

SHARPS COMPLIANCE CORP
Form 10-K
September 01, 2011

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

Form 10-K

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended June 30, 2011

OR

TRANSITION REPORT PURSUANT TO SECTION 13 or 15(d) OF THE SECURITIES EXCHANGE ACT OF
1934

For the transition period from _____ to _____.
Commission File Number: 001-34269

SHARPS COMPLIANCE CORP.
(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of incorporation or
organization)

74-2657168
(I.R.S. Employer Identification No.)

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

77054
(Zip Code)

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

Title of Each Class
Common Shares, \$0.01 Par Value

Name of Each Exchange on Which Registered
The NASDAQ Capital Market

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

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

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

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes

No

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

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer Accelerated filer Non-accelerated filer Smaller reporting company

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

As of December 31, 2010, the aggregate market value of the Registrant's Common Stock held by non-affiliates was approximately \$52.8 million (based on the closing price of \$4.43 on December 31, 2010 as reported by The NASDAQ Capital Market).

The number of common shares outstanding of the Registrant was 15,067,427 as of August 30, 2011.

DOCUMENTS INCORPORATED BY REFERENCE:

- (1) Portions of the Registrant's Proxy Statement to be filed with the Securities and Exchange Commission pursuant to Regulation 14A for the Annual Meeting of Shareholders to be held on November 17, 2011 are incorporated by reference into Part III.

SHARPS COMPLIANCE CORP. AND SUBSIDIARIES
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INFORMATION REGARDING FORWARD-LOOKING STATEMENTS

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

PART I

ITEM 1. DESCRIPTION OF BUSINESS

Sharps Compliance Corp. was formed in November 1992 as a Delaware corporation. The information presented herein is for Sharps Compliance Corp. and its wholly owned subsidiaries, Sharps Compliance, Inc. of Texas (dba Sharps Compliance, Inc.), Sharps e-Tools.com, Inc. ("Sharps e-Tools"), Sharps Manufacturing, Inc., Sharps Environmental Services, Inc. (dba Sharps Environmental Services of Texas, Inc.) and Sharps Safety, Inc. (collectively, "Sharps" or the "Company"). Unless the context otherwise requires, "Company", "we", "us", and "our" refer to Sharps Compliance Corp. and its subsidiaries.

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

COMPANY OVERVIEW

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

The Centers for Disease Control and Prevention (“CDC”), and the United States Environmental Protection Agency (“EPA”), estimate that there are over three billion used syringes disposed of annually outside of the hospital setting in the United States. The Company estimates that it would require 30 to 50 million Sharps Recovery System™ (formerly Sharps Disposal by Mail System®) products to properly dispose of all such syringes, which would equate to a market opportunity of \$1 billion. There are an estimated 800,000 doctors, dentists, veterinarians, clinics, tattoo parlors and other businesses in the country that generate smaller quantities of medical waste, including used syringes. These offices and facilities, which must demonstrate proper management of their medical waste, comprise a market opportunity of approximately \$600 million, based on estimates of using our solution offerings rather than the traditional pick-up service in what we characterize as a regulated market. In addition, industry experts estimate that as much as 40% of dispensed medications outside of the hospital setting in the United States goes unused, generating an estimated 200 million pounds of pharmaceuticals potentially polluting our environment and placing our citizens at risk for accidental poisonings. We estimate the market for our solutions (outside of the hospital and large health care facilities) to be over \$1 billion per year for medical waste disposal, over \$600 thousand per year for medical waste disposal in the regulated market and over \$1 billion for the proper disposal of unused dispensed medications.

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We believe that demand for our cost-effective medical waste management solutions has been increasing due to several factors. First, communities, consumers, government and health care and commercial organizations are increasingly becoming aware of the need to properly treat medical waste and unused dispensed medication as federal and state regulatory bodies continue to provide guidance and enact legislation which mandate the proper disposal of medical waste outside the hospital setting to protect the general public and workers from potential exposure to contagious diseases and health and safety risks. Second, there is heightened public awareness and growing demand for influenza vaccines that are driving demand for our solutions both in the short-term to address the immediate flu shot needs and in the long-term as the public increasingly obtains its immunizations from retail locations and clinics. Third, there is growing demand for Sharps TakeAway Environmental Recovery System™ solutions for unused, non-controlled prescriptions and over-the-counter medications. Finally, we believe that customers in many of the sectors we serve, such as physicians, dentists, veterinarians, clinics and assisted living facilities, are becoming aware of alternatives to the traditional medical waste pick-up service and the lower cost (estimated average savings of up to 50%) and convenience associated with the Sharps Recovery System™ (formerly Sharps Disposal By Mail System®).

