

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**

WASHINGTON, D.C. 20549

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended December 31, 2018

OR

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

Commission File Number: 001-34269

SHARPS COMPLIANCE CORP.

(Exact name of registrant as specified in its charter)

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

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

(713) 432-0300

(Registrant's telephone number, including area code)

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

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

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

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

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

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

As of January 28, 2019, there were 16,135,013 outstanding shares of the Registrant's common stock, par value \$0.01 per share.

SHARPS COMPLIANCE CORP. AND SUBSIDIARIES		
		PAGE
PART I	FINANCIAL INFORMATION	
Item 1.	Condensed Consolidated Financial Statements	<u>3</u>
	<u>Condensed Consolidated Balance Sheets as of December 31, 2018 and June 30, 2018</u>	<u>3</u>
	<u>Condensed Consolidated Statements of Operations for the three months ended December 31, 2018 and 2017</u>	<u>4</u>
	<u>Condensed Consolidated Statements of Operations for the six months ended December 31, 2018 and 2017</u>	<u>5</u>
	<u>Condensed Consolidated Statements of Stockholders' Equity for the six months ended December 31, 2018 and year ended June 30, 2018</u>	<u>6</u>
	<u>Condensed Consolidated Statements of Cash Flows for the six months ended December 31, 2018 and 2017</u>	<u>7</u>
	<u>Notes to Condensed Consolidated Financial Statements</u>	<u>8</u>
Item 2.	Management's Discussion and Analysis of Financial Condition and Results of Operations	<u>15</u>
Item 4.	Controls and Procedures	<u>23</u>
Part II	OTHER INFORMATION	<u>23</u>
Item 1.	Legal Proceedings	<u>23</u>
Item 1A.	Risk Factors	<u>23</u>
Item 2.	Unregistered Sales of Equity Securities and Use of Proceeds.	<u>23</u>
Item 6.	Exhibits	<u>24</u>
	SIGNATURES	<u>24</u>

PART I – FINANCIAL INFORMATION
ITEM 1. FINANCIAL STATEMENTS

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

	December 31, 2018	June 30, 2018
ASSETS		
CURRENT ASSETS		
Cash	\$ 6,414	\$ 5,155
Accounts receivable, net of allowance for doubtful accounts of \$117 and \$102, respectively	7,294	6,370
Inventory	4,421	3,986
Contract asset	250	—
Prepaid and other current assets	717	739
TOTAL CURRENT ASSETS	19,096	16,250
PROPERTY, PLANT AND EQUIPMENT, net	6,185	6,572
CONTRACT ASSET, net of current portion	37	—
OTHER ASSETS	144	149
GOODWILL	6,735	6,735
INTANGIBLE ASSETS, net	3,423	3,525
TOTAL ASSETS	\$ 35,620	\$ 33,231
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES		
Accounts payable	\$ 2,554	\$ 1,500
Accrued liabilities	2,052	2,061
Current maturities of long-term debt	517	537
Contract liability	2,132	1,894
TOTAL CURRENT LIABILITIES	7,255	5,992
CONTRACT LIABILITY, net of current portion	337	470
OTHER LIABILITIES	98	130
DEFERRED TAX LIABILITY	171	—
LONG-TERM DEBT, net of current portion	1,207	1,465
TOTAL LIABILITIES	9,068	8,057
COMMITMENTS AND CONTINGENCIES		
STOCKHOLDERS' EQUITY		
Common stock, \$0.01 par value per share; 40,000,000 and 20,000,000 shares authorized, respectively; 16,430,628 and 16,377,636 shares issued, respectively and 16,135,013 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	28,811	28,621
Accumulated deficit	(870)	(2,057)
TOTAL STOCKHOLDERS' EQUITY	26,552	25,174
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$ 35,620	\$ 33,231

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

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

	Three-Months Ended December 31,	
	2018	2017
REVENUES	\$ 12,394	\$ 11,119
Cost of revenues	8,403	7,988
GROSS PROFIT	3,991	3,131
Selling, general and administrative	2,959	2,821
Depreciation and amortization	205	203
OPERATING INCOME	827	107
OTHER INCOME (EXPENSE)		
Interest income	8	5
Interest expense	(23)	(23)
TOTAL OTHER EXPENSE	(15)	(18)
INCOME BEFORE INCOME TAXES	812	89
INCOME TAX EXPENSE (BENEFIT)		
Current	(113)	7
Deferred	146	(74)
TOTAL INCOME TAX EXPENSE (BENEFIT)	33	(67)
NET INCOME	\$ 779	\$ 156
NET INCOME PER COMMON SHARE - Basic and Diluted	\$ 0.05	\$ 0.01
WEIGHTED AVERAGE SHARES USED IN COMPUTING NET INCOME PER COMMON SHARE:		
Basic	16,100	16,047
Diluted	16,106	16,068

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

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

	Six-Months Ended December 31,	
	2018	2017
REVENUES	\$ 22,687	\$ 20,802
Cost of revenues	15,344	14,643
GROSS PROFIT	<u>7,343</u>	<u>6,159</u>
Selling, general and administrative	5,985	5,546
Depreciation and amortization	406	405
OPERATING INCOME	952	208
OTHER INCOME (EXPENSE)		
Interest income	13	10
Interest expense	(46)	(47)
TOTAL OTHER EXPENSE	<u>(33)</u>	<u>(37)</u>
INCOME BEFORE INCOME TAXES	919	171
INCOME TAX EXPENSE (BENEFIT)		
Current	(109)	14
Deferred	179	(74)
TOTAL INCOME TAX EXPENSE (BENEFIT)	<u>70</u>	<u>(60)</u>
NET INCOME	<u>\$ 849</u>	<u>\$ 231</u>
NET INCOME PER COMMON SHARE - Basic and Diluted	<u>\$ 0.05</u>	<u>\$ 0.01</u>
WEIGHTED AVERAGE SHARES USED IN COMPUTING LOSS PER COMMON SHARE:		
Basic	16,091	16,028
Diluted	16,098	16,081

