SHARPS COMPLIANCE CORP
Form 10-Q
February 01, 2017

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 December 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 ý No

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

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

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

As of January 30, 2017, there were 15,986,857 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)

	December 31, 2016	June 30, 2016
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	$ 7,234	$ 12,435
Accounts receivable, net of allowance for doubtful accounts of $72 and $63, respectively	5,766	5,814
Inventory, net	4,382	3,919
Prepaid and other current assets	727	695
TOTAL CURRENT ASSETS	18,109	22,863
PROPERTY, PLANT AND EQUIPMENT, net	6,878	5,032
OTHER ASSETS	118	84
GOODWILL	6,724	1,039
INTANGIBLE ASSETS, net of accumulated amortization of $803 and $502, respectively	4,264	1,129
TOTAL ASSETS	$ 36,093	$ 30,147
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES		
Accounts payable	$ 3,130	$ 1,620
Accrued liabilities	1,936	1,534
Current maturities of long-term debt	684	-
Deferred revenue	2,356	2,477
TOTAL CURRENT LIABILITIES	8,106	5,631
LONG-TERM DEFERRED REVENUE, net of current portion	534	483
OTHER LONG-TERM LIABILITIES	171	190
LONG-TERM DEBT, net of currrent portion	2,212	-
TOTAL LIABILITIES	11,023	6,304
COMMITMENTS AND CONTINGENCIES		
STOCKHOLDERS' EQUITY		
Common stock, $0.01 par value per share; 20,000,000 shares authorized; 16,282,472 and 15,740,458 shares issued, respectively and 15,986,857 and 15,444,843 shares outstanding, respectively	163	158

Treasury stock, at cost, 295,615 shares repurchased	(1,554)	(1,554)
Additional paid-in capital	27,747	25,331
Accumulated deficit	(1,286)	(92)
TOTAL STOCKHOLDERS' EQUITY	25,070	23,843
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$ 36,093	$ 30,147

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 December 31, 2016	2015
REVENUES	$ 9,707	$ 9,992
Cost of revenues	6,812	6,673
GROSS PROFIT	2,895	3,319
Selling, general and administrative	2,899	2,585
Depreciation and amortization	200	70
OPERATING INCOME (LOSS)	(204)	664
OTHERE INCOME (EXPENSE)		
Interest income	4	9
Interest expense	(27)	-
TOTAL OTHER (EXPENSE) INCOME	(23)	9
INCOME (LOSS) BEFORE INCOME TAXES	(227)	673
INCOME TAX EXPENSE - Current	-	58
TOTAL INCOME TAX EXPENSE	-	58
NET INCOME (LOSS)	$ (227)	$ 615
NET INCOME (LOSS) PER COMMON SHARE		
Basic	$ (0.01)	$ 0.04
Diluted	$ (0.01)	$ 0.04
WEIGHTED AVERAGE SHARES USED IN COMPUTING NET INCOME (LOSS) PER COMMON SHARE:		
Basic	15,929	15,467
Diluted	15,929	16,062

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)

	Six-Months Ended December 31,	
	2016	2015
REVENUES	$ 19,238	$ 17,861
Cost of revenues	13,384	11,663
GROSS PROFIT	5,854	6,198
Selling, general and administrative	6,598	5,181
Depreciation and amortization	400	122
OPERATING INCOME (LOSS)	(1,144)	895
OTHERE INCOME (EXPENSE)		
Interest income	8	18
Interest expense	(58)	-
TOTAL OTHER (EXPENSE) INCOME	(50)	18
INCOME (LOSS) BEFORE INCOME TAXES	(1,194)	913
INCOME TAX EXPENSE - Current	-	78
TOTAL INCOME TAX EXPENSE	-	78
NET INCOME (LOSS)	$ (1,194)	$ 835
NET INCOME (LOSS) PER COMMON SHARE		
Basic	$ (0.08)	$ 0.05
Diluted	$ (0.08)	$ 0.05
WEIGHTED AVERAGE SHARES USED IN COMPUTING NET INCOME (LOSS) PER COMMON SHARE:		
Basic	15,898	15,443
Diluted	15,898	15,994

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		Treasury Stock		Additional Paid-in Capital	Accumulated Deficit	Total Stockholders' Equity
	Shares	Amount	Shares	Amount			
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	-	-	-	-	676	-	676
Issuance of restricted stock	52,992	1	-	-	(1)	-	-
Shares repurchased	-	-	(104,365)	(745)	-	-	(745)
Net income	-	-	-	-	-	13	13
Balances, June 30, 2016	15,740,458	158	(295,615)	(1,554)	25,331	(92)	23,843
			-	-			-
Exercise of stock options	75,750	-	-	-	259	-	259
Stock-based compensation	-	-	-	-	273	-	273
Issuance of restricted stock	52,992	1	-	-	(1)	-	-
Issuance of common stock for acquisition	413,272	4	-	-	1,885	-	1,889
Net loss	-	-	-	-	-	(1,194)	(1,194)
Balances, December 31, 2016	16,282,472	$ 163	(295,615)	$ (1,554)	$ 27,747	$ (1,286)	$ 25,070

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)

	Six-Months Ended December 31, 2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income (loss)	$(1,194)	$835
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation and amortization	708	379
Loss on disposal of property, plant and equipment	6	-
Stock-based compensation expense	273	358
Changes in operating assets and liabilities, net of effects of business acqusitions:		
Accounts receivable	543	434
Inventory	(359)	(943)
Prepaid and other assets	(66)	121
Accounts payable and accrued liabilities	1,134	(105)
Deferred revenue	(70)	415
NET CASH PROVIDED BY OPERATING ACTIVITIES	975	1,494
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property, plant and equipment	(1,978)	(761)
Cash proceeds from sale of property, plant and equipment	13	-
Additions to intangible assets	(79)	-
Payments for business acquisitions, net of cash acquired	(7,100)	(1,204)
NET CASH USED IN INVESTING ACTIVITIES	(9,144)	(1,965)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from exercise of stock options	259	313
Shares repurchased	-	(540)
Proceeds from long-term debt	3,000	-
Repayments of long-term debt	(291)	-
NET CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES	2,968	(227)
NET DECREASE IN CASH AND CASH EQUIVALENTS	(5,201)	(698)
CASH AND CASH EQUIVALENTS, beginning of period	12,435	15,157
CASH AND CASH EQUIVALENTS, end of period	$7,234	$14,459
SUPPLEMENTAL CASH FLOW DISCLOSURES:		
Income taxes paid	$-	$85
Interest paid on long-term debt	$49	$-
NON-CASH INVESTING AND FINANCING ACTIVITIES:		

