SHARPS COMPLIANCE CORP
Form 10-Q
November 14, 2008

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

x **QUARTERLY REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the quarterly period ended September 30, 2008

¨ **TRANSITION REPORT UNDER SECTION 13 or 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from _________ to _________.

Commission File Number: 0-22390

SHARPS COMPLIANCE CORP.
(Exact name of small business issuer 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
(Issuer's telephone number)

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 x No o

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

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

As of October 31, 2008, there were 12,841,280 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

	September 30, 2008 (Unaudited)	June 30, 2008
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	$ 2,547,276	$ 2,035,219
Restricted cash	-	10,010
Accounts receivable, net of allowance for doubtful accounts of $15,308 and $15,301, respectively	1,870,881	1,183,975
Inventory	569,754	580,861
Prepaid and other assets	282,504	359,894
TOTAL CURRENT ASSETS	5,270,415	4,169,959
PROPERTY AND EQUIPMENT, net of accumulated depreciation of $1,003,180 and $933,129, respectively	1,547,498	1,375,657
INTANGIBLE ASSETS, net of accumulated amortization of $147,130 and $140,801, respectively	141,121	130,702
TOTAL ASSETS	$ 6,959,034	$ 5,676,318
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES		
Accounts payable	$ 1,004,492	$ 778,423
Accrued liabilities	360,743	432,971
Deferred revenue	1,219,736	1,063,016
TOTAL CURRENT LIABILITIES	2,584,971	2,274,410
LONG-TERM DEFERRED REVENUE	676,626	516,372
TOTAL LIABILITIES	3,261,597	2,790,782
COMMITMENTS AND CONTINGENCIES		
STOCKHOLDERS' EQUITY		
Common stock, $0.01 par value per share; 20,000,000 shares authorized; 12,791,280 and 12,580,183 shares issued and outstanding, respectively	127,914	125,802
Additional paid-in capital	9,429,790	9,225,342
Accumulated deficit	(5,860,267)	(6,465,608)
TOTAL STOCKHOLDERS' EQUITY	3,697,437	2,885,536
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$ 6,959,034	$ 5,676,318

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

SHARPS COMPLIANCE CORP. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF INCOME

	Three Months Ended September 30, 2008	Three Months Ended September 30, 2007
	(Unaudited)	
REVENUES		
Product	$ 4,179,452	$ 3,289,503
Environmental and other services	90,084	101,609
TOTAL REVENUES	4,269,536	3,391,112
COSTS AND EXPENSES		
Cost of revenues	2,420,360	1,957,735
Selling, general and administrative	1,162,954	1,155,381
Depreciation and amortization	76,380	57,697
TOTAL COSTS AND EXPENSES	3,659,694	3,170,813
OPERATING INCOME	609,842	220,299
OTHER INCOME (EXPENSE)		
Interest income	12,071	26,340
Interest expense	-	(38)
Other income	2,800	-
TOTAL OTHER INCOME	14,871	26,302
INCOME BEFORE INCOME TAXES	624,713	246,601
INCOME TAXES	(19,372)	(4,997)
NET INCOME	$ 605,341	$ 241,604
NET INCOME PER COMMON SHARE		
Basic	$ 0.05	$ 0.02
Diluted	$ 0.04	$ 0.02
WEIGHTED AVERAGE SHARES USED IN COMPUTING NET INCOME PER COMMON SHARE:		
Basic	12,662,408	12,061,734
Diluted	13,703,683	13,535,520

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

SHARPS COMPLIANCE CORP. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

	Three Months Ended September 30,	
	2008	**2007**
	(Unaudited)	
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	$ 605,341	$ 241,604
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	76,380	57,697
Stock based compensation expense	37,063	29,460
Excess tax benefits from stock-based award activity	(8,276)	-
Changes in operating assets and liabilities:		
Decrease in restricted cash	10,010	-
Increase in accounts receivable	(686,906)	(178,589)
Decrease (increase) in inventory	11,107	(180,011)
Decrease in prepaid and other assets	77,390	14,240
Increase (decrease) in accounts payable and accrued liabilities	162,117	(37,267)
Increase in deferred revenue	316,974	120,889
NET CASH PROVIDED BY OPERATING ACTIVITIES	601,200	68,023
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property and equipment	(241,892)	(75,971)
Purchase of intangible assets	(16,748)	(8,903)
NET CASH USED IN INVESTING ACTIVITIES	(258,640)	(84,874)
CASH FLOWS FROM FINANCING ACTIVITIES		
Payments on capital lease obligations	-	(1,344)
Excess tax benefits from stock-based award activity	8,276	-
Proceeds from exercise of stock options	161,221	122,240
NET CASH PROVIDED BY FINANCING ACTIVITIES	161,222	120,896
NET INCREASE IN CASH AND CASH EQUIVALENTS	512,057	104,045
CASH AND CASH EQUIVALENTS, beginning of period	2,035,219	2,134,152
CASH AND CASH EQUIVALENTS, end of period	$ 2,547,276	$ 2,238,197

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 it's 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" 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 September 30, 2008 and the results of its operations and cash flows for the three months ended September 30, 2008 and 2007. The results of operations for the three months ended September 30, 2008, are not necessarily indicative of the results to be expected for the entire fiscal year ending June 30, 2009. 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, 2008.

