SB 1305 addresses the need to meet the changing demands of healthcare provided in alternate sights that currently allows hundreds of millions of home-generated sharps waste to be disposed in solid waste and recycling containers. The new law is designed to ensure appropriate disposal of sharps waste necessary to protect the general public and workers from potential exposure to contagious diseases and health and safety risks.

Also in July 2006, The Massachusetts Legislature enacted Senate Bill 2569 which requires the Massachusetts department of public health, in conjunction with other relevant state and local agencies and government departments, to design, establish and implement a program for the collection and disposal of non-commercially generated, spent hypodermic needles and lancets. Recommended disposal methods include mail-back products approved by the U.S. Postal Service such as the Sharps Disposal By Mail Systems®. The Massachusetts legislation addresses the need for proper disposal of used syringes, needles and lancets outside of the traditional healthcare setting.

In addition to California and Massachusetts, other states are considering similar options.

In August 2007, the U.S. House of Representatives and U.S. Senate introduced bills 3251 and 1909, respectively, which would provide for Medicare reimbursement, under part D, for the safe and effective disposal of used needles and syringes through a sharps-by-mail or similar program. This legislation proposes Medicare coverage for the safe needle disposal for approximately 1.3 million insulin-dependent diabetic beneficiaries and is intended to reduce the number of accidental injuries, infections and subsequent costs associated with the improper disposal of approximately 4 million needles generated daily by Medicare covered diabetics. The Company's Sharps Disposal By Mail Systems® is an example of the cost-effective and easy-to-use solution recommended in the legislation.

**RECENTLY ISSUED ACCOUNTING STANDARDS**

In June 2006, the FASB issued Interpretation No. 48 ("FIN 48"), Accounting for Uncertainty in Income Taxes - an interpretation of FASB Statement No. 109, to clarify certain aspects of accounting for uncertain tax position, including issues related to the recognition and measurement of those tax positions. The Company adopted the provisions of FIN 48 as of July 1, 2007. The adoption of FIN 48 did not have a material effect on the Company's consolidated financial statements. The Company classifies interest and penalties associated with the payment of income taxes in the Other Income (Expense) section of its consolidated statement of income (loss). Tax return filings which are subject to review by local tax authorities by major jurisdiction are as follows:

- United States – fiscal years ended June 2004, 2005, 2006 and 2007
- State of Texas – fiscal years ended June 2004, 2005, 2006 and 2007

In September 2006, the FASB issued Statement No. 157, "Fair Value Measurements." SFAS 157 defines fair value, establishes a framework and gives guidance regarding the methods used for measuring fair value, and expands disclosures about fair value measurements. SFAS 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years. The Company is currently evaluating the impact that this pronouncement may have on our consolidated financial statements.

In February 2007, the FASB issued SFAS No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities — Including an Amendment of FASB Statement No. 115." This statement permits entities to choose to measure many financial instruments and certain other items at fair value that are not currently required to be measured at fair value and establishes presentation and disclosure requirements designed to facilitate comparisons between entities that choose different measurement attributes for similar types of assets and liabilities. SFAS 159 is effective as of the beginning of an entity's first fiscal year that begins after November 15, 2007. Early adoption is permitted as of the beginning of a fiscal year that begins on or before November 15, 2007, provided the entity also elects to apply the provisions of SFAS No. 157. The Company expects to adopt SFAS 159 beginning July 1, 2008. The Company is currently evaluating the impact that this pronouncement may have on our consolidated financial statements.

**ITEM 3. CONTROLS AND PROCEDURES**

The Company maintains disclosure controls and procedures that are designed to ensure that material information required to be disclosed in the Company's periodic reports filed or submitted under the Securities Exchange Act of 1934, as amended (the "Exchange Act"), is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms. The Company's disclosure controls and procedures are also designed to ensure that information required to be disclosed in the reports the Company files or submits under the Exchange Act is accumulated and communicated to the Company's management, including, its principal executive officer and principal financial officer as appropriate, to allow timely decisions regarding required disclosure.

During the quarter the Company carried out an evaluation, under the supervision and with the participation of the Company's management, including the chief executive officer and the chief financial officer, of the effectiveness of the design and operation of the disclosure controls and procedures, as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act. Based upon that evaluation, the Company's chief executive officer and chief financial officer concluded that the Company's disclosure controls and procedures were effective, as of the end of the period covered by this report (March 31, 2008).

During the quarter ended March 31, 2008, there were no changes in the Company's internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) of the Exchange Act) that materially affected or are reasonably likely to materially affect internal control over financial reporting.

The certifications required by Section 302 of the Sarbanes-Oxley Act of 2002 are filed as exhibits 31.1 and 31.2, respectively, to this Quarterly Report on Form 10-QSB.

## PART II – OTHER INFORMATION

### ITEM 1. LEGAL PROCEEDINGS

***Patent Infringement Litigation***

In May 2007, the Company filed patent infringement lawsuits in the United States District Court for the Southern District of Texas in Houston against Medi-Supply, Inc. (a/k/a or f/k/a Medi-Supply Alliance, LLC and Medi-Supply, Inc. "MediSupply") and Drive Medical Design & Manufacturing ("Drive Medical") for infringement of three U.S. patents. The complaints allege that MediSupply and Drive Medical infringe the patents by making, selling, and offering for sale disposable IV poles which are identical to the Company's Pitch-It ™ IV Pole.

On January 2, 2008, the Company announced the settlement of the patent dispute with MediSupply and Drive Medical. In conjunction with the settlement, Drive Medical will be the exclusive manufacturer and Sharps will be the exclusive seller of the Sharps Pitch-It™ IV Poles. Additionally, Drive Medical and MediSupply will no longer sell IV Pole products that infringe upon Sharps' patents. The settlement resolved all issues between the parties related to the patent litigation. As part of the exclusivity agreement, Sharps agreed to a minimum annual purchase commitment of $600,000 in IV Pole product a year. The Company believes it will purchase more than $600,000 in IV Pole products from Drive Medical on an annual basis.

**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)

**ITEMS 2, 3, 4, AND 5 ARE NOT APPLICABLE AND HAVE BEEN OMITTED.**

## SIGNATURES

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

| | | |
|---|---|---|
| | REGISTRANT: | |
| | SHARPS COMPLIANCE CORP. | |
| Dated: May 15, 2008 | By: | /s/ Dr. Burton J. Kunik<br>Chairman of the Board of Directors,<br>Chief Executive Officer and President |
| Dated: May 15, 2008 | By: | /s/ David P. Tusa<br>Executive Vice President,<br>Chief Financial Officer,<br>Business Development and<br>Corporate Secretary |