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

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

	<u>Common Stock</u>		<u>Treasury Stock</u>		<u>Additional Paid-in Capital</u>	<u>Accumulated Deficit</u>	<u>Total Stockholders' Equity</u>
	<u>Shares</u>	<u>Amount</u>	<u>Shares</u>	<u>Amount</u>			
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	—	—	—	—	191	—	191
Issuance of restricted stock	52,992	1	—	—	(1)	—	—
Cumulative effect of new accounting standard (Note 3)	—	—	—	—	—	338	338
Net income	—	—	—	—	—	849	849
Balances, December 31, 2018	16,430,628	\$ 165	(295,615)	\$ (1,554)	\$ 28,811	\$ (870)	\$ 26,552

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

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

	Six-Months Ended December 31,	
	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	\$ 849	\$ 231
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	807	784
Bad debt expense	36	12
Non-cash lease expense	24	—
Loss (gain) on disposal of property, plant and equipment	18	(2)
Stock-based compensation expense	191	261
Deferred tax expense	179	(74)
Changes in operating assets and liabilities:		
Accounts receivable	(960)	23
Inventory	(230)	(156)
Prepaid and other assets	(5)	45
Accounts payable and accrued liabilities	956	934
Contract asset and contract liability	156	11
NET CASH PROVIDED BY OPERATING ACTIVITIES	2,021	2,069
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property, plant and equipment	(281)	(643)
Cash proceeds from sale of property, plant and equipment	—	10
Additions to intangible assets	(203)	(48)
NET CASH USED IN INVESTING ACTIVITIES	(484)	(681)
CASH FLOWS FROM FINANCING ACTIVITIES		
Repayments of long-term debt	(278)	(300)
NET CASH USED IN FINANCING ACTIVITIES	(278)	(300)
NET INCREASE IN CASH	1,259	1,088
CASH, beginning of period	5,155	4,675
CASH, end of period	\$ 6,414	\$ 5,763
SUPPLEMENTAL CASH FLOW DISCLOSURES:		
Income taxes paid	\$ 14	\$ 3
Interest paid on long-term debt	\$ 46	\$ 39
NON-CASH INVESTING ACTIVITIES:		
Issuance of common stock for lease	\$ —	\$ 83
Transfer of equipment to inventory	\$ 205	\$ 105
Property, plant and equipment financed through accounts payable	\$ 57	\$ 87

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

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

NOTE 1 - ORGANIZATION AND BACKGROUND

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

Business: Sharps is a leading full-service national provider of comprehensive waste management services including medical, pharmaceutical and hazardous for small and medium quantity generators. The Company's solutions include Sharps Recovery System™ (formerly Sharps Disposal by Mail System®), TakeAway Medication Recovery System™, MedSafe®, TakeAway Recycle System™, 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 its route-based pick-up services in a twenty-four (24) state region of the South, Southeast and Northeast portions of the United States.

NOTE 2 - BASIS OF PRESENTATION

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with the rules and regulations of the Securities and Exchange Commission ("SEC") for interim financial information and with instructions to Form 10-Q and, accordingly, do not include all information and footnotes required under generally accepted accounting principles in the United States of America ("GAAP") for complete financial statements. Additionally, the preparation of the condensed consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect reported amounts. In the opinion of management, these interim condensed consolidated financial statements contain all adjustments (consisting of normal recurring adjustments) considered necessary for a fair presentation of the consolidated financial position of the Company as of December 31, 2018, the results of its operations for the three and six months ended December 31, 2018 and 2017, cash flows for the six months ended December 31, 2018 and 2017 and stockholders' equity for the six months ended December 31, 2018. The results of operations for the three and six months ended December 31, 2018 are not necessarily indicative of the results to be expected for the entire fiscal year ending June 30, 2019. 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, 2018.

NOTE 3 - 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. Companies have an option to use either a full retrospective approach or a modified retrospective approach to implement the standard. 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.
- 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

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

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 expenses 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 (in thousands):

	Three-Months Ended December 31,			
	2018	% Total	2017⁽²⁾	% Total
REVENUES BY SOLUTION:				
Mailbacks	\$ 8,039	64.8%	\$ 6,796	61.2%
Route-based pickup services	2,078	16.8%	1,830	16.5%
Unused medications	1,350	10.9%	1,317	11.8%
Third party treatment services	78	0.6%	337	3.0%
Other ⁽¹⁾	849	6.9%	839	7.5%
Total revenues	<u>\$ 12,394</u>	100.0%	<u>\$ 11,119</u>	100.0%

	Six-Months Ended December 31,			
	2018	% Total	2017⁽²⁾	% Total
REVENUES BY SOLUTION:				
Mailbacks	\$ 13,646	60.2%	\$ 12,261	58.9%
Route-based pickup services	4,206	18.5%	3,591	17.3%
Unused medications	2,989	13.2%	2,489	12.0%
Third party treatment services	180	0.8%	771	3.7%
Other ⁽¹⁾	1,666	7.3%	1,690	8.1%
Total revenues	<u>\$ 22,687</u>	100.0%	<u>\$ 20,802</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 contract categories 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 contract category, 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

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

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.

