

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

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

For the quarterly period ended December 31, 2012

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

(State or other jurisdiction of
incorporation or organization)

74-2657168

(I.R.S. Employer Identification No.)

9220 Kirby Drive, Suite 500, Houston, Texas

(Address of principal executive offices)

77054

(Zip Code)

(713) 432-0300

(Registrant's telephone number, including area code)

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

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

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

Large Accelerated Filer

Accelerated Filer

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

Smaller reporting company

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

As of January 28, 2013, there were 15,242,374 outstanding shares of the Registrant's common stock, par value \$0.01 per share.

SHARPS COMPLIANCE CORP. AND SUBSIDIARIES

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PART I FINANCIAL INFORMATION
ITEM 1. FINANCIAL STATEMENTS

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

	<u>December 31,</u> <u>2012</u>	<u>June 30,</u> <u>2012</u>
	<u>(Unaudited)</u>	
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 16,785	\$ 17,498
Accounts receivable, net of allowance for doubtful accounts of \$29 and \$28, respectively	2,901	2,427
Inventory	1,967	2,219
Prepaid and other current assets	315	398
TOTAL CURRENT ASSETS	<u>21,968</u>	<u>22,542</u>
PROPERTY, PLANT AND EQUIPMENT, net	4,492	4,632
INTANGIBLE ASSETS, net of accumulated amortization of \$268 and \$257, respectively	587	464
TOTAL ASSETS	<u>\$ 27,047</u>	<u>\$ 27,638</u>
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES		
Accounts payable	\$ 830	\$ 752
Accrued liabilities	1,349	1,302
Deferred revenue	1,706	1,881
TOTAL CURRENT LIABILITIES	<u>3,885</u>	<u>3,935</u>
LONG-TERM DEFERRED REVENUE	588	358
OTHER LONG-TERM LIABILITIES	135	165
TOTAL LIABILITIES	<u>4,608</u>	<u>4,458</u>
COMMITMENTS AND CONTINGENCIES		
STOCKHOLDERS' EQUITY		
Common stock, \$0.01 par value per share; 20,000,000 shares authorized; 15,242,374 and 15,206,127 shares issued and outstanding, respectively	152	152
Additional paid-in capital	22,863	22,537
Retained earnings (accumulated deficit)	(576)	491
TOTAL STOCKHOLDERS' EQUITY	<u>22,439</u>	<u>23,180</u>
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	<u>\$ 27,047</u>	<u>\$ 27,638</u>

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

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

	Three-Months Ended December 31,	
	2012	2011
	(Unaudited)	
REVENUES	\$ 5,717	\$ 6,212
Cost of revenues	4,017	4,065
GROSS PROFIT	<u>1,700</u>	<u>2,147</u>
Selling, general and administrative	2,020	1,997
Depreciation and amortization	111	116
TOTAL COSTS AND EXPENSES	<u>2,131</u>	<u>2,113</u>
OPERATING INCOME (LOSS)	(431)	34
OTHER INCOME		
Interest income	8	9
TOTAL OTHER INCOME	<u>8</u>	<u>9</u>
INCOME (LOSS) BEFORE INCOME TAXES	(423)	43
INCOME TAX EXPENSE		
Current	5	2
Deferred	-	13
TOTAL INCOME TAX EXPENSE	<u>5</u>	<u>15</u>
NET INCOME (LOSS)	<u>\$ (428)</u>	<u>\$ 28</u>
NET INCOME (LOSS) PER COMMON SHARE		
Basic	<u>\$ (0.03)</u>	<u>\$ 0.00</u>
Diluted	<u>\$ (0.03)</u>	<u>\$ 0.00</u>
WEIGHTED AVERAGE SHARES USED IN COMPUTING NET INCOME (LOSS) PER COMMON SHARE:		
Basic	15,232	15,077
Diluted	15,232	15,404

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

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

	Six-Months Ended December 31,	
	2012	2011
	(Unaudited)	
REVENUES	\$ 10,870	\$ 11,955
Cost of revenues	7,618	7,989
GROSS PROFIT	<u>3,252</u>	<u>3,966</u>
Selling, general and administrative	4,100	4,207
Depreciation and amortization	224	223
TOTAL COSTS AND EXPENSES	<u>4,324</u>	<u>4,430</u>
OPERATING LOSS	(1,072)	(464)
OTHER INCOME (EXPENSE)		
Interest income	16	19
Other expense	-	(13)
TOTAL OTHER INCOME (EXPENSE)	<u>16</u>	<u>6</u>
LOSS BEFORE INCOME TAXES	(1,056)	(458)
INCOME TAX EXPENSE (BENEFIT)		
Current	10	-
Deferred	1	(161)
TOTAL INCOME TAX EXPENSE (BENEFIT)	<u>11</u>	<u>(161)</u>
NET LOSS	<u>\$ (1,067)</u>	<u>\$ (297)</u>
NET LOSS PER COMMON SHARE		
Basic	<u>\$ (0.07)</u>	<u>\$ (0.02)</u>
Diluted	<u>\$ (0.07)</u>	<u>\$ (0.02)</u>
WEIGHTED AVERAGE SHARES USED IN COMPUTING NET LOSS PER COMMON SHARE:		
Basic	15,221	15,071
Diluted	15,221	15,071

