SHARPS COMPLIANCE CORP
Form 10-Q
May 03, 2016

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended March 31, 2016
OR

TRANSITION REPORT PURSUANT TO SECTION 13 or 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from _______ to ________ .

Commission File Number: 001-34269

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

Delaware	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
(Registrant's telephone number, including area code)

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).
Yes No

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

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

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

As of May 2, 2016, there were 15,444,843 outstanding shares of the Registrant's common stock, par value $0.01 per share.

SHARPS COMPLIANCE CORP. AND SUBSIDIARIES

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PART I FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

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

	March 31, 2016	June 30, 2015
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	$ 13,446	$ 15,157
Accounts receivable, net of allowance for doubtful accounts of $58 and $34, respectively	3,976	6,647
Inventory	4,137	2,738
Prepaid and other current assets	812	733
TOTAL CURRENT ASSETS	22,371	25,275
PROPERTY, PLANT AND EQUIPMENT, net	4,532	3,810
GOODWILL	1,039	-
INTANGIBLE ASSETS, net of accumulated amortization of $467 and $385, respectively	1,164	666
TOTAL ASSETS	$ 29,106	$ 29,751
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES		
Accounts payable	$ 1,508	$ 1,770
Accrued liabilities	1,238	1,917
Deferred revenue	2,173	1,877
TOTAL CURRENT LIABILITIES	4,919	5,564
LONG-TERM DEFERRED REVENUE, net of current portion	495	483
OTHER LONG-TERM LIABILITIES	235	118
TOTAL LIABILITIES	5,649	6,165
COMMITMENTS AND CONTINGENCIES		
STOCKHOLDERS' EQUITY		
Common stock, $0.01 par value per share; 20,000,000 shares authorized; 15,740,458 and 15,575,041 shares issued, respectively and 15,444,843 and 15,383,791 shares outstanding, respectively	158	156
Treasury stock, at cost, 295,615 and 191,250 shares repurchased, respectively	(1,554)	(809)
Additional paid-in capital	25,165	24,344
Accumulated deficit	(312)	(105)
TOTAL STOCKHOLDERS' EQUITY	23,457	23,586

TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$ 29,106	$ 29,751

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 OPERATIONS
(Unaudited)
(In thousands, except per-share data)

	Three-Months Ended March 31, 2016	2015
REVENUE	$6,652	$6,171
Cost of revenue	4,959	4,511
GROSS PROFIT	1,693	1,660
Selling, general and administrative	2,709	2,411
Depreciation and amortization	88	57
OPERATING LOSS	(1,104)	(808)
INTEREST INCOME	8	9
LOSS BEFORE INCOME TAXES	(1,096)	(799)
INCOME TAX (BENEFIT) EXPENSE - Current	(54)	13
TOTAL INCOME TAX (BENEFIT) EXPENSE	(54)	13
NET LOSS	$(1,042)	$(812)
NET LOSS PER COMMON SHARE		
Basic	$(0.07)	$(0.05)
Diluted	$(0.07)	$(0.05)
WEIGHTED AVERAGE SHARES USED IN COMPUTING NET LOSS PER COMMON SHARE:		
Basic	15,462	15,360
Diluted	15,462	15,360

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 OPERATIONS
(Unaudited)
(In thousands, except per-share data)

	Nine-Months Ended March 31, 2016	2015
REVENUE	$24,513	$21,911
Cost of revenue	16,622	14,689
GROSS PROFIT	7,891	7,222
Selling, general and administrative	7,890	7,149
Depreciation and amortization	210	211
OPERATING LOSS	(209)	(138)
INTEREST INCOME	26	27
LOSS BEFORE INCOME TAXES	(183)	(111)
INCOME TAX EXPENSE - Current	24	26
TOTAL INCOME TAX EXPENSE	24	26
NET LOSS	$(207)	$(137)
NET LOSS PER COMMON SHARE		
Basic	$(0.01)	$(0.01)
Diluted	$(0.01)	$(0.01)
WEIGHTED AVERAGE SHARES USED IN COMPUTING NET LOSS PER COMMON SHARE:		
Basic	15,449	15,309
Diluted	15,449	15,309

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

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

	Common Stock Shares	Common Stock Amount	Treasury Stock Shares	Treasury Stock Amount	Additional Paid-in Capital	Accumulated Deficit	Total Stockholders' Equity
Balances, June 30, 2014	15,460,940	$ 155	(161,801)	$ (681)	$ 23,695	$ (1,265)	$ 21,904
Exercise of stock options	61,109	-	-	-	139	-	139
Stock-based compensation	-	-	-	-	511	-	511
Issuance of restricted stock	52,992	1	-	-	(1)	-	-
Shares repurchased	-	-	(29,449)	(128)	-	-	(128)
Net income	-	-	-	-	-	1,160	1,160
Balances, June 30, 2015	15,575,041	156	(191,250)	(809)	24,344	(105)	23,586
Exercise of stock options	112,425	1	-	-	312	-	313
Stock-based compensation	-	-	-	-	510	-	510
Issuance of restricted stock	52,992	1	-	-	(1)	-	-
Shares repurchased	-	-	(104,365)	(745)	-	-	(745)
Net loss	-	-	-	-	-	(207)	(207)
Balances, March 31, 2016	15,740,458	$ 158	(295,615)	$ (1,554)	$ 25,165	$ (312)	$ 23,457

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

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

	Nine-Months Ended March 31, 2016	Nine-Months Ended March 31, 2015
CASH FLOWS FROM OPERATING ACTIVITIES		
Net loss	$ (207)	$ (137)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation and amortization	601	653
Stock-based compensation expense	510	383
Changes in operating assets and liabilities, net of effects of business acqusition:		
Restricted cash	-	111
Accounts receivable	2,764	1,582
Legal settlement receivable	-	1,538
Inventory	(1,285)	(962)
Prepaid and other current assets	(79)	(347)
Accounts payable and accrued liabilities	(1,122)	125
Deferred revenue	308	44
NET CASH PROVIDED BY OPERATING ACTIVITIES	1,490	2,990
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property, plant and equipment	(1,217)	(549)
Additions to intangible assets	-	(6)
Payments for acquisitions, net of cash acquired	(1,552)	-
NET CASH USED IN INVESTING ACTIVITIES	(2,769)	(555)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from exercise of stock options	313	128
Shares repurchased	(745)	(128)
NET CASH USED IN FINANCING ACTIVITIES	(432)	-
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(1,711)	2,435
CASH AND CASH EQUIVALENTS, beginning of period	15,157	13,717
CASH AND CASH EQUIVALENTS, end of period	$ 13,446	$ 16,152
SUPPLEMENTAL CASH FLOW DISCLOSURES:		
Income taxes paid	$ 143	$ 10
NON-CASH INVESTING ACTIVITIES:		
Unpaid consideration related to acquisitions	$ 181	$ -
Transfer of equipment to inventory	$ 114	$ -

