

**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, 2017

OR

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

Commission File Number: 001-34269

SHARPS COMPLIANCE CORP.

(Exact name of registrant as specified in its charter)

Delaware	74-2657168
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

9220 Kirby Drive, Suite 500, Houston, Texas	77054
(Address of principal executive offices)	(Zip Code)

(713) 432-0300

(Registrant's telephone number, including area code)

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

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

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

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

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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 29, 2018, there were 16,082,021 outstanding shares of the Registrant's common stock, par value \$0.01 per share.

SHARPS COMPLIANCE CORP. AND SUBSIDIARIES

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)

	<u>December 31,</u> <u>2017</u>	<u>June 30,</u> <u>2017</u>
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 5,763	\$ 4,675
Accounts receivable, net of allowance for doubtful accounts of \$87 and \$78, respectively	7,518	7,553
Inventory, net	4,359	4,098
Prepaid and other current assets	708	694
TOTAL CURRENT ASSETS	18,348	17,020
PROPERTY, PLANT AND EQUIPMENT, net	6,678	6,543
OTHER ASSETS	220	120
GOODWILL	6,735	6,735
INTANGIBLE ASSETS, net	3,790	4,046
TOTAL ASSETS	\$ 35,771	\$ 34,464
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES		
Accounts payable	\$ 2,613	\$ 1,710
Accrued liabilities	1,910	1,800
Current maturities of long-term debt	579	601
Deferred revenue	2,375	2,421
TOTAL CURRENT LIABILITIES	7,477	6,532
LONG-TERM DEFERRED REVENUE, net of current portion	535	478
OTHER LONG-TERM LIABILITIES	173	165
LONG-TERM DEBT, net of current portion	1,724	2,002
TOTAL LIABILITIES	9,909	9,177
COMMITMENTS AND CONTINGENCIES		
STOCKHOLDERS' EQUITY		
Common stock, \$0.01 par value per share; 20,000,000 shares authorized; 16,377,636 and 16,304,027 shares issued, respectively, and 16,082,021 and 16,008,412 shares outstanding, respectively.	164	163
Treasury stock, at cost, 295,615 shares repurchased	(1,554)	(1,554)
Additional paid-in capital	28,406	28,063
Accumulated deficit	(1,154)	(1,385)
TOTAL STOCKHOLDERS' EQUITY	25,862	25,287
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$ 35,771	\$ 34,464

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

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

	Three-Months Ended December 31,	
	2017	2016
REVENUES	\$ 11,119	\$ 9,707
Cost of revenues	7,988	6,812
GROSS PROFIT	3,131	2,895
Selling, general and administrative	2,821	2,899
Depreciation and amortization	203	200
OPERATING INCOME (LOSS)	107	(204)
OTHER INCOME (EXPENSE)		
Interest income	5	4
Interest expense	(23)	(27)
TOTAL OTHER EXPENSE	(18)	(23)
INCOME (LOSS) BEFORE INCOME TAXES	89	(227)
INCOME TAX BENEFIT	(67)	—
NET INCOME (LOSS)	\$ 156	\$ (227)
NET INCOME (LOSS) PER COMMON SHARE - Basic and Diluted	\$ 0.01	\$ (0.01)
WEIGHTED AVERAGE SHARES USED IN COMPUTING INCOME (LOSS) PER COMMON SHARE:		
Basic	16,047	15,929
Diluted	16,068	15,929

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

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

	Six-Months Ended December 31,	
	2017	2016
REVENUES	\$ 20,802	\$ 19,238
Cost of revenues	14,643	13,384
GROSS PROFIT	6,159	5,854
Selling, general and administrative	5,546	6,598
Depreciation and amortization	405	400
OPERATING INCOME (LOSS)	208	(1,144)
OTHER INCOME (EXPENSE)		
Interest income	10	8
Interest expense	(47)	(58)
TOTAL OTHER EXPENSE	(37)	(50)
INCOME (LOSS) BEFORE INCOME TAXES	171	(1,194)
INCOME TAX BENEFIT	(60)	—
NET INCOME (LOSS)	\$ 231	\$ (1,194)
NET INCOME (LOSS) PER COMMON SHARE - Basic and Diluted	\$ 0.01	\$ (0.08)
WEIGHTED AVERAGE SHARES USED IN COMPUTING INCOME (LOSS) PER COMMON SHARE:		
Basic	16,028	15,898
Diluted	16,081	15,898

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

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, 2016	15,740,458	\$ 158	(295,615)	\$ (1,554)	\$ 25,331	\$ (92)	\$ 23,843
Exercise of stock options	95,050	1	—	—	341	—	342
Stock-based compensation	—	—	—	—	496	—	496
Issuance of common shares for acquisition	415,527	4	—	—	1,895	—	1,899
Issuance of restricted stock	52,992	—	—	—	—	—	—
Net loss	—	—	—	—	—	(1,293)	(1,293)
Balances, June 30, 2017	16,304,027	163	(295,615)	(1,554)	28,063	(1,385)	25,287
Stock-based compensation	—	—	—	—	261	—	261
Issuance of common shares for lease	20,617	—	—	—	83	—	83
Issuance of restricted stock	52,992	1	—	—	(1)	—	—
Net income	—	—	—	—	—	231	231
Balances, December 31, 2017	16,377,636	\$ 164	(295,615)	\$ (1,554)	\$ 28,406	\$ (1,154)	\$ 25,862

