

SHARPS COMPLIANCE CORP  
Form 10-Q  
November 03, 2011

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UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

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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, 2011

OR

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

For the transition period from to .

Commission File Number: 001-34269

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

Delaware  
(State or other jurisdiction of  
incorporation or organization)

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

9220 Kirby Drive, Suite 500, Houston, 77054  
Texas  
(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

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

As of November 2, 2011, there were 15,067,427 outstanding shares of the Registrant's common stock, par value \$0.01 per share.

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## 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  
 (In thousands, except par value)

	September 30, 2011 (Unaudited)	June 30, 2011
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	\$ 18,414	\$ 18,280
Accounts receivable, net of allowance for doubtful accounts of \$29 and \$26, respectively	2,844	3,065
Inventory	1,943	1,770
Prepaid and other current assets	872	857
Deferred income taxes	258	203
<b>TOTAL CURRENT ASSETS</b>	<b>24,331</b>	<b>24,175</b>
PROPERTY, PLANT AND EQUIPMENT, net	5,211	5,350
DEFERRED INCOME TAXES, non-current	878	748
INTANGIBLE ASSETS, net of accumulated amortization of \$234 and \$227, respectively	353	325
<b>TOTAL ASSETS</b>	<b>\$ 30,773</b>	<b>\$ 30,598</b>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
<b>CURRENT LIABILITIES</b>		
Accounts payable	\$ 1,156	\$ 965
Accrued liabilities	1,424	1,260
Deferred revenue	1,851	1,724
<b>TOTAL CURRENT LIABILITIES</b>	<b>4,431</b>	<b>3,949</b>
LONG-TERM DEFERRED REVENUE	396	401
OTHER LONG TERM LIABILITIES	262	383
<b>TOTAL LIABILITIES</b>	<b>5,089</b>	<b>4,733</b>
<b>COMMITMENTS AND CONTINGENCIES</b>		
<b>STOCKHOLDERS' EQUITY</b>		
Common stock, \$0.01 par value per share; 20,000 shares authorized;		

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15,067 and 15,053 shares issued and outstanding, respectively	151	151
Additional paid-in capital	21,746	21,602
Retained earnings	3,787	4,112
<b>TOTAL STOCKHOLDERS' EQUITY</b>	<b>25,684</b>	<b>25,865</b>
<b>TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY</b>	<b>\$ 30,773</b>	<b>\$ 30,598</b>

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

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

	Three-Months Ended September 30,	
	2011	2010
	(Unaudited)	
REVENUES	\$5,743	\$5,233
<b>COSTS AND EXPENSES</b>		
Cost of revenues	3,924	3,421
Selling, general and administrative	2,210	2,375
Special charge	-	570
Depreciation and amortization	107	89
<b>TOTAL COSTS AND EXPENSES</b>	<b>6,241</b>	<b>6,455</b>
<b>OPERATING LOSS</b>	<b>(498 )</b>	<b>(1,222 )</b>
<b>OTHER INCOME (LOSS)</b>		
Other income (loss)	(3 )	13
<b>TOTAL OTHER INCOME (LOSS)</b>	<b>(3 )</b>	<b>13</b>
<b>LOSS BEFORE INCOME TAXES</b>	<b>(501 )</b>	<b>(1,209 )</b>
<b>INCOME TAX BENEFIT</b>		
Current	(2 )	(361 )
Deferred	(174 )	(51 )
<b>TOTAL INCOME TAX BENEFIT</b>	<b>(176 )</b>	<b>(412 )</b>
<b>NET LOSS</b>	<b>\$(325 )</b>	<b>\$(797 )</b>
<b>NET LOSS PER COMMON SHARE</b>		
Basic	\$(0.02 )	\$(0.05 )
Diluted	\$(0.02 )	\$(0.05 )
<b>WEIGHTED AVERAGE SHARES USED IN COMPUTING NET LOSS PER COMMON SHARE:</b>		
Basic	15,065	14,907
Diluted	15,065	14,907

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



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

	Common Stock		Additional	Retained	Total
	Shares	Amount	Paid-in Capital	Earnings	Stockholders' Equity
Balances, June 30, 2010	14,891,754	\$ 149	\$ 19,705	\$ 7,087	\$ 26,941
Exercise of stock options	62,500	1	48	-	49
Stock-based compensation	-	-	871	-	871
Issuance of restricted stock	99,062	1	(1 )	-	-
Excess tax benefit from stock-based award activity	-	-	979	-	979
Net Income	-	-	-	(2,975 )	(2,975 )
Balances, June 30, 2011	15,053,316	151	21,602	4,112	25,865
Exercise of stock options*	14,103	-	13	-	13
Stock-based compensation*	-	-	119	-	119
Excess tax benefit from stock-based award activity*	-	-	12	-	12
Net Loss*	-	-	-	(325 )	(325 )
Balances, September 30, 2011*	15,067,419	\$ 151	\$ 21,746	\$ 3,787	\$ 25,684