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

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

NOTE 1 - ORGANIZATION AND BACKGROUND

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

NOTE 2 - BASIS OF PRESENTATION

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with the rules and regulations of the Securities and Exchange Commission ("SEC") for interim financial information and with instructions to Form 10-Q and, accordingly, do not include all information and footnotes required under accounting principles generally accepted in the United States of America for complete financial statements. In the opinion of management, these interim condensed consolidated financial statements contain all adjustments (consisting of normal recurring adjustments) considered necessary for a fair presentation of the consolidated financial position of the Company as of March 31, 2016, the results of its operations for the three and nine months ended March 31, 2016 and 2015, cash flows for the nine months ended March 31, 2016 and 2015 and stockholders' equity for the nine months ended March 31, 2016 and the year ended June 30, 2015. The results of operations for the three and nine months ended March 31, 2016 are not necessarily indicative of the results to be expected for the entire fiscal year ending June 30, 2016. These unaudited condensed consolidated financial statements should be read in conjunction with the Company's Annual Report on Form 10-K for the year ended June 30, 2015.

NOTE 3 - SIGNIFICANT ACCOUNTING POLICIES

Revenue Recognition: The Company recognizes revenue from product sales and services when goods are shipped or delivered, services provided, and title and risk of loss pass to the customer except for those sales via multiple-deliverable revenue arrangements. Provisions for certain rebates, product returns and discounts to customers are accounted for as reductions in sales in the same period the related sales are recorded. Product discounts granted are based on the terms of arrangements with direct, indirect and other market participants, as well as market conditions, including prices charged by competitors. Rebates are estimated based on contractual terms, historical experience, trend analysis and projected market conditions in the various markets served. Service agreements which include a vendor managed inventory program include terms that meet the "bill and hold" criteria and as such are recognized when the order is completed at which point title has transferred, there are no acceptance provisions and amounts are segregated in the Company's warehouse. During the three and nine months ended March 31, 2016, the Company recorded revenue from inventory builds that are held in vendor managed inventory under these service agreements of $0.4 million and $2.9 million, respectively. During the three and nine months ended March 31, 2015, the Company recorded revenue from inventory builds that are held in vendor managed inventory under these service agreements of $0.2 million and $1.8 million, respectively. As of March 31, 2016 and June 30, 2015, $2.7 million and $1.6 million, respectively, of solutions sold through that date were held in vendor managed inventory pending fulfillment or shipment to patients of pharmaceutical manufacturers who offer these solutions to patients in an ongoing patient support program.

Certain products offered by the Company have revenue producing components that are recognized over multiple delivery points (Sharps Recovery System™ and various other solutions like the TakeAway Environmental Return

Systems™ referred to as "Mailbacks" and Sharps® Pump and Asset Return Boxes, referred to as "Pump Returns") and can consist of up to three separate elements, or units of measure, as follows: (1) the sale of the compliance and container system, (2) return transportation and (3) treatment service.

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

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

Income Taxes: Deferred tax assets and liabilities are determined based on differences between financial reporting and tax bases of assets and liabilities and are measured using the enacted tax rates and laws that will be in effect when the differences are expected to reverse. A valuation allowance is established when it is more likely than not that some portion or all of the deferred tax assets will not be realized. The establishment of a valuation allowance requires significant judgment and is impacted by various estimates. Both positive and negative evidence, as well as the objectivity and verifiability of that evidence, is considered in determining the appropriateness of recording a valuation allowance on deferred tax assets. Under generally accepted accounting principles, the valuation allowance has been recorded to reduce our deferred tax assets to an amount that is more likely than not to be realized and is based on the uncertainty of the realization of certain federal and state deferred tax assets related to net operating loss carryforwards and other tax attributes.

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

Stock-Based Compensation: Stock-based compensation cost is measured at the grant date, based on the calculated fair value of the award and is recognized as an expense over the employee's requisite service period (generally the vesting period of the equity grant).

NOTE 4 – RECENTLY ISSUED ACCOUNTING STANDARDS

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

In July 2015, guidance for inventory measurement was issued, which supersedes the policy currently followed by the Company. The new guidance requires the Company to measure inventory at the lower of cost or net realizable value. The provisions of the new guidance are effective for annual reporting periods beginning after December 15, 2016 (effective July 1, 2017 for the Company) including interim periods within the reporting period. The adoption of this guidance is not expected to have a material effect on the Company’s consolidated financial statements.

In September 2015, guidance for business combinations was issued, which simplifies the accounting for measurement-period adjustments. The new guidance eliminates the requirement to restate prior period financial statements for measurement period adjustments following a business combination and requires that the cumulative impact of a measurement period adjustment (including the impact on prior periods) be recognized in the reporting period in which the adjustment is identified. The provisions of the new guidance are effective for annual reporting periods beginning after December 15, 2015 (effective July 1, 2016 for the Company) including interim periods within the reporting period. The Company does not expect the adoption of this guidance to have a material effect on the Company’s consolidated financial statements or related disclosures; however, it may impact the reporting of future acquisitions if and when they occur.

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In February 2016, guidance for leases was issued, which requires balance sheet recognition for rights and obligations of all leases with terms in excess of twelve months. The new guidance also requires additional disclosures about the amount, timing, and uncertainty of cash flows arising from leases. The provisions of the new guidance are effective for annual periods beginning after December 15, 2018 (effective July 1, 2019 for the Company), including interim periods within the reporting period, and early application is permitted. The Company is currently evaluating the impact of the new guidance on its consolidated financial statements.

