

**UNITED STATES SECURITIES
AND EXCHANGE COMMISSION**
Washington, D.C. 20549

Form 10-K

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended June 30, 2019

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)

Registrant's telephone number, including area code (713) 432-0300
Securities registered pursuant to Section 12(b) of the Act:

Title of Each Class	Name of Each Exchange on Which Registered
Common Shares, \$0.01 Par Value	The NASDAQ Capital Market

Securities registered pursuant to Section 12(g) of the Act:
None

Indicate by check mark if the Registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No

Indicate by check mark if the Registrant is not required to file reports pursuant to Section 13 or 15(d) of the Exchange Act. Yes No

Indicate by check mark whether 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 of 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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of the Registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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 Exchange Act. (Check one):

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

Emerging growth 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 12b-2 of the Exchange Act). Yes No

As of December 31, 2018, the aggregate market value of the registrant's Common Stock held by non-affiliates was approximately \$45.6 million (based on the closing price of \$3.45 on December 31, 2018 as reported by The NASDAQ Capital Market). For purposes of this computation only, all executive officers, directors and 10% beneficial owners of the registrant are deemed to be affiliates. Such determination should not be deemed an admission that such executive officers, directors or 10% beneficial owners are affiliates.

The number of common shares outstanding of the Registrant was 16,137,513 as of August 26, 2019.

DOCUMENTS INCORPORATED BY REFERENCE:

(1)	Portions of the Registrant's Proxy Statement to be filed with the Securities and Exchange Commission pursuant to Regulation 14A for the Annual Meeting of Shareholders to be held on November 21, 2019 are incorporated by reference into Part III.
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SHARPS COMPLIANCE CORP. AND SUBSIDIARIES
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INFORMATION REGARDING FORWARD-LOOKING STATEMENTS

This Annual Report on Form 10-K contains certain forward-looking statements and information relating to the Company (as defined below) 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 known and unknown risks, uncertainties and assumptions related to certain factors, including without limitation, 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 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.

PART I

ITEM 1. BUSINESS

Sharps Compliance Corp. was formed in November 1992 as a Delaware corporation. The information presented herein is for 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"). Unless the context otherwise requires, "Company," "we," "us" and "our" refer to Sharps Compliance Corp. and its subsidiaries.

The Company provides access to all of its filings with the Securities and Exchange Commission ("SEC") through its website www.sharpsinc.com, as soon as reasonably practicable after the reports are filed with the SEC. The filings are also available via the SEC's website at www.sec.gov.

COMPANY OVERVIEW

Sharps Compliance Corp. is a leading national healthcare waste management provider specializing in regulated waste streams including medical, pharmaceutical and hazardous. Our services facilitate the safe and proper collection, transportation and environmentally-responsible treatment of regulated waste from customers in multiple healthcare-related markets. The markets we manage are small to medium-size generators of healthcare waste including professional offices (ambulatory surgical centers, physician groups, dentists and veterinarians), assisted living and long-term care facilities, government agencies, home health care, retail clinics and immunizing pharmacies. Additionally, our mailback solutions are positioned to manage waste generated in the home setting such as sharps, lancets and ultimate-user medications which generates business relationships with pharmaceutical manufacturers and other markets to provide safe and proper disposal. Lastly, we maintain a strong distribution network for the sale of our solutions within the aforementioned markets.

We assist our customers in determining solutions that best fit their needs for the collection, transportation and treatment of regulated medical, pharmaceutical and hazardous waste. Our differentiated approach provides our customers the flexibility to transport waste via direct route-based services, the United States Postal Service ("USPS") or common carrier dependent upon quantity of waste generated, cost savings and facility needs. Our comprehensive services approach includes a single point of contact, consolidated billing, integrated manifest and proof of destruction repository. 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.

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Our flagship products are the Sharps Recovery System™ and MedSafe® Medication Disposal System. These two product offerings account for over 50% of company revenues. The Sharps Recovery System is a comprehensive medical waste management mailback solution used in all markets due to its cost-effective nature and nationwide availability. The MedSafe solution meets the immediate needs of an increasing community risk associated with unused, ultimate-user, medications. Developed in accordance with the Drug Enforcement Administration (“DEA”) implementation of the Secure and Responsible Drug Disposal Act of 2010 (the “Act”), MedSafe is a superior solution used in both private and public sectors to properly remove medications from communities and aid in the prevention of drug abuse.

Over the past few years, the Company has made a series of investments to build a robust direct service, route-based, pickup offering for medical, pharmaceutical and hazardous waste. We have built an infrastructure capable of covering more than 55% of the U.S. population with permitted trucks, transfer stations and treatment facilities. We continue to add routes and the infrastructure required for operational efficiency to reach more customers and prospects directly. Our route-based services, matched with comprehensive mailback solutions, offer us a key differentiator in the market and the ability to capitalize on larger or regional contracts within the healthcare market. With the growth in infrastructure to support the route-based service, we have strategically added new distribution for faster and more cost-effective delivery of products to customers.

We continue to develop new solutions to meet market demands. Over the past five years we have added a robust portfolio of ultimate-user medication disposal solutions for controlled substances, DEA-inventory controlled medication disposal for professionals, the Black Pail Program for disposal of most unused inventory of drugs, route-based services for medical, pharmaceutical and hazardous waste, the TakeAway Recycle System™ for single-use devices (“SUDs”) and the Hazardous Drug Spill Control Kit™, a USP <800> (as defined below) compliant spill kit for cleanup of chemotherapy and other hazardous drug spills.

As hospitals and surgery centers increase their sustainability efforts, they are looking for ways to recycle more materials, such as SUDs. SUDs are constructed of materials capable of being recycled, including plastics, metals, circuit boards and batteries. With a greater emphasis for more sustainable solutions, the TakeAway Recycle System is a much-needed complement to the single-use device market.

We have developed a simple one-step program to safely and compliantly manage the unused inventory of pharmaceuticals. The Black Pail Program for Rx consists of one container for the disposal of excess drugs, including Resource Conservation and Recovery Act (“RCRA”) hazardous medications, controlled pharmaceutical wastage, and non-controlled, non-hazardous medications.

We are expanding our hazardous waste direct pickup service to all the states in which we currently pick up medical waste. Most healthcare professionals have hazardous waste in addition to medical waste. By also transporting hazardous waste, we have a competitive advantage over local haulers while still offering cost-effective pricing.

Our principal executive offices are located at 9220 Kirby Drive, Suite 500, Houston, Texas. Our telephone number at that location is (713) 432-0300. We currently have 159 full-time employees and 5 part-time employees. We have manufacturing, assembly, distribution and warehousing operations located in Houston, Texas.

We own and operate a fully-permitted treatment facility in Carthage, Texas that incorporates our processing and treatment operations. The Carthage facility offers both steam sterilization, autoclave and high heat incineration for the proper treatment of regulated medical waste and non-hazardous pharmaceuticals. The autoclave system is utilized alongside the incinerator for day-to-day operations. The Carthage location also serves as the Company's main facility for managing our recycling solution.

In August 2016, the Company received the Commonwealth of Pennsylvania Department of Environmental Protection Bureau of Waste Management permit for the processing of medical waste at its treatment facility located in northeastern Pennsylvania. The 40,000 square foot facility has been permitted as both a medical waste treatment facility, using an autoclave, and as a transfer station for medical, pharmaceutical and trace chemotherapy waste of up to 82 tons per day. The facility is designed to cost-effectively and efficiently process medical waste generated by the Company's route-based and mailback customers and doubles as a distribution center of mailback solutions. It has been in operation since November 2016.

SOLUTIONS OVERVIEW

We offer a broad line of product and service solutions to manage the medical waste and unused dispensed medications generated by our customers. Our primary solutions include the following:

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Sharps Recovery System™ (also known as the industry-leading Sharps Disposal by Mail System®) : a comprehensive solution for the containment, transportation, treatment and tracking of regulated medical waste generated outside the hospital and large health care facility setting. The Sharps Recovery System includes a securely sealed, leak and puncture resistant sharps container in several sizes ranging from one quart to twenty gallons; USPS-approved shipping box with prepaid priority mail postage; absorbent material inside the container that can safely hold up to 150 milliliters of fluids; a bag for additional containment and complete documentation and tracking manifest. The Sharps Recovery System is transported to our owned or contracted facilities for treatment. Upon treatment or conversion of the waste, we provide electronic proof of receipt and treatment documentation to the customer through our proprietary SharpsTracer® system.

TakeAway Recovery System : innovative system designed for simplified and environmentally-friendly treatment of used needles, syringes, and other used healthcare products. The TakeAway Recovery System includes a sharps container in sizes ranging from one quart to thirty gallons; a prepaid-UPS return shipping box, absorbent material inside the container that can safely hold up to 150 milliliters of fluids; a bag for additional containment and complete documentation and tracking manifest. The TakeAway Recovery System is transported to our owned or contracted facilities for treatment. Upon treatment or conversion of the waste, we provide electronic proof of receipt and treatment documentation to the customer through our proprietary SharpsTracer® system.

Route-Based Pickup Service: as a full-service waste management services company, we offer route-based medical and hazardous waste pickup services to customers and prospects that have facilities or branches that generate larger quantities of medical, pharmaceutical (non-controlled) and limited quantities of hazardous waste or where the route-based pickup service is preferred. This blended service of mailback and pickup provides cost-savings benefits by customizing the right solution with each location to reach the best outcome for the customer.

MedSafe®: a patent-pending solution for the safe collection, transportation and proper disposal of unwanted or expired ultimate-user medications, including controlled substances. MedSafe has been designed to meet or exceed the regulations issued by the DEA implementing the Act, which became effective October 9, 2014. MedSafe is designed for use in retail pharmacies, long-term care facilities, hospice, hospitals/clinics with on-site pharmacies, narcotic treatment facilities and licensed law enforcement.

TakeAway Medication Recovery System™ : a comprehensive solution designed to meet or exceed the regulations issued by the DEA implementing the Act, which became effective October 9, 2014. The solution facilitates the proper disposal of unused medications (including controlled substances) from ultimate users, which is designed for use in the long-term care, hospice and consumer markets.

TakeAway Medication Recovery™ DEA Reverse Distribution for Registrants: a DEA-compliant collection, return and destruction solution for DEA registrants' expired or unused controlled substances. The system includes prepaid return transportation, materials to package for return, complete documentation of returned pharmaceuticals and proper disposal with online proof of destruction.

Black Pail Program for Rx: one-step solution with minimal segregation for the disposal of most pharmaceuticals, excluding aerosols and controlled substances. This 5-gallon pail includes the delivery, containment, pickup and proper disposal of unused inventory medications for one all-inclusive price.

Hazardous Drug Spill Control Kit™: in response to the United States Pharmacopeia ("USP") publishing General Chapter <800> ("USP <800>") which sets standards for handling hazardous drugs ("HD") in healthcare settings effective December 2019, the Company launched this USP <800> compliant spill kit for the cleanup of chemotherapy and other HD spills.

TakeAway Recycle System™ : a solution for the collection and recycling of single-use medical devices from surgical centers and other healthcare facilities. The system consists of containers designed for use in operating rooms or sterile processing departments. The containers are placed in a pre-paid return box for shipping to our treatment facilities where devices are stripped to their basic components and sent to appropriate recycling facilities. The system adds a much-needed solution to the market in which many single-use devices are reprocessed or disposed of as regulated medical waste, resulting in wastes that could be recycled.

ComplianceTRACSM: a more advanced web-based version of the Company's compliance and training program. ComplianceTRAC is designed to improve worker safety while satisfying applicable Occupational Safety and Health Administration ("OSHA") and other requirements for the end-user. The program includes employee training for bloodborne pathogens, compliance with the Health Insurance Portability and Accountability Act of 1996 and the Hazardous Communication Standard. The online program also provides access to a database of over a million safety data sheets (formerly, material safety data sheets), safety plans, regulatory information and facility self-audits. The program is designed to replace outdated hard copy manuals with an updated platform available 24/7.

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Universal Waste Shipback Systems: a jointly-promoted program with Veolia Environmental Services using their RECYCLEPAK solutions for the collection, transportation and recycling of light bulbs, batteries and other mercury-containing devices. The solution is marketed to existing and prospective customers as a complement to the Company's line of medical waste and unused medication management solutions.

Other Solutions: a wide variety of other solutions including TakeAway Environmental Return System™, SharpsTracer®, Sharps Secure® Needle Disposal System, Complete Needle™ Collection & Disposal System, Pitch-It IV™ Poles, Asset Return System, Sharps® Medical Waste Management System ("MWMS") and Spill Kit Recovery System.

MARKET OVERVIEW

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, physician groups, 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 over 55% of the U.S. population.
- From July 2015 to July 2016, the Company acquired three route-based pickup service companies, which 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-four (24) state region of the South, Southeast and Northeast portions of the United States. To facilitate operational efficiencies, the Company has opened transfer stations and offices in strategic locations. The Company directly serves more than 12,900 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"), 44.9% of U.S. adults received a flu shot and 32.2% of flu shots for adults were administered in a retail clinic in 2018. Over the flu seasons from 2011 to 2019, the Company saw growth in six years of 10% to 36%, including a 30% increase in 2019, and declines in three years of 13% to 17%. Despite the volatility, 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

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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. The federal government, state agencies and non-profits are recognizing the need to fund programs that address prevention as it pertains to the opioid crisis. MedSafe and mailback envelopes for proper medication disposal are being funded for prevention programs.
- 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).

COMPETITIVE STRENGTHS

We believe our competitive strengths include the following:

Leading national healthcare waste management provider specializing in regulated waste streams, including medical, pharmaceutical, and hazardous.

Sharps Compliance Corp. is a leading national healthcare waste management provider specializing in regulated waste streams including medical, pharmaceutical and hazardous. Our services facilitate the safe and proper collection, transportation and environmentally-responsible treatment of regulated waste from customers in multiple healthcare-related markets. The markets we manage are small to medium-size generators of healthcare waste including professional offices (ambulatory surgical centers, physician groups, dentists and veterinarians), assisted living and long-term care facilities, government agencies, home health care, retail clinics and immunizing pharmacies. Additionally, our mailback solutions are positioned to manage waste generated in the home setting such as sharps, lancets and ultimate-user medications which generates business relationships with pharmaceutical manufacturers and other markets to provide safe and proper disposal. Lastly, we maintain a strong distribution network for the sale of our solutions within the aforementioned markets.

We assist our customers in determining solutions that best fit their needs for the collection, transportation and treatment of regulated medical, pharmaceutical and hazardous waste. Our differentiated approach provides our customers the flexibility to transport waste via direct route-based services, USPS or common carrier dependent upon quantity of waste generated, cost savings and facility needs. Our comprehensive services approach includes a single point of contact, consolidated billing, integrated manifest and proof of destruction repository. 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. Over the past few years, the primary focus of our marketing efforts has been on educating the marketplace about us as an alternative to the historical provider of waste services, including medical, pharmaceutical and hazardous.

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Vertically-integrated full-service operations.

Our operations are fully integrated, including manufacturing, assembly, distribution, treatment, online tracking and customer reporting. We have manufacturing, assembly, distribution and warehousing operations located in Houston, Texas. We own and operate a fully-permitted treatment facility in Carthage, Texas that incorporates our processing and treatment operations. The Carthage facility offers both steam sterilization, autoclave and high heat incineration for the proper treatment of regulated medical waste and non-hazardous pharmaceuticals. The autoclave system is utilized alongside the incinerator for day-to-day operations. We believe that our Texas facility is one of only ten permitted commercial facilities in the United States capable of treating all types of medical waste and pharmaceuticals (i.e., both incineration and autoclave capabilities). The Carthage location also serves as the Company's main facility for managing our recycling solution. In August 2016, the Company received the Commonwealth of Pennsylvania Department of Environmental Protection Bureau of Waste Management permit for the processing of medical waste at its treatment facility located in northeastern Pennsylvania. The 40,000 square foot facility has been permitted as both a medical waste treatment facility, using an autoclave, and as a transfer station for medical, pharmaceutical and trace chemotherapy waste of up to 82 tons per day. The facility is designed to cost-effectively and efficiently process medical waste generated by the Company's route-based and mailback customers and doubles as a distribution center of mailback solutions and has been in operation since November 2016. The Company's route-based pickup service business covers over 50% of the U.S. population in areas throughout the South, Southeast and Northeast. We track the movement of each shipment from outbound shipping to ultimate treatment and provide confirmation to the customer for their records using our proprietary SharpsTracer tracking and documentation system. We also track treatment volumes associated with pickup services provided as part of our blended product portfolio using SharpsTracer. We also provide customized reporting and comprehensive regulatory support for many of our customers. By controlling all aspects of the process internally, the Company is able to provide a one-stop solution and simplify the tracking and record-keeping processes to meet regulatory requirements for our customers. We believe the fully-integrated nature of our operations is a key factor and differentiator leading to our success and leadership position in our industry.

Highly scalable business model.

Because of our business model, we can add new business while leveraging our existing infrastructure. Our facilities can accommodate significant additional volume, incurring only variable costs of transportation and processing. Once we gain a new customer, our profitability typically increases as our customer base grows with minimal additional overhead expense due to the embedded nature of our products and the ease with which we can accommodate additional volume.

Diverse product markets.

Sharps offers services and products to a wide variety of end markets. The Company's growth strategies are focused on our key markets which include professional offices (ambulatory surgical centers, physician groups, dentists and veterinarians), assisted living and long-term care facilities, government agencies, home healthcare, retail clinics and immunizing pharmacies. Additionally, our mailback solutions are positioned to manage waste generated in the home setting such as sharps, lancets and ultimate-user medications which generates business relationships with pharmaceutical manufacturers and other markets to provide safe and proper disposal.