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. During the three and six months ended December 31, 2018, the Company recorded revenue from inventory builds that are held in vendor managed inventory under these service agreements of \$0.6 million and \$1.0 million, respectively. During the three and six months ended December 31, 2017, the Company recorded revenue from inventory builds that are held in vendor managed inventory under these service agreements of \$0.9 million and \$1.9 million, respectively. As of December 31, 2018 and June 30, 2018, \$1.7 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 condensed consolidated balance sheet as of December 31, 2018 was as follows (in thousands):

	December 31, 2018		
	As Reported	Adjustments	Balance Without Adoption
Current contract asset	\$ 250	\$ (250)	\$ —
Prepaid and other current assets	717	(22)	695
Total current assets	19,096	(272)	18,824
Contract asset, net of current portion	37	(37)	—
Total assets	35,620	(309)	35,311
Current contract liability ⁽¹⁾	2,132	11	2,143
Total current liabilities	7,255	11	7,266
Contract liability, net of current portion ⁽¹⁾	337	—	337
Total liabilities	9,068	11	9,079
Accumulated deficit	(870)	(320)	(1,190)
Total stockholders' equity	26,552	(320)	26,232
Total liabilities and stockholders' equity	\$ 35,620	\$ (309)	\$ 35,311

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

The impact of adopting the new accounting guidance on the Company's condensed consolidated statement of operations for the three and six months ended December 31, 2018 was as follows (in thousands):

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

	Three Months Ended December 31, 2018			Six-Months Ended December 31, 2018		
	As Reported	Adjustments	Balance Without Adoption	As Reported	Adjustments	Balance Without Adoption
Revenues	\$ 12,394	\$ 69	\$ 12,463	\$ 22,687	\$ 104	\$ 22,791
Cost of revenues	8,403	27	8,430	15,344	64	15,408
Gross profits	3,991	42	4,033	7,343	40	7,383
Selling, general and administrative	2,959	9	2,968	5,985	22	6,007
Operating income	827	33	860	952	18	970
Net income	\$ 779	\$ 33	\$ 812	\$ 849	\$ 18	\$ 867

The estimated timing of recognition of amounts included at December 31, 2018 are as follows: for the twelve months ended December 31, 2019 - contract asset of \$0.3 million and contract liability of \$2.1 million and for the twelve months ended December 31, 2020 - contract asset of \$37 thousand and contract liability of \$0.3 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 \$11 thousand and \$25 thousand for the three and six months ended December 31, 2018. The amortization of capitalized sales incentives, which is included in selling, general and administrative expense, totaled \$2 thousand and \$3 thousand for the three and six months ended December 31, 2018.

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's deferred tax liability of \$0.2 million includes \$0.3 million of the accumulated tax expense related to the effect of indefinite lived assets, such as goodwill, which cannot be used as a source of future taxable income in evaluating the need for a valuation against deferred tax assets net of \$0.1 million deferred tax asset for recoverable alternative minimum tax credits pursuant to the 2017 tax reform for which no valuation allowance is required. Prepaid and other current assets include realizable income taxes receivable associated with refundable alternative minimum tax credits of \$0.1 million.

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

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

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

recognized and the amount of any such charge. The Company performs its annual impairment assessment of goodwill during the fourth quarter of each fiscal year. The Company determined that there was no impairment during the prior year ended June 30, 2018 and there have been no triggering events since that date that would warrant further impairment testing.

Stock-Based Compensation: Stock-based compensation cost for options and restricted stock awarded to employees and directors is measured at the grant date, based on the calculated fair value of the award and is recognized as an expense over the requisite service period (generally the vesting period of the equity grant).

Fair Value of Financial Instruments: The Company considers the fair value of all financial instruments, including cash, accounts receivable and accounts payable to approximate their carrying values at December 31, 2018 and June 30, 2018 due to their short-term nature. The carrying value of the Company's debt approximates fair value due to the market rates of interest.

Reclassification of Prior Year Presentation in the Consolidated Statements of Cash Flows: Certain prior year amounts have been reclassified for consistency with the current year presentation in the Consolidated Statements of Cash Flows. The change in classification does not affect previously reported cash flows from operating activities, investing activities or financing activities in the Consolidated Statements of Cash Flows.

NOTE 4 – RECENTLY ISSUED ACCOUNTING STANDARDS

In February 2016, guidance for leases was issued, which requires balance sheet recognition for rights and obligations of all leases with terms in excess of twelve months. The new guidance also requires additional disclosures about the amount, timing and uncertainty of cash flows arising from leases. The provisions of the new guidance are effective for annual periods beginning after December 15, 2018 (effective July 1, 2019 for the Company), including interim periods within the reporting period, and early application is permitted. The Company is in the initial stages of evaluating the impact of the new guidance on its consolidated financial statements and related disclosures as well as evaluating the available transition methods. The Company will continue to evaluate the standard as well as additional changes, modifications or interpretations which may impact the Company.

NOTE 5 – INCOME TAXES

The Company's effective tax rate for the three and six months ended December 31, 2018 was 4.1% and 7.6%, respectively, reflecting primarily deferred tax expense related to the effect of 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 as well as estimated state income tax. For the three and six months ended December 31, 2018, the Company recorded total income tax expense of \$33 thousand and \$70 thousand, respectively. Total income tax expense for the three and six months ended December 31, 2018 consisted of estimated federal income tax expense of \$23 thousand and \$56 thousand, respectively and estimated state income tax expense of \$10 thousand and \$14 thousand, respectively. For the three and six months ended December 31, 2017, the Company recorded a total income tax benefit of \$67 thousand and \$60 thousand, respectively, consisting of a federal tax benefit of \$74 thousand for both periods offset by state income taxes of \$7 thousand and \$14 thousand, respectively.

The Tax Cuts and Jobs Act of 2017, enacted on December 22, 2017, contains significant changes to U.S. Tax law, including lowering the U.S. corporate tax rate to 21% and 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.