In February 2009, we signed a five year contract (one year, plus four option years) with a major U.S. government agency for a \$40 million program to provide our comprehensive Medical Waste Management System™, or Sharps®MWMSTM, which is a rapid-deployment solution offering designed to provide medical waste collection, storage and treatment in the event of natural disasters, pandemics, man-made disasters, or other national emergencies. Sharps®MWMSTM is unique in that the solution also offers warehousing, inventory management, training, data and other services necessary to provide a comprehensive solution. We received a purchase order for \$28.5 million (\$6.0 million of which was recognized in fiscal year 2009, and \$22.5 million was recognized in the first half of fiscal year 2010). In January 2010, we were awarded the first option year (ending January 31, 2011) valued at approximately \$1.6 million and was recognized from February 1, 2010 through January 31, 2011. In January 2011, we were awarded the second option year (ending January 31, 2012) valued at approximately \$3.0 million and is to be recognized from February 1, 2011 through January 31, 2012. There is expected to be approximately \$3.0 million in revenue in calendar year 2011 for the maintenance component of the contract including \$1.5 million in the second half of calendar year 2011. The remaining two option years are expected to be approximately \$3.0 million per contract year. Although, we believe the amounts above to be reasonable based upon the underlying contract and its current project plan, we makes no assurances regarding the actual recognition of revenue by fiscal year, which could vary significantly from that noted above. The successful launch of this program demonstrates the attractiveness of our integrated, full-service system that enables government agencies and commercial organizations to completely outsource the planning and execution of their emergency preparedness and disaster relief planning as it relates to medical waste handling and rapid response capabilities. In addition to the Sharps®MWMSTM, we continue to add similar full-service, patient support programs with major pharmaceutical manufacturers whereby we provide a customized Sharps Recovery System™ (formerly Sharps Disposal by Mail System®) along with fulfillment, inventory management, storage and data services, as well as provide critical patient usage data that assists the manufacturers in assessing drug effectiveness and compliance.

In August 2011, the Company introduced the Complete Needle™ Collection and Disposal System which is focused on the traditional under-served home self-injector required to regularly use needles or syringes for their health and well-being, such as people with diabetes. The Complete Needle™ Collection and Disposal System is actually two offerings in one. First, the product provides the individual self-injector with a reasonably priced containment solution designed to protect self-injectors and their family members. Second, the product includes an optional disposal feature utilizing the USPS designed to protect the individual's community, solid waste workers and the environment. The solution offers significant convenience as it utilizes the same delivery channel, the retail pharmacy, that the self-injector typically uses to obtain medications, for example, insulin, and needles or syringes. The solution is also designed to enhance the interaction between the pharmacist and the individual thereby creating counseling opportunities and possibly better treatment outcomes.

Our principal executive offices are located at 9220 Kirby Drive, Suite 500, Houston, Texas. Our telephone number at that location is (713) 432-0300. We currently have 57 employees (all full time). We have manufacturing, assembly, distribution and warehousing operations located on Reed Road in Houston, Texas, and our corporate offices located on Kirby Drive in Houston, Texas. We maintain an additional warehouse facility with manufacturing, assembly and distribution capabilities in College Park, Georgia. We own and operate a fully-permitted treatment facility in Carthage, Texas that incorporates our processing and treatment operations. The Company is committed to mitigating the effects of medical waste and unused dispensed medications on the environment and our citizens through our environmentally conscious treatment process. Just over two years ago we supplemented the treatment facility's existing incineration process with an autoclave system, which is a cost-effective alternative to traditional incineration that treats medical waste with steam at high temperature and pressure to kill pathogens. The autoclave system is utilized alongside the incinerator for day-to-day operations. We believe that our facility is one of only ten permitted commercial facilities in the United States capable of treating all types of medical waste, used healthcare materials and unused or expired dispensed medications (i.e., both incineration and autoclave capabilities).