In March 2016, new guidance for stock-based compensation was issued, which simplifies the accounting for stock-based compensation related to income taxes and balance sheet and cash flow classifications. In addition, an entity can make an entity-wide accounting policy election to either estimate the number of awards that are expected to vest or account for forfeitures when they occur. The provisions of the new guidance are effective for annual reporting periods beginning after December 15, 2016 (effective July 1, 2017 for the Company) including interim periods within the reporting period. The Company is currently evaluating the impact of the new guidance on its consolidated financial statements.

NOTE 5 - INCOME TAXES

The establishment of valuation allowances requires significant judgment and is impacted by various estimates. Both positive and negative evidence, as well as the objectivity and verifiability of that evidence, is considered in determining the appropriateness of recording a valuation allowance on deferred tax assets. Under generally accepted accounting principles, the valuation allowance has been recorded to reduce the Company’s net deferred tax asset to an amount that is more likely than not to be realized and is based upon the uncertainty of the realization of certain federal and state deferred tax assets related to net operating loss carryforwards and other tax attributes. The Company’s net deferred tax assets have been fully reserved by a valuation allowance.

The Company’s effective tax rate for the nine months ended March 31, 2016 and 2015 was (13.1%) and (23.4%), respectively, reflecting estimated state income taxes.

NOTE 6 - NOTES PAYABLE AND LONG-TERM DEBT

On April 9, 2015, the Company entered into a credit agreement with a commercial bank (“Credit Agreement”). The Credit Agreement, which replaces, in its entirety, the Company’s prior credit agreement, which was executed effective January 28, 2014 with the same commercial bank, provides for a two-year, $9.0 million line of credit facility, the proceeds of which may be utilized as follows: (i) $4.0 million for working capital, letters of credit (up to $500,000) and general corporate purposes and (ii) $5.0 million for acquisitions. Indebtedness under the Credit Agreement is secured by the Company’s accounts receivable and inventory with advances outstanding under the working capital portion of the credit facility at any time limited to a Borrowing Base (as defined in the Credit Agreement) equal to 80% of eligible accounts receivable plus 50% of eligible inventory. Advances under the acquisition portion of the credit facility are limited to 75% of the purchase price of an acquired company and convert to a five-year term note. Borrowings bear interest at WSJ Prime (for the working capital line) and WSJ Prime plus 0.25% (for the acquisition line), which was approximately 3.50% and 3.75%, respectively, as of March 31, 2016. The Company pays a fee of 0.25% per annum on the unused amount of the line of credit. As of March 31, 2016, the Company had no outstanding borrowings other than $0.3 million in letters of credit, which left $8.7 million of credit available under the Credit Agreement.

The Credit Agreement contains affirmative and negative covenants that, among other things, require the Company to maintain a minimum level of tangible net worth of $12.5 million, minimum liquidity of $7.0 million and a minimum debt service coverage ratio of not less than 1.15 to 1.00. The Credit Agreement, which expires on April 9, 2017, also contains customary events of default which, if uncured, may terminate the Credit Agreement and require immediate repayment of all indebtedness to the lenders. The Company was in compliance with all the financial covenants under the Credit Agreement as of March 31, 2016.

NOTE 7 – STOCK-BASED COMPENSATION

Stock-based compensation cost for options and restricted stock awarded to employees and directors is measured at the grant date, based on the calculated fair value of the award and is recognized as an expense over the employee's requisite service period (generally the vesting period of the equity grant). Stock-based compensation costs from performance-based stock option awards are estimated at the date when key terms and conditions of the performance-based stock award are known (the "service inception date"), and in subsequent reporting periods, trued up at the grant date and recognized as expense over the employee's requisite service period (from the service inception date through the end of the vesting period). During the three and nine months ended March 31, 2016 and 2015, stock-based compensation amounts are as follows (in thousands):

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	Three-Months Ended March 31,		Nine-Months Ended March 31,	
	2016	2015	2016	2015
	(Unaudited)		(Unaudited)	
Stock-based compensation expense included in:				
Cost of revenue	$ 7	$ 6	$ 25	$ 16
Selling, general and administrative	145	120	485	367
Total	$ 152	$ 126	$ 510	$ 383

NOTE 8 - EARNINGS PER SHARE

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

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

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

	Three-Months Ended March 31,		Nine-Months Ended March 31,	
	2016	2015	2016	2015
	(Unaudited)		(Unaudited)	
Net loss, as reported	$ (1,042)	$ (812)	$ (207)	$ (137)
Weighted average common shares outstanding	15,462	15,360	15,449	15,309
Effect of dilutive stock options	-	-	-	-
Weighted average diluted common shares outstanding	15,462	15,360	15,449	15,309
Net loss per common share				
Basic	$ (0.07)	$ (0.05)	$ (0.01)	$ (0.01)
Diluted	$ (0.07)	$ (0.05)	$ (0.01)	$ (0.01)
Employee stock options excluded from computation of dilutive loss per share amounts because their effect would be anti-dilutive	137	200	96	302

NOTE 9 - EQUITY TRANSACTIONS

During the three and nine months ended March 31, 2016 and 2015, stock options to purchase shares of the Company's common stock were exercised as follows:

	Three-Months Ended March 31,		Nine-Months Ended March 31,	
	2016	2015	2016	2015
	(Unaudited)		(Unaudited)	
Options exercised	-	45,359	112,425	55,609
Proceeds (in thousands)	$ -	$ 107	$ 313	$ 128
Average exercise price per share	$ -	$ 2.36	$ 2.77	$ 2.31

As of March 31, 2016, there was $0.5 million of stock option and restricted stock compensation expense related to non-vested awards which is expected to be recognized over a weighted average period of 2.4 years.

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On January 7, 2013, the Company announced that its Board of Directors approved a stock repurchase program effective January 3, 2013, authorizing the Company to repurchase in the aggregate up to $3.0 million of its outstanding common stock over a two-year period. On March 5, 2015, the Board approved a two-year extension on the stock repurchase program through January 1, 2017.During the three and nine months ended March 31, 2016 and 2015, shares were repurchased as follows:

	Three-Months Ended March 31,		Nine-Months Ended March 31,	
	2016 (Unaudited)	2015	2016 (Unaudited)	2015
Shares repurchased	36,343	-	104,365	29,449
Cash paid for shares repurchased (in thousands)	$ 205	$ -	$745	$128
Average price paid per share	$ 5.64	$ -	$7.14	$4.35

Total shares repurchased under the program are 295,615 shares at a cost of $1.6 million. As of March 31, 2016, approximately $1.4 million remained of the Company's $3.0 million repurchase program. The Company purchased all shares with cash resources.