Issurance of common stock for acquisition	$1,889	$-
Unpaid consideration related to acquistions	$105	$529
Transfer of equipment to inventory	$104	$106
Property, plant and equipment financed through accounts payable	$368	$-

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

Organization: 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, Bio-Team Mobile LLC and Citiwaste, LLC (collectively, "Sharps" or the "Company"). All significant intercompany accounts and transactions have been eliminated upon consolidation.

Business: Sharps is a leading full-service national provider of comprehensive waste management services including medical, pharmaceutical and hazardous for small and medium quantity generators. The Company's solutions include Sharps Recovery System™ (formerly Sharps Disposal by Mail System®), TakeAway Medication Recovery System™, MedSafe®, TakeAway Recycle System™, ComplianceTRAC℠, SharpsTracer®, Sharps Secure® Needle Disposal System, Complete Needle™ Collection & Disposal System, TakeAway Environmental Return System™, Pitch-It IV™ Poles, Asset Return System and Spill Kit and Recovery System. The Company also offers its route-based pick-up service in an eleven (11) state region of the Northeast portion of the United States as well as in Texas and Louisiana.

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 December 31, 2016, the results of its operations for the three and six months ended December 31, 2016 and 2015, cash flows for the six months ended December 31, 2016 and 2015 and stockholders' equity for the six months ended December 31, 2016 and the year ended June 30, 2016. The results of operations for the three and six months ended December 31, 2016 are not necessarily indicative of the results to be expected for the entire fiscal year ending June 30, 2017. 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, 2016.

NOTE 3 - SIGNIFICANT ACCOUNTING POLICIES

Revenue Recognition: The Company recognizes revenue when services are provided and from product sales when (i) goods are shipped or delivered, and title and risk of loss pass to the customer, (ii) the price is substantially fixed or determinable and (iii) collectability is reasonably assured 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 six months ended December 31, 2016, the Company recorded revenue from inventory builds that are held in vendor managed inventory under these service agreements of $0.8 million and

$1.8 million, respectively. During the three and six months ended December 31, 2015, the Company recorded revenue from inventory builds that are held in vendor managed inventory under these service agreements of $1.9 million and $2.5 million, respectively. As of December 31, 2016 and June 30, 2016, $2.2 million and $2.1 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 Medication Recovery Systems referred to as “Mailbacks” and Sharps Pump and Asset Return Systems, 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.

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

NOTE 3 - SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

Business Combinations: The Company includes the results of operations of the businesses that are acquired as of the respective dates of acquisition. The Company allocates the fair value of the purchase price of acquisitions to the assets acquired and liabilities assumed based on their estimated fair values. The excess of the fair value of the purchase price over the fair values of these identifiable assets and liabilities is recorded as goodwill.

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 the Company's deferred tax assets 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.

Accounts Receivable: Accounts receivable consist primarily of amounts due to the Company from 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 likelihood of not collecting certain accounts receivable based on past collection history and specific risks identified among uncollected accounts. Accounts receivable are charged to the allowance for doubtful accounts when the Company determines that the receivable will not be collected and/or when the account has been referred to a third party collection agency. The Company has a history of minimal uncollectible accounts.

Stock-Based Compensation: Stock-based compensation cost 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 requisite service period (generally the vesting period of the equity grant).

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 December 31, 2016 and June 30, 2016 due to their short-term nature. The carrying value of the Company's debt approximates fair value due to the market rates of interest.

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

NOTE 3 – SIGNIFICANT ACCOUNTING POLICIES (continued)

Fair Value Measurements: The Company employs a hierarchy which prioritizes the inputs used to measure recurring fair value into three distinct categories based on the lowest level of input that is significant to the fair value measurement. Our methodology for categorizing assets and liabilities that are measured at fair value pursuant to this hierarchy gives the highest priority to unadjusted quoted prices in active markets and the lowest levels to unobservable inputs, summarized as follows:

- Level 1 – Quoted prices in active markets for identical assets or liabilities.
- Level 2 – Other significant observable inputs (including quoted prices in active markets for similar assets or liabilities).
- Level 3 – Significant unobservable inputs (including our own assumptions in determining fair value).

We use the cost, income or market valuation approaches to estimate the fair value of our assets and liabilities when insufficient market-observable data is available to support our valuation assumptions. The purchase price allocations relating to the acquisitions completed during the six months ended December 31, 2016 and year ended June 30, 2016 utilized level 3 inputs.

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 and 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 that reporting period. The adoption of this guidance is not expected to have a material effect on the Company's consolidated financial statements.

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 tax valuation allowance.

NOTE 5 - INCOME TAXES (continued)

No state tax expense was recorded for the six months ended December 31, 2016 as it was not material due to the valuation allowance and net operating losses. The Company's effective tax rate for the six months ended December 31, 2015 was 8.5% reflecting estimated state income taxes. The Company's tax benefit associated with taxable losses during the six months ended December 31, 2016 was offset by a deferred tax valuation allowance. The Company's tax expense associated with taxable income during the six months ended December 31, 2015 was offset by the utilization of net operating loss carryforwards.