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

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

	Common Stock		Additional Paid-in Capital	Retained Earnings (Accumulated Deficit)	Total Stockholders' Equity
	Shares	Amount			
	Balances, June 30, 2011	15,053,316	\$ 151	\$ 21,602	\$ 4,112
Exercise of stock options	89,443	-	65	-	65
Stock-based compensation	-	-	786	-	786
Issuance of restricted stock	63,368	1	(1)	-	-
Excess tax benefit from stock-based award activity	-	-	85	-	85
Net loss	-	-	-	(3,621)	(3,621)
Balances, June 30, 2012	15,206,127	152	22,537	491	23,180
Exercise of stock options*	3,500	-	2	-	2
Stock-based compensation*	-	-	323	-	323
Issuance of restricted stock*	32,747	-	-	-	-
Excess tax benefit from stock-based award activity*	-	-	1	-	1
Net loss*	-	-	-	(1,067)	(1,067)
Balances, December 31, 2012*	<u>15,242,374</u>	<u>\$ 152</u>	<u>\$ 22,863</u>	<u>\$ (576)</u>	<u>\$ 22,439</u>

* unaudited

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

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

	Six-Months Ended December 31,	
	2012	2011
	(Unaudited)	
CASH FLOWS FROM OPERATING ACTIVITIES		
Net loss	\$ (1,067)	\$ (297)
Adjustments to reconcile net loss to net cash (used in) provided by operating activities:		
Depreciation and amortization	553	548
Loss on disposal of fixed assets	-	13
Stock-based compensation expense	323	376
Excess tax benefits from stock-based award activity	(1)	(12)
Deferred tax expense (benefit)	1	(161)
Changes in operating assets and liabilities:		
Accounts receivable	(474)	465
Inventory	252	(713)
Prepaid and other current assets	83	(60)
Accounts payable and accrued liabilities	95	156
Deferred revenue	55	(23)
NET CASH (USED IN) PROVIDED BY OPERATING ACTIVITIES	(180)	292
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property, plant and equipment	(402)	(189)
Additions to intangible assets	(134)	(65)
NET CASH USED IN INVESTING ACTIVITIES	(536)	(254)
CASH FLOWS FROM FINANCING ACTIVITIES		
Excess tax benefits from stock-based award activity	1	12
Proceeds from exercise of stock options	2	13
NET CASH PROVIDED BY FINANCING ACTIVITIES	3	25
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(713)	63
CASH AND CASH EQUIVALENTS, beginning of period	17,498	18,280
CASH AND CASH EQUIVALENTS, end of period	\$ 16,785	\$ 18,343

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

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

NOTE 1 - ORGANIZATION AND BACKGROUND

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

NOTE 2 - BASIS OF PRESENTATION

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with the rules and regulations of the Securities and Exchange Commission ("SEC") for interim financial information and with instructions to Form 10-Q and, accordingly, do not include all information and footnotes required under accounting principles generally accepted in the United States of America for complete financial statements. In the opinion of management, these interim condensed consolidated financial statements contain all adjustments (consisting of normal recurring adjustments) considered necessary for a fair presentation of the consolidated financial position of the Company as of December 31, 2012, the results of its operations and cash flows for the three and six months ended December 31, 2012 and 2011 and stockholders' equity for the year ended June 30, 2012 and six months ended December 31, 2012. The results of operations for the three and six months ended December 31, 2012 are not necessarily indicative of the results to be expected for the entire fiscal year ending June 30, 2013. These unaudited condensed consolidated financial statements should be read in conjunction with the Company's Annual Report on Form 10-K for the year ended June 30, 2012.

NOTE 3 - SIGNIFICANT ACCOUNTING POLICIES

Revenue Recognition: The Company recognizes revenue from product sales when goods are shipped or delivered, and title and risk of loss pass to the customer except for those sales via multiple-deliverable arrangements. Provisions for certain rebates, product returns and discounts to customers are accounted for as reductions in sales in the same period the related sales are recorded. Product discounts granted are based on the terms of arrangements with direct, indirect and other market participants, as well as market conditions, including prices charged by competitors. Rebates are estimated based on contractual terms, historical experience, trend analysis and projected market conditions in the various markets served.

The Company recognizes revenue in accordance with guidance on revenue recognition of multiple-deliverable revenue arrangements. Under this guidance, certain products offered by the Company have revenue producing components that are recognized over multiple delivery points (Sharps® Recovery System (formerly the Sharps Disposal by Mail Systems®) and various TakeAway Environmental Return Systems™ referred to as "Mailbacks" and Sharps® Pump and Asset Return Boxes, referred to as "Pump Returns") and can consist of up to three separate elements, or units of measure, as follows: (1) the sale of the compliance and container system, (2) return transportation and (3) treatment service.

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

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

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

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

NOTE 4 – RECENTLY ISSUED ACCOUNTING STANDARDS

There are no recently issued accounting pronouncements that impact the Company's condensed consolidated financial statements as of December 31, 2012.

NOTE 5 - INCOME TAXES

During the year ended June 30, 2012, the Company recorded \$2.0 million to establish a deferred tax valuation allowance on net deferred tax assets. The establishment of valuation allowances and development of projected annual effective tax rates requires significant judgment and is impacted by various estimates. Both positive and negative evidence, as well as the objectivity and verifiability of that evidence, is considered in determining the appropriateness of recording a valuation allowance on deferred tax assets. Under generally accepted accounting principles, the valuation allowance has been recorded to reduce the Company's net deferred tax asset to an amount that is more likely than not to be realized and is based upon the uncertainty of the realization of certain federal and state deferred assets related to net operating loss carryforwards and other tax attributes.

The Company's effective tax rate for the six months ended December 31, 2012 was 1.0% reflecting estimated state income taxes. The Company's effective tax rate for the six months ended December 31, 2011 was 35.2%. The Company's tax benefit associated with taxable losses during the six months ended December 31, 2012 was offset by a deferred tax valuation allowance.