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Our billings by market for the years ended June 30, 2019, 2018 and 2017 are below (as expressed in percentages of revenues):

	Year Ended June 30,		
	2019	2018	2017
BILLINGS BY MARKET*:			
Professional	34%	33%	31%
Retail	26%	20%	19%
Home Health Care	17%	20%	21%
Pharmaceutical Manufacturer	9%	11%	16%
Assisted Living	6%	7%	6%
Government	5%	5%	4%
Environmental	1%	2%	1%
Other	2%	2%	2%
	<u>100%</u>	<u>100%</u>	<u>100%</u>

*Customer billings, a non-GAAP measure, includes all invoiced amounts for 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, (ii) recognition of certain revenue associated with product returned for treatment and destruction and (iii) provisions for certain rebates, product returns, and discounts to customers which are accounted for as reductions in sales in the same period the related sales are recorded. Most of the difference between customer billings and GAAP revenue is reflected in the Company's balance sheet as contract liability. See Note 2 "Summary of Significant Accounting Policies" in "Notes to Consolidated Financial Statements". The Company believes this information about customer billings is useful to investors and other interested parties.

Increased state and federal regulatory attention.

To protect citizens and waste workers from needle stick injuries, ten states have passed state-wide legislation or regulations making it illegal to discard used sharps into household trash. Numerous cities, such as Seattle, have passed ordinances making household sharps disposal illegal. Almost all other states, as well as the District of Columbia and territories have passed strict guidelines regarding home sharps disposal. Whether legislation or strict guidelines, most of the U.S. population is required or strongly encouraged to not place used sharps in the household trash. In addition, certain states and counties have passed ordinances requiring businesses such as hospitals and those that sell syringes to the public, such as retail pharmacies and veterinary clinics, to take back syringes, once used, in regulatory-compliant sharps containers at no charge to the consumer.

In order to reduce accidental poisonings and pollution of our water and municipal water systems, twenty-two states and the District of Columbia have introduced legislation over the last few years intended to manage the disposal of consumer unused medications. Seven states and the District of Columbia have successfully passed such legislation. Passed or pending legislation related to disposal of consumer medications covers about two-thirds of the U.S. population. Further, since 2009, the federal government, nine states and several counties have introduced legislation requiring manufacturer responsibility for consumer generated unused medications and in some cases home sharps disposal. State regulatory agencies are also addressing this issue, including multiple states which now require healthcare providers to avoid sewer and trash disposal of non-hazardous unused medications within their facilities. States such as California, Washington and Minnesota have required assessment and proper treatment by a medical waste disposal company for years. However, other states such as Colorado and Florida are now requiring even small healthcare providers to segregate unused medications for proper disposal. In 2010, Congress passed the Secure and Responsible Drug Disposal Act, leading to DEA changes to the Controlled Substances Act in 2014, allowing certain DEA registrants to collect controlled substances from the public. Collection receptacles can now be found in retail pharmacies, long-term care facilities and hospitals throughout the country.

The Environmental Protection Agency ("EPA") has recently passed regulations that will affect the healthcare industry including the Generator Improvement Rule passed in November 2016 and the Management Standards for Hazardous Waste Pharmaceuticals passed in February 2019 (the "Pharmaceutical Rule"). The Pharmaceutical Rule mandates that healthcare facilities compliantly manage the hazardous waste pharmaceuticals that are generated on their sites and prohibits the "sewering" of any hazardous waste pharmaceutical by healthcare facilities beginning August 2019. As state adoption of these federal regulations occurs over the next 24 months and enforcement of these statutes increases, more companies could turn to solutions such as ours to help manage their hazardous waste and provide needed regulatory compliance. We believe we are well positioned to benefit given our strict adherence to established standards and extensive documentation and records.

Environmentally-conscious solution provider.

In addition to providing cost-effective solutions for our customers, the Company is committed to discovering new sustainable initiatives that mitigate the effects of potentially hazardous waste on the environment. Our patented Waste Conversion Process™ repurposes regulated medical waste and unused medications into new resources used in industrial applications, such as the generation of electricity or recycled plastics used in the industrial sector. Our TakeAway Recycle System is a solution for the collection and recycling of single-use medical devices from surgical centers and other healthcare facilities. The system consists of containers designed for use in operating rooms or sterile processing departments. The containers are placed in a pre-paid return box for shipping to our treatment facilities where devices are stripped to their basic components and sent to appropriate recycling facilities. The system adds a much-needed solution to the market in which many single-use devices are reprocessed or disposed of as regulated medical waste, resulting in wastes that could be recycled. Our Universal Waste Shipback Program recycles the materials in light bulbs, batteries and other mercury-containing devices for use in new applications. In addition, the use of recycled paper and plastic materials for many of our products further demonstrates our total commitment to environmentally sound business practices. As an organization, the Company is a leading proponent for the development of solutions for the safe disposal of sharps, unused medications (including controlled substances), light bulbs, batteries and other mercury-containing devices in the community and continually works to raise public awareness of the issue.

Experienced and accomplished management team.

Our senior management team has extensive industry experience and is committed to the continued growth and success of our company. Mr. David P. Tusa, CEO and President, in addition to his ten-plus years with the Company has over 20 years of business and public company experience in multiple industries and in companies with revenues up to \$500 million. Ms. Diana P. Diaz, CPA, MBA, Vice President and Chief Financial Officer, has over 25 years of finance, accounting, healthcare and public company industry experience. Mr. Gregory C. Davis, Vice President of Operations, has over 20 years of information technology and operations-related experience. Mr. Dennis Halligan, Vice President of Marketing, has broad marketing experience with the Company and at a variety of firms, including Stir Creative and R.J. Reynolds.

GROWTH STRATEGIES

We plan to grow our business by employing the following primary growth strategies:

Develop new products and services.

We continue to develop new solution offerings including 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 the collection and recycling of single-use devices (TakeAway Recycle System). These innovative product and service offerings allow us to gain further sales from existing customers as well as gain new customers who have a need for more comprehensive products. We will continue our efforts to develop new solution offerings designed to facilitate the proper and cost effective management of medical waste, pharmaceutical waste, hazardous waste and ultimate-user medication disposals to better serve our customers and the environment. Additionally, we will continue to seek out and identify prospective new customers and markets for new solutions designed to meet the needs of these new customer segments.

Further penetrate existing customers and markets.

The addition of direct-service hazardous waste capabilities to our existing route-based regulated medical waste customers adds a viable cross-selling opportunity for the Company. While we offer hazardous waste services nationwide, the ability to directly service increases operational efficiencies and provides a better priced solution for the customer. In addition to hazardous waste services, the Company has multiple pharmaceutical waste solutions for cross-selling within the existing customer base including DEA-registrant disposal, non-controlled medication disposal and RCRA pharmaceutical disposal. The Company is a single-service provider for multiple healthcare-related waste generated in small to mid-size generators.

A new market for the Company is recycling of single-use devices. The interest from healthcare institutions in safer and more sustainable offerings has generated a full line of single-use devices and a tendency towards recycling at end of life rather than disposal in landfills. The opportunity to provide a recycling solution to surgical operatories that use these single-use devices offers the Company an exciting and sustainable solution in a new market. Further, we are able to develop solutions specific for single-use device manufacturers, building new relationships with manufacturers looking for a key marketing differentiator.

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Many of our customers who currently use the Sharps Recovery System and TakeAway Recovery System could also benefit from the TakeAway Medication Recovery System, Medsafe, our hazardous waste solutions, our universal waste solutions or other specialized products. Although currently focused primarily on the proper management of medical and pharmaceutical wastes generated by medical professionals, pharmacies (including chains and mail order), assisted living facilities and other related organizations will develop needs for our other product lines as they expand their patient service offerings. As an entrenched and value-added supplier of treatment solutions, we believe the Company has the ability to capture incremental business from our existing customers.

The Company's Pharmaceutical Manufacturer billings have grown from \$0.3 million to \$4.1 million for the years ended June 30, 2011 and 2019, respectively. We continue to see increased interest in our patient support program solution among pharmaceutical manufacturers as it relates to self-injectable medications especially related to new drug launches. We believe manufacturers are now, more than ever, focused on (i) product differentiation, (ii) improved interaction with patients and (iii) creating a touch point for individual patient follow-up that could lead to improved therapy outcomes. The patient support programs include the direct fulfillment of the Sharps Recovery System to the pharmaceutical manufacturers' program participants, which provides the proper containment, return and treatment of the needles or injection devices utilized in therapy. Sharps' proprietary SharpsTracer system tracks the return of the Sharps Recovery System by the patient to the treatment facility and then makes available to the pharmaceutical manufacturer electronic data. This data assists them in monitoring medication discipline and provides them with a touch point for individual patient follow-up, which potentially could lead to better outcomes. We believe the Company is a leader in providing solutions of this type to this market.

We are positive about anticipated growth opportunities in the Retail market. According to the CDC, 44.9% of U.S. adults received a flu shot and 32.2% of flu shots for adults were administered in a retail clinic in 2018. Over the flu seasons from 2011 to 2019, the Company saw growth in six years of 10% to 36%, including a 30% increase in 2019, and declines in three years of 13% to 17%. Despite the volatility, 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.

Active Acquisition Program

Over the past five years, the Company has developed a network of medical and hazardous waste service providers including those with route-based pickup services, which allows the Company to serve the entire U.S. medical and hazardous waste market. The Company has acquired three route-based pickup service companies in the Northeast from July 2015 to July 2016. To improve operational efficiencies, the Company has opened offices and transfer stations in strategic locations. Through a combination of acquisitions and organic growth, the Company now offers route-based pickup services in a twenty-four (24) state region of the South, Southeast and Northeast portions of the United States. The Company directly serves more than 12,900 customer locations with route-based pickup services offered to areas encompassing over 55% of the U.S. population.

With the addition of these route-based pickup regions and the network of medical and hazardous waste service providers serving the entire U.S., the Company offers clients a blended product portfolio to effectively target current and prospective customers with multi-site and multi-sized locations including those that generate larger quantities of medical and hazardous waste. The offering includes a single point of contact, consolidated billing, regulatory support and complete integration of our SharpsTracer system. The Company believes the comprehensive offering will continue to assist the Company in obtaining larger opportunities whereby the customer has both larger and smaller facilities generating medical waste, used healthcare materials and hazardous waste resulting in a more consistent and predictable revenue base for the Company.

Improve product and service awareness to attract new customers.

As we grow, we continue to focus marketing and sales efforts designed to educate professional offices, retail pharmacies and clinics, assisted living and long-term care facilities, home healthcare, government, pharmaceutical manufacturers and other commercial organizations on the benefits of our solutions and the need for safe, cost-effective and environmentally-friendly methods of medical, pharmaceutical and hazardous waste treatment. We believe that the full-service nature of our offerings and the ease and convenience of our mail- and ship-back delivery system will attract new customers who are not yet aware of the services we provide. We believe future growth will be driven by the need for our customers to properly document and track the disposal of their waste to maintain compliance with new and existing legislation. We believe our understanding of the legislative process and focus on accurate and thorough electronic tracking of waste disposal or treatment will provide substantial benefits to new customers looking to comply with new standards and promote environmentally cleaner business practices.

Enhance sales and marketing efforts.

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Over the past five years, the Company has made ongoing investments in sales and marketing initiatives to drive growth in two areas:

- **Web and Inside Sales** – Through targeted telemarketing initiatives (inside sales), e-commerce driven website and web-based promotional activities, we believe we can drive significant additional growth as we increase awareness of the Company’s innovative solution offerings with a focus on individual or small group professional offices, government agencies, smaller retail pharmacies and clinics and assisted living/long-term care facilities.
- **Field Sales** – The field sales team focuses on larger dollar and nationwide opportunities in most of the markets served. The field sales team is able to address larger opportunities where we can integrate the route-based pickup service along with our mailback solutions to create a comprehensive waste management offering.

We have seen success with this approach over the past few years and believe the comprehensive offering capabilities will continue to accelerate revenue growth of the Company.

CONCENTRATION OF CREDIT AND SUPPLIERS

There is an inherent concentration of credit risk associated with accounts receivable arising from sales to our major customers. For the fiscal year ended June 30, 2019, two customers represented approximately 27% of revenue. One of these customer also represented approximately 19%, or \$1.7 million of the total accounts receivable balance at June 30, 2019. For the fiscal year ended June 30, 2018, one customer represented approximately 17% of revenue and 13%, or \$0.8 million, of the total accounts receivable balance at June 30, 2018. For the fiscal year ended June 30, 2017, one customer represented approximately 17% of revenue. We may be adversely affected by our dependence on a limited number of high volume customers. Management believes that the risks are mitigated by (i) the contractual relationships with key customers, (ii) the high quality and reputation of the Company and its solution offerings and (iii) the continued diversification of our solution offerings into additional markets outside of our traditional customer base.

We currently transport (from the patient or user to the Company’s facility or subcontracted treatment facilities) the majority of our solution offerings using USPS; therefore, any long-term interruption in USPS delivery services would disrupt the return transportation and treatment element of our business. Postal delivery interruptions are rare. Additionally, since USPS employees are federal employees, such employees may be prohibited from engaging in or continuing a postal work stoppage, although there can be no assurance that such work stoppage can be avoided. We also have an arrangement with UPS whereby UPS transports certain other solution offerings. The ability to ship items, whether through the USPS or UPS, is regulated by the government and related agencies. Any change in regulation restricting the shipping of medical waste, used healthcare materials or unused or expired dispensed pharmaceuticals through these channels would be detrimental to our ability to conduct operations.

We maintain relationships with multiple raw materials suppliers and vendors in order to meet customer demands and assure availability of our products and solutions. With respect to the Sharps Recovery System solutions, we own proprietary molds and dies and utilize several contract manufacturers for the production of the primary raw materials. We believe that alternative suitable contract manufacturers are readily available to meet the production specifications of our products and solutions. We utilize national suppliers for the majority of the raw materials used in our other products and solutions and international suppliers for Pitch-It IV Poles.

INTELLECTUAL PROPERTY

We have a portfolio of trademarks and patents, both granted and pending. We consider our trademarks important in the marketing of our products and services, including the Sharps logo, Sharps Recovery System, TakeAway Medication Recovery System, MedSafe, SharpsTracer, Sharps Secure, TakeAway Environmental Return System, Complete Needle and PELLA-DRX™ among others. With respect to our registered marks, we continue using such marks and will file all necessary documentation to maintain their registrations for the foreseeable future. We have a number of patents issued over the period from June 1998 to December 2018, including those applicable to some of the unique design features of our MedSafe solution (patent number US 10,150,613), our PELLA-DRX waste conversion process (patent numbers US 8,163,045, US 8,100,989, US 8,268,073 and US 4,440,534), our Sharps Secure Needle Disposal System (patent numbers US 8,162,139 and US 8,235,883), our unique design features related to the TakeAway Environmental Return System drop-off boxes (patent number US 8,324,443) and our Complete Needle Collection & Disposal System (patent number US 4,463,106). We have patents pending on our MWMS rapid deployment system and additional features of our MedSafe solution.

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Solely for convenience, the trademarks and service marks referred to in this Annual Report on Form 10-K may appear without the ® or ™, but such references are not intended to indicate, in any way, that we will not assert to the fullest extent under applicable law our rights to such trademarks and service marks.

COMPETITION

There are several competitors who offer similar or identical products and services that facilitate the disposal of smaller quantities of medical waste. There are also a number of companies that focus specifically on the marketing of products and services which facilitate disposal through transport by the USPS (similar to the Company's products). These companies include (i) smaller private companies or (ii) divisions of larger companies. Additionally, we compete in certain markets with Stericycle, the largest medical waste company in the country, which focuses primarily on a pickup service business model. With the addition of the route-based pickup services offered on a direct basis covering over 55% of the U.S. population throughout the South, Southeast and Northeast and through a network of medical and hazardous waste services providers, the Company believes it is well positioned with its comprehensive medical waste management offering to compete with Stericycle. As Sharps continues to grow and increase awareness of the proper disposal of syringes and unused medications (including controlled substances), it could face additional and possibly significant competition. We believe our comprehensive line of proven solution offerings, comprehensive medical waste management service offerings, first mover advantages, excellent industry reputation, significant history of market and customer success, quality solutions and products, as well as our capabilities as a vertically-integrated producer of products and services provide significant differentiation in the current competitive market.

GOVERNMENT REGULATION

Sharps is subject to extensive federal, state and/or local laws, rules and regulations. We are required to obtain permits, authorizations, approvals, certificates and other types of governmental permission from the EPA, the Department of Transportation, the U.S. Food and Drug Administration, the State of Texas, the State of Pennsylvania and local governments with respect to our facilities and operations. Such laws, rules and regulations have been established to promote occupational safety and health standards and certain standards have been established in connection with the handling, transportation and disposal of certain types of medical and solid wastes, including transported medical waste. Our estimated annual costs of complying with these laws, regulations and guidelines, including environmental laws, is currently less than \$200,000 per year. In the event additional laws, rules or regulations are adopted which affect our business, additional expenditures may be required in order for Sharps to be in compliance with such changing laws, rules and regulations.

ITEM 1A. RISK FACTORS

We may be unable to manage our growth effectively.

We continued to experience core revenue growth in fiscal year 2019 as we saw the benefits of our marketing activities in all of our target markets. Revenue increased 10% to \$44 million for the fiscal year ended June 30, 2019 driven by increases in the retail, professional and government markets due mainly to increased flu shot related orders, increased route-based pickup services, increased order activity for unused medication solutions, including the MedSafe, and targeted telemarketing initiatives and promotional activities. The increase in revenue and execution of our growth strategies has placed and will continue to place significant demands on our financial, operational and management resources. In order to continue our growth, we may need at some point to add operations, administrative and other personnel and to make additional investments in the infrastructure and systems. There can be no assurance that we will be able to find and train qualified personnel, do so on a timely basis or expand our operations and systems to the extent and in the time required.

If the flu related business of our customers decreases, the revenues generated by our business could decrease.