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

NOTE 6 - 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 ("Credit Agreement"). The Credit Agreement, which replaced the Company's prior credit agreement, provides for a \$14.0 million credit facility, the proceeds of which may be utilized as follows: (i) \$6.0 million for working capital, letters of credit (up to \$2.0 million) and general corporate purposes and (ii) \$8.0 million for acquisitions. Indebtedness under the Credit Agreement is secured by substantially all of the Company's assets with advances outstanding under the working capital portion of the credit facility at any time limited to a Borrowing Base (as defined in the Credit Agreement) equal to 80% of eligible accounts receivable plus the lesser of (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 December 31, 2018 was approximately 5.00%. The Company pays a fee of 0.25% per annum on the unused amount of the credit facility.

At December 31, 2018, long-term debt consisted of the following (in thousands):

Term loan, bearing interest at 5.00%, monthly payments of \$43; maturing March 2022.	\$ 1,724
Less: current portion	517
Long-term debt, net of current portion	<u>\$ 1,207</u>

The Company has availability under the Credit Agreement of \$12.3 million (\$6.0 million for the working capital and \$6.3 million for the acquisitions) as of December 31, 2018. The Company also has \$40,000 in letters of credit outstanding as of December 31, 2018.

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.

Payments due on long-term debt subsequent to December 31, 2018 are as follows (in thousands):

Twelve Months Ending December 31,	
2019	\$ 517
2020	517
2021	517
2022	173
	<u>\$ 1,724</u>

The Company utilizes performance bonds to support operations based on certain state requirements. At December 31, 2018, the Company had performance bonds outstanding covering financial assurance up to \$1.2 million.

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

NOTE 7 – STOCK-BASED COMPENSATION

Stock-based compensation cost for options and restricted stock awarded to employees and directors is measured at the grant date, based on the calculated fair value of the award and is recognized as an expense over the requisite service period (generally the vesting period of the equity grant) net of applicable unvested shares forfeited. During the three and six months ended December 31, 2018 and 2017, stock-based compensation amounts are as follows (in thousands):

	Three-Months Ended December 31,		Six-Months Ended December 31,	
	2018	2017	2018	2017
Stock-based compensation expense included in:				
Cost of revenues	\$ 3	\$ 13	\$ 2	\$ 27
Selling, general and administrative	87	127	189	234
Total	<u>\$ 90</u>	<u>\$ 140</u>	<u>\$ 191</u>	<u>\$ 261</u>

NOTE 8 - EARNINGS PER SHARE

Basic earnings per share is computed by dividing net income by the weighted average number of common shares outstanding during the period. Diluted earnings 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.

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

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

	Three-Months Ended December 31,		Six-Months Ended December 31,	
	2018	2017	2018	2017
Net income, as reported	\$ 779	\$ 156	\$ 849	\$ 231
Weighted average common shares outstanding	16,100	16,047	16,091	16,028
Effect of dilutive stock options	6	21	7	53
Weighted average diluted common shares outstanding	<u>16,106</u>	<u>16,068</u>	<u>16,098</u>	<u>16,081</u>
Net income per common share				
Basic and diluted	\$ 0.05	\$ 0.01	\$ 0.05	\$ 0.01
Employee stock options excluded from computation of dilutive income per share amounts because their effect would be anti-dilutive	684	778	684	401

NOTE 9 - EQUITY TRANSACTIONS

During the three and six months ended December 31, 2018 and 2017, there were no exercises of stock options to purchase shares of the Company's common stock. As of December 31, 2018, there was \$0.3 million of stock compensation expense related to non-vested awards which is expected to be recognized over a weighted average period of 2.5 years.

During the twelve months 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 six months ended December 31, 2018 was \$24 thousand. The remaining cost will be amortized over the life of the lease and is included in Prepaid and Other Current Assets or Other Assets on the balance sheet.

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 10 – GOODWILL AND INTANGIBLE ASSETS

At December 31, 2018 and June 30, 2018, intangible assets consisted of the following (in thousands):

	Estimated Useful Lives	December 31, 2018			June 30, 2018		
		Original Amount	Accumulated Amortization	Net Amount	Original Amount	Accumulated Amortization	Net Amount
Customer relationships	7 years	\$ 3,007	\$ (1,135)	\$ 1,872	\$ 3,007	\$ (919)	\$ 2,088
Permits	6 - 15 years	1,650	(438)	1,212	1,459	(390)	1,069
Patents	5 - 17 years	395	(288)	107	383	(278)	105
Trade name	7 years	270	(96)	174	270	(77)	193
Non-compete	5 years	117	(59)	58	117	(47)	70
Total intangible assets, net		\$ 5,439	\$ (2,016)	\$ 3,423	\$ 5,236	\$ (1,711)	\$ 3,525

During both the six months ended December 31, 2018 and 2017, amortization expense was \$0.3 million. There have been no changes in the carrying amount of goodwill since June 30, 2018.

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

As of December 31, 2018, future amortization of intangible assets is as follows (in thousands):

Twelve Months Ending December 31,	
2019	\$ 610
2020	610
2021	597
2022	565
2023	308
Thereafter	733
	\$ 3,423

NOTE 11 – INVENTORY

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

	December 31, 2018	June 30, 2018
Raw materials	\$ 1,481	\$ 1,323
Finished goods	2,940	2,663
Total	\$ 4,421	\$ 3,986

ITEM 2.