NOTE 6 - NOTES PAYABLE AND LONG-TERM DEBT

On July 13, 2012, the Company executed the First Amendment to Credit Agreement (the "Amendment") with Wells Fargo, National Association (the "Bank"). The Amendment extended the maturity date of the Credit Agreement (the "Credit Agreement") executed on July 15, 2010 from July 15, 2012 to July 15, 2014. The Company's Credit Agreement with the Bank provides for a two-year, \$5.0 million line of credit facility, the proceeds of which may be utilized for: (i) working capital, (ii) capital expenditures, (iii) letters of credit (up to \$500,000), (iv) acquisitions (up to \$1,000,000) and (v) general corporate purposes. Pursuant to the Amendment, the aggregate principal amount of advances outstanding at any time under the Credit Agreement shall not exceed the Borrowing Base which is equal to (i) 80% of Eligible Accounts Receivable (as defined in the Amendment) plus (ii) 40% of Eligible Inventory (as defined in the Amendment). As of December 31, 2012, the Company had no outstanding borrowings, \$108 thousand in letters of credit outstanding, and \$3.0 million of credit available pursuant to its amended credit agreement.

Indebtedness under the Credit Agreement is secured by substantially all of the Company's assets. Borrowings bear interest at either (i) a fluctuating rate per annum equal to LIBOR plus a margin of 250 basis points or (ii) at the Company's option, a fixed rate for a 30, 60, or 90 day period set at the option date's LIBOR plus a margin of 250 basis points. Any outstanding revolving loans, and accrued and unpaid interest, will be due and payable on July 15, 2014, the maturity date set under the Amendment. The Company pays a fee of 0.2% per annum on the unused amount of the line of credit. We estimate that the interest rate applicable to the borrowings under the Amendment would be approximately 2.8% as of December 31, 2012.

The Amendment and Credit Agreement contain affirmative and negative covenants that, among other things, require the Company to maintain a minimum level of tangible net worth of \$21 million, not to exceed a ratio of liabilities to tangible net worth of 1.0 to 1.0 and achieve positive annual net income for the fiscal year ending June 30, 2013 (determined ninety days

thereafter). As of December 31, 2012, we are in compliance with all applicable financial covenants. The Amendment and Credit Agreement also contain customary events of default. Upon the occurrence of an event of default that remains uncured after any applicable cure period, the lenders' commitment to make further loans may terminate and the Company may be required to make immediate repayment of all indebtedness to the lenders.

NOTE 7 – STOCK-BASED COMPENSATION

Stock-based compensation cost is measured at the grant date, based on the calculated fair value of the award, and is recognized as an expense over the employee's requisite service period (generally the vesting period of the equity grant). Reductions in taxes payable resulting from tax deductions that exceed the recognized tax benefit associated with compensation expense (excess tax benefits) are classified as financing cash flows and as an increase to additional paid in capital. During the three and six months ended December 31, 2012 and 2011, stock-based compensation amounts are as follows (in thousands):

	Three-Months Ended		Six-Months Ended	
	December 31,		December 31,	
	2012	2011	2012	2011
	(Unaudited)		(Unaudited)	
Stock-based compensation expense included in:				
Cost of revenue	\$ 7	\$ 18	\$ 8	\$ 38
General and administrative expense	143	239	315	338
Total	<u>\$ 150</u>	<u>\$ 257</u>	<u>\$ 323</u>	<u>\$ 376</u>
Excess tax benefits in cash flows from				
financing activities	\$ -	\$ -	\$ 1	\$ 12

NOTE 8 - EARNINGS PER SHARE

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

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

	Three-Months Ended		Six-Months Ended	
	December 31,		December 31,	
	2012	2011	2012	2011
	(Unaudited)		(Unaudited)	
Net income (loss), as reported	\$ (428)	\$ 28	\$ (1,067)	\$ (297)
Weighted average common shares outstanding	15,232	15,077	15,221	15,071
Effect of dilutive stock options	-	327	-	-
Weighted average diluted common shares outstanding	<u>15,232</u>	<u>15,404</u>	<u>15,221</u>	<u>15,071</u>
Net income (loss) per common share				
Basic	\$ (0.03)	\$ 0.00	\$ (0.07)	\$ (0.02)
Diluted	\$ (0.03)	\$ 0.00	\$ (0.07)	\$ (0.02)
Employee stock options excluded from computation				
of dilutive loss per share amounts because their				
effect would be anti-dilutive	851	513	831	538

NOTE 9 - EQUITY TRANSACTIONS

During the three and six months ended December 31, 2012 and 2011, stock options to purchase shares of the Company's common stock were exercised as follows:

	Three-Months Ended		Six-Months Ended	
	December 31,		December 31,	
	2012	2011	2012	2011
	(Unaudited)		(Unaudited)	
Options exercised	-	-	3,500	14,103
Proceeds (in thousands)	\$ -	\$ -	\$ 2	\$ 13
Average exercise price per share	\$ -	\$ -	\$ 0.68	\$ 0.95

As of December 31, 2012, there was \$578 thousand of stock option and restricted stock compensation expense related to non-vested awards which is expected to be recognized over a weighted average period of 2.42 years.

NOTE 10 – INVENTORY

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

	December 31,	June 30,
	2012	2012
	(Unaudited)	
Raw materials	\$ 1,086	\$ 1,218
Finished goods	881	1,001
Total	\$ 1,967	\$ 2,219

NOTE 11 – FAIR VALUE OF FINANCIAL INSTRUMENTS

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

ITEM 2.