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

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

	Six-Months Ended December 31,	
	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income (loss)	\$ 231	\$ (1,194)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation and amortization	784	708
Loss on disposal of property, plant and equipment	—	6
Stock-based compensation expense	261	273
Deferred tax benefit	(74)	—
Changes in operating assets and liabilities, net of effects of business acquisitions:		
Accounts receivable	35	543
Inventory	(156)	(359)
Prepaid and other assets	43	(66)
Accounts payable and accrued liabilities	934	1,134
Deferred revenue	11	(70)
NET CASH PROVIDED BY OPERATING ACTIVITIES	2,069	975
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property, plant and equipment	(643)	(1,978)
Cash proceeds from sale of property, plant and equipment	10	13
Additions to intangible assets	(48)	(79)
Payments for business acquisitions, net of cash acquired	—	(7,100)
NET CASH USED IN INVESTING ACTIVITIES	(681)	(9,144)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from exercise of stock options	—	259
Proceeds from long-term debt	—	3,000
Repayments of long-term debt	(300)	(291)
NET CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES	(300)	2,968
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	1,088	(5,201)
CASH AND CASH EQUIVALENTS, beginning of period	4,675	12,435
CASH AND CASH EQUIVALENTS, end of period	\$ 5,763	\$ 7,234
SUPPLEMENTAL CASH FLOW DISCLOSURES:		
Income taxes paid	\$ 3	\$ —
Interest paid on long-term debt	\$ 39	\$ 49
NON-CASH INVESTING AND FINANCING ACTIVITIES:		
Issuance of common stock for acquisition	\$ —	\$ 1,889
Issuance of common stock for lease	\$ 83	\$ —
Unpaid consideration related to acquisitions	\$ —	\$ 105
Transfer of equipment to inventory	\$ 105	\$ 104
Property, plant and equipment financed through accounts payable	\$ 87	\$ 368

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

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

NOTE 1 - ORGANIZATION AND BACKGROUND

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 a twenty-three (23) state region of the South, Southeast and Northeast portions of the United States.

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 generally accepted accounting principles in the United States of America ("GAAP") for complete financial statements. Additionally, the preparation of the condensed consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect reported amounts. 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, 2017, the results of its operations for the three and six months ended December 31, 2017 and 2016, cash flows for the six months ended December 31, 2017 and 2016 and stockholders' equity for the six months ended December 31, 2017. The results of operations for the three and six months ended December 31, 2017 are not necessarily indicative of the results to be expected for the entire fiscal year ending June 30, 2018. 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, 2017.

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, 2017, the Company recorded revenue from inventory builds that are held in vendor managed inventory under these service agreements of \$0.9 million and \$1.9 million, respectively. 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 \$2.0 million, respectively. As of December 31, 2017 and June 30, 2017, \$3.1 million and \$2.7 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. In accordance with the relative selling price methodology, an estimated selling price is determined for all deliverables

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

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

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

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

Goodwill and Other Identifiable Intangible Assets: Finite-lived intangible assets are amortized over their respective estimated useful lives and evaluated for impairment periodically whenever events or changes in circumstances indicate that their related carrying values may not be fully recoverable. Goodwill is assessed for impairment at least annually. The Company generally performs its annual goodwill impairment analysis using a quantitative approach. The quantitative goodwill impairment test identifies the existence of potential impairment by comparing the fair value of our single reporting unit with its carrying value, including goodwill. If the fair value of a reporting unit exceeds its carrying value, the reporting unit's goodwill is considered not to be impaired. If the carrying value of a reporting unit exceeds its fair value, an impairment charge is recognized in an amount equal to that excess. The impairment charge recognized is limited to the amount of goodwill present in our single reporting unit. These estimates and assumptions could have a significant impact on whether or not an impairment charge is recognized and the amount of any such charge. The Company performs its annual impairment assessment of goodwill during the fourth quarter of each fiscal year. The Company determined that there was no impairment during the prior year ended June 30, 2017 and there have been no triggering events since that would warrant further impairment testing.

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, 2017 and June 30, 2017 due to their short-term nature. The carrying value of the Company's debt approximates fair value due to the market rates of interest.

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

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. In March 2016, guidance for revenue from contracts with customers regarding principal versus agent considerations was issued which modified examples to assist in the application of the guidance. 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 in the initial stages of evaluating the impact that the new accounting guidance will have on its consolidated financial statements and related disclosures as well as evaluating the available transition methods. The Company will continue to evaluate the standard as well as additional changes, modifications or interpretations which may impact the Company.

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 in the initial stages of evaluating the impact of the new guidance on its consolidated financial statements and related disclosures as well as evaluating the available transition methods. The Company will continue to evaluate the standard as well as additional changes, modifications or interpretations which may impact the Company.