NOTE 3 - SIGNIFICANT ACCOUNTING POLICIES

REVENUE RECOGNITION

The Company complies with the Securities and Exchange Commission's ("SEC") Staff Accounting Bulletin ("SAB") No. 101, "Revenue Recognition", which provides guidance related to revenue recognition based on interpretations and practices followed by the SEC. Under SAB No. 101, certain products offered by the Company have revenue producing components that are recognized over multiple delivery points (Sharps Disposal by Mail Systems, referred to as "Mailback" and Sharps Return Boxes, referred to as "Pump Returns") and can consist of up to three separate elements as follows: (1) the sale of the container system, (2) the transportation of the container system and (3) the treatment and disposal (incineration) of the container system. The individual fair value of the transportation and incineration services are determined by the sales price of the service offered by third parties, with the fair value of the container being the residual value. Revenue for the sale of the container is recognized upon delivery to the customer, at which time the customer takes title and assumes risk of ownership. Transportation revenue on Mailbacks is recognized when the customer returns the mailback container system and the container has been received at the Company's treatment facility. The Mailback container system is mailed to the incineration facility using the United States Postal Service ("USPS") or United Parcel Service ("UPS"). Incineration revenue is recognized upon the destruction and certification of destruction having been prepared on the container. Since the transportation element and the incineration elements are undelivered services at the point of initial sale of the container, the Mailback 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 incineration elements is recognized at the point of sale.

NOTE 4 – RECENTLY ISSUED ACCOUNTING STANDARDS

In September 2006, the FASB issued SFAS No. 157, Fair Value Measurements, which defines fair value, establishes a framework for measuring fair value and expands the related disclosure requirements; SFAS 157 is effective for fiscal years beginning after November 15, 2007 and for interim periods within those years. The FASB announced a one year deferral for the implementation of SFAS No. 157 for other non-financial assets and liabilities. In February, 2008, FASB issued FASB Staff Position No. FAS 157-2. This FSP defers the effective date of Statement 157 for non-financial liabilities on a recurring basis (at least annually) to fiscal years beginning after November 15, 2008, and interim periods within those fiscal years for items within the scope of this FSP. The Company adopted SFAS No. 157 effective July 1, 2008, except for non financial assets and liabilities as permitted by FSP SFAS 157-2, and the adoption of such statement did not have a significant impact on our consolidated results of operations or financial position.

In February 2007, the FASB issued SFAS No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities — Including an Amendment of FASB Statement No. 115." This statement permits entities to choose to measure many financial instruments and certain other items at fair value that are not currently required to be measured at fair value and establishes presentation and disclosure requirements designed to facilitate comparisons between entities that choose different measurement attributes for similar types of assets and liabilities. SFAS 159 is effective as of the beginning of an entity's first fiscal year that begins after November 15, 2007. Early adoption is permitted as of the beginning of a fiscal year that begins on or before November 15, 2007, provided the entity also elects to apply the provisions of SFAS No. 157. The Company adopted SFAS 159 effective July 1, 2008. The Company elected to not fair value any additional financial instruments and thus the adoption of the standard did not have a material impact on its financial position and results of operations.

NOTE 5 - INCOME TAXES

During the three months ended September 30, 2008 the Company recorded a provision of $11,660 for estimated Alternative Minimum Tax ("AMT"). During the three months ended September 30, 2007 the Company recorded a provision of $4,997 for the AMT. For federal income tax purposes the Company is in an Alternative Minimum Tax ("AMT") situation.

NOTE 6 - NOTES PAYABLE AND LONG-TERM DEBT

The Company maintains a Credit Agreement with JPMorgan Chase Bank, N.A. ("Credit Agreement") which provides for a $2.5 million Line of Credit Facility the proceeds of which may be utilized for, (i) working capital, (ii) letters of credit (up to $200,000), (iii) acquisitions (up to $500,000) and (iv) general corporate purposes. Indebtedness under the Credit Agreement is secured by substantially all of the Company's assets. As of September 30, 2008 and June 30, 2008 respectively, no amounts related to the Credit Agreement were outstanding. Under the Credit Agreement and based upon the Company's September 30, 2008 level of accounts receivable and inventory, the amount available to borrow at quarter end was $1.9 million.