Our operating results are dependent in part upon the amount and types of solutions necessary to service our customers' needs which are heavily influenced by the total number of patients our customers are serving at any time, especially related to the administration of flu shots. At times of lower patient activity, our customers have a decreased need for our services on a supplemental or peak needs basis. Our operating results can vary depending on the timing and severity of the flu season as well as other factors affecting the volume of flu shots administered in the retail setting.

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Our quarterly results may fluctuate significantly.

Our operating results have historically varied on a quarterly basis and may continue to fluctuate significantly in the future. Factors that may affect our quarterly operating results, some of which are beyond the control of management, include, but are not limited to, seasonality; the timing of inventory builds for patient support programs of our pharmaceutical manufacturer customers; the timing and severity of the flu season; fluctuations in inventory, energy, transportation, labor, healthcare and other costs; significant acquisitions, dispositions, joint ventures and other strategic initiatives; and many of the other risk factors discussed herein. Accordingly, we believe that quarter-to-quarter comparisons of our operating results are not necessarily meaningful and investors should not rely on the results of any particular quarter as an indication of our future performance.

Our business is dependent on a small number of customers. To the extent we are not successful in winning additional business mandates from our government and commercial customers or attracting new customers, our results of operations and financial condition would be adversely affected.

We are dependent on a small group of customers. In addition, there is an inherent concentration of credit risk associated with accounts receivable arising from sales to our major customers. For the fiscal year ended June 30, 2019, two customers represented approximately 27% of revenues. One of these customers also represented approximately 19%, or \$1.7 million, of the total accounts receivable balance as of June 30, 2019. To the extent significant customers are delinquent or delayed in paying, or we are not successful in obtaining consistent and additional business from our existing and new customers, our results of operations and financial condition would be adversely affected.

The loss of the Company's senior executives could affect the Company's ability to manage the business profitability.

Our growth and development to date has been largely dependent on the active participation and leadership of our senior management team consisting of the Company's CEO and President, Vice President and CFO, Vice President of Operations and Vice President of Marketing. We believe that the continued success of the business is largely dependent upon the continued employment of the senior management team and have, therefore, (i) entered into individual employment arrangements with key personnel and (ii) approved the Compensation and Incentive Plan for participation by the senior management team in order to provide an incentive for their continued employment with the Company. The unplanned loss of one or more members of the senior management team and our inability to hire key employees could disrupt and adversely impact the Company's ability to execute its business plan.

Risks associated with our acquisition strategy could adversely affect our operating results.

We expect a portion of our growth to come from acquisitions, and we continue to evaluate opportunities for acquiring businesses that may supplement our internal growth. However, there can be no assurance that we will be able to identify and purchase suitable operations. In addition, the success of any acquisition depends in part on our ability to integrate the acquired business. The process of integrating acquired businesses may involve unforeseen difficulties and may require a disproportionate amount of management's attention and the Company's financial and other resources. There can be no assurance that any acquisitions, if completed, will be successful.

Aggressive pricing by existing competitors and the entrance of new competitors could drive down the Company's profits and slow its growth.

There are several competitors who offer similar or identical products and services that facilitate the disposal of smaller quantities of medical waste. There are also a number of companies that focus specifically on the marketing of products and services, which facilitate disposal through transport by the USPS (similar to the Company's products). These companies include (i) smaller private companies or (ii) divisions of larger companies. Additionally, we compete in certain markets with Stericycle, the largest medical waste company in the country, which focuses primarily on a pickup service business model. As Sharps continues to grow and increase awareness of the proper disposal of syringes and unused medications, it could face additional and possibly significant competition. As a result, we could experience increased pricing pressures that could reduce our margins. In addition, as we expand our business into other markets, the number, type and size of our competitors may expand. Many of these potential competitors may have greater financial and operational resources, flexibility to reduce prices and other competitive advantages that could adversely impact our current competitive position.

The lack of customer long-term volume commitments could adversely affect the Company's profits and future growth.

Although we enter into exclusive contracts with the majority of our enterprise customers, these contracts do not have provisions for firm long-term volume commitments. In general, customer purchase orders may be canceled and order volume levels can be

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changed or delayed with limited or no penalties. Canceled, delayed or reduced purchase orders could significantly affect our financial performance.

The Company is subject to extensive and costly federal, state and local laws, and existing or future regulations may restrict the Company's operations, increase our costs of operations and subject us to additional liability.

We are subject to extensive federal, state and/or local laws, rules and regulations. We are required to obtain permits, authorizations, approvals, certificates and other types of governmental permission from the EPA, the Department of Transportation, the U.S. Food and Drug Administration, the State of Texas, the State of Pennsylvania and local governments with respect to our facilities and operations. Such laws, rules and regulations have been established to promote occupational safety and health standards and certain standards have been established in connection with the handling, transportation and disposal of certain types of medical and solid wastes, including transported medical waste. We believe that we are currently in compliance in all material respects with all applicable laws and regulations governing our business, including the permits and authorizations for our incinerator facility. Our estimated annual costs of complying with these laws, regulations and guidelines, including environmental laws, is currently less than \$200,000 per year. In the event additional laws, rules or regulations are adopted which affect our business, additional expenditures may be required in order for us to be in compliance with such changing laws, rules and regulations. Furthermore, any material relaxation of any existing regulatory requirements governing the transportation and disposal of medical waste could result in a reduced demand for our products and services and could have a material adverse effect on our revenues and financial condition. The scope and duration of existing and future regulations affecting the medical and solid waste disposal industry cannot be anticipated and are subject to change.

The inability of the Company to operate its treatment facilities would adversely affect its operations

Our business utilizes a treatment facility for the proper disposal or treatment of medical waste, used health care materials and unused pharmaceuticals. Our owned facility has both incineration and autoclave technologies in Carthage, Texas. In August 2016, the Company received the Commonwealth of Pennsylvania Department of Environmental Protection Bureau of Waste Management permit for the processing of medical waste at its treatment facility located in northeastern Pennsylvania. The 40,000 square foot facility has been permitted as both a medical waste treatment facility, using an autoclave, and as a transfer station for medical, pharmaceutical and trace chemotherapy waste of up to 82 tons per day. The facility is designed to cost-effectively and efficiently process medical waste generated by the Company's route-based and mailback customers and also doubles as a distribution center of mailback solutions and has been in operation since November 2016. Sharps believes it operates and maintains the facilities in compliance in all material respects with all federal, state and local laws and/or any other regulatory agency requirements involving treatment and disposal and the operation of the incinerator and autoclave facilities. The failure to maintain the permits for the treatment facility or unfavorable conditions contained in the permits or new regulations could substantially impair our operations and reduce our revenues. Any disruption in the availability of a disposal or treatment facility, whether as a result of action taken by governmental authorities, natural disasters or otherwise, would have an adverse effect on our operations and results of operations.

The handling, transportation and disposal or treatment of regulated waste carries with it the risk of personal injury to employees and others.

Our business requires us to handle materials that may be infectious or hazardous to life and property in other ways. Although our products and procedures are designed to minimize exposure to these materials, the possibility of accidents, leaks, spills and acts of God always exists. Examples of possible exposure to such materials include: truck accidents, damaged or leaking containers, improper storage of regulated waste by customers, improper placement by customers of materials into the waste stream that we are not authorized or able to process, such as certain body parts and tissues; or malfunctioning treatment plant equipment. Human beings, animals or property could be injured, sickened or damaged by exposure to regulated waste. This in turn could result in lawsuits in which we are found liable for such injuries, and substantial damages could be awarded against us. While we carry liability insurance intended to cover these contingencies, particular instances may occur that are not insured against or that are inadequately insured against. An uninsured or underinsured loss could be substantial and could impair our profitability and reduce our liquidity.

Increases in transportation costs may adversely affect our business and results of operation.

We maintain a transportation network and a fleet of transportation vehicles. A significant increase in market prices for trucks, fuel or driver wages could adversely affect our business through higher transportation costs and reduce our operating margins and reported results of operations.

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

The Credit Agreement and the Loan Agreement, as defined in Note 5 “Notes Payable and Long-Term Debt” in “Notes to the Consolidated Financial Statements,” contain affirmative and negative covenants that, among other things, require the Company to maintain a maximum cash flow leverage ratio of no more than 3.0 to 1.0 and a minimum debt service coverage ratio of not less than 1.15 to 1.00. The Credit Agreement, which expires on March 29, 2021 for the working capital portion of the Credit Agreement, and the Loan Agreement also contain customary events of default which, if uncured, may terminate the agreements and require immediate repayment of all indebtedness to the lenders. The leverage ratio covenant may limit the amount available under the agreements. 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 and the Loan 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.

An inability to win additional government contracts could have a material adverse effect on our operations and adversely affect our future revenue.

Although the Company has secured some U.S. government business during fiscal year 2019, there can be no assurances that future periods will include similar business. All contracts with, or subcontracts involving, the federal government are terminable or subject to renegotiation by the applicable governmental agency on 30 days notice at the option of the governmental agency. If a material contract is terminated or renegotiated in a manner that is materially adverse to us, our revenues and future operations could be materially adversely affected.

As a government contractor, we are subject to extensive government regulation, and our failure to comply with applicable regulations could subject us to penalties that may restrict our ability to conduct our business.

Governmental contracts or subcontracts involving governmental facilities are often subject to specific procurement regulations, contract provisions and a variety of other requirements relating to the formation, administration, performance and accounting of these contracts. Many of these contracts include express or implied certifications of compliance with applicable regulations and contractual provisions. If we fail to comply with any regulations, requirements or statutes, our existing governmental contracts or subcontracts involving governmental facilities could be terminated, or we could be suspended from government contracting or subcontracting. If one or more of our governmental contracts or subcontracts are terminated for any reason, or if we are suspended or barred from government work, we could suffer a significant reduction in expected revenues and profits. Furthermore, as a result of our governmental contracts or subcontracts involving governmental facilities, claims for civil or criminal fraud may be brought by the government for violations of these regulations, requirements or statutes.

The possibility of postal work interruptions and restrictions on shipping through the mail would adversely affect the disposal or treatment element of the Company's business and have an adverse effect on our operations, results of operations and financial condition.

We currently transport (from the patient or user to the Company's facility or subcontracted treatment facilities) the majority of our solution offerings using USPS; therefore, any long-term interruption in USPS delivery services would disrupt the return transportation and treatment element of our business. Postal delivery interruptions are rare. Additionally, since USPS employees are federal employees, such employees may be prohibited from engaging in or continuing a postal work stoppage, although there can be no assurance that such work stoppage can be avoided. As noted above, we entered into an arrangement with UPS whereby UPS transports certain other solution offerings. The ability to ship items, whether through the USPS or UPS, is regulated by the government and related agencies. Any change in regulation restricting the shipping of medical waste, used healthcare materials or unused or expired dispensed pharmaceuticals through these channels would be detrimental to our ability to conduct operations. Any disruption in the transportation of products would have an adverse effect on our operations, results of operations and financial condition.

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The Company's stock has experienced, and may continue to experience, low trading volume and price volatility.

The Company's common stock is quoted on the NASDAQ Capital Market ("NASDAQ") under the symbol "SMED." The daily trading volumes for our common stock are, and may continue to be, relatively small compared to many other publicly traded securities. Over the past three years, the Company's common stock has had an average trading volume of approximately 22,000 shares traded per month. It may be difficult for investors to sell shares in the public market at any given time at prevailing prices, and the price of our common stock may, therefore, be volatile.

We are subject to the reporting requirements of federal securities laws, and compliance with such requirements can be expensive and may divert resources from other projects, thus impairing our ability to grow.

We are subject to the information and reporting requirements of the Securities and Exchange Act of 1934, as amended (the "Exchange Act"), and other federal securities laws, including compliance with the Sarbanes-Oxley Act of 2002 (the "Sarbanes-Oxley Act") and the Dodd-Frank Act Wall Street Reform and Consumer Protection Act of 2010 (the "Dodd-Frank Act"). The costs of preparing and filing annual and quarterly reports, proxy statements and other information with the Securities and Exchange Commission and furnishing audited reports to stockholders will cause our expenses to be higher than they would have been if we were privately held.

It may be time consuming, difficult and costly for us to develop, implement and maintain the internal controls and reporting procedures required by the Sarbanes-Oxley Act and the Dodd-Frank Act. We may need to hire additional financial reporting, internal controls and other finance personnel in order to develop and implement appropriate internal controls and reporting procedures.

If we fail to establish and maintain an effective system of internal control, we may not be able to report our financial results accurately or to prevent fraud. An inability to report and file our financial results accurately and timely could harm our reputation and adversely impact the trading price of our common stock.

Effective internal control is necessary for us to provide reliable financial reports and prevent and detect errors or fraud. If we cannot provide reliable financial reports or prevent or detect errors or fraud, we may not be able to manage our business as effectively as we would if an effective control environment existed, and our business and reputation with investors may be harmed. As a result, our small size and any current internal control deficiencies may adversely affect our financial condition, results of operation and access to capital. Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with any policies and procedures may deteriorate.

We may be subject to information technology system failures, network disruptions and breaches in data security.

We rely upon sophisticated information technology systems, infrastructure and security procedures and systems to operate our business and ensure the secure storage and transmission of information. The size and complexity of our computer systems make them potentially vulnerable to breakdown, malicious intrusion and random attack. Likewise, computer networks and the internet are, by nature, vulnerable to unauthorized access. An accidental or willful security breach could result in unauthorized access and/or use of sensitive data. Our security measures could be breached by third-party action, computer viruses, accidents or error or misconduct by an employee or contractor. Because techniques used to obtain unauthorized access, disable or degrade service or to sabotage computer systems change frequently, it may be difficult to detect immediately and we may be unable to implement adequate preventive measures. Unauthorized parties may also attempt to gain access to our systems or facilities through various means, including hacking into our systems or facilities, fraud, trickery or other means of deceiving employees, contractors and temporary staff. We have encountered threats of this type from time to time, none of which have materially impacted our operations or financial results. Although we maintain a system of information security and controls, a party that is able to circumvent our security measures could cause interruption in our operations, damage our computers or those of our users or otherwise damage our reputation. Depending on the severity, any of these events could adversely affect our operations and financial results. In addition, if we were to experience an information security breach, we may be required to expend significant amounts of time and money to remedy, protect against or mitigate the effect of the breach, and we may not be able to remedy the situation in a timely manner, or at all. While we have invested in protection of data and information technology, there can be no assurance that our efforts will prevent breakdowns or breaches in our systems that could adversely affect our business.

ITEM 1B. UNRESOLVED STAFF COMMENTS

As of the date of this report, we do not have any unresolved staff comments.

ITEM 2. PROPERTIES

The Company utilizes approximately 250,000 square feet of space across the U.S. including space for corporate offices in Houston, Texas. Sharps has manufacturing, assembly, storage, distribution and warehousing operations as well as two (2) fully-permitted facilities that house our processing and treatment operations. Our processing and treatment facilities which, are located in Carthage, Texas and in Nesquehoning, Pennsylvania, are currently permitted to treat and process 182 tons of medical, pharmaceutical and other healthcare related waste per day. The Company owns one of these processing and treatment facilities and leases all other spaces. The leases expire between fiscal years 2019 to 2024 with options to renew ranging from 1 years to 5 years.

ITEM 3. 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 is not anticipated to have a material adverse effect on the Company's consolidated financial position or consolidated results of operations.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS, AND ISSUER PURCHASES OF EQUITY SECURITIES

Market Information: The Company's common stock is quoted on the NASDAQ capital market under the symbol "SMED". Over the past three years, the Company's common stock has had an average trading volume of approximately 22,000 shares traded per month. The table below sets forth the high and low closing prices of the Company's common stock on the NASDAQ for each quarter within the last two fiscal years.

	Common Stock	
	High	Low
<u>Fiscal Year Ending June 30, 2018</u>		
First Quarter	\$ 5.67	\$ 4.17
Second Quarter	\$ 4.94	\$ 3.75
Third Quarter	\$ 5.06	\$ 3.96
Fourth Quarter	\$ 4.75	\$ 3.50
<u>Fiscal Year Ending June 30, 2019</u>		
First Quarter	\$ 3.83	\$ 3.19
Second Quarter	\$ 4.01	\$ 3.07
Third Quarter	\$ 4.00	\$ 3.17
Fourth Quarter	\$ 3.68	\$ 3.23

Stockholders: At August 26, 2019, there were 16,137,513, shares of common stock held by approximately 146 holders of record; however, the Company believes the number of beneficial owners exceeds this number. The last reported sale of the common stock on August 26, 2019 was \$4.19 per share.

Dividend Policy: The Company has never declared nor paid any cash dividends on its common stock. The Company currently intends to retain its cash generated from operations for working capital purposes and to fund the continued expansion of its business and does not anticipate paying any dividends on our common stock in the foreseeable future. Moreover, future payment of dividends may be restricted by credit or other agreements to which the Company is a party.

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Securities Authorized for Issuance under Equity Compensation Plans:

The following equity compensation plan information is provided as of June 30, 2019:

Plan Category	Number of securities to be issued upon exercise of outstanding options, warrants and rights (a)	Weighted average exercise price of outstanding options, warrants and rights (b)	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a)) (c)
2010 Stock Plan as approved by shareholders ⁽¹⁾⁽²⁾	1,293,449	\$ 4.26	1,037,862

Notes:

(1) Represents stock options issued under the Sharps Compliance Corp. 2010 Stock Plan.

(2) Number of securities to be issued and weighted average exercise price include the effect of 13,248 shares of restricted stock issued to the Board of Directors.