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SOLUTIONS OVERVIEW

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

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

TakeAway Environmental Return System™: a comprehensive solution that facilitates the proper disposal or treatment of unused dispensed medications and includes the TakeAway Environmental Return System and the RxTakeAway Recovery and Reporting System. The solution provides a means for individual consumers, communities and facilities, such as pharmacies, assisted living facilities, long-term care facilities, mail-order pharmacies and correctional operations, to manage their unused dispensed medications (other than controlled substances) and consists of customized containment, transportation, destruction or conversion and tracking services. Our proprietary tracking system, MedsTracer™, is designed for tracking unused dispensed medications, which assists pharmaceutical manufacturers in monitoring drug usage and provides critical data for patient management and compliance. Our proprietary tracking system is a highly value-added component of our solution as it enhances pharmaceutical manufacturers' ability to monitor patient drug usage.

Complete Needle™ Collection and Disposal System: a comprehensive solution focused on the traditional under-served home self-injector required to regularly use needles or syringes for their health and well-being, such as people with diabetes. The Complete Needle™ Collection and Disposal System is actually two offerings in one. First, the product provides the individual self-injector with a reasonably priced containment solution designed to protect self-injectors and their family members. Second, the product includes an optional disposal feature utilizing the USPS designed to protect the individual's community, solid waste workers and the environment. Our solution offers significant convenience as it utilizes the same delivery channel, the retail pharmacy, that the self-injector typically uses to obtain medications, for example insulin, and needles or syringes. Our solution is also designed to enhance the interactions between the pharmacist and the individual thereby creating counseling opportunities and possibly better treatment outcomes.

Sharps®MWMSTM: a comprehensive solution designed for rapid deployment in emergency situations and features the Sharps Recovery System™ and TakeAway Environmental Return System products combined with warehousing, inventory management, training, data and other services. Sharps®MWMSTM is designed to be an integral part of governmental and commercial emergency preparedness programs for large scale or catastrophic situations such as natural disasters, pandemics, terrorist events, or other national emergencies. Also available with the Sharps®MWMSTM is the Sharps® Rx Recovery and Reporting System, which delivers a turn-key approach to the collection, storage, audit, treatment and documentation of unused dispensed medications. The Medical Waste Management System™ can be used in virtually any location where patients may be treated or shots administered. This system is designed to be portable, allowing medical waste to be collected where it is generated, properly stored, and transported with no special pick-up arrangements.

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SharpsTracer®: a comprehensive solution that provides customers with an electronic record of receipt and treatment of their waste to meet regulatory requirements. SharpsTracer® eliminates the need for traditional paper-based methods of tracking and is designed to enhance customer efficiencies with an automatic evidence of proof of receipt and treatment and market data capabilities. This cost-effective and regulatory compliant tracking and documentation system is an important part of our full-service and comprehensive suite of solutions.

Other Solutions: a wide variety of other logistical products solutions including Pitch-It IV™ Poles, Trip LesSystem®, Sharps® Pump and Asset Return Box, Sharps Secure® Needle Collection and Containment System, Sharps Recovery System® Needle Collection and Mailback Disposal System, IsoWash® Linen Recovery System and Biohazard Spill Clean-Up Kit and Disposal System.

MARKET OVERVIEW

The CDC and the EPA estimate that there are over three billion used syringes disposed of annually outside of the hospital setting in the United States. We estimate that it would require 30 to 50 million Sharps Recovery System™ (formerly Sharps Disposal by Mail System®) products to properly dispose of all such syringes, which would equate to a market opportunity of over \$1 billion. We estimate that we have penetrated approximately 1% of this market. Additionally, we believe that there has been and will continue to be a significant increase in self-injectable medications utilized by patients, further increasing the number of syringes used and disposed of in the United States.

There are an estimated 800,000 doctors, dentists, veterinarians, clinics, tattoo parlors and other businesses in the country that generate smaller quantities of medical waste, including used syringes. These offices and facilities, which must demonstrate proper management of their medical waste, comprise a market opportunity of approximately \$600 million, based on estimates of using our solution offerings rather than the traditional pick-up service in what we characterize as a regulated market.

Industry experts estimate that approximately 40% of the dispensed medication from four billion dispensed medication prescriptions goes unused every year in the United States generating an estimated 200 million pounds of unused medication waste which can adversely affect the environment if disposed of improperly. Most unused dispensed medications are either (i) disposed of untreated in the garbage or flushed down the toilet, ending up in landfills and polluting rivers and water supply systems, lakes and streams with trace amounts of unused dispensed medications or (ii) stored in medicine cabinets that are accessible to children and teenagers. Improperly disposed of or diverted unused dispensed medications have been shown to increase the risk of accidental poisoning of citizens, including children and teenagers. The Company has estimated that the market for the proper disposal of unused dispensed medications outside the hospital setting is over \$1 billion per year.