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

INFORMATION REGARDING FORWARD-LOOKING STATEMENTS

This quarterly report on Form 10-Q contains certain forward-looking statements and information relating to the Company and its subsidiaries that are based on the beliefs of the Company's management as well as assumptions made by and information currently available to the Company's management. When used in this report, the words "will," "may," "position," "plan," "potential," "continue," "anticipate," "believe," "expect," "estimate," "project" and "intend" and words or phrases of similar import, as they relate to the Company or its subsidiaries or Company management, are intended to identify forward-looking statements. Such statements reflect the known and unknown risks, uncertainties and assumptions related to certain factors, including without limitations, competitive factors, general economic conditions, customer relations, relationships with vendors, governmental regulation and supervision, seasonality, distribution networks, product introductions and acceptance, technological change, changes in industry practices, onetime events and other factors described herein. Based upon changing conditions, should any one or more of these risks or uncertainties materialize, or should any underlying assumptions prove incorrect, actual results may vary materially from those described herein as anticipated, believed, estimated, expected or intended. Consequently, no forward-looking statements can be guaranteed. When considering these forward-looking statements, you should keep in mind the risk factors and other cautionary statements in this Quarterly Report on Form 10-Q or refer to our Annual Report on Form 10-K. Actual results may vary materially. You are cautioned not to place undue reliance on any forward-looking statements. You should also understand that it is not possible to predict or identify all such factors and as such should not consider the preceding list or the risk factors to be a complete list of all potential risks and uncertainties. The Company does not intend to update these forward-looking statements.

GENERAL

Sharps Compliance Corp. is a leading 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.

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 50% 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, route-based services for medical, pharmaceutical and hazardous waste and the TakeAway Recycling System™ for single-use devices (SUDs). The TakeAway Recycle System is an exciting new solution for the Company as it is a relatively new solution for the market. Single-use devices are constructed of materials capable of being recycled including plastics, metals, circuit boards and batteries. With an increased emphasis for more sustainable solutions, the TakeAway Recycle System is a much needed complement to the single-use device market.

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, 2018 and 2017. 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 revenues, unaudited):

	Three-Months Ended December 31,				Six-Months Ended December 31,			
	2018	%	2017	%	2018	%	2017	%
Revenues	\$ 12,394	100.0 %	\$ 11,119	100.0 %	\$ 22,687	100.0 %	\$ 20,802	100.0 %
Cost of revenues	8,403	67.8 %	7,988	71.8 %	15,344	67.6 %	14,643	70.4 %
Gross profit	3,991	32.2 %	3,131	28.2 %	7,343	32.4 %	6,159	29.6 %
SG&A expense	2,959	23.9 %	2,821	25.4 %	5,985	26.4 %	5,546	26.7 %
Depreciation and amortization	205	1.7 %	203	1.8 %	406	1.8 %	405	1.9 %
Operating income	827	6.7 %	107	1.0 %	952	4.2 %	208	1.0 %
Total other expense	(15)	(0.1)%	(18)	(0.2)%	(33)	(0.1)%	(37)	(0.2)%
Income before income taxes	812	6.6 %	89	0.8 %	919	4.1 %	171	0.8 %
Income tax expense (benefit)	33	0.3 %	(67)	(0.6)%	70	0.3 %	(60)	(0.3)%
Net Income	\$ 779	6.3 %	\$ 156	1.4 %	\$ 849	3.7 %	\$ 231	1.1 %

THREE MONTHS ENDED DECEMBER 31, 2018 AS COMPARED TO THREE MONTHS ENDED DECEMBER 31, 2017

Total revenues for the three months ended December 31, 2018 of \$12.4 million increased by \$1.3 million, or 11.5%, over the total revenues for the three months ended December 31, 2017 of \$11.1 million. The increase in revenue is mainly due to increased billings in the Retail and Professional markets partially offset by decreased billings in the Pharmaceutical Manufacturer and Environmental markets. The components of billings by market are as follows (in thousands, unaudited):

	Three-Months Ended December 31,		
	2018	2017	Variance
<u>BILLINGS BY MARKET:</u>			
Professional	\$ 3,828	\$ 3,355	\$ 473
Retail	4,152	2,581	1,571
Home Health Care	2,161	2,114	47
Pharmaceutical Manufacturer	842	1,467	(625)
Assisted Living	620	621	(1)
Government	543	410	133
Environmental	78	337	(259)
Other	249	186	63
Subtotal	<u>12,473</u>	<u>11,071</u>	<u>1,402</u>
GAAP Adjustment *	<u>(79)</u>	<u>48</u>	<u>(127)</u>
Revenue Reported	<u>\$ 12,394</u>	<u>\$ 11,119</u>	<u>\$ 1,275</u>

*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 product returns and discounts to customers which are accounted for as reductions in sales in the same period to related sales are recorded. The difference between customer billings and GAAP revenue is reflected in the Company's balance sheet as Contract Liability. See Note 3 "Revenue Recognition" in "Notes to Condensed Consolidated Financial Statements".

The components of billings by solution are as follows (in thousands, unaudited):

	Three-Months Ended December 31,			
	2018	% Total	2017⁽³⁾	% Total
BILLINGS BY SOLUTION:				
Mailbacks	\$ 8,118	65.1%	\$ 6,748	61.0%
Route-based pickup services	2,078	16.7%	1,830	16.5%
Unused medications	1,350	10.8%	1,317	11.9%
Third party treatment services	78	0.6%	337	3.0%
Other ⁽¹⁾	849	6.8%	839	7.6%
Total billings	12,473	100.0%	11,071	100.0%
GAAP adjustment ⁽²⁾	(79)		48	
Revenue reported	<u>\$ 12,394</u>		<u>\$ 11,119</u>	