ITEM 6. SELECTED FINANCIAL DATA

The following selected historical financial data has been derived from our audited financial statements and should be read in conjunction with the historical Consolidated Financial Statements and related notes and Item 7, Management’s Discussion and Analysis of Financial Condition and Results of Operations (in thousands except earnings per share data):

	Year Ended June 30,				
	2019	2018	2017	2016	2015
Revenues	\$ 44,312	\$ 40,141	\$ 38,188	\$ 33,383	\$ 30,902
Operating Income (Loss)	\$ 447	\$ (577)	\$ (1,187)	\$ 5	\$ 1,236
Net Income (Loss)	\$ 214	\$ (672)	\$ (1,293)	\$ 13	\$ 1,160
Net Income (Loss) per share:					
Basic	\$ 0.01	\$ (0.04)	\$ (0.08)	\$ 0.00	\$ 0.08
Diluted	\$ 0.01	\$ (0.04)	\$ (0.08)	\$ 0.00	\$ 0.07
Total Assets	\$ 36,040	\$ 33,231	\$ 34,464	\$ 30,147	\$ 29,751
Total Debt	\$ 1,465	\$ 2,002	\$ 2,603	\$ —	\$ —
Cash	\$ 4,512	\$ 5,155	\$ 4,675	\$ 12,435	\$ 15,157
Working Capital	\$ 10,575	\$ 10,258	\$ 10,488	\$ 17,232	\$ 19,623
Total Stockholders’ Equity	\$ 26,126	\$ 25,174	\$ 25,287	\$ 23,843	\$ 23,586

Notes:

- 2016 Revenues, operating income and net income include the results of operations for the acquisitions during the year which were not individually or in the aggregate material to the Company’s financial position.
- 2017 Revenues, operating income and net income include the results of operations for the acquired business during the year.

ITEM 7. MANAGEMENT’S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The discussion and analysis presented below should be read in conjunction with the consolidated financial statements and related notes appearing elsewhere in this Annual Report on Form 10-K. See “Information Regarding Forward Looking Statements and “Item 1A, Risk Factors.”

RESULTS OF OPERATIONS

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The following analyzes changes in the consolidated operating results and financial condition of the Company during the years ended June 30, 2019, 2018 and 2017, respectively. The following table sets forth for the periods indicated certain items from the Company's Consolidated Statements of Operations (dollars in thousands except for percentages expressed as a percentage of revenues):

	Year Ended June 30,					
	2019	%	2018	%	2017	%
Revenues	\$ 44,312	100.0 %	\$ 40,141	100.0 %	\$ 38,188	100.0 %
Cost of revenues	31,042	70.1 %	28,739	71.6 %	26,351	69.0 %
Gross profit	13,270	29.9 %	11,402	28.4 %	11,837	31.0 %
SG&A expense	12,003	27.1 %	11,168	27.8 %	12,223	32.0 %
Depreciation and amortization	820	1.9 %	811	2.0 %	801	2.1 %
Operating income (loss)	447	1.0 %	(577)	(1.4)%	(1,187)	(3.1)%
Other expense	(63)	(0.1)%	(74)	(0.2)%	(102)	(0.3)%
Income (loss) before income taxes	384	0.9 %	(651)	(1.6)%	(1,289)	(3.4)%
Income tax expense	170	0.4 %	21	0.1 %	4	0.0 %
Net income (loss)	\$ 214	0.5 %	\$ (672)	(1.7)%	\$ (1,293)	(3.4)%

YEAR ENDED JUNE 30, 2019 AS COMPARED TO YEAR ENDED JUNE 30, 2018

Total revenues for the fiscal year ended June 30, 2019 of \$44.3 million increased by \$4.2 million, or 10.4%, from the total revenues for the fiscal year ended June 30, 2018 of \$40.1 million. Billings by market are as follows (in thousands):

	Year Ended June 30,		
	2019	2018	Variance
BILLINGS BY MARKET:			
Professional	\$ 15,071	\$ 13,110	\$ 1,961
Retail	11,481	7,885	3,596
Home Health Care	7,800	7,989	(189)
Pharmaceutical Manufacturer	4,146	4,482	(336)
Assisted Living	2,542	2,515	27
Government	2,468	2,074	394
Environmental	290	891	(601)
Other	1,175	818	357
Subtotal	44,973	39,764	5,209
GAAP Adjustment *	(661)	377	(1,038)
Revenue Reported	\$ 44,312	\$ 40,141	\$ 4,171

*Represents the net impact of the revenue recognition adjustments 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, (ii) recognition of certain revenue associated with products returned for treatment and destruction and (iii) provisions for certain rebates, product returns and discounts to customers which are accounted for as reductions in sales in the same period the related sales are recorded. Most of the difference between customer billings and GAAP revenue is reflected in the Company's balance sheet as Contract Liability. See Note 2 "Summary of Significant Accounting Policies" in "Notes to Consolidated Financial Statements".

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The components of billings by solution are as follows (in thousands except for percentages expressed as a percentage of total billings):

	Year Ended June 30,			
	2019	% Total	2018 ⁽³⁾	% Total
BILLINGS BY SOLUTION:				
Mailbacks	\$ 25,162	55.9%	\$ 21,895	55.1%
Route-based pickup services	9,029	20.1%	7,492	18.8%
Unused medications	6,936	15.4%	5,907	14.9%
Third party treatment services	290	0.6%	891	2.2%
Other ⁽¹⁾	3,556	8.0%	3,579	9.0%
Total billings	\$ 44,973	100.0%	\$ 39,764	100.0%
GAAP adjustment ⁽²⁾	(661)		377	
Revenue reported	\$ 44,312		\$ 40,141	

(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 adjustments required to arrive at reported 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, (ii) recognition of certain revenue associated with products returned for treatment and destruction and (iii) provisions for certain rebates, product returns and discounts to customers which are accounted for as reductions in sales in the same period the related sales are recorded. Most of the difference between customer billings and GAAP revenue is reflected in the Company's balance sheet as Contract Liability.

(3) Certain prior year amounts have been reclassified to conform to current year presentation.

The increase in billings was primarily attributable to increased billings in the Retail (\$3.6 million), Professional (\$2.0 million), and Government (\$0.4 million) markets. The increase was partially offset by decreased billings in the Environmental (\$0.6 million) and Pharmaceutical Manufacturer (\$0.3 million) markets. The increase in Retail billings was due mainly to a \$2.8 million increase in flu shot-related orders and a \$0.8 million increase in MedSafe billings. The increase in 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 Government market billings was due primarily to billings for unused medication related orders. The decrease in Environmental billings was due to lower third party treatment billings from our treatment facilities in Texas and Pennsylvania. The decrease in Pharmaceutical Manufacturer billings was mainly due to timing of inventory builds for patient support programs. Although there were new pharmaceutical manufacturer programs launched in fiscal 2019, the impact is offset by significant inventory builds for larger programs in the first half of fiscal 2018 which did not re-occur in fiscal 2019 due to their significant size. Billings for Mailbacks in the year ended June 30, 2019 increased 14.9% to \$25.2 million as compared to \$21.9 million in 2018 and represented 56% of total billings. Billings for Route-Based Pickup Services increased 21% to \$9.0 million in the year ended June 30, 2019 due to organic growth as compared to \$7.5 million in 2018 and represented 20% of total billings. Billings for Unused Medications increased 17% to \$6.9 million in the year ended June 30, 2019 as compared to \$5.9 million in 2018 and represented 15% of total billings.

Cost of revenue for the year ended June 30, 2019 of \$31.0 million was 70.1% of revenue. Cost of revenue for the year ended June 30, 2018 of \$28.7 million was 71.6% of revenue. The gross margin for the year ended June 30, 2019 of 29.9% increased compared to the gross margin for the year ended June 30, 2018 of 28.4%. Gross margin was positively impacted for the year ended June 30, 2019 due to higher revenues than the prior year.

Selling, general and administrative ("SG&A") expenses for the year ended June 30, 2019 and 2018 were \$12.0 million and \$11.2 million, respectively. The increase in SG&A expense was due to continued investments in sales and marketing.

The Company recorded operating income of \$0.4 million for the year ended June 30, 2019 compared to an operating loss of \$0.6 million for the year ended June 30, 2018. The operating income increased mainly due to higher revenue and higher gross margin (discussed above).

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The Company reported income before income taxes of \$0.4 million for the year ended June 30, 2019 compared to loss before income taxes of \$0.7 million for the year ended June 30, 2018. Income before income taxes increased due to the increase in operating income (discussed above).

The Company's effective tax rate for the years ended June 30, 2019 and 2018 was 44.3% and (3.2)%, respectively. The 2019 effective tax rate is primarily due to deferred tax expense 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 and state income taxes. The 2018 effective tax rate reflects the impact of the 2017 tax law change on the Company's alternative minimum tax credits net of estimated state income tax expense and deferred tax expenses related to indefinite lived assets.

The Company reported a net income of \$0.2 million for the year ended June 30, 2019 compared to a net loss of \$0.7 million for the year ended June 30, 2018. Net income increased due to the increase in operating income (discussed above).

YEAR ENDED JUNE 30, 2018 AS COMPARED TO YEAR ENDED JUNE 30, 2017

Total revenues for the fiscal year ended June 30, 2018 of \$40.1 million increased by \$2.0 million, or 5.1%, from the total revenues for the fiscal year ended June 30, 2017 of \$38.2 million. Billings by market are as follows (in thousands):

	Year Ended June 30,		
	2018	2017	Variance
BILLINGS BY MARKET:			
Professional	\$ 13,110	\$ 11,962	\$ 1,148
Home Health Care	7,989	7,901	88
Retail	7,885	7,010	875
Pharmaceutical Manufacturer	4,482	5,961	(1,479)
Assisted Living	2,515	2,442	73
Government	2,074	1,680	394
Environmental	891	414	477
Other	818	763	55
Subtotal	39,764	38,133	1,631
GAAP Adjustment *	377	55	322
Revenue Reported	\$ 40,141	\$ 38,188	\$ 1,953

*Represents the net impact of the revenue recognition adjustments required to arrive at reported 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, (ii) recognition of certain revenue associated with products returned for treatment and destruction and (iii) provisions for certain rebates, product returns and discounts to customers which are accounted for as reductions in sales in the same period the related sales are recorded. Most of the difference between customer billings and GAAP revenue is reflected in the Company's balance sheet as Contract Liability. See Note 2 "Summary of Significant Accounting Policies" in "Notes to Consolidated Financial Statements".

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The components of billings by solution are as follows (in thousands except for percentages expressed as a percentage of total billings):

	Year Ended June 30,			
	2018 ⁽³⁾	% Total	2017 ⁽³⁾	% Total
BILLINGS BY SOLUTION:				
Mailbacks	\$ 21,895	55.1%	\$ 24,570	64.4%
Route-based pickup services	7,492	18.8%	6,348	16.6%
Unused medications	5,907	14.9%	3,377	8.9%
Third party treatment services	891	2.2%	413	1.1%
Other ⁽¹⁾	3,579	9.0%	3,425	9.0%
Total billings	\$ 39,764	100.0%	\$ 38,133	100.0%
GAAP adjustment ⁽²⁾	377		55	
Revenue reported	\$ 40,141		\$ 38,188	

(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 adjustments required to arrive at reported 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, (ii) recognition of certain revenue associated with products returned for treatment and destruction and (iii) provisions for certain rebates, product returns and discounts to customers which are accounted for as reductions in sales in the same period the related sales are recorded. Most of the difference between customer billings and GAAP revenue is reflected in the Company's balance sheet as Contract Liability.

(3) Certain prior year amounts have been reclassified to conform to current year presentation.

The increase in billings was primarily attributable to increased billings in the Professional (\$1.1 million), Retail (\$0.9 million), Environmental (\$0.5 million) and Government (\$0.4 million) markets. The increase was partially offset by decreased billings in the Pharmaceutical Manufacturer market (\$1.5 million). The increase in Professional market billings is due to 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 pickup services. The increase in Retail market billings was due mainly to increased order activity for unused medication solutions, including the MedSafe. The increase in Environmental market billings was due to higher third party treatment billings from our treatment facilities in Texas and Pennsylvania. The increase in Government market billings was due primarily to billings for unused medication related orders. The decrease in Pharmaceutical Manufacturer market billings was mainly due to timing of inventory builds for patient support programs. Billings for Mailbacks in the year ended June 30, 2018 decreased 11% to \$21.9 million as compared to \$24.6 million in 2017 and represented 55% of total billings. Billings for Route-Based Pickup Services increased 18% to \$7.5 million in the year ended June 30, 2018 due to organic growth as compared to \$6.3 million in 2017 and represented 19% of total billings. Billings for Unused Medications increased 75% to \$5.9 million in the year ended June 30, 2018 as compared to \$3.4 million in 2017 and represented 15% of total billings.

Cost of revenue for the year ended June 30, 2018 of \$28.7 million was 71.6% of revenue. Cost of revenue for the year ended June 30, 2017 of \$26.4 million was 69.0% of revenue. The lower gross margin for the year ended June 30, 2018 of 28.4% (versus 31.0% for the year ended June 30, 2017) was primarily due to the unplanned second quarter 2018 repair and maintenance costs at both of the Company's treatment facilities, startup costs as a second shift was added to the Pennsylvania plant, unplanned incremental costs associated with winter storms in the Northeast and the lower margin associated with the launch of a new unused medication program.

SG&A expenses for the year ended June 30, 2018 and 2017 were \$11.2 million and \$12.2 million, respectively. SG&A expenses for the year ended June 30, 2017 included \$0.7 million of acquisition related costs associated with the completion of the Company's acquisition of Citiwaste. Without these acquisition related costs, SG&A decreased 3.0% compared to the prior year period due to the Company's ongoing investment in sales and marketing initiatives.

The Company recorded an operating loss of \$0.6 million for the year ended June 30, 2018 compared to an operating loss of \$1.2 million for the year ended June 30, 2017. The operating loss decreased mainly due to higher revenue and lower SG&A costs (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, physician groups, 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 over 55% of the U.S. population.
- From July 2015 to July 2016, the Company acquired three route-based pickup service companies, which 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-four (24) state region of the South, Southeast and Northeast portions of the United States. To facilitate operational efficiencies, the Company has opened transfer stations and offices in strategic locations. The Company directly serves more than 12,900 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"), 44.9% of U.S. adults received a flu shot and 32.2% of flu shots for adults were administered in a retail clinic in 2018. Over the flu seasons from 2011 to 2019, the Company saw growth in six years of 10% to 36%, including a 30% increase in 2019, and declines in three years of 13% to 17%. Despite the volatility, 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. The federal government, state agencies and non-profits are recognizing the need to fund

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programs that address prevention as it pertains to the opioid crisis. MedSafe and mailback envelopes for proper medication disposal are being funded for prevention programs.

- 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 \$4.5 million and debt of \$1.5 million (in each case, as of June 30, 2019) and additional availability under the Credit Agreement.

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 decreased by \$0.6 million to \$4.5 million at June 30, 2019 from \$5.2 million at June 30, 2018 due to the following:

- **Cash Flows from Operating Activities** - Working capital increased by \$0.3 million to \$10.6 million at June 30, 2019 from \$10.3 million at June 30, 2018. Despite the decrease in cash, working capital increased due to the offsetting impacts of:
 - an increase in accounts receivable of \$2.9 million to \$9.3 million at June 30, 2019 from \$6.4 million at June 30, 2018 due to timing of billings and collections,
 - an increase in accounts payable and accrued liabilities of \$1.5 million due to purchases and payments to vendors,
 - an increase in the net contract liability of \$0.7 million due to increased revenue for mailbacks and unused medications.
- **Cash Flows used in Investing Activities** - Investing activities include permitting and capital expenditures of \$1.0 million for normal plant and equipment additions.
- **Cash Flows used in Financing Activities** - Financing activities include repayments of debt of \$0.5 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 years ended June 30, 2019, 2018 and 2017.

Credit Facility

On March 29, 2017, the Company entered into a credit agreement with a commercial bank which was subsequently amended on June 29, 2018 to extend the maturity date by two years ("Credit Agreement"). The Credit Agreement provides for a \$14.0

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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 (i) 50% of eligible inventory and (ii) \$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 June 30, 2019 was approximately 5.05%. The Company pays a fee of 0.25% per annum on the unused amount of the credit facility. At June 30, 2019, \$1.5 million was outstanding related to the acquisition portion of the credit facility which matures March 2022. No amounts were outstanding under the working capital portion of the credit facility at June 30, 2019.

The Company has availability under the Credit Agreement of \$12.4 million (\$5.9 million for the working capital and \$6.5 million for the acquisitions) as of June 30, 2019. The Company also had \$0.1 in letters of credit outstanding as of June 30, 2019.

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 3.0 to 1.0 and a minimum debt service coverage ratio of not less than 1.15 to 1.00. The Credit Agreement, which expires on March 29, 2021 for the working capital portion of 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. The leverage ratio covenant may limit the amount available under the Credit Agreement. The Company was in compliance with all the financial covenants under the Credit Agreement as of June 30, 2019.

On August 21, 2019, certain subsidiaries of the Company entered into a Construction and Term Loan Agreement and a Master Equipment Finance Agreement with its existing commercial bank (collectively, the "Loan Agreement"). The Loan Agreement provides for a five-year, \$3.2 million facility, the proceeds of which are to be utilized for expenditures to facilitate future growth at the Company's treatment facility in Carthage, Texas (the "Texas Treatment Facility") as follows: (i) \$2.0 million for planned improvements and (ii) \$1.2 million for equipment. Indebtedness under the Loan Agreement is secured by the Company's real estate investment and equipment at the Texas Treatment Facility. Advances under the Loan Agreement mature five years from the Closing Date ("August 21, 2019") with monthly payments based on a 20-year amortization for the real estate portion and on a 6-year amortization for the equipment portion of the Loan Agreement. Borrowings during the advancing period for the real estate portion and for the entire term of the equipment portion of the Loan Agreement bear interest computed at the One Month ICE LIBOR, plus two-hundred and fifty (250) basis points which would be a rate of 4.79% on August 21, 2019. The Company has entered into a forward rate lock to fix the rate on the real estate portion of the Loan Agreement at the expiration of the advancing period at 4.15%. The Loan Agreement contains affirmative and negative covenants that, among other things, require the Company to maintain a maximum cash flow leverage ratio and a minimum debt service coverage ratio as described therein consistent with the current Credit Agreement. Both the Credit Agreement and Loan Agreement also contain customary events of the Company's default which, if uncured, may terminate the Credit Agreement or Loan Agreement and require, among other things immediate repayment of all indebtedness to the lenders.