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

INFORMATION REGARDING FORWARD-LOOKING STATEMENTS

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

GENERAL

Sharps Compliance Corp. is a leading full-service provider of solutions for the cost-effective management of medical waste, used health care materials and unused dispensed medications. Our solutions facilitate the proper collection, containment, transportation and treatment of numerous types of healthcare-related materials, including hypodermic needles, lancets and other devices or objects used to puncture or lacerate the skin, or sharps, and unused consumer dispensed medications and over-the-counter drugs. We serve customers in multiple markets such as home health care, retail clinics and immunizing pharmacies, pharmaceutical manufacturers, professional offices (physicians, dentists and veterinarians), hospitality (including assisted living facilities, hotels, motels and restaurants), government (federal, state and local), consumers, commercial, industrial and agriculture, and distributors to many of the aforementioned markets. We assist our customers in determining which of our solution offerings best fit their needs for the collection, containment, return transportation and treatment of medical waste, used healthcare materials and unused dispensed medications. Our differentiated approach provides our customers the flexibility to return and properly treat medical waste, used healthcare materials or unused dispensed medications through a variety of solutions and products transported primarily through the United States Postal Service ("USPS"). Furthermore, we provide comprehensive tracking and reporting tools that enable our customers to meet complex medical waste disposal and unused dispensed patient medication compliance requirements. We believe the fully-integrated nature of our operations is a key factor leading to our success and continued recurring revenue growth. We continue to take advantage of the many opportunities in all markets served as we educate the market place and as prospective customers become more aware of alternatives to traditional methods of disposal (i.e., route-based pick-up services).

The Company's solutions include Sharps® Recovery System™ (formerly Sharps Disposal by Mail System®), TakeAway™ Recovery System, Complete Needle Collection & Disposal System™, TakeAway Environmental Return System™, Compliance TRACSM, Sharps Secure® Needle Collection and Containment System™, Pitch-It™ IV Poles, Trip LesSystem®, Sharps® Pump and Asset Return System, and Spill Kit TakeAway Recovery System™.

RESULTS OF OPERATIONS

The following analyzes changes in the consolidated operating results and financial condition of the Company during the three and six months ended December 31, 2012 and 2011. The following table sets forth, for the periods indicated, certain items from the Company's Condensed Consolidated Statements of Operations, dollars in thousands and percentages expressed as a percentage of revenue:

	Three-Months Ended December 31,				Six-Months Ended December 31,			
	2012	%	2011	%	2012	%	2011	%
	(Unaudited)				(Unaudited)			
Revenues	\$ 5,717	100.0%	\$ 6,212	100.0%	\$ 10,870	100.0%	\$ 11,955	100.0%
Cost of revenues	4,017	70.3%	4,065	65.4%	7,618	70.1%	7,989	66.8%
Gross profit	1,700	29.7%	2,147	34.6%	3,252	29.9%	3,966	33.2%
SG&A expense	2,020	35.3%	1,997	32.1%	4,100	37.7%	4,207	35.2%
Depreciation and amortization	111	1.9%	116	1.9%	224	2.1%	223	1.9%
Operating income (loss)	\$ (431)	(7.5%)	\$ 34	0.5%	\$ (1,072)	(9.9%)	\$ (464)	(3.9%)
Other income	8	0.1%	9	0.1%	16	0.1%	6	0.1%
Income (loss) before income taxes	(423)	(7.4%)	43	0.7%	(1,056)	(9.7%)	(458)	(3.8%)
Income tax expense (benefit)	5	0.1%	15	0.2%	11	0.0	(161)	(1.3%)
Net income (loss)	\$ (428)	(7.5%)	\$ 28	0.5%	\$ (1,067)	(9.8%)	\$ (297)	(2.5%)

THREE MONTHS ENDED DECEMBER 31, 2012 AS COMPARED TO THREE MONTHS ENDED DECEMBER 31, 2011

Total revenues for the three months ended December 31, 2012 of \$5.7 million decreased by \$0.5 million, or 8.0%, over the total revenues for the three months ended December 31, 2011 of \$6.2 million. Billings by market are as follows (in thousands):

	Three-Months Ended December 31,		
	2012	2011	Variance
	(Unaudited)		
BILLINGS BY MARKET:			
Home Health Care	\$ 1,559	\$ 1,740	\$ (181)
Retail	1,434	1,303	131
Professional	950	720	230
Pharmaceutical	910	709	201
Assisted Living / Hospitality	376	269	107
Core Government	108	90	18
Other	202	434	(232)
U.S Government Contract	-	722	(722)
Subtotal	5,539	5,987	(448)
GAAP Adjustment *	178	225	(47)
Revenue Reported	\$ 5,717	\$ 6,212	\$ (495)