\* unaudited

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

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

	Three-Months Ended	
	September 30,	
	2011	2010
	(Unaudited)	
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net loss	\$(325 )	\$(797 )
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation and amortization	270	250
Loss on disposal of fixed assets	13	-
Stock- based compensation expense	119	215
Excess tax benefits from stock-based award activity	(12 )	(7 )
Deferred tax benefit	(174 )	(51 )
Changes in operating assets and liabilities:		
Decrease in accounts receivable	221	88
Increase in inventory	(173 )	(154 )
(Increase) decrease in prepaid and other current assets	(15 )	1,550
Increase in accounts payable and accrued liabilities	234	330
Increase in deferred revenue	123	313
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>	<b>281</b>	<b>1,737</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchase of property, plant and equipment	(137 )	(144 )
Additions to intangible assets	(35 )	(62 )
<b>NET CASH USED IN INVESTING ACTIVITIES</b>	<b>(172 )</b>	<b>(206 )</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Excess tax benefits from stock-based award activity	12	7
Proceeds from exercise of stock options	13	2
<b>NET CASH PROVIDED BY FINANCING ACTIVITIES</b>	<b>25</b>	<b>9</b>
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>	<b>134</b>	<b>1,540</b>
CASH AND CASH EQUIVALENTS, beginning of period	18,280	18,068
CASH AND CASH EQUIVALENTS, end of period	\$18,414	\$19,608

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



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

NOTE 1 - ORGANIZATION AND BACKGROUND

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

NOTE 2 - BASIS OF PRESENTATION

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with the rules and regulations of the Securities and Exchange Commission (“SEC”) for interim financial information and with instructions to Form 10-Q and, accordingly, do not include all information and footnotes required under accounting principles generally accepted in the United States of America for complete financial statements. In the opinion of management, these interim condensed consolidated financial statements contain all adjustments (consisting of normal recurring adjustments) considered necessary for a fair presentation of the consolidated financial position of the Company as of September 30, 2011, the results of its operations and cash flows for the three months ended September 30, 2011 and 2010 and stockholders’ equity for the year ended June 30, 2011 and three months ended September 30, 2011. The results of operations for the three months ended September 30, 2011 are not necessarily indicative of the results to be expected for the entire fiscal year ending June 30, 2012. 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, 2011.

NOTE 3 - SIGNIFICANT ACCOUNTING POLICIES

REVENUE RECOGNITION

The Company recognizes revenue from product sales when goods are shipped or delivered, and title and risk of loss pass to the customer except for those sales via multiple-deliverable arrangements. Provisions for certain rebates, product returns and discounts to customers are accounted for as reductions in sales in the same period the related sales are recorded.

Product discounts granted are based on the terms of arrangements with direct, indirect and other market participants, as well as market conditions, including prices charged by competitors. Rebates are estimated based on contractual terms, historical experience, trend analysis and projected market conditions in the various markets served.

The Company recognizes revenue in accordance with guidance on revenue recognition of multiple-deliverable revenue arrangements. On July 1, 2010, the Company adopted ASU No. 2009-13 which further clarified guidance on revenue recognition for multiple-deliverable revenue arrangements, changing the way the Company allocates arrangement consideration to the separate units of accounting. Under this guidance, certain products offered by the Company have revenue producing components that are recognized over multiple delivery points (Sharps Recovery System™ (formerly the Sharps Disposal by Mail Systems®) and various TakeAway Environmental Return Systems™ referred to as “Mailbacks” and Sharps® Pump and Asset Return Boxes, referred to as “Pump Returns”) and can consist of up to three separate elements, or units of measure, as follows: (1) the sale of the compliance and container system, (2)

return transportation and (3) treatment service.

Prior to July 1, 2010, the individual fair value of the transportation and treatment services were determined by the sales price of the service offered by third parties, with the fair value of the compliance and container being the residual value. Beginning July 1, 2010, under 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. Because an estimated selling price must be set for each unit, the residual method used previously by the Company to allocate consideration to the compliance and container system is no longer allowed. The selling price for the transportation revenue and the treatment revenue, which utilizes third party evidence, did not change from the prior method. The Company estimates the selling price of the compliance and container system based on the product and services provided including compliance with local, state and Federal laws, adherence to stringent manufacturing and testing requirements, safety to the patient and the community as well as storage and containment capabilities.

Revenue for the sale of the compliance and container is recognized upon delivery to the customer, at which time the customer takes title and assumes risk of ownership. Transportation revenue is recognized when the customer returns the compliance and container system and the container has been received at

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

#### ACCOUNTS RECEIVABLE

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

#### NOTE 4 – RECENTLY ISSUED ACCOUNTING STANDARDS

There are no recently issued accounting pronouncements that impact the Company's condensed consolidated financial statements as of September 30, 2011.

#### NOTE 5 - INCOME TAXES

The Company's effective tax rate for the three months ended September 30, 2011 was 35.1% compared to 34.1% for the three months ended September 30, 2010 and 33.8% for the fiscal year ended June 30, 2011. The increase in the effective rate is primarily due to a decrease in the anticipated benefit relating to the Domestic Production Activities Deduction and the decrease in the state income tax rate.

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

The Company's Credit Agreement with Wells Fargo Bank, National Association provides for a two-year, \$5.0 million line of credit facility, the proceeds of which may be utilized for: (i) working capital, (ii) capital expenditures, (iii) letters of credit (up to \$500,000), (iv) acquisitions (up to \$1,000,000) and (v) general corporate purposes. As of September 30 2011, the Company had no outstanding borrowings, \$106 thousand in letters of credit outstanding, and \$4.9 million of credit available.