The Company utilizes performance bonds to support operations based on certain state requirements. At June 30, 2019, the Company had performance bonds outstanding covering financial assurance up to \$1.0 million.

Management believes that the Company's current cash resources (cash on hand and cash flows from operations) will be sufficient to fund operations for the twelve months ending August 31, 2020 and beyond.

Treatment Facility

The Company's treatment facility in Carthage, Texas is currently permitted to process 100 tons per day. The incinerator at the facility is currently permitted to treat 40 tons per day of municipal solid waste with 10% of this amount identified as applicable to healthcare facility generated medical waste. Approximately seven years ago, the Company supplemented the treatment facility's existing incineration process with an autoclave system and technology capable of treating up to eight tons per day of medical waste at the same facility. Autoclaving is a cost-effective alternative to traditional incineration that treats medical waste with steam at high temperature and pressure to kill pathogens. The autoclave system is utilized alongside the incinerator for day-to-day operations. The autoclave system is not impacted by the EPA amended Clean Air Act (discussed below). We believe that our facility is one of only ten permitted commercial facilities in the United States capable of treating all types of medical waste, used healthcare materials and unused or expired dispensed medications (i.e., both incineration and autoclave capabilities).

The Company also leases 54,228 square feet of space in Pennsylvania, including 40,000 square feet, which the Company utilizes as a fully-permitted facility to house a treatment and distribution facility. The facility is permitted as both a medical waste treatment facility, utilizing an autoclave, and as a transfer station for medical, pharmaceutical and trace chemotherapy waste of up to 82 tons per day.

CRITICAL ACCOUNTING POLICIES

Revenue Recognition: The Company recognizes revenue, net of applicable sales tax, when performance obligations are satisfied through the transfer of control of promised goods or services to the Company's customers. Control transfers once a customer has the ability to direct the use of, and obtain substantially all of the benefits from, the promised goods or services. Outbound shipping and handling activities to customers are considered fulfillment activities with the exception of mailbacks sold as part of the vendor managed inventory ("VMI") program. Shipping and handling are considered separate performance obligations for mailbacks sold under the VMI program. For performance obligations satisfied at a point in time, which applies to all contracts except for route-based pickup services, revenue recognition occurs when there is a transfer of control or completion of service. For performance obligations satisfied over time, which applies to the route-based pickup services, revenue is recognized in the amount to which the Company has a right to invoice pursuant to the right to invoice practical expedient. Provisions for certain rebates, product returns and discounts to customers are estimated at the inception of the contract, updated as needed throughout the contract term, and 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.

Other than the Company's mailbacks and unused medication contract categories, the Company's solutions have a single performance obligation. The Company's mailbacks and unused medication solutions have revenue producing components that are recognized over multiple delivery points (Sharps Recovery System and various other solutions like the MedSafe and TakeAway Medication Recovery Systems referred to as "mailbacks" or "unused medications") and can consist of up to two performance obligations, or units of measure, as follows: (1) the sale of the compliance and container system, and (2) return transportation and treatment service. For mailbacks that are part of the VMI program, there is an additional element, or unit of measure, for outbound transportation. For contracts with multiple performance obligations, an estimated stand-alone selling price is determined for all performance obligations. The consideration is then allocated to the performance obligations based on their relative stand-alone selling price. The selling price for performance obligations for transportation and treatment utilizes third party evidence. The Company estimates the selling price of the compliance and container system based on the product and services provided, including the expected cost plus a margin.

The allocated transaction price for the sale of the compliance and container system is recognized upon delivery to the customer, at which time the customer has control. The allocated transaction price for the return transportation and treatment 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 at which point the destruction or conversion and proof of receipt and treatment are performed on the container. Consideration received and allocated to the transportation and treatment performance obligation is recorded as a contract liability until the services are performed. 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 return transportation and treatment element is recognized at the point of sale. Furthermore, the current and long-term portions of amounts historically referred to deferred revenues (shown as Contract Liability on the condensed consolidated balance sheets) are determined through regression analysis and historical trends.

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The VMI program includes terms that meet the “bill and hold” criteria and as such are recognized when the order is placed, title has transferred, there are no acceptance provisions and amounts are segregated in the Company’s warehouse for the customer.

The contract asset is related to VMI service agreements within the mailbacks contract type category when the revenue recognition exceeds the amount of consideration the Company was entitled to at the point in time of satisfying the performance obligation associated with the sale of the compliance and container system. The contract liability is related to the mailbacks and unused medications contract type categories in which cash consideration exceeds the transaction price allocated to completed performance obligations. Incremental costs to obtain contracts that are deemed to be recoverable under the new accounting guidance, primarily related to the payment of sales incentives for contracts in the route-based pickup service category, are capitalized as contract costs and included in prepaids and other current assets.

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 Company estimates and records the fair value of purchased intangible assets, which primarily consists of customer relationships, trade-names, and non-competes. The excess of the fair value of the purchase price over the fair values of these identifiable assets, both tangible and intangible, 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 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. A valuation allowance has been recorded to reduce our deferred tax assets to an amount that is more likely than not to be realized and is based 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 Tax Cuts and Jobs Act of 2017, enacted on December 22, 2017, contained significant changes to U.S. Tax law, including lowering the U.S. corporate tax rate to 21% and the repeal of the corporate alternative minimum tax for tax years beginning on or after January 1, 2018. Other provisions in the 2017 tax reform such as interest deductibility, changes to executive compensation plans, full expensing provisions for business assets, other new minimum taxes and international taxation modifications are not expected to have material implications to the Company's financial statements. Given the repeal of the corporate alternative minimum tax, existing alternative minimum tax credit carryovers are to be refunded beginning in 2018. Therefore, a deferred tax asset is recorded for \$0.1 million as of June 30, 2019 and no valuation allowance is in place related to this deferred tax asset. The deferred tax asset is offset by deferred tax liabilities related to indefinite lived assets, such as goodwill, in the amount of \$0.3 million, which cannot be used as a source of future taxable income in evaluating the need for a valuation allowance against deferred tax assets for a net deferred tax liability of \$0.2 million. A deferred tax asset of \$0.2 million was recorded as of June 30, 2018 for the alternative minimum tax credit carryforward which was offset by deferred tax liabilities related to indefinite lived assets, such as goodwill, in the amount of \$0.2 million for a net deferred tax asset of \$8,000.

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 years ended June 30, 2019, 2018 and 2017.

RECENTLY ISSUED ACCOUNTING STANDARDS

In February 2016, guidance for leases was issued, which requires balance sheet recognition of lease assets and lease liabilities for all leases. 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 has substantially completed its analysis to evaluate the impact that the new guidance will have on its consolidated financial statements and related disclosures. The Company intends to adopt the standard using the modified

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retrospective approach and recognize a cumulative effect adjustment to assets and liabilities for existing leases as of July 1, 2019. As a result of our analysis, the Company determined the following:

- Approximately 50 leases have been identified, substantially all of which are expected to be classified as operating leases. For these real estate, equipment and vehicle operating leases, we expect to recognize new right of use (“ROU”) assets and lease liabilities on our balance sheet.
- The Company intends to apply the package of practical expedients to not reassess prior conclusions related to (i) contracts containing leases, (ii) lease classification and (iii) initial direct costs. The Company will not adopt the practical expediency surrounding the use of hindsight to determine lease term, termination and purchase options, or in assessing impairment of ROU assets.
- The Company also intends to make the accounting policy election for short-term leases, or leases with terms of twelve months or less, therefore the lease payments will be recorded as an expense on a straight-line basis over the lease term with no ROU asset or lease liability recorded.
- The Company has elected to exclude non-lease components of a lease arrangement from the ROU asset and liability for certain asset classes such as real estate and field equipment leases but will include non-lease components of a lease arrangement in the ROU asset and liability for office equipment and automobiles.
- The Company has engaged a third-party service provider to assist in its implementation of the new lease standard, including implementation of the software package offered by the service provider to manage, account for and develop disclosures for leases under the new guidance.

On adoption, we currently expect to recognize additional operating liabilities ranging from \$4.0 million to \$5.0 million, with corresponding ROU assets of the same amount based on the present value of the remaining minimum rental payments under current leasing standards for existing operating leases.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

The consolidated financial statements of the Company and the notes thereto, and the related reports of the Company’s independent registered public accounting firms thereon are referenced as pages F-1 to F-21 and are included herein by reference.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE.

None.

ITEM 9A. 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 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 June 30, 2019 pursuant to Rules 13a-15(b) and 15d-15(b) of the Exchange Act. Based on this Evaluation, the CEO and CFO concluded that our Disclosure Controls were effective as of June 30, 2019.

Changes in Internal Controls

During the quarter ended June 30, 2019, there were no changes in the Company’s internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) of the Exchange Act) that have materially affected, or are reasonably likely to materially affect, the Company’s internal control over financial reporting.

Management’s Report on Internal Control over Financial Reporting

The Company’s management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Exchange Act Rules 13a-15(f) and 15d-15(f). The Company’s internal control over financial reporting is a process designed to provide reasonable assurance to our management and board of directors regarding the reliability of financial

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reporting and the preparation of the financial statements for external purposes in accordance with accounting principles generally accepted in the United States.

The internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the Company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with accounting principles generally accepted in the United States, and that receipts and expenditures of the Company are being made only in accordance with authorizations of management and directors of the Company and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the Company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal controls over financial reporting may not prevent or detect misstatements. All internal control systems, no matter how well designed, have inherent limitations, including the possibility of human error and the circumvention of overriding controls. Accordingly, even effective internal control over financial reporting can provide only reasonable assurance with respect to financial statement preparation. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions or that the degree of compliance with the policies or procedures may deteriorate.

The Company's management assessed the effectiveness of the Company's internal control over financial reporting as of June 30, 2019. In making this assessment, it used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission in *Internal Control-Integrated Framework (2013)*. Based on the assessment, the Company's management concluded that, as of June 30, 2019, the Company's internal control over financial reporting was effective based on those criteria.

ITEM 9B. OTHER INFORMATION

None.

PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

The information required by this Item is incorporated herein by reference to the Registrant's definitive Proxy Statement to be filed pursuant to Regulation 14A with the SEC relating to its Annual Meeting of Stockholders to be held on November 21, 2019.

ITEM 11. EXECUTIVE COMPENSATION

The information required by this Item is incorporated herein by reference to the Registrant's definitive Proxy Statement to be filed pursuant to Regulation 14A with the SEC, relating to its Annual Meeting of Stockholders to be held on November 21, 2019.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

The information required by this Item is incorporated herein by reference to the Registrant's definitive Proxy Statement to be filed pursuant to Regulation 14A with the SEC, relating to its Annual Meeting of Stockholders to be held on November 21, 2019.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE.

The information required by this Item is incorporated herein by reference to the Registrant's definitive Proxy Statement to be filed pursuant to Regulation 14A with the SEC, relating to its Annual Meeting of Stockholders to be held on November 21, 2019.

ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES.

The information required by this Item is incorporated herein by reference to the Registrant's definitive Proxy Statement to be filed pursuant to Regulation 14A with the SEC relating to its Annual Meeting of Stockholders to be held on November 21, 2019.

PART IV

ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

Exhibit Number	Description of Exhibit
<u>2.1</u>	<u>Agreement for Purchase and Sale of LLC Units dated July 1, 2016 by and between Sharps Compliance, Inc. and Citiwaste, LLC (incorporated by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K, filed on July 6, 2016).</u>
<u>3.1</u>	<u>Amended and Restated Certificate of Incorporation of U.S. Medical Systems, Inc. (incorporated by reference from Exhibit 3.5 to the Registrant's Transition Report on Form 10KSB40 (File No. 000-22390; Film No. 98716804), filed on September 29, 1998).</u>
<u>3.2</u>	<u>Certificate of Elimination of the Series A 10% Voting Convertible Preferred Stock of Sharps Compliance Corp. (incorporated by reference from Exhibit 3.6 to Form 10KSB40 (File No. 000-22390; Film No. 98716804), filed September 29, 1998).</u>
<u>3.3</u>	<u>Certificate of Amendment to Amended and Restated Certificate of Incorporation (filed herewith).</u>
<u>3.4</u>	<u>Amended and Restated Bylaws of Sharps Compliance Corp dated May 23, 1994 (incorporated by reference to Exhibit 3.2 to Form 8-K, filed November 19, 2010).</u>
<u>4.1</u>	<u>Specimen Stock Certificate (incorporated by reference from Exhibit 4.4 to Form 10KSB40 (File No. 000-22390; Film No. 98716804), filed September 29, 1998).</u>
<u>10.1</u>	<u>Form of Restricted Stock Award Agreement dated June 9, 2008 (incorporated by reference to Exhibit 10.2 to the Registrant's Current Report on Form 8-K (File No. 000-22390; Film No. 08888237), filed June 9, 2008).*</u>
<u>10.2</u>	<u>Sharps Compliance Corp. 2010 Stock Plan dated November 22, 2010 (incorporated by reference to Exhibit A of the Registrant's Proxy Statement on Schedule 14A, filed October 12, 2010).*</u>
<u>10.3</u>	<u>Lease Agreement dated as of July 13, 2006, between Sharps Compliance, Inc. and Warehouse Associates Corporate Centre Kirby II, Ltd. (incorporated by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K (File No. 000-22390; Film No. 06962703), filed July 14, 2006).</u>
<u>10.4</u>	<u>Lease Termination Agreement dated as of July 13, 2006, between Sharps Compliance, Inc., Warehouse Associates Corporate Centre Kirby, Ltd. and Warehouse Associates Corporate Centre Kirby II, Ltd. (incorporated by reference to Exhibit 10.2 to the Registrant's Current Report on Form 8-K (File No. 000-22390; Film No. 06962703), filed July 14, 2006).</u>
<u>10.5</u>	<u>Second Amendment to Lease Agreement between Sharps Compliance, Inc. and Warehouse Associates Corporate Centre Kirby II, Ltd. (incorporated by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K (File No. 001-34269; Film No. 10667451), filed March 9, 2010).</u>
<u>10.6</u>	<u>Third Amendment to Lease Agreement dated February 6, 2015, between Sharps Compliance, Inc. and Warehouse Associates Corporate Centre Kirby II, Ltd. (incorporated by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K, filed on February 17, 2015).</u>
<u>10.7</u>	<u>Fourth Amendment to Lease Agreement dated August 5, 2015, between Sharps Compliance Inc. and Warehouse Associates Corporate Centre Kirby IV, Ltd. (incorporated by reference to Exhibit 10.29 to the Registrant's Annual Report on Form 10-K, filed on August 26, 2015).</u>
<u>10.8</u>	<u>Lease Agreement dated as of January 30, 2009, between Sharps Compliance, Inc. and Park 288 Industrial, LLC (incorporated by reference to Exhibit 10.2 to the Registrant's Current Report on Form 8-K (File No. 000-22390; Film No. 09565104), filed February 3, 2009).</u>
<u>10.9</u>	<u>Amended Lease Agreement dated as of May 27, 2009, between Sharps Compliance, Inc. and Park 288 Industrial, LLC (incorporated by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K (File No. 001-24269; Film No. 09866215), filed June 2, 2009).</u>
<u>10.10</u>	<u>Fourth Amendment to Lease Agreement dated June 24, 2014, between Sharps Compliance, Inc. of Texas and Park 288 Industrial, L.L.C. (incorporated by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K, filed on June 24, 2014).</u>
<u>10.11</u>	<u>Lease Agreement dated as of October 7, 2015, between Sharps Compliance, Inc. and Alpha Bio-Med Services LLC (incorporated by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K, filed on October 9, 2015).</u>
<u>10.12</u>	<u>Loan Agreement dated March 29, 2017, by and between Sharps Compliance, Inc. of Texas and a commercial bank (incorporated by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K, filed on April 3, 2017).</u>
<u>10.13</u>	<u>Executive Employment Agreement Amendment by and between Sharps Compliance Corp. and David P. Tusa dated June 14, 2010 (incorporated by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K (File No. 001-34269; Film No. 10893750), filed June 14, 2010). *</u>

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10.14	Executive Employment Agreement Amendment between Sharps Compliance Corp. and David P. Tusa dated March 6, 2012 (incorporated by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K, filed March 7, 2012).*
10.15	Executive Employment Agreement Amendment by and between Sharps Compliance Corp. and David P. Tusa dated September 10, 2015 (incorporated by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K, filed September 11, 2015).*
10.16	Employment Agreement by and between Sharps Compliance Corp. and Diana P. Diaz dated June 14, 2010 (incorporated by reference to Exhibit 10.3 to the Registrant's Current Report on Form 8-K(File No. 001-34269; Film No. 10893750), filed June 14, 2010).*
10.17	Executive Employment Agreement Amendment between Sharps Compliance Corp. and Diana P. Diaz dated March 6, 2012 (incorporated by reference to Exhibit 10.3 to the Registrant's Current Report on Form 8-K, filed March 7, 2012).*
10.18	Executive Employment Agreement Amendment by and between Sharps Compliance Corp. and Diana P. Diaz dated September 10, 2015 (incorporated by reference to Exhibit 10.2 to the Registrant's Current Report on Form 8-K, filed September 11, 2015).*
10.19	Employment Agreement by and between Sharps Compliance, Inc. and Gregory C. Davis dated May 18, 2011 (incorporated by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K (File No. 001-34269; Film No. 11866772), filed May 24, 2011).*
10.20	Lease between SIT Realty LLC and Sharps Compliance, Inc., dated as of September 28, 2016 (incorporated by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K filed October 3, 2016).
10.21	First Modification to Loan Agreement dated June 29, 2018, by and between Sharps Compliance Inc. of Texas and a commercial bank (incorporated by reference to Exhibit 10.21 to the Registrant's Annual Report Form 10-K, filed on August 22, 2018).
10.22	Fifth Amendment to Lease Agreement dated August 21, 2019, between Sharps Compliance, Inc. and IND HOUTEX TTP Legacy, LLC (incorporated by reference to Exhibit 10.3 to the Registrant's Current Report on Form 8-K, filed on August 23, 2019).
10.23	Construction and Term Loan Agreement dated August 21, 2019, between Sharps Environmental Services, Inc. and a commercial bank (incorporated by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K, filed on August 23, 2019).
10.24	Master Equipment Finance Agreement dated August 21, 2019, between Sharps Environmental Services, Inc. and a commercial bank (incorporated by reference to Exhibit 10.2 to the Registrant's Current Report on Form 8-K, filed on August 23, 2019).
21.1	Subsidiaries of Sharps Compliance Corp. (filed herewith).
23.1	Consent of BDO USA, LLP (filed herewith).
31.1	Certification of Chief Executive Officer in accordance with Section 302 of the Sarbanes-Oxley Act (filed herewith).
31.2	Certification of Chief Financial Officer in accordance with Section 302 of the Sarbanes-Oxley Act (filed herewith).
32.1+	Certification of Chief Executive Officer in accordance with Section 906 of the Sarbanes-Oxley Act.
32.2+	Certification of Chief Financial Officer in accordance with Section 906 of the Sarbanes-Oxley Act.
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)

* This exhibit is a management contract or a compensatory plan or arrangement.