We continue to take advantage of the many opportunities in our markets served as communities, consumers, injectors, healthcare facilities, professional offices, pharmaceutical manufacturers and government agencies become more aware of the issues surrounding the proper disposal of medical waste, used healthcare materials and unused dispensed medications. The following events contribute to increasing awareness:

- in December 2004, the EPA issued its new guidelines for the proper disposal of medical sharps, revising the previous guidance that advised patients to dispose of used syringes in the trash;
- in July 2006, 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;
-

beginning September 1, 2008, California's legislation regulating sharps disposal became effective and began to be enforced, making it illegal to dispose of used sharps through the normal garbage disposal system. Other states, such as Massachusetts and Louisiana, have enacted similar measures that became effective in 2008 and 2009, respectively. Currently, nine states ban the disposal of used syringes in the trash and another nine states plus the District of Columbia are considering or have introduced similar legislation, while the remaining states operate under the EPA guidance noted above. In April 2011, the United States Senate re-introduced a bill (S.725) which, if enacted, would provide for Medicare reimbursement, under part D, for the safe and effective disposal of used needles and syringes; and

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- in October 2009, California passed Senate Bill 486 requiring drug companies that market and sell prescribed medications that are routinely injected at home to submit plans to the California Integrated Waste Management Board on or before July 1, 2010 (and annually thereafter) describing how they support safe needle collection and disposal programs for patients using their drugs. California's Senate Bill 419, which has passed the Senate and is moving through the Assembly, sets additional standards for making the SB 486 plans more accessible to the public.
- In 2009 and 2010, the states of Iowa and North Dakota introduced state funded programs to properly dispose of unused medications. In 2010, Minnesota enacted legislation that allows individuals to transfer their unused dispensed medications directly or through a caregiver to an organization authorized by the state to manage and/or ultimately destroy the medication.
- In October 2010, the Secure and Responsible Drug Disposal Act was enacted which addresses the proper handling of unused controlled medications.

Among the methods of disposal recommended as part of the above noted regulatory actions are mail-back programs such as the solutions we offer. We believe that other states will continue introducing similar legislation and that these developments will drive additional demand for our solutions.

COMPETITIVE STRENGTHS

We believe our competitive strengths include the following:

Leading comprehensive provider of cost-effective medical waste management solutions.

We offer a broad line of solutions designed to address the proper management of medical waste, used healthcare materials and patient dispensed unused or expired medications. The Company is able to offer mail or ship-back based services at a significantly lower cost as compared to the traditional model of pick-up services since the Company utilizes the existing infrastructure of USPS or United Parcel Service ("UPS") for return transportation. In contrast to traditional pick-up service providers which generally make periodic pick-ups, our mail or ship-back based solution offerings are less costly and more convenient. Our proprietary SharpsTracer® tracking and documentation systems provide customers a comprehensive electronic record of receipt and treatment of their waste to meet regulatory requirements. Our Medical Waste Management System™ provides a complete solution for customers seeking to completely outsource the management of all aspects of their waste management, including warehousing, inventory management, training, and data collection in addition to treatment services. While competitors may attempt to replicate our solution offerings, we believe the ability to offer such a comprehensive, value-added turnkey solution is a significant competitive advantage.

Environmentally-conscious solution provider.

In addition to providing cost-effective solutions for our customers, the Company is committed to mitigating the effects of medical waste and dispensed patient medications on the environment. Most used syringes and needles as well as unused or expired dispensed medications are currently disposed of untreated in the garbage, ending up in landfills and polluting rivers, lakes and streams with trace amounts of pharmaceuticals. Our products and services provide an environmentally cleaner alternative process for treatment. Our GREEN Waste Conversion Process™ eliminates medical waste processed for the Company's customers from going into landfills. The process transforms treated medical waste into PELLA-DRX™ - a clean, raw material used in the manufacture of various industrial resources. The use of recycled paper and plastic materials for many of our products further demonstrates our total commitment to environmentally sound business practices. As an organization, the Company is a leading proponent for the development of solutions for the safe disposal of sharps and unused dispensed medications in the community and continually works to raise

public awareness of the issue.