NOTE 6 - NOTES PAYABLE AND LONG-TERM DEBT

The Company's credit agreement, which was effective on April 9, 2015 with a commercial bank and subsequently amended on June 20, 2016 and November 2, 2016 ("Credit Agreement"), provides for a $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 $1.0 million) 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) with a floor of 3.0%. The interest rates as of December 31, 2016 were approximately 3.75% (for the working capital line) and 4.00% (for the acquisition line). Interest rates as of June 30, 2016 were 3.5% (for the working capital line) and 3.75% (for the acquisition line). The Company pays a fee of 0.25% per annum on the unused amount of the line of credit.

At December 31, 2016, long-term debt consisted of the following (in thousands):

Non-interest bearing, unsecured note payable assumed in acquisition (See Note 13), monthly payments of $7; maturing September 2018.	$146
Term loan, bearing interest at 4.00%, monthly payments of $50; maturing July 2021.	2,750
Total long-term debt	2,896
Less: current portion	684
Long-term debt, net of current portion	$2,212

As of December 31, 2016, the Company also had $0.3 million in letters of credit. The Company's availability under its credit facilities is currently approximately $5.9 million ($3.7 million for the working capital and $2.2 million for the acquisitions).

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 $7.0 million, minimum liquidity of $6.0 million and a minimum debt service coverage ratio of not less than 1.35 to 1.00. The Credit Agreement, which expires on April 9, 2018, also contains customary events of default which, if uncured, may terminate the Credit Agreement and require immediate repayment of all indebtedness to the lenders. At December 31, 2016, the Company was in compliance with all the financial covenants under the Credit Agreement except the minimum debt service coverage ratio. A waiver was granted by the lender to the Company to cover the three months ended December 31, 2016. With an amendment executed in November 2016, which revised the calculation of the debt service coverage ratio, the Company expects to be in compliance with all amended covenants through at least December 31, 2017.

Payments due on long-term debt during each of the five years subsequent to December 31, 2016 are as follows (in thousands, unaudited):

Twelve Months Ending December 31,	
2017	$684
2018	662
2019	600
2020	600
2021	350
	$2,896

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

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 requisite service period (generally the vesting period of the equity grant). During the three and six months ended December 31, 2016 and 2015, stock-based compensation amounts are as follows (in thousands):

	Three-Months Ended December 31,		Six-Months Ended December 31,	
	2016	2015	2016	2015
	(Unaudited)		(Unaudited)	
Stock-based compensation expense included in:				
Cost of revenues	$ 13	$ 10	$ 25	$ 18
Selling, general and administrative	121	207	248	340
Total	$ 134	$ 217	$ 273	$ 358

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 earnings 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 and restricted stock. In computing diluted earnings per share, the outstanding common stock options are considered dilutive using the treasury stock method.

The Company's restricted stock awards and escrow shares that were issued in connection with the Citiwaste acquisition 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 December 31,		Six-Months Ended December 31,	
	2016	2015	2016	2015
	(Unaudited)		(Unaudited)	
Net income (loss), as reported	$ (227)	$ 615	$ (1,194)	$ 835
Weighted average common shares outstanding	15,929	15,467	15,898	15,443
Effect of dilutive stock options	-	595	-	551
Weighted average diluted common shares outstanding	15,929	16,062	15,898	15,994

Net income (loss) per common share				
Basic	$(0.01)	$0.04	$(0.08)	$0.05
Diluted	$(0.01)	$0.04	$(0.08)	$0.05
Employee stock options excluded from computation of dilutive income per share amounts because their effect would be anti-dilutive	834	120	305	216

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

NOTE 9 - EQUITY TRANSACTIONS

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

	Three-Months Ended December 31,		Six-Months Ended December 31,	
	2016	2015	2016	2015
	(Unaudited)		(Unaudited)	
Options Exercised	29,527	11,000	75,750	112,425
Proceeds (in thousands)	$ 118	$ 45	$ 259	$ 313
Average exercise price per share	$ 3.98	$ 3.98	$ 3.41	$ 2.77

As of December 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 1.94 years.

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

	Three-Months Ended December 31,		Six-Months Ended December 31,	
	2016	2015	2016	2015
	(Unaudited)		(Unaudited)	
Shares repurchased	-	68,022	-	68,022
Cash paid for shares repurchased (in thousands)	$ -	$ 540	$ -	$ 540
Average price paid per share	$ -	$ 7.94	$ -	$ 7.94

Total shares repurchased under the program are 295,615 shares at a cost of $1.6 million. As of December 31, 2016, approximately $1.4 million remained of the Company's $3.0 million repurchase program. The program has not been extended.

NOTE 10 – GOODWILL AND INTANGIBLE ASSETS

At December 31, 2016 and June 30, 2016, intangible assets consisted of the following (in thousands, unaudited):

		December 31, 2016			June 30, 2016		
	Estimated Useful Lives	Original Amount	Accumulated Amortization	Net Amount	Original Amount	Accumulated Amortization	Net Amount
Customer relationships	7 years	$ 3,007	$ (277)	$ 2,730	$ 580	$ (60)	$ 520

Permits	6 - 15 years	1,290	(239)	1,051	668	(191)	477
Patents	5 - 17 years	383	(257)	126	383	(251)	132
Tradename	7 years	270	(19)	251	-	-	-
Non-compete	5 years	117	(11)	106	-	-	-
Total intangible assets, net		$5,067	$ (803)	$4,264	$1,631	$ (502)	$1,129

During the six months ended December 31, 2016 and 2015, amortization expense was $0.3 million and $28.0 thousand, respectively.

The changes in the carrying amount of goodwill since June 30, 2016 was as follows (in thousands, unaudited):

Balance at June 30, 2016	$1,039
Goodwill acquired during the six months ended December 31, 2016	5,685
Balance at December 31, 2016	$6,724

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

NOTE 10 – GOODWILL AND INTANGIBLE ASSETS (continued)

As of December 31, 2016, future amortization of intangible assets is as follows (in thousands, unaudited):

Twelve Months Ending December 31,	
2017	$606
2018	606
2019	606
2020	606
2021	594
Thereafter	1,246
	$4,264

Future amortization expense may fluctuate depending on future changes in acquisition related assets or changes to the estimated amortizable life of the intangibles.