NOTE 7 – STOCK-BASED COMPENSATION

The Company accounts for share-based compensation under the provisions of Statement of Financial Accounting Standards No. 123R, ("SFAS 123R") *Share-Based Payment*, which establishes accounting for equity instruments exchanged for employee services. Under the provisions of SFAS No. 123R, share-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). Share-based compensation expense, included in general and administrative expenses in the Company's consolidated statements of income for the three months ended September 30, 2008 and 2007, was $37,063 and $29,460 respectively. SFAS No. 123R requires any reduction in taxes payable resulting from tax deductions that exceed the recognized tax benefit associated with compensation expense (excess tax benefits) to be classified as financing as financing cash flows. The Company included $8,276 excess tax benefits in its cash flows from financing activities for the three months ended September 30, 2008. No amounts were included in cash flows from financing activities for the three months ended September 30, 2007 relating to excess tax benefits.

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. In computing diluted earnings per share, the outstanding common stock options are considered dilutive using the treasury stock method. The following information is necessary to calculate earnings per share for the periods presented:

	Three Months Ended September 30, 2008	2007
	(Unaudited)	
Net income, as reported	$ 605,341	$ 241,604
Weighted average common shares outstanding	12,662,408	12,061,734
Effect of Dilutive stock options	1,041,275	1,473,786
	13,703,683	13,535,520

Weighted average diluted common shares outstanding				
Net income per common share				
Basic	$	0.05	$	0.02
Diluted	$	0.04	$	0.02
Employee stock options excluded from computation of diluted income per share amounts because their effect would be anti-dilutive		60,000		110,000

NOTE 9 - STOCK TRANSACTIONS

During the quarter ended September 30, 2008, stock options to purchase 194,600 of common shares were exercised. Total proceeds to the Company were $161,221 (average price of $0.83 per share). During the quarter ended September 30, 2007 stock options to purchase 156,730 of common shares were exercised. Total proceeds to the Company were $122,240 (average price of $0.78 per share).

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 Sharps 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," "estimate" and "intend" and words or phrases of similar import, as they relate to Sharps 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, estimated, expected or intended. The Company does not intend to update these forward-looking statements.

GENERAL

Sharps is a leading developer and manufacturer of cost effective solutions for improving safety, efficiency and costs related to the proper disposal of medical waste by industry and consumers. Sharps primary markets include healthcare, retail, agriculture, hospitality, professional, industrial, commercial, governmental and pharmaceutical. The Company's products and services represent solutions for industries and consumers dealing with the complexity of managing regulatory compliance, environmental sensitivity, employee and customer safety, corporate risk and operating costs related to medical waste disposal. Sharps is a leading proponent and participant in the development of public awareness and solutions for the safe disposal of needles, syringes and other sharps in the community setting.

The Company's primary products include Sharps Disposal by Mail System®, Pitch-It™ IV Poles, Trip LesSystem®, Sharps Pump Return Box, Sharps Enteral Pump Return Box, Sharps Secure®, Sharps SureTemp Tote®, IsoWash® Linen Recovery System, RxTakeAway™, 18 gallon Medical Professional Sharps Disposal by Mail System®, Biohazard Spill Clean-Up Kit and Disposal System, Sharps e-Tools, Sharps Environmental Services and Sharps Consulting. Some products and services facilitate compliance with state and federal regulations by tracking, incinerating and documenting the disposal of medical waste. Additionally, some products and services facilitate compliance with educational and training requirements required by federal, state, and local regulatory agencies.

RESULTS OF OPERATIONS

The following analyzes changes in the consolidated operating results and financial condition of the Company during the three months ended September 30, 2008 and 2007.

The following table sets forth, for the periods indicated, certain items from the Company's Condensed Consolidated Statements of Income, expressed as a percentage of revenue (unaudited):

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	Three Months Ended September 30,	
	2008	**2007**
Net revenues	100%	100%
Costs and expenses:		
Cost of revenues	(57)%	(58)%
Selling, general and administrative	(27)%	(34)%
Depreciation and amortization	(2)%	(2)%
Total operating expenses	(86)%	(94)%
Income from operations	14%	6%
Total other income (expense)	0%	1%
Net income	14%	7%

THREE MONTHS ENDED SEPTEMBER 30, 2008 AS COMPARED TO THREE MONTHS ENDED SEPTEMBER 30, 2007

Total revenues for the three months ended September 30, 2008 of $4,269,536 increased by $878,424, or 26%, over the total revenues for the three months ended September 30, 2007 of $3,391,112. Customer billings by market are as follows:

	Three Months Ended September 30,		
	2008	**2007**	**Variance**
	(Unaudited)	(Unaudited)	(Unaudited)
Billings by Market:			
Health Care	$ 1,906,697	$ 1,919,264	$ (12,567)
Pharmaceutical	874,614	7,185	867,429
Retail	840,762	685,436	155,326
Professional	248,441	171,184	77,257
Hospitality	209,453	363,235	(153,782)
Commercial/Industrial	184,499	116,109	68,390
Agriculture	174,011	93,304	80,707
Protec	130,353	125,270	5,083
Government	55,150	56,061	(911)
Other	38,154	49,202	(11,048)
Subtotal	4,662,134	3,586,250	1,075,884
GAAP Adjustment*	(392,598)	(195,138)	(197,460)
Revenue Reported	$ 4,269,536	$ 3,391,112	$ 878,424

*Represents the net impact of the revenue recognition adjustment required to arrive at reported GAAP revenue. Customer billings includes 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 product 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 Part I, "Notes to Consolidated Financial Statements".

The increase in revenues is primarily attributable to increased billings in the Pharmaceutical ($867,429), Retail ($155,326), Agriculture ($80,707), Professional ($77,257), Commercial/Industrial ($68,390), and Protec ($5,083) markets. These increases were partially offset by decreased billings in the Hospitality ($153,782), Health Care ($12,567), Other ($11,048), and Government ($911) markets. The increase in the Pharmaceutical market is led by the

renewal of the Company's first contract with a top ten pharmaceutical manufacturer which added $683,280 of billings for the first quarter along with $63,525 and $50,000 related to billings for two new patient support programs and $61,215 of billings to a manufacturer of flu vaccines. The increase in the Retail market is a result of the strong flu shot business whereby the Company's flagship Sharps Disposal By Mail System® products are used in the retail setting to collect and properly dispose syringes used to administer flu shots. The increase in the Agriculture market is primarily attributable to increased demand of the Sharps Disposal by Mail System® by a customer who provides the product to facilitate the injection of dairy cattle. The increase in the Professional and Commercial/Industrial markets is being driven by higher demand for the Company's products as industry and consumers become more aware of the proper disposal of medical sharps (syringes, lancets, etc.). The decrease in the Hospitality market is primarily attributable to an increase in demand of Biohazard Spill Clean-Up Kits in the quarter ended September 30, 2007.

Cost of revenues for the three months ended September 30, 2008 of $2,420,360 was 57% of revenues. Cost of revenues for the three months ended September 30, 2007 of $1,957,735 was 58% of revenue. Gross margin was negatively impacted during the quarter ended September 30, 2008 by approximately $200 thousand due to excess air freight shipping costs that were incurred to address supply and manufacturing issues associated with the Company's Pitch-It IV Poles. These issues were consequently resolved in August of 2008. Excluding the $200 thousand in excess air freight shipping costs, the gross margin for the quarter ended September 30, 2008 was 48%.

Selling, general and administrative ("S, G & A") expenses for the three months ended September 30, 2008 of $1,162,954, increased by $7,573, from S, G & A expenses for the three months ended September 30, 2007.

The Company generated operating income of $609,842 for the three months ended September 30, 2008 compared to $220,299 for the three months ended September 30, 2007. The increase in operating income is a result of a 26% increase in revenues while S, G & A remained flat (i.e. operating leverage).

The Company generated income before tax of $624,713 for the three months ended September 30, 2008 versus a pre-tax income of $246,601 for the three months ended September 30, 2007. The increase in income before tax is a result of higher operating income (discussed above).

The Company reported diluted earnings per share of $0.04 for the three months ended September 30, 2008 versus diluted earnings per share of $0.02 for the three months ended September 30, 2007. The increase in diluted earnings per share is a result of a higher net income (discussed above).

PROSPECTS FOR THE FUTURE

The Company continues to take advantage of the many opportunities in the markets served as communities, consumers and industries become more aware of the proper disposal of medical sharps (syringes, lancets, etc.). This education process was enhanced in March 2004 when the U. S. Environmental Protection Agency ("EPA") issued its new guidelines for the proper disposal of medical sharps (see www.epa.gov/epaoswer/other/medical/sharps.htm). Additionally, in July 2006 both the states of California and Massachusetts passed legislation designed to mandate appropriate disposal of sharps waste necessary to protect the general public and workers from potential exposure to contagious diseases and health and safety risks. In August 2008, the U.S. House of Representative and U.S. Senate introduced bills 3251 and 1909, respectively, which would provide for Medicare reimbursement, under part D, for the safe and effective disposal of used needles and syringes. Among the methods of disposal recommended as part of the above noted regulatory actions are mail-back programs such as those marketed by the Company. The Company estimates that there are an estimated 2 - 3 billion used syringes disposed of in the United States outside of the hospital setting. Additionally, the Company estimates that it would require 30 – 40 million Sharps Disposal by Mail System® products to properly dispose of all such syringes, which would equate to a $1 billion small quantity generator market opportunity. Based upon the current level of sales, the Company estimates that this $1 billion market has only been penetrated by approximately 1% or less.