NOTE 5 – INCOME TAXES

The Company's effective tax rate for the six months ended December 31, 2017 was (35.1)% reflecting the impact of the 2017 tax law change discussed below, net of estimated state income taxes. For the six months ended December 31, 2017, the Company recorded an income tax benefit of approximately \$74,000, which was offset by estimated state income tax expense of \$14,000. No income 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 Tax Cuts and Jobs Act of 2017, enacted on December 22, 2017, contains significant changes to U.S. tax law, including lowering the U.S. corporate income tax rate to 21%. During the six months ended December 31, 2017, the Company recorded a \$74,000 deferred tax asset in Other Assets on the balance sheet, representing the net benefit of remeasuring its deferred tax assets for recoverable alternative minimum tax credits offset by deferred tax liabilities related to indefinite lived assets, such as goodwill, which cannot be used as a source of future taxable income in evaluating the need for a valuation allowance against deferred tax assets. The Company's remaining net deferred tax assets continue to be fully offset by a valuation allowance. The Company's gross deferred tax assets and the offsetting valuation allowance decreased by approximately \$0.8 million as a result of the reduction of the U.S. tax rate to 21%.

NOTE 6 - NOTES PAYABLE AND LONG-TERM DEBT

On March 29, 2017, the Company entered into a credit agreement with a commercial bank ("Credit Agreement"). The Credit Agreement, which replaced the Company's prior credit agreement, provides for a \$14.0 million credit facility, the proceeds of which may be utilized as follows: (i) \$6.0 million for working capital, letters of credit (up to \$2.0 million) and general corporate purposes and (ii) \$8.0 million for acquisitions. Indebtedness under the Credit Agreement is secured by substantially all of the Company's assets 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 the lesser of 50% of eligible inventory and \$3.0 million. 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 at the time of the borrowing. Borrowings bear interest at the greater of (a) zero percent or (b) the One Month ICE LIBOR plus a LIBOR Margin of 2.5%. The LIBOR Margin may increase to as high as 3.0% depending on the Company's cash flow leverage ratio. The interest rate as of December 31, 2017 was approximately 4.0%. The Company pays a fee of 0.25% per annum on the unused amount of the line of credit.

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

At December 31, 2017, long-term debt consisted of the following (in thousands):

Non-interest bearing, unsecured note payable assumed in acquisition, monthly payments of \$7; maturing September 2018.	\$	62
Term loan, bearing interest at 4.0%, monthly payments of \$43; maturing March 2022.		2,241
Total long-term debt		2,303
Less: current portion		579
Long-term debt, net of current portion	\$	1,724

The Company has availability under the Credit Agreement of \$11.7 million (\$6.0 million for the working capital and \$5.7 million for the acquisitions) as of December 31, 2017 which may be limited by its leverage covenant. The Company also has \$30,000 in letters of credit outstanding as of December 31, 2017.

The Credit Agreement contains affirmative and negative covenants that, among other things, require the Company to maintain a maximum cash flow leverage ratio of no more than 3.25 to 1.0 and a minimum debt service coverage ratio of not less than 1.15 to 1.00. The maximum cash flow leverage ratio will decrease to 3.0 to 1.0 on March 31, 2018 and onwards. The Credit Agreement, which expires on March 29, 2019, also contains customary events of default which, if uncured, may terminate the Credit Agreement and require immediate repayment of all indebtedness to the lenders.

Payments due on long-term debt during each of the five years subsequent to December 31, 2017 are as follows (in thousands):

Twelve Months Ending December 31,	
2018	\$ 579
2019	517
2020	517
2021	517
2022	173
	\$ 2,303

The Company utilizes performance bonds to support operations based on certain state requirements. At December 31, 2017, the Company had performance bonds outstanding covering financial assurance up to \$0.6 million.

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, 2017 and 2016, stock-based compensation amounts are as follows (in thousands):

	Three-Months Ended		Six-Months Ended	
	December 31,		December 31,	
	2017	2016	2017	2016
Stock-based compensation expense included in:				
Cost of revenues	\$ 13	\$ 13	\$ 27	\$ 25
Selling, general and administrative	127	121	234	248
Total	\$ 140	\$ 134	\$ 261	\$ 273

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.

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

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

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

	Three-Months Ended December 31,		Six-Months Ended December 31,	
	2017	2016	2017	2016
Net income (loss), as reported	\$ 156	\$ (227)	\$ 231	\$ (1,194)
Weighted average common shares outstanding	16,047	15,929	16,028	15,898
Effect of dilutive stock options	21	—	53	—
Weighted average diluted common shares outstanding	<u>16,068</u>	<u>15,929</u>	<u>16,081</u>	<u>15,898</u>
Net income (loss) per common share				
Basic and diluted	\$ 0.01	\$ (0.01)	\$ 0.01	\$ (0.08)
Employee stock options excluded from computation of dilutive income (loss) per share amounts because their effect would be anti-dilutive	778	834	401	305

NOTE 9 - EQUITY TRANSACTIONS

During the three and six months ended December 31, 2017 and 2016, 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,	
	2017	2016	2017	2016
Options Exercised	—	29,527	—	75,750
Proceeds (in thousands)	\$ —	\$ 118	\$ —	\$ 259
Average exercise price per share	\$ —	\$ 3.98	\$ —	\$ 3.41

As of December 31, 2017, there was \$0.5 million of stock option and restricted stock compensation expense related to non-vested awards which is expected to be recognized over a weighted average period of 2.3 years.