Vertically integrated full-service operations.

Our operations are fully integrated including manufacturing, assembly, distribution, treatment, online tracking and customer reporting. We have manufacturing, assembly, distribution and warehousing operations in Houston, Texas, and an additional warehouse facility with manufacturing, assembly and distribution capabilities in College Park, Georgia. We own and operate a fully-permitted treatment facility in Carthage, Texas, that incorporates our processing and treatment operations. Just over two years ago we supplemented the treatment facility's existing incineration process with an autoclave system, which is a cost-effective alternative to traditional incineration that treats medical waste with steam at high temperature and pressure to kill pathogens. The autoclave system is utilized alongside the incinerator for day-to-day operations. We believe that our facility is one of only ten permitted commercial facilities in the United States capable of treating all types of medical waste, used healthcare materials and unused or expired dispensed medications (i.e., both incineration and autoclave capabilities). We track the movement of each shipment from outbound shipping to ultimate treatment and provide confirmation to the customer for their records using our proprietary SharpsTracer® tracking and documentation system. We also provide customized reporting for many of our customers. By controlling all aspects of the process internally, the Company is able to provide a one-stop solution and simplify the tracking and record-keeping processes to meet regulatory requirements for our customers. We believe the fully-integrated nature of our operations is seen by current and prospective customers as a key factor and differentiator leading to our success and leadership position in our industry.

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Well-positioned to capitalize on the growing need for government and commercial preparedness to address emergency and disaster relief situations.

Federal and state government agencies as well as commercial organizations are increasingly focused on having programs in place for emergency and disaster relief situations such as natural disasters (hurricanes, flooding and earthquakes), pandemics (H1N1 flu strain), acts of terrorism (September 11th) and other national emergencies. The Sharps®MWMS™ is designed to be an integral part of governmental and commercial emergency preparedness programs. The successful launch of our government agency program demonstrates the attractiveness of our integrated, full-service solution that enables government agencies and commercial organizations to completely outsource the planning and execution of their emergency preparedness and disaster relief planning as it relates to medical waste handling and rapid response capabilities.

Increased state and federal regulatory attention.

To protect citizens and waste workers from needle stick injuries, nine states have passed legislation or regulations making it illegal to discard used sharps into household trash. Another nine states and the District of Columbia have legislation pending or strict guidelines regarding home sharps disposal. Passed or pending legislation related to home sharps disposal covers 43% of the U.S. population. Countless cities in states without restrictions have begun to pass ordinances preventing disposal of sharps in the trash.

In order to reduce poisonings and pollution of our water, twenty-two states and the District of Columbia have introduced legislation over the last few years intended to manage the disposal of consumer unused medications. Seven states and the District of Columbia have successfully passed such legislation. Passed or pending legislation related to disposal of consumer medications covers 65% of the U.S. population. As state and federal enforcement of these statutes increases, more companies will turn to solutions such as ours to help manage their medical waste and regulatory compliance. We believe we are well positioned to benefit given our strict adherence to established standards and extensive documentation and records.

Diverse product markets.

Sharps offers services and products to a wide variety of end markets. The Company's growth strategies are focused on retail pharmacies and clinics, pharmaceutical manufacturers, professional physician, dental and veterinary clinics and the U.S. Government contract, federal, state and local government agencies. We also serve home health care companies, retirement and assisted living facilities and hospitality and other which includes hotel, commercial, industrial and agriculture. Our billings by market for the years ended June 30, 2011, 2010 and 2009 are below (as expressed in percentages of revenues):

	Year Ended June 30,					
	2011		2010		2009	
BILLINGS BY MARKET:						
Home Health Care	35	%	17	%	36	%
Retail	24	%	11	%	9	%
U.S. Government contract	11	%	59	%	29	%
Professional	10	%	4	%	5	%
Other	8	%	2	%	7	%
Assisted Living/ Hospitality	6	%	3	%	5	%
Core Government	4	%	2	%	1	%
Pharmaceutical	2	%	2	%	8	%

100 % 100 % 100 %

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Highly scalable business model.

Because of our proven business model, we can add new business while leveraging our existing fixed cost structure. Our facilities are able to accommodate significant additional volume, incurring only variable costs of transportation, storage and processing. Once we gain a new customer, our profitability typically increases as our customer base grows without additional overhead expense due to the embedded nature of our products and the ease with which we can accommodate additional volume.