+ This certification is deemed not filed for purposes of Section 18 of the Securities Exchange Act of 1934, as amended ("Exchange Act"), or otherwise subject to the liability of that section, nor shall it be deemed incorporated by reference into any filing under the Securities Act of 1933, as amended, or the Exchange Act.

ITEM 16. FORM 10-K SUMMARY

None.

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SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

SHARPS COMPLIANCE CORP.

Dated: August 28, 2019

By: /s/ DAVID P. TUSA

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

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

Dated: August 28, 2019

By: /s/ DAVID P. TUSA

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

Dated: August 28, 2019

By: /s/ DIANA P. DIAZ

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

Dated: August 28, 2019

By: /s/ F. GARDNER PARKER

F. Gardner Parker
Director

Dated: August 28, 2019

By: /s/ JOHN W. DALTON

John W. Dalton
Director

Dated: August 28, 2019

By: /s/ PARRIS H. HOLMES

Parris H. Holmes
Director

Dated: August 28, 2019

By: /s/ SHARON R. GABRIELSON

Sharon R. Gabrielson
Chair of the Board of Directors

**SHARPS COMPLIANCE CORP. AND SUBSIDIARIES
INDEX TO CONSOLIDATED FINANCIAL STATEMENTS**

CONSOLIDATED FINANCIAL STATEMENTS	<u>PAGE</u>
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Report of Independent Registered Public Accounting Firm

Shareholders and Board of Directors
Sharps Compliance Corp.
Houston, Texas

Opinion on the Consolidated Financial Statements

We have audited the accompanying consolidated balance sheets of Sharps Compliance Corp. (the "Company") as of June 30, 2019 and 2018, the related consolidated statements of operations, stockholders' equity, and cash flows for each of the three years in the period ended June 30, 2019, and the related notes (collectively referred to as the "consolidated financial statements"). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company at June 30, 2019 and 2018, and the results of its operations and its cash flows for each of the three years in the period ended June 30, 2019, in conformity with accounting principles generally accepted in the United States of America.

Basis for Opinion

These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's consolidated financial statements based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) ("PCAOB") and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. As part of our audits we are required to obtain an understanding of internal control over financial reporting but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion.

Our audits included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that our audits provide a reasonable basis for our opinion.

/s/ BDO USA, LLP

We have served as the Company's auditor since 2014.

Houston, Texas
August 28, 2019

SHARPS COMPLIANCE CORP. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(in thousands, except share and par value amounts)

	June 30,	
	2019	2018
ASSETS		
CURRENT ASSETS		
Cash	\$ 4,512	\$ 5,155
Accounts receivable, net	9,289	6,370
Inventory	3,770	3,986
Contract asset	260	—
Prepaid and other current assets	922	739
TOTAL CURRENT ASSETS	18,753	16,250
PROPERTY, PLANT AND EQUIPMENT, net	5,867	6,572
INVENTORY, net of current portion	1,046	—
OTHER ASSETS	443	149
GOODWILL	6,735	6,735
INTANGIBLE ASSETS, net	3,196	3,525
TOTAL ASSETS	\$ 36,040	\$ 33,231
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES		
Accounts payable	\$ 2,946	\$ 1,500
Accrued liabilities	2,213	2,061
Current maturities of long-term debt	517	537
Contract liability	2,502	1,894
TOTAL CURRENT LIABILITIES	8,178	5,992
CONTRACT LIABILITY, net of current portion	503	470
OTHER LIABILITIES	42	130
DEFERRED TAX LIABILITY	243	—
LONG-TERM DEBT, net of current portion	948	1,465
TOTAL LIABILITIES	9,914	8,057
COMMITMENTS AND CONTINGENCIES (Note 8)		
STOCKHOLDERS' EQUITY		
Common stock, \$0.01 par value per share; 40,000,000 and 20,000,000 shares authorized, respectively; 16,433,128 and 16,377,636 shares issued, respectively, and 16,137,513 and 16,082,021 shares outstanding, respectively	165	164
Treasury stock, at cost, 295,615 shares repurchased	(1,554)	(1,554)
Additional paid-in capital	29,020	28,621
Accumulated deficit	(1,505)	(2,057)
TOTAL STOCKHOLDERS' EQUITY	26,126	25,174
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$ 36,040	\$ 33,231

See accompanying notes to consolidated financial statements

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

	Year Ended June 30,		
	2019	2018	2017
REVENUES	\$ 44,312	\$ 40,141	\$ 38,188
Cost of revenues	31,042	28,739	26,351
GROSS PROFIT	13,270	11,402	11,837
Selling, general and administrative	12,003	11,168	12,223
Depreciation and amortization	820	811	801
OPERATING INCOME (LOSS)	447	(577)	(1,187)
OTHER INCOME (EXPENSE)			
Interest income	24	20	13
Interest expense	(87)	(94)	(115)
TOTAL OTHER EXPENSE	(63)	(74)	(102)
INCOME (LOSS) BEFORE INCOME TAXES	384	(651)	(1,289)
INCOME TAX EXPENSE (BENEFIT)			
Current	(81)	29	4
Deferred	251	(8)	—
TOTAL INCOME TAX EXPENSE	170	21	4
NET INCOME (LOSS)	\$ 214	\$ (672)	\$ (1,293)
NET INCOME (LOSS) PER COMMON SHARE			
Basic and Diluted	\$ 0.01	\$ (0.04)	\$ (0.08)
WEIGHTED AVERAGE SHARES USED IN COMPUTING NET INCOME (LOSS) PER COMMON SHARE:			
Basic	16,116	16,055	15,949
Diluted	16,123	16,055	15,949

See accompanying notes to consolidated financial statements

SHARPS COMPLIANCE CORP. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
(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	—	—	—	—	476	—	476
Issuance of common shares for lease	20,617	—	—	—	83	—	83
Issuance of restricted stock	52,992	1	—	—	(1)	—	—
Net loss	—	—	—	—	—	(672)	(672)
Balances, June 30, 2018	16,377,636	164	(295,615)	(1,554)	28,621	(2,057)	25,174
Stock-based compensation	—	—	—	—	400	—	400
Issuance of restricted stock	55,492	1	—	—	(1)	—	—
Cumulative effect of new accounting standard (Note 2)	—	—	—	—	—	338	338
Net income	—	—	—	—	—	214	214
Balances, June 30, 2019	16,433,128	\$ 165	(295,615)	\$ (1,554)	\$ 29,020	\$ (1,505)	\$ 26,126

See accompanying notes to consolidated financial statements

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

	Year Ended June 30,		
	2019	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES			
Net income (loss)	\$ 214	\$ (672)	\$ (1,293)
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:			
Depreciation and amortization	1,663	1,561	1,485
Bad debt expense	81	62	20
Non-cash lease expense	46	37	—
Inventory write-offs	55	—	—
Loss on disposal of property, plant and equipment	21	13	10
Stock-based compensation expense	400	476	496
Deferred tax expense (benefit)	251	(8)	—
Changes in operating assets and liabilities, net of effects of business acquisitions:			
Accounts receivable	(3,000)	1,121	(1,264)
Inventory	(492)	305	(61)
Prepaid and other assets	(531)	(20)	(35)
Accounts payable and accrued liabilities	1,498	29	125
Contract asset and contract liability	719	(535)	(61)
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	925	2,369	(578)
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of property, plant and equipment	(749)	(1,212)	(2,486)
Cash proceeds from sale of property, plant and equipment	—	10	23
Additions to intangible assets	(282)	(86)	(163)
Payments for business acquisition, net of cash acquired	—	—	(7,314)
NET CASH USED IN INVESTING ACTIVITIES	(1,031)	(1,288)	(9,940)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from exercise of stock options	—	—	342
Repayments of long-term debt	(537)	(601)	(3,184)
Proceeds from long-term debt	—	—	5,600
NET CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES	(537)	(601)	2,758
NET INCREASE (DECREASE) IN CASH	(643)	480	(7,760)
CASH, beginning of year	5,155	4,675	12,435
CASH, end of year	\$ 4,512	\$ 5,155	\$ 4,675
SUPPLEMENTAL CASH FLOW DISCLOSURES:			
Income taxes paid	\$ 37	\$ 3	\$ 9
Interest paid on long-term debt	\$ 89	\$ 87	\$ 107
NON-CASH INVESTING ACTIVITIES:			
Issuance of common stock for acquisition	\$ —	\$ —	\$ 1,899
Issuance of common stock for lease	\$ —	\$ 83	\$ —
Transfer of equipment to inventory	\$ 393	\$ 193	\$ 118
Property, plant and equipment financed through accounts payable	\$ 12	\$ (13)	\$ 28

See accompanying notes to consolidated financial statements

SHARPS COMPLIANCE CORP. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2019, 2018 and 2017

NOTE 1 - ORGANIZATION AND BACKGROUND

Organization: The accompanying 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 medial, 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™, ComplianceTRACSM, 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 route-based pickup services in a twenty-four (24) state region of the South, Southeast and Northeast portions of the United States.

Concentration of Customers and Service Providers: There is an inherent concentration of credit risk associated with accounts receivable arising from sales to major customers. For the fiscal year ended June 30, 2019, two customers represented approximately 27% of revenues. One of these customers also represented approximately 19%, or \$1.7 million, of the total accounts receivable balance as of June 30, 2019. For the fiscal year ended June 30, 2018, one customer represented approximately 17% of revenues and 13%, or \$0.8 million, of the total accounts receivable balance as of June 30, 2018. For the fiscal year ended June 30, 2017, one customer represented approximately 17% of revenues. In the event a major customer is lost, the Company may be adversely affected by its dependence on a limited number of high volume customers.

Currently, the majority of Sharps transportation is sourced with the United States Postal Service (“USPS”), which consists of delivering the Sharps Recovery System from the end user to the Company’s facilities. The Company also has an arrangement with United Parcel Service Inc. (“UPS”) whereby UPS transports certain of the Company’s products from the end user to the Company’s facilities. Sharps maintains relationships with multiple raw materials suppliers and vendors in order to meet customer demands and assure availability of our products and solutions. With respect to the Sharps Recovery System solutions, the Company owns proprietary molds and dies and utilizes several contract manufacturers for the production of the primary raw materials. Sharps believes that alternative suitable contract manufacturers are readily available to meet the production specifications of our products and solutions. The Company utilizes national suppliers for the majority of the raw materials used in our other products and solutions and international suppliers for Pitch-It IV Poles.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Revenue Recognition: In May 2014 and as subsequently amended, guidance for revenue recognition was issued which supersedes the revenue recognition requirements previously 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. The Company adopted the standard on July 1, 2018 using the modified retrospective approach, which involves retrospectively adopting the standard by recording a cumulative effect adjustment for all uncompleted contracts at July 1, 2018. This cumulative effect was \$0.3 million which decreased accumulated deficit (and increased stockholders' equity) and increased contract assets by \$0.3 million. The impact that the new accounting guidance had on its consolidated financial statements and related disclosures included the following:

- The transportation and treatment performance obligations related to the mail back and unused medication solutions, which were historically accounted for as separate performance obligations, will be accounted for as a single performance obligation under the new revenue recognition guidance. The impact of this was not material.
- Certain costs associated with obtaining long-term contracts with customers will be capitalized and amortized over the expected economic life of the contract in future periods. The impact of this was not material.
- The new guidance changed the timing of revenue recognition on certain of the Company’s vendor managed inventory contracts. This constituted a material portion of the cumulative effect noted above as under the new guidance, revenue recognition is no longer limited to the amounts that may be billed to the customer at the point in time in which performance obligations are satisfied.

SHARPS COMPLIANCE CORP. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2019, 2018 and 2017

- The Company made a number of practical expedient elections related to the new accounting guidance, including: (i) right to invoice practical expedient that allows revenue for route-based pickup services to be recognized in the amount to which the Company has a right to invoice over time; (ii) sales and use taxes have been excluded from the transaction price; (iii) for incremental costs to obtain a contract that would be recognized over one year or less, the Company expensed those costs as incurred; and (iv) at the implementation date, new guidance was applied only to contracts that were not completed as of the date of initial application.

The components of revenues by solution which reflect a disaggregation of revenue by contract type are as follows (dollar amounts in thousands):

	Year Ended June 30,					
	2019	% Total	2018⁽²⁾	% Total	2017⁽²⁾	% Total
REVENUES BY SOLUTION:						
Mailbacks	\$ 24,501	55.2%	\$ 22,272	55.5%	\$ 24,625	64.5%
Route-based pickup services	9,029	20.4%	7,492	18.7%	6,348	16.6%
Unused medications	6,936	15.7%	5,907	14.7%	3,377	8.8%
Third party treatment services	290	0.7%	891	2.2%	413	1.1%
Other ⁽¹⁾	3,556	8.0%	3,579	8.9%	3,425	9.0%
Total revenues	<u>\$ 44,312</u>	100.0%	<u>\$ 40,141</u>	100.0%	<u>\$ 38,188</u>	100.0%

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

(2) Certain prior year amounts have been reclassified to conform to current year presentation.

The Company recognizes revenue, net of applicable sales tax, when performance obligations are satisfied through the transfer of control of promised goods or services to the Company's customers. Control transfers once a customer has the ability to direct the use of, and obtain substantially all of the benefits from, the promised goods or services. Outbound shipping and handling activities to customers are considered fulfillment activities with the exception of mailbacks sold as part of the vendor managed inventory ("VMI") program. Shipping and handling are considered separate performance obligations for mailbacks sold under the VMI program. For performance obligations satisfied at a point in time, which applies to all contracts except for route-based pickup services, revenue recognition occurs when there is a transfer of control or completion of service. For performance obligations satisfied over time, which applies to the route-based pickup services, revenue is recognized in the amount to which the Company has a right to invoice pursuant to the right to invoice practical expedient. Provisions for certain rebates, product returns and discounts to customers are estimated at the inception of the contract, updated as needed throughout the contract term, and 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.

Other than the Company's mailbacks and unused medication solutions, the Company's solutions have a single performance obligation. The Company's mailbacks and unused medication solutions have revenue producing components that are recognized over multiple delivery points (Sharps Recovery System and various other solutions like the MedSafe and TakeAway Medication Recovery Systems referred to as "mailbacks" or "unused medications") and can consist of up to two performance obligations, or units of measure, as follows: (1) the sale of the compliance and container system, and (2) return transportation and treatment service. For mailbacks that are part of the VMI program, there is an additional element, or unit of measure, for outbound transportation. For contracts with multiple performance obligations, an estimated stand-alone selling price is determined for all performance obligations. The consideration is then allocated to the performance obligations based on their relative stand-alone selling price. The selling price for performance obligations for transportation and treatment utilizes third party evidence. The Company estimates the selling price of the compliance and container system based on the product and services provided, including the expected cost plus a margin.

The allocated transaction price for the sale of the compliance and container system is recognized upon delivery to the customer, at which time the customer has control. The allocated transaction price for the return transportation and treatment revenue is

SHARPS COMPLIANCE CORP. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2019, 2018 and 2017

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 at which point the destruction or conversion and proof of receipt and treatment are performed on the container. Consideration received and allocated to the transportation and treatment performance obligation is recorded as a contract liability until the services are performed. 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 return transportation and treatment element is recognized at the point of sale. Furthermore, the current and long-term portions of amounts historically referred to deferred revenues (shown as Contract Liability on the condensed consolidated balance sheets) are determined through regression analysis and historical trends.

The VMI program includes terms that meet the "bill and hold" criteria and as such are recognized when the order is placed, title has transferred, there are no acceptance provisions and amounts are segregated in the Company's warehouse for the customer. For the fiscal years ended June 30, 2019 and 2018, the Company recorded billings from inventory builds that are held in vendor managed inventory under these service agreements of \$2.7 million and \$2.4 million, respectively. As of June 30, 2019 and 2018, \$1.9 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.

The impact of adopting the new accounting guidance on the Company's consolidated balance sheet as of June 30, 2019 was as follows (in thousands):

	June 30, 2019		
	As Reported	Adjustments	Balance Without Adoption
Current contract asset	\$ 260	\$ (260)	\$ —
Prepaid and other current assets	922	(49)	873
Total current assets	18,753	(309)	18,444
Total assets	36,040	(309)	35,731
Current contract liability ⁽¹⁾	2,502	(27)	2,475
Total current liabilities	8,178	(27)	8,151
Contract liability, net of current portion ⁽¹⁾	503	—	503
Total liabilities	9,914	(27)	9,887
Accumulated deficit	(1,505)	(282)	(1,787)
Total stockholders' equity	26,126	(282)	25,844
Total liabilities and stockholders' equity	\$ 36,040	\$ (309)	\$ 35,731

(1): Prior period contract liabilities were referred to as deferred revenue.