NOTE 11 – INVENTORY

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

	December 31, 2016 (Unaudited)	June 30, 2016
Raw materials	$1,443	1,388
Finished goods	2,939	2,531
Total	$4,382	3,919

NOTE 12 – REVENUES BY SOLUTION

The Company has expanded its reporting to include information by solution reflecting recent changes in the Company's business primarily due to recent acquisitions. The components of revenues by solution are as follows (in thousands, unaudited):

	Three-Months Ended December 31,			
	2016	% Total	2015	% Total
REVENUES BY SOLUTION:				
Mailbacks	$6,415	66.1 %	$7,414	74.2 %
Route-based pickup services	1,580	16.3 %	480	4.8 %
Unused medications	742	7.6 %	1,034	10.3 %
Third party treatment services	74	0.8 %	75	0.8 %
Other[1]	896	9.2 %	989	9.9 %
Total revenues	$9,707	100.0 %	$9,992	100.0 %

	Six-Months Ended December 31,			
	2016	% Total	2015	% Total

REVENUES BY SOLUTION:								
Mailbacks	$	12,664	65.9	%	$	12,938	72.4	%
Route-based pickup services		3,045	15.8	%		841	4.7	%
Unused medications		1,533	8.0	%		2,036	11.4	%
Third party treatment services		142	0.7	%		154	0.9	%
Other[(1)]		1,854	9.6	%		1,892	10.6	%
Total revenues	$	19,238	100.0	%	$	17,861	100.0	%

(1) The Company's other products include non-mailback products such as IV poles, accessories, containers, asset return boxes and other miscellaneous items.

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SHARPS COMPLIANCE CORP. AND SUBSIDIARIES
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(UNAUDITED)

NOTE 13 – 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 was withheld for payment of adjusted escrow amounts which settled in 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 was withheld for payment of adjusted escrow amounts which settled in January 2017.

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

Effective July 1, 2016, the Company acquired Citiwaste, LLC (“Citiwaste”), a route-based pickup service located in New York, which is in the business of medical, pharmaceutical and hazardous waste management primarily in the healthcare industry. The purchase price consists of $7.0 million in cash ($3.0 million of which was borrowed under the acquisition portion of its Credit Agreement), 413,272 shares of common stock of the Company (the “Common Stock Consideration”) valued at $1.9 million, which constitutes approximately 3.0% of the total outstanding shares of common stock of the Company, and a lease obligation to be paid to the seller for $0.1 million which is presented on the balance sheet in accrued liabilities for a total consideration of $9.0 million. The issuance of the Common Stock Consideration was not registered under the Securities Act of 1933, as amended, and was issued pursuant to an exemption from the registration requirements thereunder. The Company will hold 139,216 shares of the Common Stock Consideration in escrow for a one-year period to cover the indemnification obligations of the Sellers under the Agreement.

For the six months ended December 31, 2016, the Company recognized approximately $1.7 million in revenues related to the acquisition of Citiwaste.

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

Cash	$5

Accounts receivable	495
Fixed assets	30
Intangibles	3,357
Goodwill	5,685
Accounts payable and accrued liabilities	(356)
Debt assumed	(187)
Total purchase price	$9,029

The amounts recorded for certain assets and liabilities are preliminary in nature and are subject to adjustments to working capital. The actual amounts recorded at the completion of the measurement period may differ materially from the information presented in the accompanying unaudited condensed combined financial information.

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

NOTE 13 – ACQUISITIONS (continued)

During the three and six months ended December 31, 2016 and 2015, the Company incurred acquisition related expenses for investment banking, legal and accounting fees which are included within selling, general and administrative expenses in the condensed consolidated statements of operations as follows (in thousands):

	Three-Months Ended December 31,		Six-Months Ended December 31,	
	2016	2015	2016	2015
	(Unaudited)		(Unaudited)	
Acquisition-related expenses	$ -	$ 74	$ 702	$ 151

The results of operations of the acquired business have been included in the condensed consolidated statements of operations from the date of acquisition. Pro forma results of operations for Alpha Bio/Med Services and Bio-Team Mobile are not presented because the pro forma effects, individually or in the aggregate, were not material to the Company's consolidated results of operations. The goodwill recorded for the Alpha Bio/Med Services, Bio-Team Mobile, and Citiwaste acquisitions will be deductible for income taxes. The goodwill recognized for the acquisitions since July 1, 2015 is attributable to expected revenue synergies generated by the integration of our products and services with those acquisitions, cost synergies resulting from the consolidation or elimination of certain functions, and intangible assets that do not qualify for separate recognition such as the assembled workforce of each acquisition.

Supplemental Pro Forma Data

Citiwaste's financial results have been included in our condensed consolidated financial results for the three and six months ended December 31, 2016. The following table presents summarized unaudited pro forma financial information as if Citiwaste had been included in the Company's results for the three and six months ended December 31, 2015 (in thousands):

	Three-Months Ended December 31,	Six-Months Ended December 31,
	2015	2015
	(Unaudited)	
Revenues	$ 10,723	$ 19,323
Net income	$ 572	$ 749

The basic and diluted earnings per common share is not affected by the pro forma results above nor the issuance of common stock consideration.

The unaudited supplemental pro forma financial data above has been calculated after applying the Company's accounting policies and adjusting the historical results of Citiwaste with pro forma adjustments, net of tax, that assume the acquisition occurred on July 1, 2015.