Experienced and accomplished management team.

Our senior management team has extensive industry experience, and is committed to the continued growth and success of our company. Mr. David P. Tusa, CEO and President, in addition to his eight plus years with the Company has over 25 years of financial, accounting, business and public company experience in multiple industries and in companies with revenues up to \$500 million. Mr. Claude Dance, Senior Vice President of Sales and Marketing, has broad health care and reverse logistics industry experience at a variety of firms including Pharmacia, Cardinal Health and Wyeth Pharmaceuticals. Ms. Diana Diaz, CPA, MBA, Vice President and Chief Financial Officer, has over 25 years of finance, accounting, health care and public company industry experience. Mr. Gregory C. Davis, Vice President of Operations, has over 18 years of information technology experience. Mr. Khairan Aladwani, Vice President of Assurance/Quality Control, have over 25 years of quality assurance experience at a variety of firms.

The Company's Board of Directors oversees CEO and senior management succession planning. The process focuses on building management depth, considers continuity and stability within the Company, and responds to Sharps' evolving needs and changing circumstances.

GROWTH STRATEGIES

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

Further penetrate existing customers and markets.

Many of our customers who currently use the Sharps Recovery System™ (formerly Sharps Disposal by Mail System®) could also benefit from the TakeAway Environmental Return System products, the Complete Needle™ Collection and Disposal System or other specialized products. Although currently focused primarily on the proper management of used syringes and needles as well as dispensed expired or unused medication, pharmacies (including chains and mail order), assisted living facilities and other related organizations will develop needs for our other product lines as they expand their patient service offerings. As an entrenched and value-added supplier of treatment solutions, we believe the Company is well-positioned to capture incremental business from our existing customers.

Although, our Pharmaceutical market did not experience growth during the year ended June 30, 2011, we have seen a recent surge of interest in our patient support program solution offering among pharmaceutical manufacturers as it relates to self-injectable medications. We believe manufacturers are now, more than ever, focused on (i) product differentiation, (ii) improved interaction with patients and (iii) creating a touch point for individual patient follow-up that could lead to improved therapy outcomes.

As proof of this, we were recently awarded patient support programs from two top-20 pharmaceutical manufacturers with a combined value of over \$2 million in annual recurring revenue when fully launched. The programs are scheduled to launch in the December quarter and should roll out over the following six- to nine- month period. Both patient support programs include the direct fulfillment of the Sharps Recovery System® to the pharmaceutical manufacturers' program participants which provides the proper containment, return and treatment of the needles or

injection devices utilized in therapy. Sharps' proprietary SharpsTracer™ system tracks the return of the Sharps Recovery System® by the patient to the treatment facility, and then makes available to the pharmaceutical manufacturer electronic data which assists them in monitoring medication discipline and provides them with a touch point for individual patient follow-up which potentially could lead to better outcomes. We believe the Company is the leader in providing solutions of this type to this market.

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Increase adoption of our product lines among federal, state and local government agencies.

We believe that our recent successful launch of a \$40 million MWMSTM program with a major U.S. government agency is leading to additional business from other government agencies at the federal, state and local level. In January 2010, we launched a pilot program with the United States Department of Veterans Affairs (“VA”) within the VA Capitol Health Care Network (“Veterans Integrated Service Network” or “VISN”). The VISN is part of the Veterans Health Administration which encompasses the largest integrated health care system in the United States, consisting of 153 medical centers, in addition to numerous community based outpatient clinics, community living centers and Vet Centers. Together these health care facilities provide comprehensive care to over 5.5 million Veterans each year. The pilot allowed each of the participating medical centers within the VISN, both inpatient and outpatient, to provide the Sharps Recovery System™ (formerly known as the Sharps Disposal By Mail System®) and the TakeAway Environmental Return System solutions to their patients. Since its original launch, the pilot program expanded to include eight VISNs. As of June 30, 2011, the pilot is winding down as the VA evaluates a broad roll-out program that would make our solutions available across all VISNs. We also believe there are additional sales opportunities with a major U.S. government agency, including additional products and services, as well as the potential for more MWMSTM orders. These successes demonstrate the attractiveness of our integrated, full-service system that allows government agencies to completely outsource the medical waste handling aspects of their disaster relief programs and rapid response capabilities. Once the system has been proven at the government level, we expect additional growth through commercial emergency preparedness programs as well.