The Company continues to develop new products for its Sharps Disposal by Mail System®, including the new RxTakeAway™ and 18 gallon Medical Professional Sharps Disposal by Mail System®, and Sharps SureTemp Tote® product lines. The Company is also developing products designed to facilitate the proper and cost effective disposal of unused medications. The Company believes its future growth will be driven by, among other items, (i) the positive impact and awareness created by the above noted regulatory actions as well as additional potential future legislation, (ii) the effects of the Company's extensive direct marketing efforts and (iii) the Company's leadership position in the development and sale of products designed to properly and cost effectively dispose of small quantities of medical waste.

Demand for the Company's primary product, the Sharps Disposal by Mail System®, which facilitates the proper and cost-effective disposal of medical waste including hypodermic needles, lancets and other devices or objects used to puncture or lacerate the skin (referred to as "sharps"), has been growing rapidly in the small quantity generator sector because of its mail-back convenience and unique data tracking feature. In addition, targeted opportunities continue to expand as a result of , (i) legislation mandating the proper disposal of sharps, (ii) the growing awareness of the need to properly handle sharps medical waste for safety and environmental concerns, (iii) the significant increase in self-injectable medications and (iv) the changing paradigm in the healthcare industry.

LIQUIDITY AND CAPITAL RESOURCES

Cash and cash equivalents increased by $512,057 to $2,547,276 at September 30, 2008 from $2,035,219 at June 30, 2008. The increase in cash and cash equivalents is primarily a result of cash generated from operations of $601,200 plus proceeds from the exercise of stock options of $161,221, partially offset by additions to property and equipment and intangible assets of $258,640.

Accounts receivable increased by $686,906 to $1,870,881 at September 30, 2008 from $1,183,975 at June 30, 2008. The increase is a direct result of the increase in billings generated by the Company for the quarter ended September 30, 2008 versus the quarter ended June 30, 2008.

Property and equipment increased by $171,841 to $1,547,498 at September 30, 2008 from $1,375,657 at June 30, 2008 due to capital expenditures of $241,892 partially offset by depreciation expense of $70,051. The capital expenditures are attributable primarily to the purchase of, (i) treatment facility improvements of $102,801 (ii) Autoclave permitting costs of $49,636, (iii) warehouse/operations-related equipment of $45,928, (iv) molds, dies and printing plates for production of $21,754, (v) new system software and implementation of $11,879, and (vi) custom software programming of $7,386. The treatment facility improvements are related to pre-installation capital expenditures related to the autoclave technology and general facility improvements. The warehouse/operations-related equipment was related to equipment necessary to accommodate the automation of in-house assembly of the Company's products. The molds and printing plates were procured for development of new product and additional production capacity.

Accounts payable increased by $226,069 to $1,004,492 at September 30, 2008 from $778,423 at June 30, 2008. The increase is a result in the timing of payments for product purchased and capital expenditures.

Accrued liabilities decreased by $72,228 to $360,743 at September 30, 2008 from $432,971 at June 30, 2008. The decrease is a result of timing in the receipt of invoices for product received.

Stockholder's equity increased by $811,901 from $2,885,536 to $3,697,437. This increase is attributable to, (i) net income for the three months ended September 30, 2008 of $605,341 and (ii) the effect of stock options to purchase 194,600 common stock exercised with proceeds of $161,221 (average exercise price of $0.83), (iii) the effect on equity (credit) of SFAS 123R expense of $37,063 and (iv) the excess tax benefits from stock-based award activity of $8,276.

On October 27, 2008, the Company appointed John R. Grow as its new President and Chief Operating Officer. In conjunction with this appointment, Mr. Grow received a grant of 300,000 restricted shares of unregistered Company common stock (i.e., issued outside of the Company's 1993 Stock Plan). The Company expects to record non-cash stock-based compensation expense related to this grant as follows: approximately $49,000 and $65,000 during the quarters ended December 31, 2008 and March 31, 2009, respectively, and approximately $70,000 during each quarter, thereafter, until the quarter ended September 30, 2010. Non-cash stock based compensation expense is reflected in the Company's Statement of Income as a component of S, G & A expense.