SHARPS COMPLIANCE CORP. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2019, 2018 and 2017

The impact of adopting the new accounting guidance on the Company's consolidated statement of operations for the year ended June 30, 2019 was as follows (in thousands):

	Year Ended June 30, 2019		
	As Reported	Adjustments	Balance Without Adoption
Revenues	\$ 44,312	\$ 267	\$ 44,579
Cost of revenues	31,042	162	31,204
Gross profits	13,270	105	13,375
Selling, general and administrative	12,003	49	12,052
Operating income	447	56	503
Net income	\$ 214	\$ 56	\$ 270

The estimated timing of recognition of amounts included at June 30, 2019 are as follows: for the twelve months ending June 30, 2020 - contract asset of \$0.3 million and contract liability of \$2.5 million and for the twelve months ending June 30, 2021 - contract liability of \$0.5 million. The contract asset is related to VMI service agreements within the mailbacks contract type category when the revenue recognition exceeds the amount of consideration the Company was entitled to at the point in time of satisfying the performance obligation associated with the sale of the compliance and container system. The contract liability is related to the mailbacks and unused medications contract type categories in which cash consideration exceeds the transaction price allocated to completed performance obligations. Incremental costs to obtain contracts that are deemed to be recoverable under the new accounting guidance, primarily related to the payment of sales incentives for contracts in the route-based pickup service category, are capitalized as contract costs and included in prepaids and other current assets in the amount of \$59 thousand for the year ended June 30, 2019. The amortization of capitalized sales incentives, which is included in selling, general and administrative expense, totaled \$10 thousand for the year ended June 30, 2019.

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 Company estimates and records the fair value of purchased intangible assets, which primarily consists of customer relationships, trade-names, and non-competes. The excess of the fair value of the purchase price over the fair values of these identifiable assets, both tangible and intangible, 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. A 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.

The Company is subject to income taxes in the United States and in numerous state tax jurisdictions. Significant judgment is required in evaluating the Company's tax positions and determining its provision for income taxes. The Company accounts for uncertain tax positions in accordance with FASB ASC 740, which prescribes the minimum recognition threshold a tax position taken or expected to be taken in a tax return is required to meet before being recognized in the financial statements. The Company has not recognized any material uncertain tax positions for the years ended June 30, 2019, 2018 and 2017. Tax return filings which are subject to review by federal and state tax authorities by jurisdiction are as follows:

- United States – fiscal years ended June 30, 2016 and after
- State of Texas – fiscal years ended June 30, 2014 and after
- State of Georgia – fiscal years ended June 30, 2016 and after
- State of Pennsylvania – fiscal years ended June 30, 2016 and after
- Other States – fiscal years ended June 30, 2015 and after

SHARPS COMPLIANCE CORP. AND SUBSIDIARIES
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None of the Company's federal or state tax returns are currently under examination. The Company records income tax related interest and penalties, if applicable, as a component of the provision for income tax expense. However, there were no such amounts recognized in the consolidated statements of operations in the years ended June 30, 2019, 2018 and 2017.

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. See rollforward of allowance activity below:

Allowance for Doubtful Accounts	Balance Beginning of Year	Charges to Expense	Write-offs /Recoveries	Balance End of Year
2019	\$ 102	\$ 81	\$ (51)	\$ 132
2018	\$ 78	\$ 62	\$ (38)	\$ 102
2017	\$ 63	\$ 20	\$ (5)	\$ 78

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). Total stock-based compensation expense for the fiscal years ended June 30, 2019, 2018 and 2017 are as follows:

	Year Ended June 30,		
	2019	2018	2017
Stock-based compensation expense included in:			
Cost of revenue	\$ 9	\$ 43	\$ 41
Selling, general and administrative	391	433	455
Total	\$ 400	\$ 476	\$ 496

The Company estimates the fair value of restricted stock awards based on the closing price of the Company's common stock on the date of the grant. The Company estimates the fair value of stock options using the Black-Scholes valuation model. Key input assumptions used to estimate the fair value of stock options include the exercise price of the award, the expected option term, the expected volatility of the Company's stock over the option's expected term, the risk free interest rate over the option's expected term and the Company's expected annual dividend yield. The risk free interest rate is derived using the U.S. Treasury yield curve in effect at date of grant. Volatility, expected life and dividend yield are based on historical experience and activity.

The fair value of the Company's stock options was estimated on the grant date using the Black-Scholes option-pricing model with the following assumptions:

	Year Ended June 30,		
	2019	2018	2017
Weighted average risk-free interest rate	2.6%	1.2%	1.1%
Weighted average expected volatility	44%	48%	47%
Weighted average expected life (in years)	3.08	3.03	5.15
Dividend yield	—	—	—

The Company considers an estimated forfeiture rate for stock options based on historical experience and the anticipated forfeiture rates during the future contract life.

SHARPS COMPLIANCE CORP. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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Cash: The Company maintains funds in bank accounts that, at times, may exceed the limit insured by the Federal Deposit Insurance Corporation (“FDIC”). The risk of loss attributable to these uninsured balances is mitigated by depositing funds only in high credit quality financial institutions. The Company has not experienced any losses in such accounts.

Inventory: Inventory consists primarily of raw materials and finished goods held for sale and are stated at the lower of cost or net realizable value using the average cost method. The Company periodically reviews the value and classification of items in inventory and provides write-downs or write-offs of inventory based on its assessment of physical deterioration, obsolescence, changes in price levels and other causes. At June 30, 2019, total inventory was \$4.8 million of which \$3.5 million was finished goods, and \$1.3 million was raw materials. At June 30, 2018, total inventory was \$4.0 million of which \$2.7 million was finished goods, and \$1.3 million was raw materials. The current portion of inventory was \$3.8 million which includes amounts which the Company expects to sell in the next twelve month period based on historical sales. Total write-offs for the fiscal year ended June 30, 2019 were \$0.1 million and were included in cost of goods sold. There were no write-offs of inventory for the fiscal years ended June 30, 2018 and 2017.

Property, Plant and Equipment: Property, plant and equipment, including third party software and implementation costs, is stated at cost less accumulated depreciation. Depreciation is computed using the straight-line method based on the estimated useful lives of the assets. Additions, improvements and renewals significantly adding to the asset value or extending the life of the asset are capitalized. Ordinary maintenance and repairs, which do not extend the physical or economic life of the property or equipment, are charged to expense as incurred. When assets are retired or otherwise disposed of, the cost and related accumulated depreciation are removed from the accounts, and any resulting gain or loss is reflected in the results of operations for the period.

Computer and software development costs, which include costs of computer software developed or obtained for internal use, all programming, implementation and costs incurred with developing internal-use software, are capitalized during the development project stage. External direct costs of materials and services consumed in developing or obtaining internal-use computer software are capitalized.

The Company expenses costs associated with developing or obtaining internal-use software during the preliminary project stage. Training and maintenance costs associated with system changes or internal-use software are expensed as incurred. Additionally, the costs of data cleansing, reconciliation, balancing of old data to the new system, creation of new/additional data and data conversion costs are expensed as incurred.

Impairment of Long-lived Assets: The Company evaluates the recoverability of property, plant and equipment and intangible or other assets if facts and circumstances indicate that any of those assets might be impaired. If an evaluation is required, the estimated future undiscounted cash flows associated with the asset are compared to the asset’s carrying amount to determine if a write-down to fair value is necessary. No impairment loss was recognized during the years ended June 30, 2019, 2018 and 2017.

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 years ended June 30, 2019, 2018 and 2017.

Intangible Assets: Intangible assets consist of (i) acquired customer relationships, (ii) permit costs related to the Company’s treatment facilities and transfer stations, (iii) twelve patents and (iv) defense costs related to certain existing patents.

Accrued Liabilities: The components of Accrued Liabilities on the balance sheet as of June 30, 2019 and 2018 are as follows:

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	As of June 30,	
	2019	2018
Accrued payroll	\$ 376	\$ 389
Customer-related payables	341	334
Accrued rebates	493	327
Other	1,003	1,011
Total	\$ 2,213	\$ 2,061

Shipping and Handling Fees and Costs: The Company records amounts billed to customers for shipping and handling as revenue. Costs incurred by the Company for shipping and handling have been classified as cost of revenues.

Advertising Costs: Advertising costs are charged to expenses when incurred and totaled \$0.9 million, \$0.7 million and \$0.8 million for the fiscal years ended June 30, 2019, 2018 and 2017, respectively.

Research and Development Costs: Research and development costs are charged to expense when incurred. Research activities represent an important part of the Company's business and include both internal labor costs and payments to third parties related to the processes of discovering, testing and developing new products, improving existing products, as well as demonstrating product efficacy and regulatory compliance prior to launch of new products and services. Research and development expenses paid to third parties totaled less than \$0.1 million for each of the fiscal years ended June 30, 2019, 2018 and 2017.

Employee Benefit Plans: In addition to group health-related benefits, the Company maintains a 401(k) employee savings plan available to all full-time employees. The Company matches a portion of employee contributions with cash (25% of employee contribution up to 6%). Company contributions to the 401(k) plan were less than \$0.1 million in each of the fiscal years ended June 30, 2019, 2018 and 2017, respectively and are included in selling, general and administrative expenses. For purposes of the group health benefit plan and beginning February 1, 2016, the Company self-insures an amount equal to the excess of the employees' deductible (range from \$2,500 for each individual and family member covered) up to the amount by which the third-party insurance coverage begins (ranges from \$2,500 for individual up to \$10,000 for family coverage). The amount of liability at June 30, 2019 and 2018 was less than \$0.1 million and is included in accrued liabilities. The Company also has an incentive plan for executives of the Company, which provides for performance based cash and stock-based compensation awards. No expense was recognized during the years ended June 30, 2019, 2018 and 2017 for cash awards pursuant to the plan.

Net Income (Loss) Per Share: Basic earnings per share excludes dilution and is determined by dividing net income (loss) by the weighted average number of common shares outstanding including participating securities during the period. Diluted EPS reflects the potential dilution that could occur if securities and other contracts to issue common stock were exercised or converted into common stock.

Fair Value of Financial Instruments: The Company considers the fair value of all financial instruments, including cash, accounts receivable and accounts payable to approximate their carrying values at year-end due to their short-term nature. The carrying value of the Company's debt approximates fair value due to the market rates of interest.

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. In accordance with GAAP, the 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 year ended June 30, 2017 utilized level 3 inputs.

Segment Reporting: The Company operates in a single segment, focusing on developing cost-effective management solutions for medical waste and unused dispensed medications generated by small and medium quantity generators.

SHARPS COMPLIANCE CORP. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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Use of Estimates: The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities and disclosure of contingent liabilities at the date of the consolidated financial statements and the reported amounts of revenue and expense during the reporting period. The Company uses estimates to determine many reported amounts, including but not limited to allowance for doubtful accounts, recoverability of long-lived assets and intangibles, useful lives used in depreciation and amortization, income taxes and valuation allowances, stock-based compensation, fair values of assets and liabilities acquired in business combinations, selling price used in multiple-deliverable arrangements and return rates used to estimate the percentage of container systems sold that will not be returned. Actual results could differ from these estimates.

Recently Issued Accounting Standards:

In February 2016, guidance for leases was issued, which requires balance sheet recognition of lease assets and lease liabilities for all leases. 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 has substantially completed its analysis to evaluate the impact that the new guidance will have on its consolidated financial statements and related disclosures. The Company intends to adopt the standard using the modified retrospective approach and recognize a cumulative effect adjustment to assets and liabilities for existing leases as of July 1, 2019. As a result of our analysis, the Company determined the following:

- Approximately 50 leases have been identified, substantially all of which are expected to be classified as operating leases. For these real estate, equipment and vehicle operating leases, we expect to recognize new right of use (“ROU”) assets and lease liabilities on our balance sheet.
- The Company intends to apply the package of practical expedients to not reassess prior conclusions related to (i) contracts containing leases, (ii) lease classification and (iii) initial direct costs. The Company will not adopt the practical expediency surrounding the use of hindsight to determine lease term, termination and purchase options, or in assessing impairment of ROU assets.
- The Company also intends to make the accounting policy election for short-term leases, or leases with terms of twelve months or less, therefore the lease payments will be recorded as an expense on a straight-line basis over the lease term with no ROU asset or lease liability recorded.
- The Company has elected to exclude non-lease components of a lease arrangement from the ROU asset and liability for certain asset classes such as real estate and field equipment leases but will include non-lease components of a lease arrangement in the ROU asset and liability for office equipment and automobiles.

On adoption, we currently expect to recognize additional operating liabilities ranging from \$4.0 million to \$5.0 million, with corresponding ROU assets of the same amount based on the present value of the remaining minimum rental payments under current leasing standards for existing operating leases.

NOTE 3 – PROPERTY, PLANT AND EQUIPMENT

At June 30, 2019 and 2018, property, plant and equipment consisted of the following (in thousands):

	Useful Life	June 30,	
		2019	2018
Furniture and fixtures	3 to 5 years	\$ 245	\$ 245
Plant and equipment	3 to 17 years	8,683	8,241
Manufacturing	15 years	169	169
Computers and software	3 to 5 years	2,179	2,064
Leasehold improvements	Life of Lease	2,792	2,729
Land		19	19
Construction-in-progress		275	716
		14,362	14,183
Less: accumulated depreciation		8,495	7,611
Net property, plant and equipment		\$ 5,867	\$ 6,572

SHARPS COMPLIANCE CORP. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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Total depreciation expense in the fiscal years ended June 30, 2019, 2018 and 2017 was \$1.1 million, \$1.0 million and \$0.9 million, respectively. Depreciation expense included in cost of revenues in the fiscal years ended 2019, 2018 and 2017 was \$0.8 million, \$0.8 million and \$0.7 million, respectively.

NOTE 4 – INCOME TAXES

The components of income tax expense (benefit) are as follows (in thousands):

	Year ended June 30,		
	2019	2018	2017
Current:			
Federal	\$ (123)	\$ —	\$ —
State	42	29	4
Total Current	\$ (81)	\$ 29	\$ 4
Deferred:			
Federal	\$ 217	\$ (8)	\$ —
State	34	—	—
Total Deferred	251	(8)	—
Net Income Tax Expense	\$ 170	\$ 21	\$ 4

The reconciliation of the statutory income tax rate to the Company's effective income tax rate for the fiscal years ended June 30, 2019, 2018 and 2017 is as follows:

	Year Ended June 30,		
	2019	2018	2017
Statutory rate	21.0 %	27.6 %	34.0 %
State income taxes, net	22.9 %	(3.7)%	(4.5)%
Impact of 2017 tax reform	— %	(107.0)%	— %
Meals and entertainment	2.7 %	(1.8)%	(1.5)%
Stock-based compensation	16.1 %	22.6 %	— %
Research and development credits	7.3 %	22.4 %	— %
Other	1.5 %	(2.0)%	0.2 %
Effective rate before valuation allowance	71.5 %	(41.9)%	28.2 %
Change in valuation allowance	(27.2)%	38.7 %	(28.5)%
Effective tax rate	44.3 %	(3.2)%	(0.3)%

The statutory rate for the year ended June 30, 2018 is a blended rate which was calculated based on the Company's fiscal year and the date that the tax rate changes were effective.

A valuation allowance has been recorded to reduce the Company's net 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. 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.

SHARPS COMPLIANCE CORP. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2019, 2018 and 2017

At June 30, 2019 and 2018, the significant components of deferred tax assets and liabilities are as follows (in thousands):

	June 30,	
	2019	2018
Deferred tax assets relating to:		
Stock-based compensation	\$ 261	\$ 283
AMT and research and development credits	517	668
Deferred rent	41	58
Inventory	158	147
Professional fees	124	91
Accrued vacation	27	31
Accounts receivable allowance	33	26
Contribution carryovers	8	13
Net operating loss carryforwards	1,067	1,153
Total deferred tax assets	<u>2,236</u>	<u>2,470</u>
Deferred tax liabilities related to depreciable and amortizable assets	(728)	(587)
Deferred tax liabilities related to other items	(63)	—
Net deferred tax assets before valuation allowance	1,445	1,883
Valuation allowance	(1,688)	(1,875)
Net deferred tax (liability) asset	<u>\$ (243)</u>	<u>\$ 8</u>

At June 30, 2019, the Company had net operating loss carryforwards of \$5.0 million, which will expire, if unused, between June 30, 2032 and June 30, 2038. At June 30, 2019, the Company had various tax credit carryforwards of \$0.5 million, of which \$0.4 million will expire beginning on June 30, 2030 and \$0.1 million related to alternative minimum tax credits which will be refunded as described below.

The Tax Cuts and Jobs Act of 2017, enacted on December 22, 2017, contained significant changes to U.S. tax law, including lowering the U.S. corporate tax rate to 21% and the repeal of the corporate alternative minimum tax for tax years beginning on or after January 1, 2018. Other provisions in the 2017 tax reform such as interest deductibility, changes to executive compensation plans, full expensing provisions for business assets, other new minimum taxes and international taxation modifications are not expected to have material implications to the Company's financial statements. Given the repeal of the corporate alternative minimum tax, existing alternative minimum tax credit carryovers are to be refunded beginning in 2018. Therefore, a deferred tax asset is recorded for \$0.1 million as of June 30, 2019 and no valuation allowance is in place related to this deferred tax asset. The deferred tax asset is offset by deferred tax liabilities related to indefinite lived assets, such as goodwill, in the amount of \$0.3 million, which cannot be used as a source of future taxable income in evaluating the need for a valuation allowance against deferred tax assets for a net deferred tax liability of \$0.2 million. A deferred tax asset of \$0.2 million was recorded as of June 30, 2018 for the alternative minimum tax credit carryforward which was offset by deferred tax liabilities related to indefinite lived assets, such as goodwill, in the amount of \$0.2 million for a net deferred tax asset of \$8,000.