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

(2) Represents the net impact of the revenue recognition adjustment required to arrive at reported generally accepted accounting principles ("GAAP") revenue. Customer billings include all invoiced amounts associated with products shipped or services rendered during the period reported. GAAP revenue includes customer billings as well as numerous adjustments necessary to reflect, (i) the deferral of a portion of current period sales, (ii) recognition of certain revenue associated with products returned for treatment and destruction and (iii) provisions for certain product returns and discounts to customers which are accounted for as reductions in sales in the same period to related sales are recorded. 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 mainly attributable to increased billings in the Retail (\$1.6 million) and Professional (\$0.5 million) markets, partially offset by decreased billings in the Pharmaceutical Manufacturer (\$0.6 million) and Environmental (\$0.3 million) markets. The increase in Retail billings was primarily related to flu shot related orders. 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 made up of physicians, clinics, dentists, surgery centers, veterinarians and other healthcare professionals, who typically use a combination of the cost-effective and convenient Sharps Recovery System and the Company's route-based pick-up services. The decrease in Pharmaceutical Manufacturer billings was due to timing of inventory builds for patient support programs. The decrease in Environmental billings was due to higher third party treatment billings from our treatment facilities in Texas and Pennsylvania during the three months ended December 31, 2017. Billings for Mailbacks increased 20.3% to \$8.1 million as compared to \$6.7 million in the prior year period and represented 65.1% of total billings. Billings for Route-Based Pickup Services increased 13.6% to \$2.1 million as compared to \$1.8 million in the prior year period and represented 16.7% of total billings. Billings for Unused Medications increased 2.5% to \$1.4 million as compared to \$1.3 million in the prior year period and represented 10.8% of total billings.

Cost of revenues for the three months ended December 31, 2018 of \$8.4 million was 67.8% of revenues. Cost of revenues for the three months ended December 31, 2017 of \$8.0 million was 71.8% of revenues. The gross margin for the three months ended December 31, 2018 of 32.2% increased compared to the gross margin for the three months ended December 31, 2017 of 28.2% due to leverage gained from higher revenues.

Selling, general and administrative ("SG&A") expenses for the three months ended December 31, 2018 and 2017 were \$3.0 million and \$2.8 million, respectively. The increase in SG&A expense was due to continued investment in sales and marketing.

The Company reported an operating income of \$0.8 million three months ended December 31, 2018 as compared to \$0.1 million in the prior year period. Operating income increased primarily due to higher revenue and higher gross margin (discussed above).

The Company reported an income before income taxes of \$0.8 million for the three months ended December 31, 2018 as compared to \$0.1 million for the prior year period. Income before income taxes increased due to the increase in operating income (discussed above).

The Company's effective tax rate for the three months ended December 31, 2018 was 4.1% 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. The Company's effective tax rate for the three months ended December 31, 2017 was (75.3)% reflecting the impact of the 2017 tax law change.

The Company reported a net income of \$0.8 million for the three months ended December 31, 2018 as compared to \$0.2 million for the prior year period. Net income increased due to the increase in the operating income (discussed above).

The Company reported basic and diluted income per share of \$0.05 for the three months ended December 31, 2018 as compared to \$0.01 for the prior year period.

SIX MONTHS ENDED DECEMBER 31, 2018 AS COMPARED TO SIX MONTHS ENDED DECEMBER 31, 2017

Total revenues for the six months ended December 31, 2018 of \$22.7 million increased by \$1.9 million, or 9.1%, over the total revenues for the six months ended December 31, 2017 of \$20.8 million. The increase in revenue is mainly due to increased billings in the Retail and Professional markets partially offset by decreased billings in the Pharmaceutical Manufacturer and Environmental markets. The components of billings by market are as follows (in thousands):

	Six-Months Ended December 31,		
	(Unaudited)		
	2018	2017	Variance
BILLINGS BY MARKET:			
Professional	\$ 7,502	\$ 6,456	\$ 1,046
Retail	6,412	3,981	2,431
Home Health Care	4,088	4,115	(27)
Pharmaceutical Manufacturer	1,650	2,999	(1,349)
Assisted Living	1,265	1,225	40
Government	1,140	964	176
Environmental	181	771	(590)
Other	539	404	135
Subtotal	22,777	20,915	1,862
GAAP Adjustment *	(90)	(113)	23
Revenue Reported	\$ 22,687	\$ 20,802	\$ 1,885

*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 product returns and discounts to customers which are accounted for as reductions in sales in the same period to related sales are recorded. The difference between customer billings and GAAP revenue is reflected in the Company's balance sheet as Contract Liability. See Note 3 "Revenue Recognition" in "Notes to Condensed Consolidated Financial Statements".

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

	Six-Months Ended December 31,			
	2018	% Total	2017⁽³⁾	% Total
BILLINGS BY SOLUTION:				
Mailbacks	\$ 13,736	60.3%	\$ 12,374	59.1%
Route-based pickup services	4,206	18.5%	3,591	17.2%
Unused medications	2,989	13.1%	2,489	11.9%
Third party treatment services	180	0.8%	771	3.7%
Other ⁽¹⁾	1,666	7.3%	1,690	8.1%
Total billings	\$ 22,777	100.0%	\$ 20,915	100.0%
GAAP adjustment ⁽²⁾	(90)		(113)	
Revenue reported	\$ 22,687		\$ 20,802	

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

(2) Represents the net impact of the revenue recognition adjustment required to arrive at reported generally accepted accounting principles ("GAAP") revenue. Customer billings include all invoiced amounts associated with products shipped or services rendered during the period reported. GAAP revenue includes customer billings as well as numerous adjustments necessary to reflect, (i) the deferral of a portion of current period sales, (ii) recognition of certain revenue associated with products returned for treatment and destruction and (iii) provisions for certain product returns and discounts to customers which are accounted for as reductions in sales in the same period to related sales are recorded. 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 mainly due to an increase in the Retail (\$2.4 million) and Professional (\$1.0 million) markets, partially offset by decreases in the Pharmaceutical Manufacturer (\$1.3 million) and Environmental (\$0.6 million) markets. The increase in Retail billings was due mainly to increased flu shot-related orders. 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 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. Billings for Mailbacks, which represented 60.3% of total billings, increased 11.0% to \$13.7 million as compared to \$12.4 million in the prior year period primarily related to the increase in billings related to flu related business. Billings for Route-Based Pickup Services increased 17.1% to \$4.2 million as compared to \$3.6 million in the prior year period and represented 18.5% of total billings. Billings for Unused Medications increased 20.0% to \$3.0 million as compared to \$2.5 million in the prior year period and represented 13.1% of total billings.