Management believes that the Company's current cash resources (cash on hand and cash generated from operations) along with its $2.5 million line of credit will be sufficient to fund operations for the twelve months ending September 30, 2009.

Disposal Facility

In January 2008, Company purchased its previously leased disposal facility in Carthage, Texas. The purchase included an incinerator with a maximum capacity of thirty (30) tons per day, a 12,000 square foot building and 4.5 acres of land. The Company incinerator is currently permitted at a capacity of eleven (11) tons per day.

Additionally, the Company has executed a purchase order for a state-of-the-art autoclave system and technology capable of treating up to seven (7) tons per day of medical waste at the same facility. Autoclaving is a process that treats medical waste with steam at high temperature and pressure to kill pathogens. An autoclave is environmentally cleaner and is a less costly method of treating most medical waste versus traditional incineration. The autoclave is expected to be placed in service during the quarter ended March 31, 2009.

With the addition of the autoclave, the Company believes it will own one of only approximately ten (10) permitted commercial disposal facilities in the country capable of treating all types of medical waste.

The total cost of (i) the treatment facility purchase, (ii) addition of the autoclave technology and (iii) facility improvements is estimated to be approximately $1.1 million with $611,255 incurred to date. The remainder (which consists primarily of the autoclave equipment and facility improvements) is expected to be incurred over the six months ended March 31, 2009.

In November 2005, the EPA amended the Clean Air Act which will affect the operations of the incineration facility located in Carthage, Texas. The regulation modifies the emission limits and monitoring procedures required to operate an incineration facility. The new rules will necessitate changes to the Company's owned incinerator and pollution control equipment at the facility or require installation of an alternative treatment method to ensure compliance. Such change would require the Company to incur significant capital expenditures in order to meet the requirements of the regulations. The regulation allows a minimum period of three years and a maximum of five years to comply after the date the final rule was published. The Company has studied the amended EPA Clean Air Act and its options, and has decided in the interim to move forward with the process of adding alternative technology, autoclaving, for medical waste disposal with plans to be fully operational by March 31, 2009 at its current facility in Carthage, Texas. Autoclaving is a process that treats regulated waste with steam at high temperature and pressure to kill pathogens. Combining the autoclaving with a shredding or grinder process allows the waste to be disposed in a landfill operation. The Company believes autoclaving is environmentally cleaner and a less costly method of treating medical waste than incineration. The Company has not yet decided if and when it will incur the additional capital expenditures needed in order to meet the new regulations. The additional capital expenditures are estimated at approximately $1.4 million and would increase its permitted incineration capacity from eleven (11) tons per day to thirty (30) tons per day. Should the Company incur such additional capital expenditures, it would do so subsequent to the development and launching of a business plan designed to generate significant incremental and new revenue stream from third party medical waste services.

CRITICAL ACCOUNTING ESTIMATES

Certain products offered by the Company have revenue producing components that are recognized over multiple delivery points and can consist of up to three separate elements as follows: (1) the sale of the container system, (2) the transportation of the container system and (3) the treatment and disposal (incineration) of the container system. Since the transportation element and the incineration elements are undelivered services at the point of initial sale of the container, the 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 incineration elements is recognized at the point of sale.

Governmental Regulation

Operations and Incinerator

Sharps is required to operate within guidelines established by federal, state, and/or local regulatory agencies. Such guidelines have been established to promote occupational safety and health standards and certain standards have been established in connection with the handling, transportation and disposal of certain types of medical and solid wastes, including mailed sharps. Sharps believes that it is currently in compliance in all material respects with all applicable laws and regulations governing its business. However, in the event additional guidelines are established to more specifically control the business of Sharps, including the environmental services subsidiary, additional expenditures may be required in order for Sharps to be in compliance with such changing regulations. Furthermore, any material relaxation of any existing regulatory requirements governing the transportation and disposal of medical sharps products could result in a reduced demand for Sharps' products and services and could have a material adverse effect on Sharps' revenues and financial condition. The scope and duration of existing and future regulations affecting the medical and solid waste disposal industry cannot be anticipated and are subject to change due to political and economic pressures.