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 "may," "position," "plan," potential," "continue," "anticipate," "believe," "expect," "estimate," "project" and "intend" and words or ph similar import, as they relate to the Company or its subsidiaries or Company management, are intended to identify forward-looking statements. Such statements reflect the known and unknown 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. Consequently, no forward-looking statements can be guaranteed. When considering these forward-looking statements, you should keep in mind the risk factors and other cautionary statements in this Quarterly Report on Form 10-Q or refer to our Annual Report on Form 10-K. Actual results may vary materially. You are cautioned not to place undue reliance on any forward-looking statements. You should also understand that is not possible to predict or identify such factors and as such should not consider the preceding list or the risk factors to be a complete list of all potential risks and uncertainties. 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).

Our key markets include heathcare facilities, pharmaceutical manufacturers, home healthcare providers, assisted living/long-term care, surgery centers, 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 and December 2015, the Company augmented its network of medical and hazardous waste service providers with acquisitions of a route-based pickup services in the Northeast serving Pennsylvania, Maryland, Ohio and other neighboring states. Additionally, the Company now services parts of Texas and Louisiana with route-based pickup service. In July 2016, the Company acquired another route-based pickup service which expanded service to New York and New Jersey and strengthened the Company's position in the Northeast where we serve an eleven contiguous state region. Our other solutions include TakeAway Medication Recovery System™, TakeAway Recycle System™, ComplianceTRAC℠, Universal Waste Shipback Systems, TakeAway Environmental Return System™, SharpsTracer®, Sharps Secure® Needle Disposal System™, Complete Needle™ Collection & Disposal System, Pitch-It IV™ Poles, Asset Return System, Sharps® MWMS™ (a Medical Waste Management System ("MWMS")) and Spill 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 six months ended December 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 December 31,				Six-Months Ended December 31,			
	2016	%	2015	%	2016	%	2015	%
	(Unaudited)				(Unaudited)			
Revenues	$9,707	100.0%	$9,992	100.0%	$19,238	100.0%	$17,861	100.0%
Cost of revenues	6,812	70.2%	6,673	66.8%	13,384	69.6%	11,663	65.3%
Gross profit	2,895	29.8%	3,319	33.2%	5,854	30.4%	6,198	34.7%
SG&A expense	2,899	29.8%	2,585	25.9%	6,598	34.3%	5,181	29.0%
Depreciation and amortization	200	2.0%	70	0.7%	400	2.0%	122	0.7%
Operating income (loss)	(204)	(2.1%)	664	6.6%	(1,144)	(5.9%)	895	5.0%
Interest income	4		9		8		18	
Interest expense	(27)		-		(58)		-	
Total other income (expense)	(23)	(0.2%)	9	0.1%	(50)	(0.3%)	18	0.1%
Income (loss) before income taxes	(227)	(2.3%)	673	6.7%	(1,194)	(6.2%)	913	5.1%
Income tax expense	-	0.0%	58	0.6%	-	0.0%	78	0.4%
Net income (loss)	$(227)	(2.3%)	$615	6.2%	$(1,194)	(6.2%)	$835	4.7%

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

Total revenues for the three months ended December 31, 2016 of $9.7 million decreased by $0.3 million, or 2.9%, over the total revenues for the three months ended December 31, 2015 of 10.0 million. Billings by market are as follows (in thousands):

	Three-Months Ended December 31,		
	(Unaudited)		
	2016	2015	Variance
BILLINGS BY MARKET:			
Professional	$ 3,017	$ 1,861	$ 1,156
Retail	1,642	3,037	(1,395)
Home Health Care	2,021	2,091	(70)
Pharmaceutical Manufacturer	1,404	2,515	(1,111)
Assisted Living	571	518	53
Government	371	242	129
Environmental	74	75	(1)
Other	165	188	(23)
Subtotal	9,265	10,527	(1,262)
GAAP Adjustment *	442	(535)	977

Revenue Reported	$ 9,707	$ 9,992	$ (285)

*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 or services rendered 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”.

The Company has expanded its reporting to include information by solution reflecting recent changes in the Company's business primarily due to recent acquisitions.

	Three-Months Ended December 31,			
	2016	% Total	2015	% Total
BILLINGS BY SOLUTION:				
Mailbacks	$5,973	64.5 %	$7,949	75.5 %
Route-based pickup services	1,580	17.1 %	480	4.6 %
Unused medications	742	8.0 %	1,034	9.8 %
Third party treatment services	74	0.8 %	75	0.7 %
Other(1)	896	9.6 %	989	9.4 %
Total billings	$9,265	100.0 %	$10,527	100.0 %
GAAP adjustment(2)	442		(535)	
Revenue reported	$9,707		$9,992	

(1) The Company's other products include IV poles, accessories, containers, asset return boxes and other miscellaneous items.

(2) 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 or services rendered 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.

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

The decrease in billings was primarily attributable to decreased billings in the Retail ($1.4 million) and Pharmaceutical Manufacturer ($1.1 million) markets partially offset by increased billings in the Professional market ($1.2 million). The increase in the Professional market was a combination of acquired and organic growth as the Company continued its focus on securing customers from the small to medium quantity generator sector, which consists largely of physicians, clinics, dentists, surgery centers, veterinarians and other healthcare professionals, who benefit from the cost-effective and convenient Sharps Recovery System™ and the Company's route-based pick-up services. The decrease in the Retail billings reflected a decrease in flu shot related orders of approximately $0.7 million, as well as a decrease of approximately $0.6 million in billings for the TakeAway Medication Recovery System envelopes, which were launched by a major retail pharmacy customer in the prior year period. The decrease in Pharmaceutical Manufacturer market billings is related to the timing of inventory builds for patient support programs. Billings for Mailbacks in the three months ended December 31, 2016 decreased 24.9% to $6.0 million as compared to $7.9 million in the prior year period and represented 64.5% of total billings. Billings for Route-Based Pickup Services increased 229% to $1.6 million as compared to $0.5 million in the prior year period and represented 17.1% of total billings.