NOTE 10 – INVENTORY

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

	March 31, 2016 (Unaudited)	June 30, 2015
Raw materials	$1,309	$ 1,393
Finished goods	2,828	1,345
Total	$4,137	$ 2,738

NOTE 11 – FAIR VALUE OF FINANCIAL INSTRUMENTS

The Company considers the fair value of all financial instruments, including cash and cash equivalents, accounts receivable and accounts payable to approximate their carrying values at March 31, 2016 due to their short-term nature.

NOTE 12 – ACQUISITIONS

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

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

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

Effective on December 14, 2015, the Company acquired Bio-Team Mobile LLC, a route-based pickup service located in Pennsylvania for total cash consideration of $1.0 million of which $0.1 million has been withheld for possible settlement amounts through December 2016.

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

Accounts receivable	$42
Fixed assets	68
Intangibles	313
Goodwill	626
Accounts payable and accrued liabilities	(16)
Total purchase price	$1,033

During the nine months ended March 31, 2016, the Company incurred $0.2 million of acquisition related expenses for investment banking, legal and accounting fees which are included within selling, general and administrative expenses on our condensed consolidated statements of operations. No such expenses were incurred during the three months ended March 31, 2016. The results of operations of the acquired business have been included in the condensed consolidated statements of income from the date of acquisition.   The goodwill recorded as of March 31, 2016 will be deductible for income taxes.

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ITEM 2.

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

INFORMATION REGARDING FORWARD-LOOKING STATEMENTS

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

GENERAL

Sharps Compliance Corp. is a leading full-service national provider of comprehensive waste management services including medical, pharmaceutical and hazardous. Our solutions facilitate the proper collection, containment, transportation and treatment of numerous types of healthcare-related materials, including hypodermic needles, lancets and other devices or objects used to puncture or lacerate the skin, or sharps, hazardous waste and unused consumer dispensed medications and over-the-counter drugs. We serve customers in multiple markets such as home health care, retail clinics and immunizing pharmacies, pharmaceutical manufacturers, professional offices (physicians, dentists and veterinarians), assisted living and long-term care facilities (assisted living, continuing care, long-term acute care, memory care and skilled nursing), government (federal, state and local), consumers, commercial and agriculture, as well as distributors to many of the aforementioned markets. We assist our customers in determining which of our solution offerings best fit their needs for the collection, containment, return transportation and treatment of medical waste, used healthcare materials, pharmaceutical waste, hazardous waste and unused dispensed medications. Our differentiated approach provides our customers the flexibility to return and properly treat medical waste, used healthcare materials or unused dispensed medications through a variety of solutions and products transported primarily through the United States Postal Service ("USPS"). For customers with facilities or locations that may generate larger quantities of medical waste, we integrate the route-based pick-up service into our complete offering. The benefits of this comprehensive offering include single point of contact, consolidated billing, integrated manifest and proof of destruction repository in addition to our cost savings. Furthermore, we provide comprehensive tracking and reporting tools that enable our customers to meet complex medical, pharmaceutical and hazardous waste disposal and compliance requirements. We believe the fully-integrated nature of our operations is a key factor leading to our success and continued recurring revenue growth. We continue to take advantage of the many opportunities in all markets served as we educate the market place and as prospective customers become more aware of alternatives to traditional methods of disposal (i.e., route-based pick-up services).

As a leading full-service provider of comprehensive medical waste management services including medical, pharmaceutical and hazardous, our key markets include pharmaceutical manufacturers, home healthcare providers, assisted living/long-term care, retail pharmacies and clinics and the professional market which is comprised of physicians, dentists and veterinary practices. The Company's flagship product, the Sharps® Recovery System, is a comprehensive solution for the containment, transportation, treatment and tracking of medical waste and used healthcare materials. In October 2014, the Company launched MedSafe®, a patent pending solution for the safe collection, transportation and proper disposal of unwanted and expired prescription medications including controlled substances from ultimate users. MedSafe has been designed to meet or exceed the new regulations issued by the Drug Enforcement Administration ("DEA") implementing the Secure and Responsible Drug Disposal Act of 2010 (the "Act") which became effective October 9, 2014. In July 2015, the Company augmented its network of medical and hazardous waste service providers with an acquisition of a route-based pickup service in the northeast serving Pennsylvania, Maryland and parts of Ohio. Additionally, the Company has begun to service parts of Texas and Louisiana with route-based pickup service. In December 2015, the Company acquired another route-based pickup service in the northeast which further expanded its operations in Pennsylvania and neighboring states. Our other solutions include TakeAway Medication Recovery System™, ComplianceTRAC℠, Route-Based Pick-Up Service, Universal Waste Shipback Systems, TakeAway Environmental Return System™, SharpsTracer®, Sharps Secure® Needle Disposal System™, Complete Needle™ Collection & Disposal System, Pitch-It IV™ Poles, Trip LesS®, System Sharps® Pump and Asset Return System, Sharps® MWMS™ (a Medical Waste Management System ("MWMS")) and Biohazard Spill Clean-up Kit and Recovery System™.

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RESULTS OF OPERATIONS

The following analyzes changes in the consolidated operating results and financial condition of the Company during the three and nine months ended March 31, 2016 and 2015. The following table sets forth, for the periods indicated, certain items from the Company's Condensed Consolidated Statements of Operations, dollars in thousands and percentages expressed as a percentage of revenue:

	Three-Months Ended March 31,				Nine-Months Ended March 31,			
	2016	%	2015	%	2016	%	2015	%
	(Unaudited)				(Unaudited)			
Revenue	$6,652	100.0%	$6,171	100.0%	$24,513	100.0%	$21,911	100.0%
Cost of revenue	4,959	74.5 %	4,511	73.1 %	16,622	67.8 %	14,689	67.0 %
Gross profit	1,693	25.5 %	1,660	26.9 %	7,891	32.2 %	7,222	33.0 %
SG&A expense	2,709	40.7 %	2,411	39.1 %	7,890	32.2 %	7,149	32.6 %
Depreciation and amortization	88	1.3 %	57	0.9 %	210	0.9 %	211	1.0 %
Operating loss	(1,104)	(16.6 %)	(808)	(13.1 %)	(209)	(0.9 %)	(138)	(0.6 %)
Interest income	8	0.1 %	9	0.1 %	26	0.1 %	27	0.1 %
Loss before income taxes	(1,096)	(16.5 %)	(799)	(12.9 %)	(183)	(0.7 %)	(111)	(0.5 %)
Income tax (benefit) expense	(54)	(0.8 %)	13	0.2 %	24	0.1 %	26	0.1 %
Net loss	$(1,042)	(15.7 %)	$(812)	(13.2 %)	$(207)	(0.8 %)	$(137)	(0.6 %)

THREE MONTHS ENDED MARCH 31, 2016 AS COMPARED TO THREE MONTHS ENDED MARCH 31, 2015

Total revenues for the three months ended March 31, 2016 of $6.7 million increased by $0.5 million, or 7.8%, over the total revenues for the three months ended March 31, 2015 of $6.2 million. Billings by market are as follows (in thousands):

	Three-Months Ended March 31, (Unaudited)		
	2016	2015	Variance
BILLINGS BY MARKET:			
Home Health Care	$ 1,595	$ 1,599	$ (4)
Professional	2,001	1,568	433
Retail	726	610	116
Pharmaceutical Manufacturer	1,023	754	269
Assisted Living	579	472	107
Government	423	677	(254)
Environmental	70	18	52
Other	201	187	14
Subtotal	6,618	5,885	733
GAAP Adjustment *	34	286	(252)
Revenue Reported	$ 6,652	$ 6,171	$ 481

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

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

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The increase in billings was primarily attributable to increased billings in the Professional ($0.4 million), Pharmaceutical Manufacturer ($0.3 million), Retail ($0.1 million) and Assisted Living ($0.1 million) markets. The increase in billings was partially offset by decreased billings in the Government ($0.3 million) market. The increase in Professional market billings is a result of continued targeted telemarketing initiatives and promotional activities to educate doctors, dentists, veterinarians and other healthcare professionals about the favorable economics and convenience of the Company's Sharps Recovery System and the Company's route-based services. The increase in Pharmaceutical Manufacturer market billings is primarily due to timing of new inventory builds for existing and new customers. The Company filled an order for a new inventory build for one patient support program during the three months ended March 31, 2016. Retail market billings increased slightly reflecting an increase in flu shot related orders. The increase in Assisted Living market billings is a result of increased sales focus as well as the Company's route-based services. The decrease in Government market billings was due to fewer orders for TakeAway Medication Recovery System envelopes by the VA as compared to the three months ended March 31, 2015.

Cost of revenue for the three months ended March 31, 2016 of $5.0 million was 74.5% of revenue. Cost of revenue for the three months ended March 31, 2015 of $4.5 million was 73.1% of revenues. Gross margin for the three months ended March 31, 2016 of 25.5% (versus 26.9% for the three months ended March 31, 2015) was negatively impacted by a mix of business.

Selling, general and administrative ("SG&A") expenses for the three months ended March 31, 2016 and 2015 was $2.7 million and $2.4 million, respectively. SG&A for the three months ended March 31, 2016 included $0.1 million of additional costs related to the Company's audit of internal controls for fiscal year 2016 which was not required in fiscal year 2015.

The Company reported an operating loss of $1.1 million for the three months ended March 31, 2016 compared to an operating loss of $0.8 million for the three months ended March 31, 2015. Operating loss was negatively impacted by increased SG&A expenses (discussed above).

The Company reported a loss before income taxes of $1.1 million for the three months ended March 31, 2016 compared to a loss before income taxes of $0.8 million for the three months ended March 31, 2015. Loss before income taxes was negatively impacted by increased operating loss (discussed above).

The Company's effective tax rate for the three months ended March 31, 2016 and 2015 was 4.9% and (1.6%), respectively, reflecting estimated state income taxes. The Company's net deferred tax assets have been fully reserved by a valuation allowance.

The Company reported a net loss of $1.0 million for the three months ended March 31, 2016 compared to a net loss of $0.8 million for the three months ended March 31, 2015. Net loss was negatively impacted by increased loss before income taxes (discussed above).

The Company reported diluted loss per share of ($0.07) for the three months ended March 31, 2016 versus diluted loss per share of ($0.05) for the three months ended March 31, 2015. Diluted loss per share was negatively impacted by increased net loss (discussed above).

NINE MONTHS ENDED MARCH 31, 2016 AS COMPARED TO NINE MONTHS ENDED MARCH 31, 2015

Total revenues for the nine months ended March 31, 2016 of $24.5 million increased by $2.6 million, or 11.9%, over the total revenues for the nine months ended March 31, 2015 of $21.9 million. Billings by market are as follows (in thousands):

Nine-Months Ended March 31,

	(Unaudited) 2016	2015	Variance
BILLINGS BY MARKET:			
Home Health Care	$ 5,637	$ 5,104	$ 533
Professional	5,573	4,726	847
Retail	5,512	5,670	(158)
Pharmaceutical Manufacturer	4,777	3,442	1,335
Assisted Living	1,623	1,377	246
Government	1,129	961	168
Environmental	224	158	66
Other	651	615	36
Subtotal	25,126	22,053	3,073
GAAP Adjustment *	(613)	(142)	(471)
Revenue Reported	$ 24,513	$ 21,911	$ 2,602

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

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

The increase in billings was primarily attributable to increased billings in the Pharmaceutical Manufacturer ($1.3 million), Professional ($0.8 million), Home Health Care ($0.5 million), Assisted Living ($0.2 million), and Government ($0.2 million) markets. The increase was partially offset by decreased billings in the Retail ($0.2 million) market. The increase in Pharmaceutical Manufacturer market billings is primarily due to new inventory builds for existing and new customers. The increase in Professional market billings is a result of continued targeted telemarketing initiatives and promotional activities to educate doctors, dentists, veterinarians and other healthcare professionals about the favorable economics and convenience of the Company's Sharps Recovery System and the Company's route-based services. The increase in Home Health Care market billings is due to the timing of distributor purchases. The increase in Assisted Living market billings is a result of increased sales focus as well as the Company's route-based services. The increase in Government market billings was primarily related to increased sales of the Company's MedSafe solutions to multiple Government agencies, partially offset by a decrease in sales of Take Away Medication Recovery System envelopes to the VA. The decrease in Retail market billings reflects lower flu shot related orders due to a mild 2015 flu season.