In November 2005, the EPA amended the Clean Air Act which will affect the operations of the leased incineration facility located in Carthage, Texas. The regulation modifies the emission limits and monitoring procedures required to operate an incineration facility. The new rules will necessitate changes to the Company's owned incinerator and

pollution control equipment at the facility or require installation of an alternative treatment method to ensure compliance. Such change would require the Company to incur significant capital expenditures in order to meet the requirements of the regulations. The regulation allows a minimum period of three years and a maximum of five years to comply after the date the final rule was published. The Company has studied the amended EPA Clean Air Act and its options, and has decided in the interim to move forward with the process of adding alternative technology, autoclaving, for medical waste disposal with plans to be fully operational by March 31, 2009 at its current facility in Carthage, Texas. Autoclaving is a process that treats regulated waste with steam at high temperature and pressure to kill pathogens. Combining the autoclaving with a shredding or grinder process allows the waste to be disposed in a landfill operation. The Company believes autoclaving is environmentally cleaner and a less costly method of treating medical waste than incineration. The Company has not yet decided if and when it will incur the additional capital expenditures needed in order to meet the new regulations. The additional capital expenditures are estimated at approximately $1.4 million and would increase its permitted incineration capacity from eleven (11) tons per day to thirty (30) tons per day. Should the Company incur such additional capital expenditures, it would do so subsequent to the development and launching of a business plan designed to generate significant incremental and new revenue stream from third party medical waste services. See Disposal Facility section above for further information regarding the purchase of the Carthage, Texas facility and addition of autoclave technology.

Proper Disposal of Medical Sharps

The first significant regulatory development occurred in December 2004 with the improved guidance issued by the Environmental Protection Agency ("EPA") regarding the safe disposal of medical sharps (needles, syringes and lancets). This new guidance is a result of disposal problems created by the estimated 2 billion syringes discarded annually by legal self-injectors of medicines in homes and non-healthcare commercial facilities. Until December 2004, the EPA guidance has instructed consumers to place used sharps in a household container and to place the container in the household garbage. New guidance posted on the EPA website reflects information about alternative disposal methods including mail-back programs. The improved guidance issued by the EPA is a significant step toward the removal of needles, syringes and other sharps from the solid waste stream, consistent with the current practice in healthcare facilities. The Company's products and services, which are included in the EPA list of recommended solutions, are designed to improve safety, efficiency and patient concerns related to the proper disposal of medical sharps.

The next regulatory development was the enactment of California Senate Bill 1362, "The Safe Needle Disposal Act of 2004." This legislation authorizes California agencies to expand the scope of their existing household hazardous waste plans to provide for the safe disposal of medical sharps including hypodermic needles and syringes. Authorized disposal programs include the mail-back programs currently marketed by the Company.

In July 2006, the State of California passed Senate Bill 1305 ("SB 1305"), an amendment to The Medical Waste Management Act. The new law requires the proper disposal of home-generated sharps waste (syringes, needles, lancets, etc.) and acknowledges mail-back programs as a convenient method for the collection and destruction of home-generated sharps. Effective January 1, 2007 (with enforcement beginning September 1, 2008), SB 1305 addresses the need to meet the changing demands of healthcare provided in alternate sites that currently allow hundreds of millions of home-generated sharps waste to be disposed in solid waste and recycling containers. The new law is designed to ensure appropriate disposal of sharps waste necessary to protect the general public and workers from potential exposure to contagious diseases and health and safety risks.

Also in July 2006, The Massachusetts Legislature enacted Senate Bill 2569 which requires the Massachusetts department of public health, in conjunction with other relevant state and local agencies and government departments, to design, establish and implement a program for the collection and disposal of non-commercially generated, spent hypodermic needles and lancets. Recommended disposal methods include mail-back products approved by the U.S. Postal Service such as the Sharps Disposal By Mail Systems®. The Massachusetts legislation addresses the need for proper disposal of used syringes, needles and lancets outside of the traditional healthcare setting.

In addition to California and Massachusetts, many other states are considering similar legislation.

In August 2007, the U.S. House of Representatives and U.S. Senate introduced bills 3251 and 1909, respectively, which would provide for Medicare reimbursement, under part D, for the safe and effective disposal of used needles and syringes through a sharps-by-mail or similar program. This legislation proposes Medicare coverage for the safe needle disposal for approximately 1.3 million insulin-dependent diabetic beneficiaries and is intended to reduce the number of accidental injuries, infections and subsequent costs associated with the improper disposal of approximately 4 million needles generated daily by Medicare covered diabetics. The Company's Sharps Disposal By Mail Systems® is an example of the cost-effective and easy-to-use solution recommended in the legislation.

RECENTLY ISSUED ACCOUNTING STANDARDS

In September 2006, the FASB issued SFAS No. 157, Fair Value Measurements, which defines fair value, establishes a framework for measuring fair value and expands the related disclosure requirements; SFAS 157 is effective for fiscal years beginning after November 15, 2007 and for interim periods within those years. The FASB announced a one year deferral for the implementation of SFAS No. 157 for other non-financial assets and liabilities. In February, 2008,

FASB issued FASB Staff Position No. FAS 157-2. This FSP defers the effective date of Statement 157 for non-financial liabilities on a recurring basis (at least annually) to fiscal years beginning after November 15, 2008, and interim periods within those fiscal years for items within the scope of this FSP. The Company adopted SFAS No. 157 effective July 1, 2008, except for non financial assets and liabilities as permitted by FSP SFAS 157-2, and the adoption of such statement did not have a significant impact on our consolidated results of operations or financial position.