Cost of revenues for the three months ended December 31, 2016 of $6.8 million was 70.2% of revenues. Cost of revenues for the three months ended December 31, 2015 of $6.7 million was 66.8% of revenues. The gross margin for the three months ended December 31, 2016 of 29.8% was lower than gross margin for the three months ended

December 31, 2015 of 33.2%. Gross margin for the three months ended December 31, 2016 was adversely impacted by duplicative costs as the Company transitioned from third-party processing of medical waste in the Northeast Region to internal processing at the new facility in Pennsylvania.

Selling, general and administrative ("SG&A") expenses for the three months ended December 31, 2016 and 2015 were $2.9 million and $2.6 million, respectively. SG&A for the three months ended December 31, 2016 increased by $0.3 million over the prior year primarily due to ongoing expenses associated with acquired businesses and higher sales and marketing costs.

The Company reported an operating loss of $0.2 million for the three months ended December 31, 2016 compared to operating income of $0.7 million for the three months ended December 31, 2015. The operating income decreased mainly due to lower revenues, gross margin and higher SG&A expenses (discussed above).

The Company reported a loss before income taxes of $0.2 million for the three months ended December 31, 2016 versus income before income taxes of $0.7 million for the three months ended December 31, 2015. Loss before income taxes was adversely impacted by the operating loss (discussed above).

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No state tax expense was recorded for the three months ended December 31, 2016 as it was not material due to the valuation allowance and net operating losses. The Company's effective tax rate for the three months ended December 31, 2015 was 8.6% reflecting estimated state income taxes.

The Company reported a net loss of $0.2 million for the three months ended December 31, 2016 compared to net income of $0.6 million for the three months ended December 31, 2015. Net loss was adversely impacted by the operating loss (discussed above).

The Company reported basic and diluted loss per share of ($0.01) for the three months ended December 31, 2016 versus basic and diluted income per share of $0.04 for the three months ended December 31, 2015. Basic and diluted loss per share was adversely impacted by the net loss (discussed above).

SIX MONTHS ENDED DECEMBER 31, 2016 AS COMPARED TO SIX MONTHS ENDED DECEMBER 31, 2015

Total revenues for the six months ended December 31, 2016 of $19.2 million increased by $1.4 million, or 7.7%, over the total revenues for the six months ended December 31, 2015 of $17.9 million. Billings by market are as follows (in thousands):

	Six-Months Ended December 31, (Unaudited)		
	2016	2015	Variance
BILLINGS BY MARKET:			
Professional	$ 5,835	$ 3,572	$ 2,263
Retail	3,701	4,786	(1,085)
Home Health Care	3,887	4,042	(155)
Pharmaceutical Manufacturer	3,191	3,754	(563)
Assisted Living	1,164	1,044	120
Government	821	706	115
Environmental	142	154	(12)
Other	372	450	(78)
Subtotal	19,113	18,508	605
GAAP Adjustment *	125	(647)	772
Revenue Reported	$ 19,238	$ 17,861	$ 1,377

*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".

The Company has expanded its reporting to include information by solution reflecting recent changes in the Company's business primarily due to recent acquisitions.

	Six-Months Ended December 31,			
	2016	% Total	2015	% Total
BILLINGS BY SOLUTION:				
Mailbacks	$12,539	65.7 %	$13,585	73.5 %
Route-based pickup services	3,045	15.9 %	841	4.5 %

Unused medications	1,533	8.0 %	2,036	11.0 %
Third party treatment services	142	0.7 %	154	0.8 %
Other(1)	1,854	9.7 %	1,892	10.2 %
Total billings	$19,113	100.0 %	$18,508	100.0 %
GAAP adjustment(2)	125		(647)	
Revenue reported	$19,238		$17,861	

(1) The Company's other products include IV poles, accessories, containers, asset return boxes and other miscellaneous items.

(2) 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 or services rendered 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.

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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 represent 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 Professional ($2.3 million), Assisted Living ($0.1 million) and Government ($0.1 million) markets. The increase was partially offset by decreased billings in the Retail ($1.1 million) and Pharmaceutical Manufacturer ($0.6 million) markets. Home Health Care billings remained relatively flat at $3.9 million in the first six months of fiscal 2017 as compared to $4.0 million in the prior year's period. The increase in Professional market billings was a combination of acquired and organic growth as the Company continued its focus on securing customers from the small to medium quantity generator sector, which consists largely of physicians, clinics, dentists, surgery centers, veterinarians and other healthcare professionals, who benefit from the cost-effective and convenient Sharps Recovery System and the Company's route-based pick-up services. The increase in Assisted Living market billings is a result of increased sales focus as well as our new route-based pickup service. The increase in Government market billings was primarily related to increased sales of the Company's MedSafe solutions to multiple Government agencies. The decrease in Retail market billings is primarily due to a decrease in billings for the TakeAway Medication Recovery System envelopes which were launched by several Retail customers in the prior year. The decrease in Pharmaceutical Manufacturer market billings is primarily due to the timing of inventory builds for patient support programs.

Cost of revenues for the six months ended December 31, 2016 of $13.4 million was 69.6% of revenues. Cost of revenues for the six months ended December 31, 2015 of $11.7 million was 65.3% of revenues. The lower gross margin for the six months ended December 31, 2016 of 30.4% (versus 34.7% for the six months ended December 31, 2015) was primarily due to the adverse impact of duplicative costs as the Company transitioned from third party processing of medical waste in the Northeast Region to internal processing at the new facility in Pennsylvania. There was also a negative impact from higher return transportation costs associated with a USPS rate increase effective from February 1, 2016 through October 10, 2016.

Selling, general and administrative ("SG&A") expenses for the six months ended December 31, 2016 and 2015 were $6.6 million and $5.2 million, respectively. SG&A for the six months ended December 31, 2016 included $0.7 million of acquisition related costs associated with the completion of the Company's acquisition of Citiwaste in July 2016. Without these acquisition related costs, SG&A costs increased 13.8% compared to the prior period due to increased sales, marketing and compensation related spending.