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

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

The decrease in revenues is primarily attributable to decreased billings in the U.S. Government contract (\$0.7 million), Home Health Care (\$0.2 million) and Other (\$0.2 million) markets. The decrease in billings was partially offset by increased billings in the Professional (\$0.2 million), Pharmaceutical (\$0.2 million), Retail (\$0.1 million) and Assisted Living/Hospitality (\$0.1 million) markets. U.S. Government Contract billings are associated with the Company's contract with a major U.S. government agency announced in February 2009. The decrease in the U.S. Government contract market billings is associated with the January 31, 2012 termination of the maintenance portion of a U.S. Government contract with the Division of Strategic National Stockpile ("DSNS") of the Centers for Disease Control ("CDC"). The decrease in the Home Health Care market was primarily due to timing of sales to home health care related distributors addressing the growing trend of patient volumes in the home health care industry. The decrease in the Other market was due to timing of orders. The increase in the Professional market was a direct result of the Company's targeted telemarketing activities and corresponding promotional activities to educate doctors, dentists and veterinarians on the significant cost advantage and the convenience of the Sharps® Recovery System over the traditional pick-up service in the small quantity generator sector. The increase in the Pharmaceutical market billings is due to the timing of customer orders including resupply orders from one of the three new patient support programs announced in August and October 2011. The programs include the direct fulfillment of the Sharps® Recovery System to the pharmaceutical manufacturers' program participants which provides the proper containment, return and treatment of the needles or injection devices utilized in therapy. The increase in Retail market billings is primarily due to the 2012 flu season and reorders of the Complete Needle Collection & Disposal System™ offset by lower sales of the TakeAway Environmental Return System™ due to initial launches in the prior year.

Cost of revenues for the three months ended December 31, 2012 of \$4.0 million was 70.3% of revenues. Cost of revenues for the three months ended December 31, 2011 of \$4.1 million was 65.4% of revenues. The lower gross margin for the quarter ended December 31, 2012 of 29.7% (versus 34.6% for the quarter ended December 31, 2011) was due to (i) ongoing facility costs of \$0.1 million, or approximately 200 basis points, associated with the maintenance portion of the U.S. government contract that was terminated as of January 31, 2012, (ii) an additional accrued loss for lease related liabilities for the Atlanta facility of \$64 thousand, or 110 basis points, (iii) treatment facility-related repairs and seasonal labor and (iv) lower revenue compared with the prior year which included the U.S. Government contract.

Selling, general and administrative ("SG&A") expenses for the three months ended December 31, 2012 and 2011 was \$2.0 million.

The Company generated an operating loss of \$0.4 million for the three months ended December 31, 2012 compared to operating income of \$34 thousand for the three months ended December 31, 2011. The operating margin was (7.5%) for the three months ended December 31, 2012 compared to 0.5% for the three months ended December 31, 2011. The increase in operating loss is a result of the lower billings in the current quarter primarily due to the U.S. government contract that was terminated as of January 31, 2012 partially mitigated by strong cost discipline and focused use of resources on targeted markets primarily Professional, Pharmaceutical and Retail markets (discussed above).

The Company generated a loss before income tax expense of \$0.4 million for the three months ended December 31, 2012 versus income before tax of \$43 thousand for the three months ended December 31, 2011. The increase in the loss before income tax is a result of the higher operating loss (discussed above).

The Company's effective tax rate for the three months ended December 31, 2012 was 1.2% reflecting estimated state income taxes. The Company's effective tax rate for the three months ended December 31, 2011 was 34.9%. During the year ended June 30, 2012, the Company recorded \$2.0 million to establish a deferred tax valuation allowance on net deferred tax assets. The Company's tax benefit associated with taxable losses during the three months ended December 31, 2012 was offset by a deferred tax valuation allowance.

The Company generated a net loss of \$0.4 million for the three months ended December 31, 2012 compared to net income of \$28 thousand for the three months ended December 31, 2011. The higher net loss is a result of a higher operating loss and lower tax benefit (discussed above).

The Company reported diluted loss per share of (\$0.03) for the three months ended December 31, 2012 versus diluted income per share of \$0.00 for the three months ended December 31, 2011. The decrease in diluted earnings per share is a result of a higher net loss in the current quarter (discussed above).

SIX MONTHS ENDED DECEMBER 31, 2012 AS COMPARED TO SIX MONTHS ENDED DECEMBER 31, 2011

Total revenues for the six months ended December 31, 2012 of \$10.9 million decreased by \$1.1 million, or 9.1%, over the total revenues for the six months ended December 31, 2011 of \$12.0 million. Billings by market are as follows (in thousands):

	Six-Months Ended December 31,		
	(Unaudited)		
	2012	2011	Variance
BILLINGS BY MARKET:			
Home Health Care	\$ 3,306	\$ 3,507	\$ (201)
Retail	2,599	3,026	(427)
Professional	1,951	1,422	529
Pharmaceutical	1,472	979	493
Assisted Living / Hospitality	752	569	183
Core Government	500	215	285
Other	388	703	(315)
U.S. Government Contract	-	1,444	(1,444)
Subtotal	10,968	11,865	(897)
GAAP Adjustment *	(98)	90	(188)
Revenue Reported	\$ 10,870	\$ 11,955	\$ (1,085)

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

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

The decrease in revenues is primarily attributable to decreased billings in the U.S. Government Contract (\$1.4 million), Retail (\$0.4 million) and Home Health Care (\$0.2 million). The decrease in billings was partially offset by increased billings in the Professional (\$0.5 million), Pharmaceutical (\$0.5 million) and Core Government (\$0.3 million) markets. U.S. Government Contract billings are associated with the Company's contract with a major U.S. government agency announced in February 2009. The decrease in the U.S. Government contract market billings is associated with the January 31, 2012 termination of the maintenance portion of a U.S. Government contract with the DSNS of the CDC. The decrease in the Retail market billings is primarily due to timing of customer orders and new program launches in the prior-year period of both the Complete Needle Collection & Disposal System™ and the TakeAway Environmental Return System™ solutions. The decrease in billings in the Home Health Care market was primarily due to timing of sales to home health care related distributors addressing the growing trend of patient volumes in the home health care industry. The increase in the Professional market was a direct result of the Company's targeted telemarketing activities and corresponding promotional activities to educate doctors, dentists and veterinarians on the significant cost advantage and the convenience of the Sharps® Recovery System over the traditional pick-up service in the small quantity generator sector. The increase in the Pharmaceutical market billings is due to the timing of customer orders including resupply orders from one of the three new patient support programs announced in August and October 2011. The programs include the direct fulfillment of the Sharps® Recovery System to the pharmaceutical manufacturers' program participants which provides the proper containment, return and treatment of the needles or injection devices utilized in therapy. The increase in the Core Government market billings reflects distributor sales to a major U.S. agency to facilitate the launch of our solutions in selected military bases.