In February 2007, the FASB issued SFAS No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities — Including an Amendment of FASB Statement No. 115." This statement permits entities to choose to measure many financial instruments and certain other items at fair value that are not currently required to be measured at fair value and establishes presentation and disclosure requirements designed to facilitate comparisons between entities that choose different measurement attributes for similar types of assets and liabilities. SFAS 159 is effective as of the beginning of an entity's first fiscal year that begins after November 15, 2007. Early adoption is permitted as of the beginning of a fiscal year that begins on or before November 15, 2007, provided the entity also elects to apply the provisions of SFAS No. 157. The Company adopted SFAS 159 effective July 1, 2008. The Company elected to not fair value any additional financial instruments and thus the adoption of the standard did not have a material impact on its financial position and results of operations.

ITEM 3. Quantitative and Qualitative Disclosers About Market Risk

Not Applicable

ITEM 4. CONTROLS AND PROCEDURES

The Company maintains disclosure controls and procedures that are designed to ensure that material information required to be disclosed in the Company's periodic reports filed or submitted under the Securities Exchange Act of 1934, as amended (the "Exchange Act"), is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms. The Company's disclosure controls and procedures are also designed to ensure that information required to be disclosed in the reports the Company files or submits under the Exchange Act is accumulated and communicated to the Company's management, including, its principal executive officer and principal financial officer as appropriate, to allow timely decisions regarding required disclosure.

As of September 30, 2008 the Company carried out an evaluation, under the supervision and with the participation of the Company's management, including the chief executive officer and the chief financial officer, of the effectiveness of the design and operation of the disclosure controls and procedures, as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act. Based upon that evaluation, the Company's chief executive officer and chief financial officer concluded that the Company's disclosure controls and procedures were effective, as of the end of the period covered by this report (September 30, 2008).

During the first quarter of the fiscal year 2009, there were no changes in the Company's internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) of the Exchange Act) that materially affected or are reasonably likely to materially affect internal control over financial reporting.

The certifications required by Section 302 of the Sarbanes-Oxley Act of 2002 are filed as exhibits 31.1 and 31.2, respectively, to this Quarterly Report on Form 10-Q.

PART II – OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

Ronald E. Pierce Matter
On July 15, 2008, the Company received a demand for arbitration from Ronald E. Pierce related to a June 2004 issue summarized below:

On June 14, 2004, the Company provided Mr. Ronald E. Pierce, its then current Chief Operating Officer ("Mr. Pierce"), with notice of non-renewal of his employment agreement. As such, July 14, 2004 was Mr. Pierce's last day of employment. The Company has advised Mr. Pierce that under the terms of the employment contract no further compensation (including services) was due. The Company then received various letters from Mr. Pierce's attorney advising that Mr. Pierce is taking the position that the non-renewal of the employment agreement was not timely and, therefore, Mr. Pierce was terminated without cause. Additionally, Mr. Pierce claims that the Company had no right to terminate him on the anniversary date of his agreement without the obligation of paying Mr. Pierce as if he were terminated without cause. The Company believes that notice of such non-renewal was timely, and that in accordance with Mr. Pierce's employment agreement, the Company was entitled to provide notice thirty (30) days prior to the anniversary of its intent to terminate the agreement, and no severance would therefore be due to Mr. Pierce.

The claim amount under the July 15, 2008 demand for arbitration is $300,001.

On July 18, 2008, the Company responded to the July 15, 2008 request for Arbitration from Mr. Pierce. In its response, the Company advised that the request for arbitration was filed more than four (4) years from the date upon which Pierce knew, or should have known, of any alleged breach of contract. Accordingly, the Company will not agree to arbitrate a time barred claim.

The Company believes it has meritorious defenses against Mr. Pierce's claims and has not recorded a liability related to this matter.

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)

ITEMS 2, 3, 4, AND 5 ARE NOT APPLICABLE AND HAVE BEEN OMITTED.

SIGNATURES

In accordance with the requirements of the Exchange Act, the registrant caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

	REGISTRANT:	
	SHARPS COMPLIANCE CORP.	
Dated: November 14, 2008	By:	/s/ Dr. Burton J. Kunik Chairman of the Board of Directors and Chief Executive Officer
Dated: November 14, 2008	By:	/s/ David P. Tusa Executive Vice President, Chief Financial Officer, Business Development and Corporate Secretary