Enhance sales and marketing efforts.

Through the expansion of our sales force (both inside and field), launch of a new website and corresponding promotional activity in mid-July 2011, development of additional marketing materials including use of the Internet and implementation of a call center for direct marketing efforts, we believe we can drive significant additional growth. Capitalizing on the increased regulatory attention directed at medical waste management initiatives, we have received significant press coverage of our TakeAway Environmental Return Systems product line and expect the same with our Complete Needle™ Collection and Disposal System. Subsequent demand along with sales and marketing efforts are helping our solution offerings become a more standard item in the retail setting.

Improve product and service awareness to attract new customers.

As we grow, we continue to focus additional marketing and sales efforts designed to educate home health care providers, physician and dental clinics, pharmaceutical manufacturers, consumers, communities and government agencies of the benefits of our solution offerings and the need for safe, cost-effective and environmentally-friendly methods of medical waste treatment. We believe that the full-service nature of our solution offerings, ease of our mail and ship-back based delivery system and convenience will attract new customers who are not yet aware of the services we provide. In addition to providing a convenient, cost-effective solution to waste and used healthcare materials treatment, we believe future growth will be driven by the need for our customers to properly document and track the disposal of their hazardous waste to maintain compliance with new and existing legislation. We believe our understanding of the legislative process and focus on accurate and thorough electronic tracking of waste disposal or treatment will provide substantial benefits to new customers looking to comply with new standards and promote environmentally cleaner business practices.

Develop new products and services.

We continue to develop new solution offerings including the Complete Needle™ Collection and Disposal System (designed for the traditional under-served home self-injector), the Sharps Medical Waste Management System™, the TakeAway line of products for unused medications (including TakeAway Environmental Return System™),

the Medical/Professional TakeAway Recovery System™ and the RX TakeAway Recovery and Reporting System which offers the collection, storage, audit, witnessed treatment and documentation of unused medications such as flu vaccines, Tamiflu, and Relenza. These innovative product and service offerings allow us to gain further sales from existing customers as well as gain new customers who have a need for more comprehensive products. We will continue our efforts to develop new solution offerings designed to facilitate the proper and cost effective solutions for management of medical waste, used healthcare materials and unused dispensed medications to better serve our customers and the environment. Additionally, we will continue to seek out and identify prospective new customers and markets for new solutions designed to meet the needs of these new customer segments. Research and development expenses were \$131 thousand, \$41 thousand and \$20 thousand for the fiscal years ended June 30, 2011, 2010 and 2009, respectively.

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CONCENTRATION OF CREDIT AND SUPPLIERS

There is an inherent concentration of credit risk associated with accounts receivable arising from sales to our major customers. For the fiscal year ended June 30, 2011, two customers represented approximately 33% of revenues. Those same two customers represented approximately 22% or \$660 thousand, of the total accounts receivable balance at June 30, 2011. For the fiscal year ended June 30, 2010, two customers represented approximately 68% of revenues. Those same two customers represented approximately 27%, or \$546 thousand, of the total accounts receivable balance at June 30, 2010. For the fiscal year ended June 30, 2009, four customers represented approximately 48% of revenues. We may be adversely affected by our dependence on a limited number of high volume customers. Management believes that the risks are mitigated by, (i) the contractual relationships with key customers, (ii) the high quality and reputation of the Company and its solution offerings and (iii) the continued diversification of our solution offerings into additional markets outside of its traditional customer base.

Currently, the majority of our transportation is sourced with the USPS, which consists of delivering the Sharps® Recovery System™ (formerly Sharps Disposal by Mail System®) from the end user to the Company's treatment facility. We also have an arrangement with UPS whereby UPS transports the Company's TakeAway Recovery System products from the end user to the Company's treatment facility. Management believes the risk of dependence on the USPS is mitigated by (i) the arrangement with UPS and (ii) the long-standing business relationship with and successful performance by USPS.

We maintain relationships with multiple raw materials suppliers and vendors in order to meet customer demands and assure availability of our products and solutions. With respect to the Sharps Recovery System™ (formerly Sharps Disposal by Mail System®) solutions, we own all proprietary molds and dies and utilize three contract manufacturers for the production of the primary raw materials. We believe that alternative suitable contract manufacturers are readily available to meet the production specifications of our products and solutions. With respect to our Pitch-It™ IV Poles, the Company maintains an exclusive manufacturing relationship with Drive Medical Design & Manufacturing. We utilize national suppliers such as Southern Container, R & D Molders, Uline and W. W. Grainger, Inc. for the majority of the raw materials used in our other products and solutions.