Cost of revenues for the six months ended December 31, 2018 of \$15.3 million was 67.6% of revenues. Cost of revenues for the six months ended December 31, 2017 of \$14.6 million was 70.4% of revenues. The gross margin for the six months ended December 31, 2018 of 32.4% increased compared to the gross margin for the six months ended December 31, 2017 of 29.6%. Gross margin was positively impacted for the six months ended December 31, 2018 due to higher revenue than the prior year period.

Selling, general and administrative ("SG&A") expense for the six months ended December 31, 2018 and 2017 was \$6.0 million and \$5.5 million, respectively. The increase in SG&A expense was due to continued investment in sales and marketing.

The Company reported an operating income of \$1.0 million for the six months ended December 31, 2018 compared to an operating income of \$0.2 million for the six months ended December 31, 2017. Operating income increased primarily due to higher revenue and higher gross margin (discussed above).

The Company reported income before income taxes of \$0.9 million for the six months ended December 31, 2018 versus income before income taxes of \$0.2 million for the six months ended December 31, 2017. Income before income taxes increased due to the increase in operating income (discussed above).

The Company's effective tax rate for the six months ended December 31, 2018 was 7.6% 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. The Company's effective tax rate for the six months ended December 31, 2017 was (35)% reflecting the impact of the 2017 tax law change.

The Company reported a net income of \$0.8 million for the six months ended December 31, 2018 compared to net income of \$0.2 million for the six months ended December 31, 2017. Net income increased due to the increase in the operating income (discussed above).

The Company reported basic and diluted income per share of \$0.05 for the six months ended December 31, 2018 versus basic and diluted income per share of \$0.01 for the six months ended December 31, 2017. Basic and diluted income per share increased due to the increase in net income (discussed above).

PROSPECTS FOR THE FUTURE

The Company continues to focus on core markets and solution offerings that fuel growth. Its key markets include healthcare facilities, pharmaceutical manufacturers, home healthcare providers, assisted living/long-term care, retail pharmacies and clinics, and the professional market which is comprised of physicians, dentists, surgery centers and veterinary practices. These markets require cost-effective services for managing medical, pharmaceutical and hazardous waste.

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

- A large professional market that consists of dentists, veterinarians, clinics, private practice physicians, urgent care facilities, ambulatory surgical centers and other healthcare facilities. This regulated market consists of small to medium quantity generators of medical, pharmaceutical and hazardous waste where we can offer a lower cost to service with solutions to match individual facility needs. The Company addresses this market from two directions: (i) field sales which focus on larger-dollar and nationwide opportunities where we can integrate the route-based pickup service along with our mailback solutions to create a comprehensive medical waste management offering and (ii) inside and online sales which focus on the individual or small group professional offices, government agencies, smaller retail pharmacies and clinics and assisted living/long-term care facilities. The Company is able to compete more aggressively in the medium quantity generator market with the addition of route-based services where the mailback may not be as cost effective. The Company's route-based business provides direct service to areas encompassing over 50% of the U.S. population.
- In July 2015 and December 2015, the Company augmented its network of medical and hazardous waste service providers with acquisitions of route-based pickup services in the Northeast serving Pennsylvania, Maryland, Ohio and other neighboring states. In July 2016, the Company acquired another route-based pickup service which expanded service to New York and New Jersey and strengthened the Company's position in the Northeast. Through a combination of acquisition and organic growth, the Company now offers route-based pickup services in a twenty-four (24) state region of the South, Southeast and Northeast portions of the United States. The Company directly serves more than 11,700 customer locations with route-based pickup services. With the addition of these route-based pickup regions and the network of medical and hazardous waste service providers servicing the entire U.S., the Company offers customers a blended product portfolio to effectively manage multi-site and multi-sized locations, including those that generate larger quantities of waste. The network has had a significant positive impact on our pipeline of sales opportunities - over 60% of this pipeline is attributable to opportunities providing comprehensive waste management service offerings where both the mailback and pickup service are integrated into the offering.
- The changing demographics of the U.S. population – according to the U.S. Census Bureau, 2012 Population Estimates and National Projections, one out of five Americans will be 65 years or older by 2030, which will increase the need for cost-effective medical waste management solutions, especially in the long-term care and home healthcare markets. With multiple solutions for managing regulated healthcare-related waste, the Company delivers value as a single-source provider with blended mailback and route-based pickup services matched to the waste volumes of each facility.
- The shift of healthcare from traditional settings to the retail pharmacy and clinic markets, where the Company focuses on driving increased promotion of the Sharps Recovery System. According to the Centers for Disease Control ("CDC"), 38.5% of adults received a flu shot and 28.2% of flu shots for adults were administered in a retail clinic. Over the flu seasons from 2011 to 2018, the Company saw growth in five years off 10% to 36% 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 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 \$6.4 million, debt of \$1.7 million 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 increased by \$1.3 million to \$6.4 million at December 31, 2018 from \$5.2 million at June 30, 2018 due to the following:

- **Cash Flows from Operating Activities** - Working capital increased by \$1.5 million to \$11.8 million at December 31, 2018 from \$10.3 million at June 30, 2018. The increase in working capital is attributed primarily to the increase in cash, and also impacted by:
 - an increase in accounts receivable of \$1.0 million to \$7.3 million at December 31, 2018 from \$6.4 million at June 30, 2018 due to timing of billings and collections.
 - an increase in accounts payable and accrued liabilities of \$1.0 million due to the timing of purchases and payments to vendors.
- **Cash Flows used in Investing Activities** - Investing activities include permitting and capital expenditures of \$0.5 million for normal permitting, plant and equipment additions.
- **Cash Flows used in Financing Activities** - Financing activities include repayments of debt of \$0.3 million.