Cost of revenues for the six months ended December 31, 2012 of \$7.6 million was 70.1% of revenues. Cost of revenues for the six months ended December 31, 2011 of \$8.0 million was 66.8% of revenue. The lower gross margin for the six months ended December 31, 2012 of 29.9% (versus 33.2% for the six months ended December 31, 2011) was due to (i) ongoing facility costs of \$0.2 million, or 210 basis points, associated with the maintenance portion of the U.S. government contract that was terminated as of January 31, 2012, (ii) an additional accrued loss for lease related liabilities for the Atlanta facility of \$64 thousand, or 60 basis points, (iii) treatment facility-related repairs and (iv) lower revenue compared with the prior year which included the U.S. Government contract.

Selling, general and administrative ("SG&A") expenses for the six months ended December 31, 2012 of \$4.1 million, decreased by \$0.1 million, from SG&A expenses of \$4.2 million for the six months ended December 31, 2011.

The Company generated an operating loss of \$1.1 million for the six months ended December 31, 2012 compared to an operating loss of \$0.5 million for the six months ended December 31, 2011. The operating margin was (9.9%) for the six months ended December 31, 2012 compared to (3.9%) for the six months ended December 31, 2011. The increase in operating loss is a result of the lower billings in the first half of fiscal year 2013 primarily due to the

U.S. government contract that was terminated as of January 31, 2012 partially mitigated by strong cost discipline and focused use of resources on targeted markets primarily Retail, Pharmaceutical, Professional and Core Government markets (discussed above).

The Company generated a loss before tax of \$1.1 million for the six months ended December 31, 2012 versus a loss before tax of \$0.5 million for the six months ended December 31, 2011. The increase in loss before tax is a result of a higher operating loss (discussed above).

The Company's effective tax rate for the six months ended December 31, 2012 was 1.0% reflecting estimated state income taxes compared to 35.2% for the six months ended December 31, 2011. During the year ended June 30, 2012, the Company recorded \$2.0 million to establish a deferred tax valuation allowance on net deferred tax assets. The Company's tax benefit associated with taxable losses during the six months ended December 31, 2012 was offset by a deferred tax valuation allowance.

The Company generated a net loss of \$1.1 million for the six months ended December 31, 2012 compared to a net loss of \$0.3 million for the six months ended December 31, 2011. The increase is result of a higher operating loss and lower tax benefit (discussed above).

The Company reported diluted loss per share of (\$0.07) for the six months ended December 31, 2012 versus diluted loss per share of (\$0.02) for the six months ended December 31, 2011. The decrease in diluted earnings per share is a result of a higher net loss (discussed above).

PROSPECTS FOR THE FUTURE

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

The Company's growth strategies are focused on the Retail, Pharmaceutical, Professional and Core Government markets. The Company also serves the Home Health Care, Assisted Living/Hospitality and Other markets. The Company believes its growth opportunities are supported by:

- An increase in the number of used needles improperly disposed of outside the large healthcare setting and into the solid waste system to 7.8 billion each year (tripled volume over the past ten years) and an increase in the number of self-injectors in the country to 13.5 million over the same period;
- An estimated 800,000 doctors, dentists, veterinarians, clinics, tattoo parlors and other businesses in the country that generate smaller quantities of medical waste, including used syringes to whom we offer a lower cost alternative to the traditional pick-up service;
- An estimated 40% of the four billion dispensed medication prescriptions which go unused every year in the United States generating an estimated 200 million pounds of unused medication waste;
- The pace of regulation of sharps and unused dispensed medications disposal which is gaining momentum at both the state and federal level - as of June 30, 2012, approximately 46 percent of U.S. citizens live in states that have enacted legislation or strict guidelines mandating the proper disposal of used syringes while 67 percent live in states that have enacted or proposed legislation mandating the proper disposal of dispensed unused medications;
- New solution offerings including the Complete Needle™ Collection and Disposal System (designed for the traditional under-served home self-injector), the TakeAway line of products for unused medications (including TakeAway Environmental Return System™), the Medical/Professional TakeAway Recovery System and enhanced patient support programs with pharmaceutical manufacturers;
- The opportunity to increase the availability to individuals of our consumer focused solutions like Complete Needle™ Collection and Disposal System and the TakeAway line of products through sponsorship by drug and ancillary product manufacturers;
- The Company's joint marketing alliance with Daniels Sharpsmart ("JMA"), announced in May 2012, to serve the entire U.S. medical waste market, offering clients a blended product portfolio to effectively target health care customers with multi-site and multi-sized locations; and
- The Company's strong financial position with a cash balance of \$16.8 million, no debt and \$3.0 million of credit available pursuant to its amended credit agreement as of December 31, 2012.