Indebtedness under the Credit Agreement is secured by substantially all of the Company's assets. Borrowings bear interest at either (i) a fluctuating rate per annum equal to LIBOR plus a margin of 250 basis points or (ii) at the Company's option, a fixed rate for a 30, 60, or 90 day period set at the option date's LIBOR plus a margin of 250 basis points. Any outstanding revolving loans, and accrued and unpaid interest, will be due and payable on July 15, 2012, the maturity date of the Credit Agreement. The Company pays a fee of 0.2% per annum on the unused amount of the line of credit. The Company estimates that the interest rate applicable to the borrowings under the Credit Agreement would be approximately 2.9% as of September 30, 2011.

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 \$21 million and not exceed a ratio of liabilities to tangible net

worth of 1.0 to 1.0. As of September 30, 2011, the Company is in compliance with all financial covenants. 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 Company may be required to make immediate repayment of all indebtedness to the lenders. The Credit Agreement expires on July 15, 2012.

#### NOTE 7 – STOCK-BASED COMPENSATION

Stock-based compensation cost is measured at the grant date, based on the calculated fair value of the award, and is recognized as an expense over the employee's requisite service period (generally the vesting period of the equity grant). Total stock-based compensation for the three months ended September 30, 2011 and 2010 was \$119 thousand (\$20 thousand included in cost of revenues and \$99 thousand included in general and administrative expense in the Company's condensed consolidated statement of operations) and \$215 thousand (\$19 thousand included in cost of revenues and \$196 thousand included in general and administrative expense in the Company's condensed consolidated statement of operations), respectively. Reductions in taxes payable resulting from tax deductions that exceed the recognized tax benefit associated with compensation expense (excess tax benefits) are classified as financing cash flows and as an increase to additional paid in capital. The Company's excess tax benefits included in its cash flows from financing activities for the three months ended September 30, 2011 and 2010 was \$12 thousand and \$7 thousand, respectively.

In conjunction with the retirement and separation agreement of Dr. Burton Kunik, effective September 30, 2010, the Company recognized an additional \$73 thousand in stock-based compensation expense which is included in the Special Charge on the accompanying statement of operations for the three months ended September 30, 2010.

#### NOTE 8 - EARNINGS PER SHARE

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

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

	Three-Months Ended	
	September 30,	
	2011	2010
	(Unaudited)	
Net loss, as reported	\$ (325 )	\$ (797 )
Weighted average common shares outstanding	15,065	14,907
Effect of dilutive stock options	-	-
Weighted average diluted common shares outstanding	15,065	14,907
Net loss per common share		
Basic	\$ (0.02 )	\$ (0.05 )
Diluted	\$ (0.02 )	\$ (0.05 )
Employee stock options excluded from computation of dilutive income per share amounts because their effect would be anti-dilutive	520	389

#### NOTE 9 - EQUITY TRANSACTIONS

During the three months ended September 30, 2011 and 2010, stock options to purchase shares of the Company's common stock were exercised as follows:



	Three-Months Ended	
	September 30,	
	2011	2010
	(Unaudited)	
Options exercised	14,103	2,000
Proceeds (in thousands)	\$ 13	\$ 2
Average exercise price per share	\$ 0.95	\$ 0.84

As of September 30, 2011, there was \$508 thousand of stock option and restricted stock compensation expense related to non-vested awards which is expected to be recognized over a weighted average period of 1.8 years.

## NOTE 10 – INVENTORY

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

	September 30, 2011	June 30, 2011
	(Unaudited)	
Raw materials	\$ 1,048	\$ 790
Finished goods	895	980
Total	\$ 1,943	\$ 1,770

## NOTE 11 – FAIR VALUE OF FINANCIAL INSTRUMENTS

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

ITEM 2.

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

INFORMATION REGARDING FORWARD-LOOKING STATEMENTS

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

GENERAL

Sharps Compliance Corp. is a leading full-service provider of cost-effective management solutions for medical waste, used healthcare materials and unused dispensed medications. Our solutions facilitate the proper treatment of numerous types of medical waste, used healthcare materials and unused dispensed medications, including hypodermic needles, lancets and other devices or objects used to puncture or lacerate the skin, or sharps, and unused dispensed prescription and over-the-counter drugs and medications. We serve customers in multiple markets such as government (federal, state and local), home health care, retail clinics and immunizing pharmacies, pharmaceutical manufacturers, professional offices (physicians, dentists and veterinarians), hospitality (including assisted living facilities, hotels, motels and restaurants), consumers, commercial, industrial and agriculture, and distributors to many of the aforementioned markets. We assist our customers in determining which of our distinct solution offerings best fit their needs for the collection, storage, return transportation and treatment of their or their patients' medical waste and unused dispensed medications. Our differentiated approach provides our customers the flexibility to return and ultimately properly treat their or their patients' medical waste or unused dispensed medications through pre-paid mail services primarily through the United States Postal Service ("USPS"). Furthermore, we provide comprehensive tracking and reporting tools that enable our customers to meet complex medical waste disposal and unused dispensed patient medication compliance requirements. We believe the fully-integrated nature of our operations is a key factor leading to our success and continued recurring revenue growth. The Company's primary solutions include Sharps Recovery System™ (formerly Sharps Disposal by Mail System®), TakeAway Recovery System™, Complete Needle™ Collection and Disposal System, TakeAway Environmental Return System™, Rx TakeAway Recovery and Reporting System™, Sharps Recovery System™ Needle Collection and Mailback Disposal, Sharps® MWMS™, Sharps Secure® Needle Collection and Containment System, Pitch-It IV™ Poles, Trip LesSystem®, Sharps® Pump and Asset Return System, IsoWash® Linen Recovery System and Biohazard Spill Clean-Up Kit and Disposal System.