The Company reported an operating loss of $1.1 million for the six months ended December 31, 2016 compared to operating income of $0.9 million for the six months ended December 31, 2015. The operating income decreased mainly due to the lower gross margin and higher SG&A expenses (discussed above).

The Company reported a loss before income taxes of $1.2 million for the six months ended December 31, 2016 versus income before income taxes of $0.9 million for the six months ended December 31, 2015. Loss before income taxes was adversely impacted by the operating loss (discussed above).

No state tax expense was recorded for the six months ended December 31, 2016 as it was not material due to the valuation allowance and net operating losses. The Company's effective tax rate for the six months ended December 31, 2015 was 8.5% reflecting estimated state income taxes.

The Company reported a net loss of $1.2 million for the six months ended December 31, 2016 compared to net income of $0.8 million for the six months ended December 31, 2015. Net loss was adversely impacted by the operating loss (discussed above).

The Company reported basic and diluted loss per share of ($0.08) for the six months ended December 31, 2016 versus basic and diluted income per share of $0.05 for the six months ended December 30, 2015. Basic and diluted loss per share were adversely impacted by the net loss (discussed above).

PROSPECTS FOR THE FUTURE

The Company continues to focus on core markets and solution offerings that fuel growth. Its key markets include healthcare facilities, pharmaceutical manufacturers, home healthcare providers, assisted living/long-term care, retail pharmacies and clinics, and the professional market which is comprised of physicians, dentists, surgery centers and veterinary practices. These markets 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 other healthcare facilities. 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 focus 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, government agencies, smaller retail pharmacies and clinics and assisted living/long-term care facilities. The Company is able to compete more aggressively in the medium quantity generator market with the addition of route-based services where the mailback may not be as cost effective. The Company’s route-based business provides direct service to areas encompassing about 100 million people or 31% of the U.S. population.

- In July 2015 and December 2015, the Company augmented its network of medical and hazardous waste service providers with acquisitions of route-based pickup services in the Northeast serving Pennsylvania, Maryland, Ohio and other neighboring states. In July 2016, the Company acquired another route-based pickup service which expanded service to New York and New Jersey. Additionally, the Company now services parts of Texas and Louisiana with route-based pickup services. As of December 31, 2016, the Company directly serves more than 9,100 customer locations with route-based pickup services. 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.

- The changing demographics of the U.S. population – according to the U.S. Census Bureau, 2012 Population Estimates and National Projections, 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.

- 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. A recently published report by Accenture states that the number of U.S. retail clinics is projected to increase, as much as 12%-17% per year, driven by 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. Over the flu seasons from 2011 to 2014, the growth in the Retail flu business for Sharps was between 24% and 36%. Despite the decrease in Retail flu business for fiscal 2016 (the 2015 flu season) of 13% due to a mild flu season, Sharps believes the Retail market should continue to drive long-term growth for the Company as consumers increasingly use alternative sites, such as retail pharmacies, to obtain flu and other immunizations.

- The passage of 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.

- 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 comprehensive 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, Spill Kits and TakeAway Medication Recovery System envelopes.

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- The Company continually develops new solution offerings such as ultimate user medication disposal (MedSafe and TakeAway Medication Recovery System), mailback services for DEA registrant expired inventory of controlled substances (TakeAway Medication Recovery System DEA Reverse Distribution for Registrants) and shipback services for collection and recycling of single-use medical devices from surgical centers and other healthcare facilities (TakeAway Recycle System).

- The Company's strong financial position with a cash balance of $7.2 million and debt of $2.9 million as of December 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 $5.2 million to $7.2 million at December 31, 2016 from $12.4 million at June 30, 2016 due to the following:

- Cash Flows from Operating Activities - Working capital decreased by $7.2 million to $10.0 million at December 31, 2016 from $17.2 million at June 30, 2016. The decrease is primarily attributed to a decrease in cash and cash equivalents and:

- Accounts receivable decreased by $0.5 million, net of assets acquired, to $5.8 million at December 31, 2016 from $5.8 million at June 30, 2016.

- Inventory increased by $0.4 million to $4.4 million at December 31, 2016 from $3.9 million at June 30, 2016. The increase in inventory is due to timing of sales and adjustment of inventory levels to facilitate customer orders.

- Accounts payable and accrued liabilities increased by $1.1 million, net of assets acquired and unpaid consideration, to $5.1 million at December 31, 2016 from $3.2 million at June 30, 2016. The increase is the result of the timing of payments.

- Cash Flows used in Investing Activities - Investing activities include capital expenditures and business acquisitions as follows:

- Capital expenditures of $2.0 million are attributable primarily to investments in treatment facility improvements purchased.

- The Company acquired Citiwaste for $9.0 million during the six months ended December 31, 2016 of which $1.9 million was for 413,272 shares of common stock of the Company and $0.1 million was unpaid consideration as of December 31, 2016.

- Cash Flows used in Financing Activities – Financing activities include $3.0 million of proceeds from long-term debt in connection with the Citiwaste acquisition, proceeds from the exercise of stock options of $0.3 million offset in part by repayments of debt 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 six months ended December 31, 2016 and the year-ended June 30, 2016.

Credit Facility

The Company's credit agreement, which was effective on April 9, 2015 with a commercial bank and subsequently amended on June 20, 2016 and November 2, 2016 ("Credit Agreement"), provides for a $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 $1.0 million) 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) with a floor of 3.0%. The interest rates as of December 31, 2016 were approximately 3.75% (for the working capital line) and 4.00% (for the acquisition line). Interest rates as of June 30, 2016 were 3.5% (for the working capital line) and 3.75% (for the acquisition line). The Company pays a fee of 0.25% per annum on the unused amount of the line of credit.

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At December 31, 2016, long-term debt consisted $2.9 million in borrowings of which $0.7 million was current. The Company also had $0.3 million in letters of credit. The Company's availability under its credit facilities is currently approximately $5.9 million ($3.7 million for the working capital and $2.2 million for the acquisitions).