During the three months ended December 31, 2017, the Company issued 20,617 shares of common stock as a portion of consideration for a third-party lease agreement. The shares were issued at \$4.00 per share based on the closing price on the date of grant. Non-cash expense recorded during the three months ended December 31, 2017 was \$12,000. The remaining cost will be amortized over the life of the lease and is included in Prepaid and Other Current Assets or Other Assets on the balance sheet.

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

NOTE 10 – GOODWILL AND INTANGIBLE ASSETS

At December 31, 2017 and June 30, 2017, intangible assets consisted of the following (in thousands):

	Estimated Useful Lives	December 31, 2017			June 30, 2017		
		Original Amount	Accumulated Amortization	Net Amount	Original Amount	Accumulated Amortization	Net Amount
Customer relationships	7 years	\$ 3,007	\$ (704)	\$ 2,303	\$ 3,007	\$ (490)	\$ 2,517
Permits	6 - 15 years	1,421	(340)	1,081	1,373	(288)	1,085
Patents	5 - 17 years	383	(271)	112	383	(264)	119
Tradename	7 years	270	(58)	212	270	(39)	231
Non-compete	5 years	117	(35)	82	117	(23)	94
Total intangible assets, net		<u>\$ 5,198</u>	<u>\$ (1,408)</u>	<u>\$ 3,790</u>	<u>\$ 5,150</u>	<u>\$ (1,104)</u>	<u>\$ 4,046</u>

During both the six months ended December 31, 2017 and 2016, amortization expense was \$0.3 million. There have been no changes in the carrying amount of goodwill since June 30, 2017.

As of December 31, 2017, future amortization of intangible assets is as follows (in thousands):

Twelve Months Ending December 31,	
2018	\$ 606
2019	606
2020	606
2021	592
2022	561
Thereafter	819
	<u>\$ 3,790</u>

NOTE 11 – INVENTORY

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

	December 31, 2017	June 30, 2017
Raw materials	\$ 1,507	\$ 1,272
Finished goods	2,852	2,826
Total	<u>\$ 4,359</u>	<u>\$ 4,098</u>

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

NOTE 12 – REVENUES BY SOLUTION

The components of revenues by solution are as follows (in thousands):

	Three-Months Ended December 31,			
	2017	% Total	2016	% Total
REVENUES BY SOLUTION:				
Mailbacks	\$ 6,677	60.1%	\$ 6,415	66.1%
Route-based pickup services	1,830	16.5%	1,580	16.3%
Unused medications	1,317	11.8%	742	7.6%
Third party treatment services	337	3.0%	74	0.8%
Other ⁽¹⁾	958	8.6%	896	9.2%
Total revenues	<u>\$ 11,119</u>	100.0%	<u>\$ 9,707</u>	100.0%

	Six-Months Ended December 31,			
	2017	% Total	2016	% Total
REVENUES BY SOLUTION:				
Mailbacks	\$ 12,016	57.8%	\$ 12,664	65.9%
Route-based pickup services	3,591	17.3%	3,045	15.8%
Unused medications	2,489	12.0%	1,533	8.0%
Third party treatment services	771	3.7%	142	0.7%
Other ⁽¹⁾	1,935	9.2%	1,854	9.6%
Total revenues	<u>\$ 20,802</u>	100.0%	<u>\$ 19,238</u>	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.

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 "will," "may," "position," "plan," "potential," "continue," "anticipate," "believe," "expect," "estimate," "project" and "intend" and words or phrases of similar import, as they relate to the Company or its subsidiaries or Company management, are intended to identify forward-looking statements. Such statements reflect the 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, estimated, expected 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 it is not possible to predict or identify all 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 healthcare 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 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 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 services. 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. The Company now offers its route-based pickup services in a twenty-three (23) state region of the South, Southeast and Northeast portions of the United States. Our other solutions include TakeAway Medication Recovery System™, TakeAway Recycle System™, ComplianceTRAC SM, 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.