## 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, 2011 and 2010. 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,			
	2011	%	2010	%
	(Unaudited)			
Revenue	\$ 5,743	100.0 %	\$ 5,233	100.0 %
Cost of revenue	3,924	68.3 %	3,421	65.4 %
Gross profit	1,819	31.7 %	1,812	34.6 %
SG&A expense	2,210	38.5 %	2,375	45.4 %
Special charge	-	0.0 %	570	10.9 %
Depreciation and amortization	107	1.9 %	89	1.7 %
Operating loss	(498 )	(8.7 %)	(1,222 )	(23.4 %)
Other income (loss)	(3 )	(0.1 %)	13	0.2 %
Loss before income taxes	\$ (501 )	(8.7 %)	\$ (1,209 )	(23.1 %)
Income tax benefit	(176 )	(3.1 %)	(412 )	(7.9 %)
Net loss	\$ (325 )	(5.7 %)	\$ (797 )	(15.2 %)
Net loss per share				
Basic	\$ (0.02 )		\$ (0.05 )	
Diluted	\$ (0.02 )		\$ (0.05 )	

## THREE MONTHS ENDED SEPTEMBER 30, 2011 AS COMPARED TO THREE MONTHS ENDED SEPTEMBER 30, 2010

Total revenues for the three months ended September 30, 2011 of \$5.7 million increased by \$0.5 million, or 9.7%, over the total revenues for the three months ended September 30, 2010 of \$5.2 million. Billings by market are as follows (in thousands):

	Three-Months Ended September 30,		
	2011	2010	Variance
	(Unaudited)		
<b>BILLINGS BY MARKET:</b>			
Home Health Care	\$ 1,767	\$ 2,013	\$ (246 )

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Retail	1,723	1,892	(169 )
U.S Government Contract	722	380	342
Core Government	125	220	(95 )
Professional	702	472	230
Assisted Living /			
Hospitality	300	280	20
Pharmaceutical	270	130	140
Other	269	349	(80 )
Subtotal	5,878	5,736	142
GAAP Adjustment *	(135 )	(503 )	368
Revenue Reported	\$ 5,743	\$ 5,233	\$ 510

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

This Quarterly Report on Form 10-Q contains certain financial information not derived in accordance with GAAP, including customer billings information. The Company believes this information is useful to investors and other interested parties as customer billings represents all invoiced amounts associated with products shipped during the period reported. Such information should not be considered as a substitute for any measures derived in accordance with GAAP, and may not be comparable to other similarly titled measures of other companies. Reconciliation of this information to the most comparable GAAP measures is included above.

The increase in revenues is primarily attributable to increased billings in the U.S. Government Contract (\$0.3 million), Professional (\$0.2 million) and Pharmaceutical (\$0.1 million) markets. These increases in billings were partially offset by decreased billings in the Home Health Care (\$0.2 million), Retail (\$0.2 million) and Core Government (\$0.1 million) markets. U.S. Government Contract billings are associated with the Company's contract with a major U.S. government agency announced in February 2009. The increase in the U.S. Government contract market billings is due to the start of the second option year, which includes a higher payment for increased maintenance service fees than the first option year. The increase in the Professional market was a direct result of the Company's targeted telemarketing activities, new website and corresponding promotional activities to educate doctors, dentists and veterinarians on the significant cost advantage and the convenience of the Sharps Recovery System™ over the traditional pick-up service. In addition, the Professional market billings increased due to higher distributor network sales to the professional market which were up based on ordering patterns. The increase in the Pharmaceutical market billings is due to the timing of customer orders; including one of two patient support programs announced in August 2011 which launched earlier than expected. The programs include the direct fulfillment of the Sharps Recovery System® to the pharmaceutical manufacturers' program participants which provides the proper containment, return and treatment of the needles or injection devices utilized in therapy. The decrease in billings in the Home Health Care market was primarily due to timing of sales to home health care related distributors addressing the growing trend of patient volumes in the home health care industry. The decrease in the Retail market is primarily due to higher sales in the prior year of the Sharps TakeAway Environmental Return System™ as a result of the initial rollout of the solution to the country's largest drugstore chain. Partially offsetting this decrease was sales from the initial fill of the Complete Needle™ Collection & Disposal System in the country's largest drugstore chain. The level of Core Government market billings reflects the completion of the VA Pilot Program. The VA has assigned an internal representative to evaluate the pilot and what a potential nationwide rollout would entail. Revenue was positively impacted by an increase in the GAAP adjustment of \$0.4 million primarily related to the mix of products sold in the prior year and the impact on deferrals.