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 $7.0 million, minimum liquidity of $6.0 million and a minimum debt service coverage ratio of not less than 1.35 to 1.00. The Credit Agreement, which expires on April 9, 2018, also contains customary events of default which, if uncured, may terminate the Credit Agreement and require immediate repayment of all indebtedness to the lenders. At December 31, 2016, the Company was in compliance with all the financial covenants under the Credit Agreement except the minimum debt service coverage ratio. A waiver was granted by the lender to the Company to cover the three months ended December 31, 2016. With an amendment executed in November 2016, which revised the calculation of the debt coverage ratio, the Company expects to be in compliance with all amended covenants through at least December 31, 2017.

CRITICAL ACCOUNTING POLICIES

Revenue Recognition: The Company recognizes revenue when services are provided and from product sales when (i) goods are shipped or delivered, and title and risk of loss pass to the customer, (ii) the price is substantially fixed or determinable and (iii) collectability is reasonably assured 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 Medication Recovery Systems referred to as "Mailbacks" and Sharps Pump and Asset Return Systems, 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.

Business Combinations: The Company includes the results of operations of the businesses that are acquired as of the respective dates of acquisition. The Company allocates the fair value of the purchase price of acquisitions to the assets acquired and liabilities assumed based on their estimated fair values. The excess of the fair value of the purchase price over the fair values of these identifiable assets and liabilities is recorded as goodwill.

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

Accounts Receivable: Accounts receivable consist primarily of amounts due to the Company from 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 likelihood of not collecting certain accounts receivable based on past collection history and specific risks identified among uncollected accounts. Accounts receivable are charged to the allowance for doubtful accounts when the Company determines that the receivable will not be collected and/or when the account has been referred to a third party collection agency. The Company has a history of minimal uncollectible accounts.

Stock-Based Compensation: Stock-based compensation cost 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 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 and 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 that reporting period. The adoption of this guidance is not expected to have a material effect on the Company’s consolidated financial statements.

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 or foreign currency exchange risk. Management does not use derivative instruments. The Company has limited exposure to changes in interest rates from its indebtedness. The Company maintains a credit agreement and had borrowings as of December 31, 2016. In connection with the acquisition of Citiwaste on July 1, 2016, the Company borrowed $3.0 million under the acquisition portion of its Credit Agreement. Advances under the acquisition portion of the Credit Agreement, which are limited to 75% of the purchase price of an acquired company, convert to a five-year term note which bears interest at WSJ Prime plus 0.25% which is currently 4.00%. Principal and interest are payable monthly.

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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. 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 December 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 December 31, 2016.

Changes in Internal Control

During the three months ended December 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.

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, 2016 for the Company's risk factors. During the period ended December 31, 2016, there have been no changes to the Company's risk factors except as included below.

Restrictions in our Credit Agreement could adversely affect our business, financial condition, results of operations and value of our securities.

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 $7.0 million, minimum liquidity of $6.0 million and a minimum debt service coverage ratio of not less than 1.35 to 1.00 (under new amendment from November 2016). The Credit Agreement also contains customary events of default which, if uncured, may terminate the Credit Agreement and require immediate repayment of all indebtedness to the lenders. These covenants could affect our ability to operate our business and may limit our ability to take advantage of potential business opportunities as they arise.

Our ability to comply with the covenants and restrictions contained in the Credit Agreement may be affected by events beyond our control, including prevailing economic, financial, and industry conditions. If market or other economic conditions deteriorate, our ability to comply with these covenants may be impaired. A failure to comply with these provisions could result in a default or an event of default. Upon an event of default, unless waived, the lenders could elect to terminate commitments, cease making further loans, require cash collateralization of letters of credit, cause its loans to become due and payable in full and force us into bankruptcy or liquidation. If the payment of our debt is accelerated, our assets may be insufficient to repay such debt in full, and the holders of our stock could experience a partial or total loss of their investment.

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

Recent Sales of Unregistered Securities.

In connection with the acquisition of Citiwaste in July 2016, the Company issued 413,272 shares of common stock of the Company (the "Common Stock Consideration"), which constitutes approximately 3.0% of the total outstanding shares of the Company as a portion of the total consideration paid. The issuance of the Common Stock Consideration was not registered under the Securities Act of 1933, as amended, and was pursuant to an exemption from registration requirements thereunder. The Company will hold 139,216 shares of the Common Stock Consideration in escrow for a one-year period to cover the indemnification obligations of the sellers under the Agreement.

Issuer Purchases of Equity Securities.

During the three months ended December 31, 2016, Sharps repurchased no shares.

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ITEM 6. EXHIBITS

(a) Exhibits:

31.1	Certification of Chief Executive Officer in accordance with Section 302 of the Sarbanes-Oxley Act (filed herewith)
31.2	Certification of Chief Financial Officer in accordance with Section 302 of the Sarbanes-Oxley Act (filed herewith)
32.1	Certification of Chief Executive Officer in accordance with Section 906 of the Sarbanes-Oxley Act (filed herewith)
32.2	Certification of Chief Financial Officer in accordance with Section 906 of the Sarbanes-Oxley Act (filed herewith)
101.INS	XBRL Instance Document (filed herewith)
101.SCH	XBRL Taxonomy Extension Schema Document (filed herewith)
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document (filed herewith)
101.DEF	XBRL Taxonomy Extension Linkbase Document (filed herewith)
101.LAB	XBRL Taxonomy Extension Label Linkbase Document (filed herewith)
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document (filed herewith)

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

SIGNATURES

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

	REGISTRANT: SHARPS COMPLIANCE CORP.
Dated: February 1, 2017	By: /s/ DAVID P. TUSA David P. Tusa Chief Executive Officer and President (Principal Executive Officer)
Dated: February 1, 2017	By: /s/ DIANA P. DIAZ Diana P. Diaz Vice President and Chief Financial Officer (Principal Financial and Accounting Officer)