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, 2017 and 2016. 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,			
	2017	%	2016	%	2017	%	2016	%
	(Unaudited)				(Unaudited)			
Revenues	\$ 11,119	100.0 %	\$ 9,707	100.0 %	\$ 20,802	100.0 %	\$ 19,238	100.0 %
Cost of revenues	7,988	71.8 %	6,812	70.2 %	14,643	70.4 %	13,384	69.6 %
Gross profit	3,131	28.2 %	2,895	29.8 %	6,159	29.6 %	5,854	30.4 %
SG&A expense	2,821	25.4 %	2,899	29.9 %	5,546	26.7 %	6,598	34.3 %
Depreciation and amortization	203	1.8 %	200	2.1 %	405	1.9 %	400	2.1 %
Operating income (loss)	107	1.0 %	(204)	(2.1)%	208	1.0 %	(1,144)	(5.9)%
Interest income	5		4		10		8	
Interest expense	(23)		(27)		(47)		(58)	

Total other expense	(18)	(0.2)%	(23)	(0.2)%	(37)	(0.2)%	(50)	(0.3)%
Income (loss) before income taxes	89	0.8 %	(227)	(2.3)%	171	0.8 %	(1,194)	(6.2)%
Income tax benefit	(67)	(0.6)%	—	— %	(60)	(0.3)%	—	— %
Net Income (Loss)	\$ 156	1.4 %	\$ (227)	(2.3)%	\$ 231	1.1 %	\$ (1,194)	(6.2)%

THREE MONTHS ENDED DECEMBER 31, 2017 AS COMPARED TO THREE MONTHS ENDED DECEMBER 31, 2016

Total revenues for the three months ended December 31, 2017 of \$11.1 million increased by \$1.4 million, or 14.5%, over the total revenues for the three months ended December 31, 2016 of \$9.7 million. The increase in revenue is mainly due to increased billings across all markets partially offset by current year deferred revenue net of product returns on sales in prior periods. The components of billings by market are as follows (in thousands):

	Three-Months Ended December 31,		
	(Unaudited)		
	2017	2016	Variance
BILLINGS BY MARKET:			
Professional	\$ 3,355	\$ 3,017	\$ 338
Home Health Care	2,114	2,021	93
Retail	2,581	1,642	939
Pharmaceutical Manufacturer	1,467	1,404	63
Assisted Living	621	571	50
Government	410	371	39
Environmental	337	74	263
Other	186	165	21
Subtotal	11,071	9,265	1,806
GAAP Adjustment *	48	442	(394)
Revenue Reported	<u>\$ 11,119</u>	<u>\$ 9,707</u>	<u>\$ 1,412</u>

*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 components of billings by solution are as follows (in thousands):

	Three-Months Ended December 31,			
	2017	% Total	2016	% Total
BILLINGS BY SOLUTION:				
Mailbacks	\$ 6,629	59.9%	\$ 5,973	64.5%
Route-based pickup services	1,830	16.5%	1,580	17.1%
Unused medications	1,317	11.9%	742	8.0%
Third party treatment services	337	3.0%	74	0.8%
Other ⁽¹⁾	958	8.7%	896	9.6%
Total billings	\$ 11,071	100.0%	\$ 9,265	100.0%
GAAP adjustment ⁽²⁾	48		442	
Revenue reported	\$ 11,119		\$ 9,707	

(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.

The increase in billings was attributable to increased billings in all markets including the Retail (\$0.9 million), Professional (\$0.3 million), Environmental (\$0.3 million) and Home Health Care (\$0.1 million) markets. The increase in Retail billings was due mainly to higher flu immunization related orders and increased order activity for unused medication solutions, including the MedSafe. Professional market billings reflected 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 Environmental billings was due to higher third party treatment billings from our treatment facilities in Texas and Pennsylvania. Home Health Care billings increased due to the timing of distributor purchases. Billings for Mailbacks in the three months ended December 31, 2017 increased 11.0% to \$6.6 million as compared to \$6.0 million in the prior year period and represented 59.9% of total billings. Billings for Route-Based Pickup Services increased 15.8% to \$1.8 million as compared to \$1.6 million in the prior year period and represented 16.5% of total billings.

Cost of revenues for the three months ended December 31, 2017 of \$8.0 million was 71.8% of revenues. Cost of revenues for the three months ended December 31, 2016 of \$6.8 million was 70.2% of revenues. The gross margin for the three months ended December 31, 2017 of 28.2% decreased compared to the gross margin for the three months ended December 31, 2016 of 29.8%. Gross margin was adversely impacted for the second quarter of fiscal year 2018 by unplanned repair and maintenance costs at our treatment facilities in both Pennsylvania and Texas as well as start-up expenses related to the launch of a second shift at the Pennsylvania plant.

Selling, general and administrative ("SG&A") expenses for the three months ended December 31, 2017 and 2016 were \$2.8 million and \$2.9 million, respectively. The decrease in SG&A for the three months ended December 31, 2017 of \$0.1 million reflects the impact of cost savings initiatives launched in the second quarter of fiscal year 2017.

The Company reported operating income of \$0.1 million for the three months ended December 31, 2017 compared to operating loss of \$0.2 million for the three months ended December 31, 2016. Operating income increased primarily due to increased revenue (discussed above).

The Company reported income before income taxes of \$0.1 million for the three months ended December 31, 2017 versus loss before income taxes of \$0.2 million for the three months ended December 31, 2016. Income before income taxes increased due to the change in operating income (discussed above).