Cost of revenues for the three months ended September 30, 2011 of \$4.0 million was 68.3% of revenues. Cost of revenues for the three months ended September 30, 2010 of \$3.4 million was 65.4% of revenue. The lower gross margin for the quarter ended September 30, 2011 of 31.7% (versus 34.6% for the quarter ended September 30, 2010) was due to unscheduled maintenance and repairs at the Company's treatment facility and up-front costs related to the initial rollout of the Complete Needle™ Collection & Disposal System.

Selling, general and administrative ("SG&A") expenses for the three months ended September 30, 2011 of \$2.2 million, decreased by \$0.2 million, from SG&A expenses of \$2.4 million for the three months ended September 30, 2010. The decrease in SG&A is primarily due to lower compensation and benefit expense including payroll tax of \$0.3 million (primarily due to timing of employee hires and terminations). The decrease was partially offset by increased professional expenses of \$0.1 million (primarily due to regulatory and consulting fees, legal fees, audit and related fees and other sales-related consulting fees).

During the first quarter of fiscal year 2011, the Company recorded a special charge of \$0.6 million on a pre-tax basis, or \$0.02 per diluted loss per share, which represents expenses incurred with the retirement of the Company's former Chief Executive Officer, Dr. Burton Kunik. The special charge consists of (i) severance-related items totaling \$0.5 million and (ii) non-cash stock-based compensation expense of \$0.1 million (resulting from accelerated vesting of stock option awards). The Company paid Dr. Kunik \$0.1 million in September 2010 and \$0.4 million in April 2011 related to the expenses noted above.

The Company generated an operating loss of \$0.5 million for the three months ended September 30, 2011 compared to an operating loss of \$1.2 million for the three months ended September 30, 2010. The operating margin was (8.7%) for the three months ended September 30, 2011 compared to (23.4%) for the three months ended September 30, 2010. The improvement in operating loss is a result of the higher sales volume as well as strong cost discipline and focused use of resources on targeted markets primarily Retail, Pharmaceutical, Professional and Core Government markets

(discussed above).

The Company generated a loss before tax of \$0.5 million for the three months ended September 30, 2011 versus a loss before tax of \$1.2 million for the three months ended September 30, 2010. The improvement in income before tax is a result of a lower operating loss (discussed above).

The Company's effective tax rate for the three months ended September 30, 2011 was 35.1% compared to 34.1% for the three months ended September 30, 2010 and 33.8% for the fiscal year ended June 30, 2011. The increase in the effective rate is primarily due to a decrease in the anticipated benefit relating to the Domestic Production Deduction Activities and the decrease in the state income tax rate.

The Company generated a net loss of \$0.3 million for the three months ended September 30, 2011 compared to a net loss of \$0.8 million for the three months ended September 30, 2010. The improvement is result of a lower operating loss (discussed above).

The Company reported diluted loss per share of (\$0.02) for the three months ended September 30, 2011 versus diluted loss per share of (\$0.05) for the three months ended September 30, 2010. The improvement in diluted earnings per share is a result of a lower operating loss (discussed above).

## PROSPECTS FOR THE FUTURE

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

Recent data from the Human Capital Management Services Group indicates that the number of used needles improperly disposed of outside the large healthcare setting and into the solid waste system has tripled over the past ten years to 7.8 billion each year and the number of self-injectors in the country has increased to 13.5 million over the same period. The Company estimates that it would require over 80 million Sharps Recovery System™ (formerly Sharps Disposal by Mail System®) products to properly dispose of all such syringes, which would equate to a market opportunity of over \$2 billion.

There are an estimated 800,000 doctors, dentists, veterinarians, clinics, tattoo parlors and other businesses in the country that generate smaller quantities of medical waste, including used syringes. These offices and facilities, which must demonstrate proper management of their medical waste, comprise a market opportunity of approximately \$600 million, based on estimates of using our solution offerings rather than the traditional pick-up service in what we characterize as a regulated market.

Additionally, an estimated 40% of the four billion dispensed medication prescriptions go unused every year in the United States generating an estimated 200 million pounds of unused medication waste. The Company estimated the market opportunity for the proper recovery and management of the unused medications to be at least \$1 billion per year.

The Company continues to develop new solution offerings including the Complete Needle™ Collection and Disposal System (designed for the traditional under-served home self-injector), the Sharps Medical Waste Management System™, the TakeAway line of products for unused medications (including TakeAway Environmental Return System™), the Medical/Professional TakeAway Recovery System™ and the RX TakeAway Recovery and Reporting System which offers the collection, storage, audit, witnessed treatment and documentation of unused medications such as flu vaccines, Tamiflu, and Relenza. These innovative product and service offerings allow us to gain further sales from existing customers as well as gain new customers who have a need for more comprehensive products. The Company continues to develop solution offerings designed to facilitate the proper and cost effective solutions for management of medical waste, used healthcare materials and unused dispensed medication to better serve our customers and the environment. The Company believes its future growth will be driven by, among other items: (i) the convergence of issues regarding the environment, the cost of health care and changes in our health care delivery system and cost-savings initiatives which influence the decision process of our customers, (ii) the effects of the Company's extensive multi-layered marketing and awareness efforts and (iii) the Company's leadership position in the development and sales of products and services designed for the proper and cost effective solutions for management of medical waste, used healthcare materials and unused dispensed.