NOTE 5 - NOTES PAYABLE AND LONG-TERM DEBT

On March 29, 2017, the Company entered into a credit agreement with a commercial bank which was subsequently amended on June 29, 2018 to extend the maturity date by two years ("the Credit Agreement"). The 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 (i) 50% of eligible inventory and (ii) \$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 June 30, 2019 was approximately 5.05%. The Company pays a fee of 0.25% per annum on the unused amount of the credit facility.

SHARPS COMPLIANCE CORP. AND SUBSIDIARIES
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At June 30, 2019, long-term debt consisted of the following (in thousands):

Acquisition loan, bearing interest at 5.05%, monthly payments of \$43; maturing March 2022.	\$	1,465
Less: current portion		517
Long-term debt, net of current portion	\$	948

The Company has availability under the Credit Agreement of \$12.4 million (\$5.9 million for the working capital portion and \$6.5 million for the acquisitions) as of June 30, 2019. The Company also has \$0.1 million in letters of credit outstanding as of June 30, 2019.

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 3.0 to 1.0 and a minimum debt service coverage ratio of not less than 1.15 to 1.00. The Credit Agreement, which expires on March 29, 2021 for the working capital portion of 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. The leverage ratio covenant may limit the amount available under the Credit Agreement. The Company was in compliance with all the financial covenants under the Credit Agreement as of June 30, 2019.

Payments due on long-term debt over the five years subsequent to June 30, 2019 are as follows (in thousands):

Twelve Months Ending June 30,		
	2020	\$ 517
	2021	517
	2022	431
		\$ 1,465

On August 21, 2019, certain subsidiaries of the Company entered into a Construction and Term Loan Agreement and a Master Equipment Finance Agreement with its existing commercial bank (collectively, the "Loan Agreement"). The Loan Agreement provides for a five-year, \$3.2 million facility, the proceeds of which are to be utilized for expenditures to facilitate future growth at the Company's treatment facility in Carthage, Texas (the "Texas Treatment Facility") as follows: (i) \$2.0 million for planned improvements and (ii) \$1.2 million for equipment. Indebtedness under the Loan Agreement is secured by the Company's real estate investment and equipment at the Texas Treatment Facility. Advances under the Loan Agreement mature five years from the Closing Date ("August 21, 2019") with monthly payments based on a 20-year amortization for the real estate portion and on a 6-year amortization for the equipment portion of the Loan Agreement. Borrowings during the advancing period for the real estate portion and for the entire term of the equipment portion of the Loan Agreement bear interest computed at the One Month ICE LIBOR, plus two-hundred and fifty (250) basis points which would be a rate of 4.79% on August 21, 2019. The Company has entered into a forward rate lock to fix the rate on the real estate portion of the Loan Agreement at the expiration of the advancing period at 4.15%. The Loan Agreement contains affirmative and negative covenants that, among other things, require the Company to maintain a maximum cash flow leverage ratio and a minimum debt service coverage ratio as described therein consistent with the current Credit Agreement. Both the Credit Agreement and Loan Agreement also contain customary events of the Company's default which, if uncured, may terminate the Credit Agreement or Loan Agreement and require, among other things immediate repayment of all indebtedness to the lenders.

NOTE 6 - EQUITY TRANSACTIONS

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 million of its outstanding common stock over a two-year period. On March 5, 2015, the Board approved a two-year extension of the stock repurchase program through January 1, 2017. The program has not been extended. During the years ended June 30, 2019, 2018 and 2017, no shares were repurchased. Total shares repurchased under the program are 295,615 shares at a cost of \$1.6 million.

During the year ended June 30, 2018, 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. This issuance was exempt from registration pursuant to Section 4(a)(2) of the Securities Act. Non-cash expense recorded during the year ended June 30, 2019 and 2018 was \$46,000 and \$37,000, respectively.

SHARPS COMPLIANCE CORP. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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On November 15, 2018, the Company's stockholders approved an amendment to the Company's certificate of incorporation to increase the authorized shares of common stock from 20,000,000 to 40,000,000 shares.

NOTE 7 - STOCK BASED COMPENSATION

The Company sponsors the Sharps Compliance Corp. 2010 Stock Plan (the "2010 Plan") covering employees, consultants and non-employee directors. The 2010 Plan provides for the granting of stock-based compensation (stock options or restricted stock) of up to 3,000,000 shares of the Company's common stock of which 1,293,449 options and restricted shares are outstanding as of June 30, 2019. Options granted generally vest over a period of four years and expire seven years after the date of grant. Restricted stock generally vests over one year. As of June 30, 2019, there were 1,037,862 options available for grant under the 2010 Plan.

The summary of activity for all restricted stock during the fiscal years ended June 30, 2019, 2018 and 2017 is presented in the table below (in thousands):

	Year ended June 30,		
	2019	2018	2017
Unvested at beginning of the year	13	13	13
Granted	63	53	53
Vested	(55)	(53)	(53)
Forfeited	(8)	—	—
Unvested at end of the year	<u>13</u>	<u>13</u>	<u>13</u>

The weighted average fair value per share of restricted stock granted during the fiscal years ended June 30, 2019, 2018 and 2017 was \$3.53, \$4.17 and \$4.38, respectively. The weighted average fair value per share of restricted stock which vested during the fiscal years ended June 30, 2019, 2018 and 2017 was \$3.69, \$4.22 and \$5.29, respectively.

The summary of activity for all stock options during the fiscal years ended June 30, 2019, 2018 and 2017 is presented in the table below (in thousands except per share amounts):

	Options Outstanding	Weighted Average Exercise Price
Options Outstanding at June 30, 2016	1,290	\$ 4.69
Granted	38	\$ 4.55
Exercised	(95)	\$ 3.60
Forfeited or canceled	<u>(368)</u>	\$ 5.32
Options Outstanding at June 30, 2017	865	\$ 4.53
Granted	137	\$ 4.79
Forfeited or canceled	<u>(82)</u>	\$ 4.50
Options Outstanding at June 30, 2018	920	\$ 4.57
Granted	578	\$ 3.73
Forfeited or canceled	<u>(218)</u>	\$ 4.16
Options Outstanding at June 30, 2019	<u>1,280</u>	\$ 4.26
Options Exercisable at June 30, 2019	<u>591</u>	\$ 4.67

SHARPS COMPLIANCE CORP. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2019, 2018 and 2017

The following table summarizes information about stock options outstanding as of June 30, 2019 (in thousands except per share amounts):

Range of Exercise Price	Options Outstanding		
	Outstanding as of June 30, 2019	Weighted Average Remaining Life (in Years)	Weighted Average Exercise Price
\$2.51 - \$3.75	107	4.77	\$ 3.18
\$3.76 - \$5.00	1,044	4.70	\$ 4.17
\$5.01 - \$7.50	129	2.81	\$ 5.95
	1,280		\$ 4.26

The following table summarizes information about stock options exercisable as of June 30, 2019 (in thousands except per share amounts):

Range of Exercise Price	Options Exercisable		
	Exercisable as of June 30, 2019	Weighted Average Remaining Life (in Years)	Weighted Average Exercise Price
\$2.51 - \$3.75	32	0.57	\$ 2.92
\$3.76 - \$5.00	437	2.41	\$ 4.45
\$5.01 - \$7.50	122	2.78	\$ 5.90
	591		\$ 4.67

As of June 30, 2019, there was \$0.6 million of stock option and restricted stock compensation expense related to non-vested awards. This expense is expected to be recognized over a weighted average period of 3.4 years.

NOTE 8 - COMMITMENTS AND CONTINGENCIES

Operating Leases: The Company operates in a number of locations across the U.S. including space for corporate offices in Houston, Texas. Sharps has manufacturing, assembly, storage, distribution and warehousing operations as well as two (2) fully-permitted facilities that house our processing and treatment operations. The Company owns one processing and treatment facility and leases all other spaces. The Company also leases a number of trucks and office equipment. The leases expire between fiscal years 2019 to 2024 with options to renew ranging from 1 years to 5 years.

Rent expense for the fiscal years ended June 30, 2019, 2018 and 2017 was \$2.2 million, \$2.0 million and \$1.5 million, respectively. Future minimum lease payments under non-cancelable operating leases as of June 30, 2019 are as follows (in thousands):

	Year Ended June 30,					
	2020	2021	2022	2023	2024	Total
Operating lease obligations	\$ 2,059	\$ 1,322	\$ 532	\$ 155	\$ 38	\$ 4,106

On August 21, 2019, the Company amended the corporate office lease agreement pursuant to the lease agreement originally dated July 13, 2006. This fifth amendment to the lease extends the term of the lease from February 29, 2020 to February 28, 2025 and sets base rent amounts for the extended term of the lease ("Extended Term"). The blended base rent for the first year of the Extended Term is \$14.00 per square foot with subsequent annual increases of 3%. The future minimum lease payments for the extended lease will be an additional \$0.1 million, \$0.3 million, \$0.4 million, \$0.4 million, \$0.4 million and \$0.3 million for fiscal years ending June 30, 2020, 2021, 2022, 2023, 2024 and 2025, respectively.

SHARPS COMPLIANCE CORP. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2017, 2016 and 2015

NOTE 8 - COMMITMENTS AND CONTINGENCIES (continued)

Performance Bonds: The Company utilizes performance bonds to support operations based on certain state requirements. At June 30, 2019, the Company had performance bonds outstanding covering financial assurance up to \$1.0 million.

Other: 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 is not anticipated to have a material adverse effect on the Company's consolidated financial position or consolidated results of operations.

NOTE 9 - 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 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 and diluted 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 amounts):

	Year ended June 30,		
	2019	2018	2017
Net income (loss), as reported	\$ 214	\$ (672)	\$ (1,293)
Weighted average common shares outstanding	16,116	16,055	15,949
Effect of dilutive stock options	7	—	—
Weighted average diluted common shares outstanding	16,123	16,055	15,949
Net income (loss) per common share			
Basic and diluted	\$ 0.01	\$ (0.04)	\$ (0.08)
Employee stock options excluded from computation of diluted income per share amounts because their effect would be anti-dilutive	1,173	402	304

NOTE 10 – GOODWILL AND INTANGIBLE ASSETS

At June 30, 2019 and 2018, intangible assets consisted of the following (in thousands):

	Estimated Useful Lives	June 30,					
		2019			2018		
		Original Amount	Accumulated Amortization	Net Amount	Original Amount	Accumulated Amortization	Net Amount
Customer relationships	7 years	\$ 3,007	\$ (1,348)	\$ 1,659	\$ 3,007	\$ (919)	\$ 2,088
Permits	6 - 15 years	1,704	(492)	1,212	1,459	(390)	1,069
Patents	5 - 17 years	420	(296)	124	383	(278)	105
Tradename	7 years	270	(116)	154	270	(77)	193
Non-compete	5 years	117	(70)	47	117	(47)	70
Total intangible assets, net		\$ 5,518	\$ (2,322)	\$ 3,196	\$ 5,236	\$ (1,711)	\$ 3,525

SHARPS COMPLIANCE CORP. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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During the years ended June 30, 2019, 2018 and 2017 amortization expense was \$0.6 million, \$0.6 million and \$0.6 million, respectively.

As of June 30, 2019, future amortization of intangible assets is as follows (in thousands):

Year Ending June 30,	
2020	612
2021	636
2022	611
2023	551
2024	140
Thereafter	646
	\$ 3,196

NOTE 11 – SELECTED QUARTERLY FINANCIAL DATA (UNAUDITED)

The following tables show quarterly financial information for the years ended June 30, 2019 and 2018. The Company believes that all necessary adjustments have been included in the amounts below to present fairly the results of such periods (in thousands except per share amounts).

	Quarter Ended			
	September 30, 2018	December 31, 2018	March 31, 2019	June 30, 2019
Total revenues	\$ 10,293	\$ 12,394	\$ 9,451	\$ 12,174
Gross profit	\$ 3,352	\$ 3,991	\$ 2,035	\$ 3,892
Operating income (loss)	\$ 125	\$ 827	\$ (1,073)	\$ 568
Net income (loss)	\$ 70	\$ 779	\$ (1,125)	\$ 490
Net income (loss) per share - basic and diluted	\$ 0.00	\$ 0.05	\$ (0.07)	\$ 0.03
Weighted average shares - diluted	16,089	16,106	16,138	16,150

	Quarter Ended			
	September 30, 2017	December 31, 2017	March 31, 2018	June 30, 2018
Total revenues	\$ 9,683	\$ 11,119	\$ 9,427	\$ 9,912
Gross profit	\$ 3,028	\$ 3,131	\$ 2,296	\$ 2,947
Operating income (loss)	\$ 101	\$ 107	\$ (707)	\$ (78)
Net income (loss)	\$ 75	\$ 156	\$ (757)	\$ (146)
Net income (loss) per share - basic and diluted	\$ 0.00	\$ 0.01	\$ (0.05)	\$ (0.01)
Weighted average shares - diluted	16,093	16,068	16,082	16,082

CERTIFICATE OF AMENDMENT
TO THE
AMENDED AND RESTATED CERTIFICATE OF INCORPORATION
OF
SHARPS COMPLIANCE CORP.
(Pursuant to Section 242 of the
General Corporation Law of the State of Delaware)

Sharps Compliance Corp., a Delaware corporation (the "Corporation"), does hereby certify as follows:

1. This Certificate of Amendment to the Amended and Restated Certificate of Incorporation of the Corporation has been duly adopted in accordance with the provisions of Section 242 of the General Corporation Law of the State of Delaware.

2. This Certificate of Amendment to the Amended and Restated Certificate of Incorporation of the Corporation amends Section A of Article 4 of the Amended and Restated Certificate of Incorporation, as heretofore amended, supplemented, and restated, by deleting Section A of Article 4 thereof and substituting in lieu thereof a new paragraph, which shall read in its entirety as follows:

4A. General. The corporation shall have authority to issue two classes of stock, and the total number authorized shall be Forty Million (40,000,000) shares of Common Stock of the par value of one cent (\$0.01) each, and one million (1,000,000) shares of Preferred Stock of the par value of one cent (\$0.01) each. All shares of the Common Stock shall rank equally and all shares of the Preferred Stock shall rank equally, and be identical in all respects regardless of series, except with respect to the Preferred Stock (i) as to terms which may be specified by the board of directors pursuant to the provisions of Section B of this Article 4, and (ii) that shares of any one series issued at different times may differ as to the dates from which dividends thereon shall accrue and be cumulative. A description of the different classes of stock of the corporation and a statement of the designations and the powers, preferences and rights, and the qualifications, limitations or restrictions thereof, in respect of each class of such stock are as follows:

3. This Certificate of Amendment to the Amended and Restated Certificate of Incorporation of the Corporation shall be immediately effective upon filing with Secretary of State of the State of Delaware.

[Signature page follows]

IN WITNESS WHEREOF, Sharps Compliance Corp. has caused this Certificate of Amendment to be duly executed in its corporate name this ____ day of November, 2018.

SHARPS COMPLIANCE CORP.

By: /ss/ Diana P. Diaz

Name: Diana P. Diaz

Title: Vice President and Chief Financial Officer

Exhibit 21.1**Subsidiaries of the Registrant**

<u>Name</u>	<u>Jurisdiction of Incorporation</u>
Sharps Compliance, Inc. of Texas (dba Sharps Compliance, Inc.)	Texas
Sharps e-Tools.com Inc.	Delaware
Sharps Safety, Inc.	Texas
Sharps Manufacturing, Inc.	Delaware
Sharps Environmental Services, Inc. (dba Sharps Environmental Services of Texas, Inc.)	Delaware
Alpha Bio/Med Services LLC	Pennsylvania
Bio-Team Mobile LLC	Pennsylvania
Citiwaste, LLC	New York

Exhibit 23.1

Consent of Independent Registered Public Accounting Firm

Sharps Compliance Corp.
Houston, Texas

We hereby consent to the incorporation by reference in the Registration Statements on Form S-8 (Nos. 333-155638, 333-200544 and 333-170765) of Sharps Compliance Corp. of our report dated August 28, 2019, relating to the consolidated financial statements, which appears in this Annual Report on Form 10-K.

/s/ BDO USA, LLP

Houston, Texas
August 28, 2019

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 annual report on Form 10-K of Sharps Compliance Corp;
2. Based on my knowledge, this report does not contain any untrue statement of 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 control over financial reporting.

Date: August 28, 2019

By: /s/ DAVID P. TUSA
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 annual report on Form 10-K of Sharps Compliance Corp;
2. Based on my knowledge, this report does not contain any untrue statement of 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 control over financial reporting.

Date: August 28, 2019

By: /s/ DIANA P. DIAZ
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 conjunction with the annual report of Sharps Compliance Corp. (the "Company") on Form 10-K for the fiscal year ended June 30, 2019, 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 Report 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 Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: August 28, 2019

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

The foregoing certification is being furnished solely pursuant to 18 U.S.C. § 1350 and is not being filed as part of the Report or as a separate disclosure document. A signed original of this written statement required by Section 906 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.

Exhibit 32.2

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

In conjunction with the annual report of Sharps Compliance Corp. (the "Company") on Form 10-K for the fiscal year ended June 30, 2019, as filed with the Securities and Exchange Commission on the date hereof, I, Diana P. Diaz, Vice President and Chief Financial Officer 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 Report 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 Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: August 28, 2019

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

The foregoing certification is being furnished solely pursuant to 18 U.S.C. § 1350 and is not being filed as part of the Report or as a separate disclosure document. A signed original of this written statement required by Section 906 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.