The Company's effective tax rate for the three months ended December 31, 2017 was (75.3)% reflecting the impact of the 2017 tax law change on the Company's alternative minimum tax credits of \$74,000 net of estimated state income tax expense of

\$7,000. The benefit recorded of \$74,000 represents the net benefit of remeasuring the deferred tax assets for recoverable alternative minimum tax credits offset by deferred tax liabilities related to indefinite lived assets, such as goodwill, which cannot be used as a source of future taxable income in evaluating the need for a valuation allowance against deferred tax assets. No income 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 reported a net income of \$0.2 million for the three months ended December 31, 2017 compared to net loss of \$0.2 million for the three months ended December 31, 2016. Net income increased due to the change in the operating income and tax benefit (discussed above).

The Company reported basic and diluted income per share of \$0.01 for the three months ended December 31, 2017 versus basic and diluted loss per share of \$(0.01) for the three months ended December 31, 2016. Basic and diluted income per share increased due to the change in net income (discussed above).

SIX MONTHS ENDED DECEMBER 31, 2017 AS COMPARED TO SIX MONTHS ENDED DECEMBER 31, 2016

Total revenues for the six months ended December 31, 2017 of \$20.8 million increased by \$1.6 million, or 8.1%, over the total revenues for the six months ended December 31, 2016 of \$19.2 million. The increase in revenue is mainly due to increased billings across the Professional, Environmental, Retail and Home Health Care markets partially offset by current year deferred revenue net of product returns on sales in prior periods. The components of billings by market are as follows (in thousands):

	Six-Months Ended December 31,		
	(Unaudited)		
	2017	2016	Variance
BILLINGS BY MARKET:			
Professional	\$ 6,456	\$ 5,835	\$ 621
Home Health Care	4,115	3,887	228
Retail	3,981	3,701	280
Pharmaceutical Manufacturer	2,999	3,191	(192)
Assisted Living	1,225	1,164	61
Government	964	821	143
Environmental	771	142	629
Other	404	372	32
Subtotal	<u>20,915</u>	<u>19,113</u>	<u>1,802</u>
GAAP Adjustment *	(113)	125	(238)
Revenue Reported	<u>\$ 20,802</u>	<u>\$ 19,238</u>	<u>\$ 1,564</u>

*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 components of billings by solution are as follows (in thousands):

	Six-Months Ended December 31,			
	2017	% Total	2016	% Total
BILLINGS BY SOLUTION:				
Mailbacks	\$ 12,129	58.0%	\$ 12,539	65.6%
Route-based pickup services	3,591	17.2%	3,045	15.9%
Unused medications	2,489	11.9%	1,533	8.0%
Third party treatment services	771	3.7%	142	0.7%
Other ⁽¹⁾	1,935	9.2%	1,854	9.8%
Total billings	\$ 20,915	100.0%	\$ 19,113	100.0%
GAAP adjustment ⁽²⁾	(113)		125	
Revenue reported	\$ 20,802		\$ 19,238	

(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.

The increase in billings was mainly due to an increase in the Professional (\$0.6 million), Environmental (\$0.6 million), Retail (\$0.3 million), Home Health Care (\$0.2 million) and Government (\$0.1 million) markets, partially offset by a decrease in the Pharmaceutical Manufacturer (\$0.2 million) market. Professional market billings reflected 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 Environmental billings was due to higher third party treatment billings from our treatment facilities in Texas and Pennsylvania. The increase in Retail billings was due mainly to increased order activity for the unused medication solutions, including the MedSafe, partially offset by lower flu immunization related orders. Home Health Care billings increased due to the timing of distributor purchases. The increase in Government billings was due primarily to MedSafe related orders. The decrease in Pharmaceutical Manufacturer billings was mainly due to timing of inventory builds. Billings for Mailbacks in the six months ended December 31, 2017 decreased 3.3% to \$12.1 million as compared to \$12.5 million in the prior year period and represented 58.0% of total billings. Billings for Route-Based Pickup Services increased 17.9% to \$3.6 million as compared to \$3.0 million in the prior year period and represented 17.2% of total billings.

Cost of revenues for the six months ended December 31, 2017 of \$14.6 million was 70.4% of revenues. Cost of revenues for the six months ended December 31, 2016 of \$13.4 million was 69.6% of revenues. The gross margin for the six months ended December 31, 2017 of 29.6% decreased compared to the gross margin for the six months ended December 31, 2016 of 30.4%. Gross margin was adversely impacted for the six months ended December 31, 2017 by unplanned repair and maintenance costs at our treatment facilities in both Pennsylvania and Texas as well as start-up expenses related to the launch of a second shift at the Pennsylvania plant.

Selling, general and administrative ("SG&A") expenses for the six months ended December 31, 2017 and 2016 were \$5.5 million and \$6.6 million, respectively. The six months ended December 31, 2016 included \$0.7 million of one-time expenses related to the Company's acquisition of Citiwaste. Without these costs, SG&A for the second quarter of fiscal 2017 was \$5.9 million. The decrease in SG&A (after excluding one-time expenses) for the six months ended December 31, 2017 of \$0.4 million reflects the impact of cost savings initiatives launched in the second quarter of fiscal year 2017.

The Company reported operating income of \$0.2 million for the six months ended December 31, 2017 compared to operating loss of \$1.1 million for the six months ended December 31, 2016. Operating income increased primarily due to higher revenue and lower SG&A costs (discussed above).