TERMINATED CONTRACT

In February 2009, the Company launched Sharps®MWMS™, a Medical Waste Management System ("MWMS"), which is a comprehensive medical waste and dispensed medication solution which includes an array of products and services necessary to effectively collect, store and treat medical waste and unused dispensed medication outside of the hospital or large health care facility setting. In connection with the launch in 2009, the Company signed a five year contract (one year, plus four option years) with a major U.S. government agency for a \$40 million program to provide our comprehensive Medical Waste Management System™, or Sharps®MWMS™, which is a rapid-deployment solution offering designed to provide medical waste collection, storage and treatment in the event of natural disasters, pandemics, man-made disasters, or other national emergencies. Sharps®MWMS™ is unique in that the solution also offers warehousing, inventory management, training, data and other services necessary to provide a comprehensive solution. We received a purchase order for \$28.5 million (\$6.0 million of which was recognized in fiscal year 2009, and \$22.5 million was recognized in the first half of fiscal year 2010). In January 2010, the Company was awarded the first option year (ending January 31, 2011) valued at approximately \$1.6 million which was recognized from February 1, 2010 through January 31, 2011. In January 2011, we were awarded the second option year (ending January 31, 2012) valued at approximately \$3.0 million and was recognized from February 1, 2011 through January 31, 2012. The Company was notified by an agency of the U. S. Government, acting on behalf of the DSNS, that the maintenance contract would not be renewed for the third option year (beginning February 1, 2012) and that the contract would be terminated effective January 31, 2012. This non-renewal was preceded by a letter dated December 2, 2011 advising the Company of the U.S. Government's intent to exercise the third option year. Although not stated in the notice provided by the U.S. Government, the Company believes the action is part of a budget reduction program being implemented by the DSNS.

RECENT DEVELOPMENTS

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. The shares would be purchased from time to time on the open market or in privately negotiated transactions, at the Company's discretion, in each case, in compliance with Rule 10b-18 under the Securities Exchange Act of 1934, as amended, subject to market and business conditions, applicable legal requirements, explicit black-out dates and

other factors. The purchases will be funded using the Company's available cash balances and cash generated from operations. The program does not obligate the Company to acquire any particular amount of common stock and may be modified, suspended or terminated at any time at the Company's discretion in accordance with Rule 10b-18.

LIQUIDITY AND CAPITAL RESOURCES

Cash Flow

Cash and cash equivalents decreased by \$0.7 million to \$16.8 million at December 31, 2012 from \$17.5 million at June 30, 2012. The decrease in cash and cash equivalents is primarily due to the timing of collections from orders related to billings in December 2012 and capital expenditures and additions to intangible assets of \$0.5 million (discussed below).

Accounts receivable increased by \$0.5 million to \$2.9 million at December 31, 2012 from \$2.4 million at June 30, 2012. The increase is due to timing of billings and collections.

Inventory decreased by \$0.2 million to \$2.0 million at December 31, 2012 from \$2.2 million at June 30, 2012. The decrease in inventory is due to timing of sales and new product buildup.

Working capital decreased \$0.5 million to \$18.1 million at December 31, 2012 from \$18.6 million at June 30, 2012. The decrease is primarily due to decreases in cash and cash equivalents and inventory offset by higher accounts receivable (as discussed above).

Property, plant and equipment, net decreased by \$0.1 million to \$4.5 million at December 31, 2012 from \$4.6 million at June 30, 2012. The decrease in property and equipment is related to depreciation expense of \$0.5 million, partially offset by capital expenditures of \$0.4 million. The capital expenditures are attributable primarily to (i) treatment facility improvements of \$291 thousand, (ii) manufacturing and assembly equipment including molds, dies and printing plates of \$54 thousand and (iii) computer equipment and custom software programming of \$48 thousand.

Stockholders' equity decreased by \$0.7 million to \$22.4 million at December 31, 2012 from \$23.2 million at June 30, 2012. This decrease is primarily attributable to a net loss for the six months ended December 31, 2012 of \$1.1 million. The impact was partially offset by the effect on equity (credit) of non-cash stock based award expense of \$0.3 million.

Off -Balance Sheet Arrangements

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

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

As a result of the termination of the U.S. Government contract, the Company is attempting to buy-out or sublease the Atlanta facility lease obligation. In August 2012, the Company executed an agreement with the Atlanta facility landlord reducing its obligation under the lease for the 51,000 square foot facility by approximately 20,000 square feet effective September 1, 2012.

Credit Facility

On July 13, 2012, the Company executed the First Amendment to Credit Agreement (the "Amendment") with Wells Fargo, National Association (the "Bank"). The Amendment extended the maturity date of the Credit Agreement (the "Credit Agreement") executed on July 15, 2010 from July 15, 2012 to July 15, 2014. The Company's Credit Agreement with the Bank provides for a two-year, \$5.0 million line of credit facility, the proceeds of which may be utilized for: (i) working capital, (ii) capital expenditures, (iii) letters of credit (up to \$500,000), (iv) acquisitions (up to \$1,000,000) and (v) general corporate purposes. Pursuant to the Amendment, the aggregate principal amount of advances outstanding at any time under the Credit Agreement shall not exceed the Borrowing Base which is equal to (i) 80% of Eligible Accounts Receivable (as defined in the Amendment) plus (ii) 40% of Eligible Inventory (as defined in the Amendment). As of December 31, 2012, the Company had no outstanding borrowings, \$108 thousand in letters of credit outstanding, and \$3.0 million of credit available pursuant to its amended credit agreement. The short-term borrowings during the reporting period did not differ from the amount outstanding as of December 31, 2012.