Cost of revenue for the nine months ended March 31, 2016 of $16.6 million was 67.8% of revenue. Cost of revenue for the nine months ended March 31, 2015 of $14.7 million was 67.0% of revenue. The gross margin for the nine months ended March 31, 2016 of 32.2% (versus 33.0% for the nine months ended March 31, 2015) was lower than the nine months ended March 31, 2015 due to an increase in infrastructure costs at the Company's treatment and warehouse facilities as well as a one percent increase in product costs compared to the prior year.

Selling, general and administrative ("SG&A") expenses for the nine months ended March 31, 2016 and 2015 was $7.9 million and $7.1 million, respectively. SG&A for the nine months ended March 31, 2016 included $0.2 million of acquisition related costs associated with the Company's acquisitions of Alpha Bio/Med in July 2015 and Bio-Team Mobile in December 2015. Without these acquisition related costs, SG&A costs increased 8.3% compared to the prior period. The increase in SG&A was due to $0.1 million of additional costs related to the Company's audit of internal controls for fiscal year 2016 which was not required in fiscal year 2015 and increased sales and marketing related spending compared to the prior period.

The Company reported an operating loss of $0.2 million for the nine months ended March 31, 2016 compared to an operating loss $0.1 million for the nine months ended March 31, 2015. Operating loss was negatively impacted by lower gross margin and increased SG&A expenses (discussed above).

The Company reported loss before income taxes of $0.2 million for the nine months ended March 31, 2016 versus a loss before income taxes of $0.1 million for the nine months ended March 31, 2015. Loss before income taxes was negatively impacted by increased operating loss (discussed above).

The Company’s effective tax rate for the nine months ended March 31, 2016 and 2015 was (13.1%) and (23.4%), respectively, reflecting estimated state income taxes. The Company’s net deferred tax assets have been fully reserved by a valuation allowance.

The Company reported net loss of $0.2 million for the nine months ended March 31, 2016 compared to a net loss of $0.1 million for the nine months ended March 31, 2015. Net loss was negatively impacted by increased loss before income taxes (discussed above).

The Company reported diluted loss per share of ($0.01) for the nine months ended March 31, 2016 versus diluted loss per share of ($0.01) for the nine months ended March 31, 2015.

PROSPECTS FOR THE FUTURE

The Company continues to focus on core markets and solution offerings that fuel growth. Markets served are professional offices, retail pharmacies and clinics, assisted living and long-term care facilities, home healthcare, government, pharmaceutical manufacturers and other commercial organizations that require cost-effective services for managing medical, pharmaceutical and hazardous waste.

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The Company believes its growth opportunities are supported by the following:

A large professional market that consists of dentists, veterinarians, clinics, private practice physicians, urgent care facilities, ambulatory surgical centers and others such as acupuncture and tattoo services. This regulated market consists of small to medium quantity generators of medical, pharmaceutical and hazardous waste where we can offer a lower cost to service with solutions to match individual facility needs. The Company addresses this market from two directions: (i) field sales which focuses on larger-dollar and nationwide opportunities where we can integrate the route-based pickup service along with our mailback solutions to create a comprehensive medical waste management offering and (ii) inside and online sales which focus on the individual or small group professional offices.

The shift of healthcare from traditional settings to the retail pharmacy and clinic markets, where the Company focuses on driving increased promotion of the Sharps Recovery System. The number of U.S. retail clinics is projected to increase significantly, as much as 20%-25% per year, driven by the increasing demand of newly insured patients under healthcare reform, as well as patients looking for more convenient care and retail pharmacies increasing the variety and volume of healthcare services they provide. According to the Centers for Disease Control (“CDC”), 25% of flu shots for adults were administered in a retail clinic with the trend expected to increase. In addition to the continued growth in the flu shot business, there are also growth opportunities for more primary care in the retail or alternative site setting and correspondingly growth opportunities for the Company based on its significant presence in the retail market. A recent study shows that Americans visit retail clinics 10 million times a year, which represents only 2% of “all primary care patient encounters.”

The passage of new regulations for ultimate user medication disposal allows the Company to offer new solutions (MedSafe and TakeAway Medication Recovery System envelopes) that meet the regulations for ultimate user controlled substances disposal (Schedules II-V) to retail pharmacies. Additionally, with the new regulations, the Company is able to provide the MedSafe and TakeAway Medication Recovery Systems to assisted living and hospice to address a long standing issue within long-term care.

The changing demographics of the U.S. population - one out of five Americans will be 65 years or older by 2030, which will increase the need for cost-effective medical waste management solutions, especially in the long-term care and home healthcare markets. With multiple solutions for managing regulated healthcare-related waste, the Company delivers value as a single-source provider with blended mailback and route-based pickup services matched to the waste volumes of each facility.

Local, state and federal agencies have growing needs for solutions to manage medical and pharmaceutical waste — the Company’s Sharps Recovery System is ideal for as-needed disposal of sharps and other small quantities of medical waste generated within government buildings, schools and communities. The Company also provides TakeAway Medication Recovery System envelopes and MedSafe solutions to government agencies in need of proper and regulatory compliant medication disposal.

With an increased number of self-injectable medication treatments and local regulations, the Company believes its flagship product, the Sharps Recovery System, continues to offer the best option for proper sharps disposal at an affordable price. The Company delivers premium services to pharmaceutical manufacturers that sell high-dollar, self-injectable medications, which include data management, compliance reporting, fulfillment, proper containment with disposal, branding and conformity with applicable regulations. In addition, the Company provides self-injectors with online and retail purchase options of sharps mailback systems, such as the Sharp Recovery System and Complete Needle Collection & Disposal System, respectively.

A heightened interest by many commercial companies who are looking to improve workplace safety with proper sharps disposal and unused medication disposal solutions — the Company offers a variety of services to meet these needs, including the Sharps Secure Needle Disposal System, Sharps Recovery System, Biohazard

Spill Kits and TakeAway Medication Recovery System envelopes.