The Company reported income before income taxes of \$0.2 million for the six months ended December 31, 2017 versus loss before income taxes of \$1.2 million for the six months ended December 31, 2016. Income before income taxes increased due to the change in operating income (discussed above).

The Company's effective tax rate for the six months ended December 31, 2017 was (35.1)% reflecting the impact of the 2017 tax law change on the Company's alternative minimum tax credits of \$74,000 net of estimated state income tax expense of \$14,000. The benefit recorded of \$74,000 represents the net benefit of remeasuring the deferred tax assets for recoverable alternative minimum tax credits offset by deferred tax liabilities related to indefinite lived assets, such as goodwill, which cannot be used as a source of future taxable income in evaluating the need for a valuation allowance against deferred tax assets. No income 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 reported a net income of \$0.2 million for the six months ended December 31, 2017 compared to net loss of \$1.2 million for the six months ended December 31, 2016. Net income increased due to the change in the operating income (discussed above).

The Company reported basic and diluted income per share of \$0.01 for the six months ended December 31, 2017 versus basic and diluted loss per share of \$(0.08) for the six months ended December 31, 2016. Basic and diluted income per share increased due to the change in net income (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.

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 155 million people or 48% 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 and strengthened the Company's position in the Northeast. Through a combination of acquisition and organic growth, the Company now offers route-based pickup services in a twenty-three (23) state region of the South, Southeast and Northeast portions of the United States. The Company directly serves more than 10,000 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. According to the Centers for Disease Control ("CDC"), 38.5% of adults received a flu shot and 28.2% of flu shots for adults were administered in a retail clinic. 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 year 2017 (the 2016 flu season) of 15% due to a mild flu season and the loss of one retail pharmacy customer, Sharps believes the Retail market should continue to contribute to 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.
- 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 \$5.8 million, debt of \$2.3 million and additional availability under the Credit Agreement as of December 31, 2017.

LIQUIDITY AND CAPITAL RESOURCES

Cash Flow

Cash flow has historically been 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 increased by \$1.1 million to \$5.8 million at December 31, 2017 from \$4.7 million at June 30, 2017 due to the following:

- **Cash Flows from Operating Activities** - Working capital increased by \$0.4 million to \$10.9 million at December 31, 2017 from \$10.5 million at June 30, 2017. The increase in working capital is primarily attributed to an increase in cash and cash equivalents offset by:
 - an increase in accounts payable and accrued liabilities of \$0.9 million to \$4.5 million at December 31, 2017 from \$3.5 million at June 30, 2017 due to timing of payments.
- **Cash Flows used in Investing Activities** - Investing activities include capital expenditures of \$0.6 million for normal plant and equipment additions.
- **Cash Flows used in Financing Activities** - Financing activities include 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, 2017 and the year ended June 30, 2017.

Credit Facility

On March 29, 2017, the Company entered into a credit agreement with a commercial bank ("Credit Agreement"). The Credit Agreement, which replaced the Company's prior credit agreement, provides for a \$14.0 million credit facility, the proceeds of which may be utilized as follows: (i) \$6.0 million for working capital, letters of credit (up to \$2.0 million) and general corporate purposes and (ii) \$8.0 million for acquisitions. Indebtedness under the Credit Agreement is secured by substantially all of the Company's assets 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 the lesser of 50% of eligible inventory and \$3 million. 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 at the time of the borrowing. Borrowings bear interest at the greater of (a) zero percent or (b) the One Month ICE LIBOR plus a LIBOR Margin of 2.5%. The LIBOR Margin may increase to as high as 3.0% depending on the Company's cash flow leverage ratio. The interest rate as of December 31, 2017 was approximately 4.0%. The Company pays a fee of 0.25% per annum on the unused amount of credit facility. At December 31, 2017, \$2.2 million was outstanding related to the acquisition portion of the credit facility and \$0.1 million related to the unsecured note payable assumed in acquisition. No amounts were outstanding under the working capital portion of the credit facility at December 31, 2017.

The Company has availability under the Credit Agreement of approximately \$11.7 million (\$6.0 million for the working capital and \$5.7 million for the acquisitions) as of December 31, 2017 which may be limited by its leverage covenant. The Company also had \$30,000 in letters of credit outstanding as of December 31, 2017.

The Credit Agreement contains affirmative and negative covenants that, among other things, require the Company to maintain a maximum cash flow leverage ratio of no more than 3.25 to 1.0 and a minimum debt service coverage ratio of not less than 1.15 to 1.00. The maximum cash flow leverage ratio will decrease to 3.0 to 1.0 on March 31, 2018 and onwards. The Credit Agreement, which expires on March 29, 2019, also contains customary events of default which, if uncured, may terminate the Credit Agreement and require immediate repayment of all indebtedness to the lenders.

The Company utilizes performance bonds to support operations based on certain state requirements. At December 31, 2017, the Company had performance bonds outstanding covering financial assurance up to \$0.6 million.

Management believes that the Company's current cash resources (cash on hand) will be sufficient to fund operations for the twelve months ending January 31, 2019.