In August 2011, the Company introduced the Complete Needle™ Collection and Disposal System which is focused on the traditional under-served home self-injector required to regularly use needles or syringes for their health and well-being, such as people with diabetes. The Complete Needle™ Collection and Disposal System is actually two



offerings in one. First, the product provides the individual self-injector with a reasonably priced containment solution designed to protect self-injectors and their family members. Second, the product includes an optional disposal feature utilizing the USPS designed to protect the individual's community, solid waste workers and the environment. The solution offers significant convenience as it utilizes the same delivery channel, the retail pharmacy, that the self-injector typically uses to obtain medications, for example, insulin, and needles or syringes. The solution is also designed to enhance the interaction between the pharmacist and the individual thereby creating counseling opportunities and possibly better treatment outcomes.

The Sharps®MWMS™, a Medical Waste Management System ("MWMS"), is a comprehensive medical waste and dispensed medication solution which includes an array of products and services necessary to effectively collect, store and treat medical waste and unused dispensed medication outside of the hospital or large health care facility setting. In February 2009, the Company announced a \$40 million contract (the "U.S. Government Contract") award to provide its Sharps®MWMS™ to a major U.S. government agency. The total contract is expected to be executed over a five year period (one year plus four option years). On February 1, 2009, the Company received a purchase order for \$28.5 million (\$6.0 million of which was recognized in fiscal year 2009, \$22.5 million was recognized in the first half of fiscal year 2010). In January 2010, Sharps was awarded the first option year (ended January 31, 2011) valued at approximately \$1.6 million and was recognized from February 1, 2010 through January 31, 2011. In January 2011, Sharps was awarded the second option year (ending January 31, 2012) valued at approximately \$3.0 million and is to be recognized from February 1, 2011 through January 31, 2012. There is expected to be approximately \$3.0 million in revenue in calendar year 2011 for the maintenance component of the contract including \$1.5 million in the second half of calendar year 2011 (\$0.7 million was recognized in the first quarter of fiscal year 2012). The remaining two option years are expected to be approximately

\$3.0 million per contract year. Although, the Company believes the amounts above to be reasonable based upon the underlying contract and its current project plan, it makes no assurances regarding the actual recognition of revenue by fiscal year, which could vary significantly from that noted above. The successful execution of this program demonstrates the attractiveness of our integrated, full-service system that enables government agencies and commercial organizations to completely outsource the planning and execution of their emergency preparedness and disaster relief planning as it relates to medical waste handling and rapid response capabilities. In addition to the Sharps®MWMS™, we continue to add similar full-service, patient support programs with major pharmaceutical manufacturers whereby we provide a customized Sharps Recovery System™ (formerly Sharps Disposal by Mail System®) along with fulfillment, inventory management, storage and data services, as well as provide critical patient usage data that assists the manufacturers in assessing drug effectiveness and compliance.

In January 2010, the Company announced a pilot program with the United States Department of Veterans Affairs (“VA”). The program was launched within the VA Capitol Health Care Network (“Veterans Integrated Service Network 5” or “VISN 5”), which provided quality health care for eligible veterans in Maryland and portions of Virginia, West Virginia, and Pennsylvania, as well as the District of Columbia. The pilot allowed each of the participating medical centers within the VISN 5 region, both inpatient and outpatient, to provide the Sharps Recovery System™ (formerly known as the Sharps® Disposal By Mail System®) and the TakeAway Environmental Return System™ solutions to their patients. Since its original launch, the pilot program expanded to include eight VISN’s (encompassing twenty-two states plus the District of Columbia). There are a total of twenty-three VISN’s in the VA System. The VISN network is part of the Veterans Health Administration which encompasses the largest integrated health care system in the United States, consisting of 153 medical centers, in addition to numerous community based outpatient clinics, community living centers and Vet Centers. Together these health care facilities provide comprehensive care to over 5.5 million Veterans each year. The VA Pilot, which was completed in the first quarter of fiscal year 2012, was conducted in 22 states plus the District of Columbia. The VA has assigned an internal representative to evaluate the pilot and what a potential nationwide rollout would entail.

The Company believes the pace of regulation of sharps and unused dispensed medications disposal is gaining momentum at both the state and federal level. In December 2004, the U. S. Environmental Protection Agency (“EPA”) issued its new guidelines for the proper disposal of medical sharps, revising the previous guidance that advised patients to dispose of used syringes in the trash (see <http://www.epa.gov/wastes/nonhaz/industrial/medical/med-govt.pdf>). 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 April 2011, the U.S. Senate re-introduced a bill (S.725) which, if enacted, would provide for Medicare reimbursement, under part D, for the safe and effective disposal of used needles and syringes. To protect citizens and waste workers from needle stick injuries, eighteen states and the District of Columbia (covering 43% of the U.S. population) restrict or have introduced legislation to restrict discarding used sharps into household trash and twenty-nine states and the District of Columbia (covering 65% of the U.S. population) have enacted or introduced legislation to regulate the disposal of consumer unused medications to reduce pollution of the environment. As state and federal enforcement of these statutes increases, more companies will turn to solutions such as ours to help manage their medical waste and regulatory compliance. The Company believes it is well positioned to benefit given our strict adherence to established standards and extensive documentation and records.