Off-Balance Sheet Arrangements

The Company was not a party to any off-balance sheet transactions as defined in Item 303 of Regulation S-K for the six months ended December 31, 2018 and the year ended June 30, 2018.

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, which replaced the Company's prior credit agreement, provides for a \$14.0 million credit facility, the proceeds of which may be utilized as follows: (i) \$6.0 million for working capital, letters of credit (up to \$2.0 million) and general corporate purposes and (ii) \$8.0 million for acquisitions. Indebtedness under the Credit Agreement is secured by substantially all of the Company's assets with advances outstanding under the working capital portion of the credit facility at any time limited to a Borrowing Base (as defined in the Credit Agreement) equal to 80% of eligible accounts receivable plus the lesser of (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 December 31, 2018 was approximately 5.00%. The Company pays a fee of 0.25% per annum on the unused amount of credit facility. At December 31, 2018, \$1.7 million was outstanding related to the acquisition portion of the credit facility. No amounts were outstanding under the working capital portion of the credit facility at December 31, 2018.

The Company has availability under the Credit Agreement of approximately \$12.3 million (\$6.0 million for the working capital and \$6.3 million for the acquisitions) as of December 31, 2018. The Company also had \$40,000 in letters of credit outstanding as of December 31, 2018.

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 utilizes performance bonds to support operations based on certain state requirements. At December 31, 2018, the Company had performance bonds outstanding covering financial assurance up to \$1.2 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 at least the next twelve months.

CRITICAL ACCOUNTING POLICIES

Critical accounting policies are defined as those that are reflective of significant judgments and uncertainties and could potentially result in materially different results under different assumptions and conditions. The Company's critical accounting policies are included in the discussion entitled Critical Accounting Policies in Item 7. Management's Discussions and Analysis of Financial Condition and Results of Operations in the Company's Annual Report on Form 10-K for the fiscal year ended June 30, 2018, as filed with the SEC. There were no material changes to the critical accounting policies disclosed in the Annual Report on Form 10-K other than the implementation of the new revenue recognition standard described in Note 3 to the condensed consolidated financial statements.

RECENTLY ISSUED ACCOUNTING STANDARDS

In February 2016, guidance for leases was issued, which requires balance sheet recognition for rights and obligations of all leases with terms in excess of twelve months. The new guidance also requires additional disclosures about the amount, timing and uncertainty of cash flows arising from leases. The provisions of the new guidance are effective for annual periods beginning after December 15, 2018 (effective July 1, 2019 for the Company), including interim periods within the reporting period, and early application is permitted. The Company is in the initial stages of evaluating the impact of the new guidance on its consolidated financial statements and related disclosures as well as evaluating the available transition methods. The Company will continue to evaluate the standard as well as additional changes, modifications or interpretations which may impact the Company.

ITEM 4. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

The Company maintains “disclosure controls and procedures,” as such term is defined in Rule 13a-15(e) under the Exchange Act, that are designed to ensure that information required to be disclosed in our Exchange Act reports is recorded, processed, summarized and reported within the time periods specified in the SEC rules and forms, and that such information is accumulated and communicated to management, including the Chief Executive Officer (“CEO”) and the Chief Financial Officer (“CFO”) as appropriate, to allow timely decisions regarding required disclosure. The Company conducted an evaluation (the “Evaluation”), under the supervision and with the participation of the CEO and CFO, of the effectiveness of the design and operation of our disclosure controls and procedures (“Disclosure Controls”) as of December 31, 2018, 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, 2018.

Changes in Internal Control

During the three months ended December 31, 2018, there were no changes in the Company’s internal controls over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) of the Exchange Act), that have materially affected, or are reasonably likely to materially affect the Company’s internal control over financial reporting.

PART II – OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

From time to time, the Company is involved in legal proceedings and litigation in the ordinary course of business. In the opinion of management, the outcome of such matters is not anticipated to 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, 2018 for the Company’s risk factors. During the period ended December 31, 2018, there have been no changes to the Company’s risk factors.

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

None

ITEM 6. EXHIBITS

(a) Exhibits:

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

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

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

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

101.INS XBRL Instance Document (filed herewith)

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

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

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

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

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

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

SIGNATURES

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

REGISTRANT:
SHARPS COMPLIANCE CORP.

Dated: January 30, 2019

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

Dated: January 30, 2019

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

Exhibit 31.1

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

I, David P. Tusa, certify that:

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

Date: January 30, 2019

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

Exhibit 31.2

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

I, Diana P. Diaz, certify that:

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

Date: January 30, 2019

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

Exhibit 32.1

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

In connection with the quarterly report of Sharps Compliance Corp. (the "Company") on Form 10-Q for the period ended December 31, 2018, as filed with the Securities and Exchange Commission on the date hereof, I, David P. Tusa, Chief Executive Officer and President of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, to the best of my knowledge that:

- (1) The Form 10-Q report for the period ended December 31, 2018, filed with the Securities and Exchange Commission on January 30, 2019 fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Form 10-Q report for the period ended December 31, 2018 fairly presents, in all material respects, the financial condition and results of operations of Sharps Compliance Corp.

Date: January 30, 2019

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

Exhibit 32.2

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

In connection with the quarterly report of Sharps Compliance Corp. (the "Company") on Form 10-Q for the period ended December 31, 2018, as filed with the Securities and Exchange Commission on the date hereof, I, Diana P. Diaz, Vice President and Chief Financial Officer, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, to the best of my knowledge that:

- (1) The Form 10-Q report for the period ended December 31, 2018, filed with the Securities and Exchange Commission on January 30, 2019 fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Form 10-Q report for the period ended December 31, 2018 fairly presents, in all material respects, the financial condition and results of operations of Sharps Compliance Corp.

Date: January 30, 2019

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