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 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 Boxes, referred to as "Pump Returns") and can consist of up to three separate elements, or units of measure, as follows: (1) the sale of the compliance and container system, (2) return transportation and (3) treatment service. In accordance with the relative selling price methodology, an estimated selling price is determined for all deliverables that qualify for separate units of accounting. The actual consideration received in a multiple-deliverable arrangement is then allocated to the units based on their relative sales price. The selling price for the transportation revenue and the treatment revenue utilizes third party evidence. The Company estimates the selling price of the compliance and container system based

on the product and services provided including compliance with local, state and federal laws, adherence to stringent manufacturing and testing requirements, safety to the patient and the community as well as storage and containment capabilities.

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

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

Goodwill and Other Identifiable Intangible Assets: Finite-lived intangible assets are amortized over their respective estimated useful lives and evaluated for impairment periodically whenever events or changes in circumstances indicate that their related carrying values may not be fully recoverable. Goodwill is assessed for impairment at least annually. The Company generally performs its annual goodwill impairment analysis using a quantitative approach. The quantitative goodwill impairment test identifies the existence of potential impairment by comparing the fair value of our single reporting unit with its carrying value, including goodwill. If the fair value of a reporting unit exceeds its carrying value, the reporting unit's goodwill is considered not to be impaired. If the carrying value of a reporting unit exceeds its fair value, an impairment charge is recognized in an amount equal to that excess. The impairment charge recognized is limited to the amount of goodwill present in our single reporting unit. These estimates and assumptions could have a significant impact on whether or not an impairment charge is recognized and the amount of any such charge. The Company performs its annual impairment assessment of goodwill during the fourth quarter of each fiscal year. The Company determined that there was no impairment during the prior year ended June 30, 2017 and there have been no triggering events since that would warrant further impairment testing.

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. In March 2016, guidance for revenue from contracts with customers regarding principal versus agent considerations was issued which modified examples to assist in the application of the guidance. 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 in the initial stages of evaluating the impact that the new accounting guidance will have on its consolidated financial statements and related disclosures as well as evaluating the available transition methods. The Company will continue to evaluate the standard as well as additional changes, modifications or interpretations which may impact the Company.

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 in the initial stages of evaluating the impact of the new guidance on its consolidated financial statements and related disclosures as well as evaluating the available transition methods. The Company will continue to evaluate the standard as well as additional changes, modifications or interpretations which may impact the Company.

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, 2017, 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, 2017.

Changes in Internal Control

During the three months ended December 31, 2017, 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

From time to time, 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, 2017 for the Company’s risk factors. During the period ended December 31, 2017, there have been no changes to the Company’s risk factors.

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

None

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: January 31, 2018

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

Dated: January 31, 2018

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

Exhibit 31.1

**CERTIFICATION OF CHIEF EXECUTIVE OFFICER
IN ACCORDANCE WITH SECTION 302 OF THE SARBANES-OXLEY ACT**

I, David P. Tusa, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Sharps Compliance Corp.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls over financial reporting.

Date: January 31, 2018

/s/David P. Tusa
Chief Executive Officer and President
(Principal Executive Officer)

Exhibit 31.2

**CERTIFICATION OF CHIEF FINANCIAL OFFICER
IN ACCORDANCE WITH SECTION 302 OF THE SARBANES-OXLEY ACT**

I, Diana P. Diaz, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Sharps Compliance Corp.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls over financial reporting.

Date: January 31, 2018

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

Exhibit 32.1

**CERTIFICATION OF CHIEF EXECUTIVE OFFICER
IN ACCORDANCE WITH SECTION 906 OF THE SARBANES-OXLEY ACT**

In connection with the quarterly report of Sharps Compliance Corp. (the "Company") on Form 10-Q for the period ended December 31, 2017, as filed with the Securities and Exchange Commission on the date hereof, I, David P. Tusa, Chief Executive Officer and President of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, to the best of my knowledge that:

- (1) The Form 10-Q report for the period ended December 31, 2017, filed with the Securities and Exchange Commission on January 31, 2018 fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Form 10-Q report for the period ended December 31, 2017 fairly presents, in all material respects, the financial condition and results of operations of Sharps Compliance Corp.

Date: January 31, 2018

/s/David P. Tusa
Chief Executive Officer and President

Exhibit 32.2

**CERTIFICATION OF CHIEF FINANCIAL OFFICER
IN ACCORDANCE WITH SECTION 906 OF THE SARBANES-OXLEY ACT**

In connection with the quarterly report of Sharps Compliance Corp. (the "Company") on Form 10-Q for the period ended December 31, 2017, as filed with the Securities and Exchange Commission on the date hereof, I, Diana P. Diaz, Vice President and Chief Financial Officer, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, to the best of my knowledge that:

- (1) The Form 10-Q report for the period ended December 31, 2017, filed with the Securities and Exchange Commission on January 31, 2018 fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Form 10-Q report for the period ended December 31, 2017 fairly presents, in all material respects, the financial condition and results of operations of Sharps Compliance Corp.

Date: January 31, 2018

/s/Diana P. Diaz
Vice President and Chief Financial Officer