The Company’s growth strategies are focused on the Retail, Pharmaceutical, Professional and Government (both Core and U.S. Government contract) markets. The Company also serves the Home Health Care, Assisted Living/Hospitality and Other markets. The Pharmaceutical market billings for the three months ended September 30, 2011 more than doubled over the prior year as a result of timing of customer orders primarily related to the early initiation of one of the two patient support programs awarded in August 2011 with major pharmaceutical manufacturers. The Company expects the second program to rollout in the December 2011 quarter and expects both to be fully implemented over a

six- to nine-month period. The combined programs are expected to generate annual revenue in excess of \$2.0 million once fully implemented. Another patient support program, announced in October 2011, is expected to launch in the March 2012 quarter with estimated annual revenue generation in excess of \$1.0 million after a six- to nine-month implementation period.

In October 2011, the Company announced the promotional program being offered for the Complete Needle™ Collection & Disposal System in support of National Diabetes Month sponsored by a leading global insulin manufacturer and the nation's largest drugstore chain. Within this promotion program, the pharmaceutical manufacturer and the retail pharmacy in effect purchase the solutions from the Company and provide it at no cost to the user through rebates and redemption codes printed at the register. The Company believes this could serve as a model program for the country and that larger participation and sponsorship of the offering by other retail channels as well as additional drug and ancillary product manufacturers could follow.

The Company currently has a cash balance of \$18.4 million and no debt as of September 30, 2011. Under the Company's Credit Agreement ("the Credit Agreement") with Wells Fargo, National Association, the Company had no outstanding borrowings, \$106 thousand in letters of credit outstanding, and \$4.9 million of credit available.

## LIQUIDITY AND CAPITAL RESOURCES

### Cash Flow

Cash and cash equivalents increased by \$0.1 million to \$18.4 million at September 30, 2011 from \$18.3 million at June 30, 2011. The increase in cash and cash equivalents is primarily due to the timing of collections from orders related to billings in the current quarter and fourth quarter of fiscal year 2011.

Accounts receivable decreased by \$0.3 million to \$2.8 million at September 30, 2011 from \$3.1 million at June 30, 2011. The decrease is due to higher billings in June 2011 which were collected during the first quarter of fiscal year of 2012.

Inventory increased by \$0.2 million to \$2.0 million at September 30, 2011 from \$1.8 million at June 30, 2011. The increase in inventory is due to build up of new product lines in the current quarter in preparation for new programs.

Property, plant and equipment, net decreased by \$139 thousand to \$5.2 million at September 30, 2011 from \$5.3 million at June 30, 2011. The decrease in property and equipment is related to depreciation expense of \$263 thousand, partially offset by capital expenditures of \$137 thousand. The capital expenditures are attributable primarily to the purchase of, (i) computer equipment, new website project and custom software programming of \$114 thousand, (ii) manufacturing and assembly equipment including molds, dies and printing plates of \$12 thousand primarily for new product development, (iii) treatment facility improvement of \$5 thousand and (iv) general leasehold improvements for the warehouse of \$6 thousand.

Stockholders' equity decreased by \$0.2 million to \$25.7 million at September 30, 2011 from \$25.9 million at June 30, 2011. This decrease is primarily attributable to (i) a net loss for the three months ended September 30, 2011 of \$0.3 million. The impact was partially offset by (i) the effect on equity (credit) of non-cash stock based award expense of \$0.1 million and (ii) the excess tax benefits from stock-based award activity of \$12 thousand.

### Off -Balance Sheet Arrangements

The Company entered into certain off-balance sheet arrangements in the ordinary course of business that result in risks not directly reflected in our balance sheets. The Company's most significant off-balance sheet transactions include commitments associated with non-cancelable operating leases. The Company has other off-balance sheet obligations involving letters of credit.

The Company entered into non-cancelable operating leases for certain of our facility, vehicle and equipment needs. These leases allow us to conserve cash by paying a monthly lease rental fee for use of facilities, vehicles and equipment rather than purchasing them. At the end of the lease, the Company has no further obligation to the lessor. If we decide to cancel or terminate a lease before the end of its term, we would typically owe the lessor the remaining lease payments under the term of the lease.

### Credit Facility

The Company's Credit Agreement with Wells Fargo Bank, National Association provides for a two-year, \$5.0 million line of credit facility, the proceeds of which may be utilized for: (i) working capital, (ii) capital expenditures, (iii) letters of credit (up to \$500,000), (iv) acquisitions (up to \$1,000,000) and (v) general corporate purposes. As of September 30 2011, the Company had no outstanding borrowings, \$106 thousand in letters of credit outstanding, and \$4.9 million of credit available.