In July 2015, the Company augmented its network of medical and hazardous waste service providers with an acquisition of a route-based pickup service in the northeast serving Pennsylvania, Maryland and parts of Ohio. Additionally, the Company has begun to service parts of Texas and Louisiana with route-based pickup service. In December 2015, the Company acquired another route-based pickup service in the northeast which further expanded its operations in Pennsylvania and neighboring states. With the addition of these route-based pickup regions and the network of medical and hazardous waste service providers servicing the entire U.S., the Company offers customers a blended product portfolio to effectively manage multi-site and multi-sized locations, including those that generate larger quantities of waste. The network has had a significant positive impact on our pipeline of sales opportunities — over 60% of this pipeline is attributable to opportunities providing comprehensive waste management service offerings where both the mailback and pickup service are integrated into the offering.

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The Company has new solution offerings that include ultimate user medication disposal (MedSafe and TakeAway Medication Recovery System) and mailback services for DEA registrant expired inventory of controlled substances (TakeAway Medication Recovery System DEA Reverse Distribution for Registrants).

The Company's strong financial position with a cash balance of $13.4 million and no debt as of March 31, 2016.

LIQUIDITY AND CAPITAL RESOURCES

Cash Flow

Cash flow is primarily influenced by demand for products and services, operating margins and related working capital needs as well as more strategic activities including acquisitions, stock repurchases and fixed asset additions. Cash and cash equivalents decreased by $1.7 million to $13.4 million at March 31, 2016 from $15.2 million at June 30, 2015.

Working capital decreased by $2.3 million to $17.5 million at March 31, 2016 from $19.7 million at June 30, 2015. The decrease is primarily attributed to a decrease in cash and cash equivalents (discussed above) and:

Accounts receivable decreased by $2.8 million, net of assets acquired, to $4.0 million at March 31, 2016 from $6.6 million at June 30, 2015. The decrease is due to timing of billings and collections.

Inventory increased by $1.4 million to $4.1 million at March 31, 2016 from $2.7 million at June 30, 2015. The increase in inventory is due to timing of sales and adjustment of inventory levels to facilitate customer orders.

Accounts payable and accrued liabilities decreased by $1.1 million, net of assets acquired and unpaid consideration, to $2.7 million at March 31, 2016 from $3.7 million at June 30, 2015. The decrease is the result of the timing of payments.

Deferred revenue increased by $0.3 million to $2.7 million at March 31, 2016 from $2.4 million at June 30, 2015. The increase is due to the increase in billings for the period.

Property, plant and equipment, increased $0.7 million to $4.5 million at March 31, 2016 from $3.8 million at June 30, 2015. The increase is mainly attributable to capital expenditures of $1.2 million of property, plant and equipment, net of assets acquired, offset in part by depreciation expense of $0.5 million and $0.1 million of transfers of equipment to inventory. Capital expenditures are attributable primarily to investment in treatment facility improvements and pickup related assets purchased of $0.5 million, MedSafe assets of $0.3 million, computer and software assets of $0.3 million and $0.1 million of assets acquired in connection with business acquisitions.

The Company acquired Alpha Bio/Med Services, LLC and Bio-Team Mobile LLC for $0.7 million and $1.0 million, respectively in the nine months ended March 31, 2016 of which $0.2 million is unpaid consideration.

Stockholders' equity decreased by $0.1 million to $23.5 million at March 31, 2016 from $23.6 million at June 30, 2015. This decrease is primarily attributable to share repurchases of $0.7 million and the net loss for the nine months ended March 31, 2016 of $0.2 million, offset by stock-based compensation expense of $0.5 million and proceeds from the exercise of stock options of $0.3 million.

Off-Balance Sheet Arrangements

The Company was not a party to any off-balance sheet transactions as defined in Item 303 of Regulation S-K for the nine months ended March 31, 2016 and the year-ended June 30, 2015.

Credit Facility

On April 9, 2015, the Company entered into a credit agreement with a commercial bank ("Credit Agreement"). The Credit Agreement, which replaces, in its entirety, the Company's prior credit agreement, which was executed effective January 28, 2014 with the same commercial bank, provides for a two-year, $9.0 million line of credit facility, the proceeds of which may be utilized as follows: (i) $4.0 million for working capital, letters of credit (up to $500,000) and general corporate purposes and (ii) $5.0 million for acquisitions. Indebtedness under the Credit Agreement is secured by the Company's accounts receivable and inventory with advances outstanding under the working capital portion of the credit facility at any time limited to a Borrowing Base (as defined in the Credit Agreement) equal to 80% of eligible accounts receivable plus 50% of eligible inventory. Advances under the acquisition portion of the credit facility are limited to 75% of the purchase price of an acquired company and convert to a five-year term note. Borrowings bear interest at WSJ Prime (for the working capital line) and WSJ Prime plus 0.25% (for the acquisition line), which was approximately 3.50% and 3.75%, respectively, as of March 31, 2016. The Company pays a fee of 0.25% per annum on the unused amount of the line of credit. As of March 31 2016, the Company had no outstanding borrowings other than $0.3 million in letters of credit, which left $8.7 million of credit available under the Credit Agreement.

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The Credit Agreement contains affirmative and negative covenants that, among other things, require the Company to maintain a minimum level of tangible net worth of $12.5 million, minimum liquidity of $7.0 million and a minimum debt service coverage ratio of not less than 1.15 to 1.00. The Credit Agreement, which expires on April 9, 2017, also contains customary events of default which, if uncured, may terminate the Credit Agreement and require immediate repayment of all indebtedness to the lenders. The Company was in compliance with all the financial covenants under the Credit Agreement as of March 31, 2016.

Management believes that the Company's current cash resources (cash on hand) will be sufficient to fund operations for the twelve months ending March 31, 2017.

CRITICAL ACCOUNTING ESTIMATES

Revenue Recognition: The Company recognizes revenue from product sales and services when goods are shipped or delivered, services provided, and title and risk of loss pass to the customer except for those sales via multiple-deliverable revenue arrangements. Provisions for certain rebates, product returns and discounts to customers are accounted for as reductions in sales in the same period the related sales are recorded. Product discounts granted are based on the terms of arrangements with direct, indirect and other market participants, as well as market conditions, including prices charged by competitors. Rebates are estimated based on contractual terms, historical experience, trend analysis and projected market conditions in the various markets served. Service agreements which include a vendor managed inventory program include terms that meet the "bill and hold" criteria and as such are recognized when the order is completed at which point title has transferred, there are no acceptance provisions and amounts are segregated in the Company's warehouse.