Indebtedness under the Credit Agreement is secured by substantially all of the Company's assets. Borrowings bear interest at either (i) a fluctuating rate per annum equal to LIBOR plus a margin of 250 basis points or (ii) at the Company's option, a fixed rate for a 30, 60, or 90 day period set at the option date's LIBOR plus a margin of 250 basis points. Any outstanding revolving loans, and accrued and unpaid interest, will be due and payable on July 15, 2014, the maturity date set under the

Amendment. The Company pays a fee of 0.2% per annum on the unused amount of the line of credit. We estimate that the interest rate applicable to the borrowings under the Amendment would be approximately 2.8% as of December 31, 2012.

The Amendment and Credit Agreement contain affirmative and negative covenants that, among other things, require the Company to maintain a minimum level of tangible net worth of \$21 million, not to exceed a ratio of liabilities to tangible net worth of 1.0 to 1.0 and achieve positive annual net income for the fiscal year ending June 30, 2013 (determined ninety days thereafter).

As of December 31, 2012, the Company was in compliance with all applicable financial covenants. The Amendment and Credit Agreement also contain customary events of default. Upon the occurrence of an event of default that remains uncured after any applicable cure period, the lenders' commitment to make further loans may terminate and the Company may be required to make immediate repayment of all indebtedness to the lenders. Management believes that the Company's current cash resources (cash on hand and cash generated from operations) along with its line of credit with the Bank will be sufficient to fund operations for the twelve months ending December 31, 2013.

CRITICAL ACCOUNTING ESTIMATES

Revenue Recognition: The Company recognizes revenue from product sales when goods are shipped or delivered, and title and risk of loss pass to the customer except for those sales via multiple-deliverable arrangements. Provisions for certain rebates, product returns and discounts to customers are accounted for as reductions in sales in the same period the related sales are recorded. Product discounts granted are based on the terms of arrangements with direct, indirect and other market participants, as well as market conditions, including prices charged by competitors. Rebates are estimated based on contractual terms, historical experience, trend analysis and projected market conditions in the various markets served.

The Company recognizes revenue in accordance with guidance on revenue recognition of multiple-deliverable revenue arrangements. Under this guidance, certain products offered by the Company have revenue producing components that are recognized over multiple delivery points (Sharps Recovery System™ (formerly the Sharps Disposal by Mail Systems®) and various TakeAway Environmental Return Systems™ referred to as "Mailbacks" and Sharps® Pump and Asset Return Boxes, referred to as "Pump Returns") and can consist of up to three separate elements, or units of measure, as follows: (1) the sale of the compliance and container system, (2) return transportation and (3) treatment service.

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

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

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

RECENTLY ISSUED ACCOUNTING STANDARDS

There are no recently issued accounting pronouncements that impact the Company's condensed consolidated financial statements as of December 31, 2012.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

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

ITEM 4. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

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

As of December 31, 2012, the Company conducted an evaluation (the "Evaluation"), under the supervision and with the participation of the CEO and CFO, of the effectiveness of the design and operation of our disclosure controls and procedures ("Disclosure Controls"), pursuant to Rules 13a-15(e) and 15d-15(e) of the Exchange Act. Based upon this Evaluation, the CEO and CFO concluded that our Disclosure Controls were effective as of December 31, 2012.

Changes in Internal Control over Financial Reporting

During the quarter ended December 31, 2012, there were no changes in the Company's internal controls over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) of the Exchange Act), that have materially affected, or are reasonably likely to materially affect the Company's internal control over financial reporting.

CEO and CFO Certifications

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

PART II – OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

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

ITEM 1A. RISK FACTORS

Refer to Item 1A. Risk Factors in the Company's annual report on Form 10-K for the year ended June 30, 2012 for the Company's risk factors. During the quarter ended December 31, 2012, there have been no changes to the Company's risk factors.

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

Recent Sales of Unregistered Securities.

None.

Issuer Purchases of Equity Securities.

None.

ITEM 6. EXHIBITS

(a) Exhibits:

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

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

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

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

101.INS XBRL Instance Document (filed herewith)

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

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

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

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

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

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

SIGNATURES

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

Dated: January 31, 2013

REGISTRANT:
SHARPS COMPLIANCE CORP.

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

Dated: January 31, 2013

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

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

I, David P. Tusa, certify that:

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

Date: January 31, 2013

/s/David P. Tusa

Chief Executive Officer and President
(Principal Executive Officer)

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

I, Diana P. Diaz, certify that:

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

Date: January 31, 2013

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

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

In connection with the quarterly report of Sharps Compliance Corp. (the "Company") on Form 10-Q for the three and six months ended December 31, 2012, as filed with the Securities and Exchange Commission on the date hereof, I, David P. Tusa, Chief Executive Officer and President of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, to the best of my knowledge that:

- (1) The Form 10-Q report for the three and six months December 31, 2012, filed with the Securities and Exchange Commission on January 31, 2013 fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Form 10-Q report for the three and six months ended December 31, 2012 fairly presents, in all material respects, the financial condition and results of operations of Sharps Compliance Corp.

Date: January 31, 2013

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

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

In connection with the quarterly report of Sharps Compliance Corp. (the "Company") on Form 10-Q for the three and six months ended December 31, 2012, as filed with the Securities and Exchange Commission on the date hereof, I, Diana P. Diaz, Vice President and Chief Financial Officer, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, to the best of my knowledge that:

- (1) The Form 10-Q report for the three and six months ended December 31, 2012, filed with the Securities and Exchange Commission on January 31, 2013 fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Form 10-Q report for the three and six months ended December 31, 2012 fairly presents, in all material respects, the financial condition and results of operations of Sharps Compliance Corp.

Date: January 31, 2013

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