Indebtedness under the Credit Agreement is secured by substantially all of the Company's assets. Borrowings bear interest at either (i) a fluctuating rate per annum equal to LIBOR plus a margin of 250 basis points or (ii) at the Company's option, a fixed rate for a 30, 60, or 90 day period set at the option date's LIBOR plus a margin of 250 basis points. Any outstanding revolving loans, and accrued and unpaid interest, will be due and payable on July 15, 2012, the maturity date of the Credit Agreement. The Company pays a fee of 0.2% per annum on the unused amount of the line of credit. The Company estimates that the interest rate applicable to the borrowings under the Credit Agreement would be approximately 2.9% as of September 30, 2011.

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 \$21 million and not exceed a ratio of liabilities to tangible net worth of 1.0 to 1.0. As of September 30, 2011, the Company is in compliance with all financial covenants. 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 Company may be required to make immediate repayment of all indebtedness to the lenders. The Credit Agreement expires on July 15, 2012.

Management believes that the Company's current cash resources (cash on hand and cash generated from operations) along with its \$5.0 million line of credit with Wells Fargo Bank will be sufficient to fund operations for the twelve months ending September 30, 2012.

## CRITICAL ACCOUNTING ESTIMATES

The Company recognizes revenue from product sales when goods are shipped or delivered, and title and risk of loss pass to the customer except for those sales via multiple-deliverable arrangements. Provisions for certain rebates, product returns and discounts to customers are accounted for as reductions in sales in the same period the related sales are recorded.

Product discounts granted are based on the terms of arrangements with direct, indirect and other market participants, as well as market conditions, including prices charged by competitors. Rebates are estimated based on contractual terms, historical experience, trend analysis and projected market conditions in the various markets served.

The Company recognizes revenue in accordance with guidance on revenue recognition of multiple-deliverable revenue arrangements. On July 1, 2010, the Company adopted ASU No. 2009-13 which further clarified guidance on revenue recognition for multiple-deliverable revenue arrangements, changing the way the Company allocates arrangement consideration to the separate units of accounting. Under this guidance, certain products offered by the Company have revenue producing components that are recognized over multiple delivery points (Sharps Recovery System™ (formerly the Sharps Disposal by Mail Systems®) and various TakeAway Environmental Return Systems™ referred to as “Mailbacks” and Sharps® Pump and Asset Return Boxes, referred to as “Pump Returns”) and can consist of up to three separate elements, or units of measure, as follows: (1) the sale of the compliance and container system, (2) return transportation and (3) treatment service.

Prior to July 1, 2010, the individual fair value of the transportation and treatment services were determined by the sales price of the service offered by third parties, with the fair value of the compliance and container being the residual value. Beginning July 1, 2010, under 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. Because an estimated selling price must be set for each unit, the residual method used previously by the Company to allocate consideration to the compliance and container system is no longer allowed. The selling price for the transportation revenue and the treatment revenue, which utilizes third party evidence, did not change from the prior method. The Company estimates the selling price of the compliance and container system based on the product and services provided including compliance with local, state and Federal laws, adherence to stringent manufacturing and testing requirements, safety to the patient and the community as well as storage and containment capabilities.

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

## RECENTLY ISSUED ACCOUNTING STANDARDS

There are no recently issued accounting standards that impact the Company’s consolidated financial statements as of September 30, 2011.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

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

## ITEM 4. CONTROLS AND PROCEDURES

### Evaluation of Disclosure Controls and Procedures

The Company maintains “disclosure controls and procedures”, as such term is defined in Rule 13a-15(e) under the Exchange Act, that are designed to ensure that information required to be disclosed in our Exchange Act reports is recorded, processed, summarized and reported within the time periods specified in the SEC rules and forms, and that such information is accumulated and communicated to management, including, the Chief Executive Officer (“CEO”) and the Chief Financial Officer (“CFO”) as appropriate, to allow timely decisions regarding required disclosure.

As of September 30, 2011, the Company conducted an evaluation (the “Evaluation”), under the supervision and with the participation of the CEO and CFO, of the effectiveness of the design and operation of our disclosure controls and procedures (“Disclosure Controls”), pursuant to Rules 13a-15(e) and 15d-15(e) of the Exchange Act. Based upon this Evaluation, the CEO and CFO concluded that our Disclosure Controls were effective as of September 30, 2011.

### Changes in Internal Control over Financial Reporting

During the quarter ended September 30, 2011, there were no changes in the Company’s internal controls over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) of the Exchange Act), that have materially affected, or are reasonably likely to materially affect the Company’s internal control over financial reporting.

### CEO and CFO Certifications

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

## PART II – OTHER INFORMATION

### ITEM 1. LEGAL PROCEEDINGS

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

### ITEM 1A. RISK FACTORS

Refer to Item 1A. Risk Factors in the Company’s annual report on Form 10-K for the year ended June 30, 2011 for the Company’s risk factors. During the quarter ended September 30, 2011, there have been no changes to the Company’s risk factors.

### ITEM 4. [REMOVED and RESERVED]



ITEM 6. EXHIBITS

(a) Exhibits:

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

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

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

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

101.INS XBRL Instance Document (filed herewith)

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

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

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

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

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

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

SIGNATURES

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

REGISTRANT:  
SHARPS COMPLIANCE CORP.

Dated: November 3, 2011

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

Dated: November 3, 2011

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