Certain products offered by the Company have revenue producing components that are recognized over multiple delivery points (Sharps Recovery System™ and various other solutions like the TakeAway Environmental Return Systems™ referred to as "Mailbacks" and Sharps® Pump and Asset Return Boxes, referred to as "Pump Returns") and can consist of up to three separate elements, or units of measure, as follows: (1) the sale of the compliance and container system, (2) return transportation and (3) treatment service.

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

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

Income Taxes: Deferred tax assets and liabilities are determined based on differences between financial reporting and tax bases of assets and liabilities and are measured using the enacted tax rates and laws that will be in effect when the differences are expected to reverse. A valuation allowance is established when it is more likely than not that some portion or all of the deferred tax assets will not be realized. The establishment of a valuation allowance requires significant judgment and is impacted by various estimates. Both positive and negative evidence, as well as the objectivity and verifiability of that evidence, is considered in determining the appropriateness of recording a valuation allowance on deferred tax assets. Under generally accepted accounting principles, the valuation allowance has been recorded to reduce our deferred tax assets to an amount that is more likely than not to be realized and is based on the uncertainty of the realization of certain federal and state deferred tax assets related to net operating loss carryforwards and other tax attributes.

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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).

RECENTLY ISSUED ACCOUNTING STANDARDS

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

In July 2015, guidance for inventory measurement was issued, which supersedes the policy currently followed by the Company. The new guidance requires the Company to measure inventory at the lower of cost or net realizable value. The provisions of the new guidance are effective for annual reporting periods beginning after December 15, 2016 (effective July 1, 2017 for the Company) including interim periods within the reporting period. The adoption of this guidance is not expected to have a material effect on the Company's consolidated financial statements.

In September 2015, guidance for business combinations was issued, which simplifies the accounting for measurement-period adjustments. The new guidance eliminates the requirement to restate prior period financial statements for measurement period adjustments following a business combination and requires that the cumulative impact of a measurement period adjustment (including the impact on prior periods) be recognized in the reporting period in which the adjustment is identified. The provisions of the new guidance are effective for annual reporting periods beginning after December 15, 2015 (effective July 1, 2016 for the Company) including interim periods within the reporting period. The Company does not expect the adoption of this guidance to have a material effect on the Company's consolidated financial statements or related disclosures; however, it may impact the reporting of future acquisitions if and when they occur.

In February 2016, guidance for leases was issued, which requires balance sheet recognition for rights and obligations of all leases with terms in excess of twelve months. The new guidance also requires additional disclosures about the amount, timing, and uncertainty of cash flows arising from leases. The provisions of the new guidance are effective for annual periods beginning after December 15, 2018 (effective July 1, 2019 for the Company), including interim periods within the reporting period, and early application is permitted. The Company is currently evaluating the impact of the new guidance on its consolidated financial statements.

In March 2016, new guidance for stock-based compensation was issued, which simplifies the accounting for stock-based compensation related to income taxes and balance sheet and cash flow classifications. In addition, an entity can make an entity-wide accounting policy election to either estimate the number of awards that are expected to vest or account for forfeitures when they occur. The provisions of the new guidance are effective for annual reporting periods beginning after December 15, 2016 (effective July 1, 2017 for the Company) including interim periods within the reporting period. The Company is currently evaluating the impact of the new guidance on its consolidated financial statements.

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. The Company does not currently 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.

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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”) as of March 31, 2016, pursuant to Rules 13a-15(e) and 15d-15(e) of the Exchange Act. Based upon this Evaluation, the CEO and CFO concluded that our Disclosure Controls were effective as of March 31, 2016.

Changes in Internal Control over Financial Reporting

During the three months ended March 31, 2016, 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, 2015 for the Company’s risk factors. During the nine months ended March 31, 2016, there have been no changes to the Company’s risk factors.

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

Recent Sales of Unregistered Securities.

None.

Issuer Purchases of Equity Securities.

On January 7, 2013, the Company announced that its Board of Directors approved a stock repurchase program effective January 3, 2013, authorizing the Company to repurchase in the aggregate up to $3.0 million of its outstanding common stock over a two-year period. On March 5, 2015, the Board approved a two-year extension of the stock repurchase program through January 1, 2017. The shares would be purchased from time to time on the open market or in privately negotiated transactions, at the Company’s discretion, in each case, in compliance with Rule 10b-18 under the Securities Exchange Act of 1934, as amended, subject to market and business conditions, applicable legal requirements, explicit black-out dates and other factors. The purchases will be funded using the Company’s available cash balances and cash generated from operations. The program does not obligate the Company to acquire any particular amount of common stock and may be modified, suspended or terminated at any time at the Company’s discretion in accordance with Rule 10b-18.

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During the three months ended March 31, 2016 shares were repurchased as follows:

Period	(a) Total Number of Shares Purchased	(b) Average Price Paid per Share	(c) Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	(d) Maximum Approximate Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs
January 1 - January 31, 2016	1,800	$ 5.96	1,800	$ 1,639,885
February 1 - February 29, 2016	34,543	5.62	34,543	1,445,795
March 1 - March 31, 2016	-	-	-	1,445,795
	36,343	$ 5.64	36,343	1,445,795

During the three months ended March 31, 2016, Sharps repurchased 36,343 shares for approximately $0.2 million. As of March 31, 2016, approximately $1.4 million remained of our $3.0 million repurchase program.

ITEM 6. EXHIBITS

(a) Exhibits:

21.1 Subsidiaries of the Registrant (filed herewith)

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

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

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

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

101.INS XBRL Instance Document (filed herewith)

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

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

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

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

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

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

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SIGNATURES

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

	REGISTRANT: SHARPS COMPLIANCE CORP.
Dated: May 3, 2016	By: /s/ DAVID P. TUSA David P. Tusa Chief Executive Officer and President (Principal Executive Officer)
Dated: May 3, 2016	By: /s/ DIANA P. DIAZ Diana P. Diaz Vice President and Chief Financial Officer (Principal Financial and Accounting Officer)