INTELLECTUAL PROPERTY

We have a portfolio of trademarks and patents, both granted and pending. We consider our trademarks important in the marketing of our products and services, including Sharps Disposal by Mail System®, TakeAway Environmental Return System™, Complete Needle™ Collection and Disposal System, Sharps®MWMS™, Pitch-It IV™ Poles, TriLesSystem®, GREEN Waste Conversion Process™ and PELLA-DRX™ among others. With respect to our registered marks, we continue using such marks and will file all necessary documentation to maintain their registrations for the foreseeable future. We maintain patents on Pitch-It™ IV Poles which are scheduled to expire in 2012. We have a number of patents pending, including those applicable to our Complete Needle™ Collection and Disposal System, Sharps Recovery System™ Needle Collection and Mailback Disposal System, the Sharps® Medical Waste Management System™, the GREEN Waste Conversion Process™, and Sharps Secure® Needle Collection and Containment System™ and are in the process of applying for other trademarks and patents.

COMPETITION

There are several competitors who offer similar or identical products and services that facilitate the disposal of smaller quantities of medical waste. There are also a number of companies that focus specifically on the marketing of products and services which facilitate disposal through transport by the USPS (similar to the Company's products). These companies include (i) smaller private companies or (ii) divisions of larger medical or solid waste companies. Additionally, we compete, in certain markets, with Stericycle, the largest medical waste company in the

country, which focuses primarily on a pick-up service business model. As Sharps continues to grow and increase awareness of the proper disposal of syringes and unused medications it does believe it may face more and possibly significant competition. We believe our comprehensive line of proven solution offerings, first mover advantages, excellent industry reputation, significant history of market and customer success, quality solutions and products, as well as our capabilities as a vertically integrated producer of products and services, provides significant differentiation in the current competitive market.

GOVERNMENT REGULATION

Sharps is subject to extensive federal, state, and/or local laws, rules and regulations. We are required to obtain permits, authorizations, approvals, certificates and other types of governmental permission from the EPA, the State of Texas and the local governments in Carthage, Texas with respect to our facilities. Such laws, rules and regulations have been established to promote occupational safety and health standards and certain standards have been established in connection with the handling, transportation and disposal of certain types of medical and solid wastes, including transported medical waste. Our estimated annual costs of complying with these laws, regulations and guidelines is currently less than \$100,000 per year. In the event additional laws, rules or regulations are adopted which affect our business, additional expenditures may be required in order for Sharps to be in compliance with such changing laws, rules and regulations.

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COMPLIANCE WITH ENVIRONMENTAL LAWS

In November 2005 and September 2009, the EPA and the Texas Commission on Environmental Quality promulgated new regulations under the Clean Air Act and associated state statutes which will affect the operations of the incineration facility located in Carthage, Texas. These regulations modify the emission limits and monitoring procedures required to operate an incineration facility. The new rules will necessitate changes to our owned incinerator and pollution control equipment at the facility or require installation of an alternative treatment method to ensure compliance. These regulations will also require us to obtain a Title V permit and conduct additional monitoring. We are required to comply with these new standards by the end of 2012. Such changes will require us to incur capital expenditures in order to meet the requirements of the regulations. We have studied these amended regulations and their options, and decided in the interim to move forward with the process of adding alternative technology, autoclaving, which meets the EPA Clean Air Act requirements, for medical waste disposal which became fully operational in February 2009 at its current facility in Carthage, Texas. We believe autoclaving is environmentally cleaner and a less costly method of treating medical waste than incineration. Due to our continued growth, we anticipate that we will incur additional capital expenditures needed in order to meet the new air emission regulations. The additional capital expenditures are not expected to exceed \$1.0 million. We expect capital expenditures related to these new regulations to be made by the end of the first half of fiscal year 2013.

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ITEM 1A. RISK FACTORS

We may be unable to manage our growth effectively.

We experienced significant growth with revenues increasing more than 93% to \$39.2 million for the fiscal year ended June 30, 2010 from \$20.3 million for fiscal year ended June 30, 2009. As the U.S. Government contract moved into its maintenance phase during fiscal year 2011, revenues decreased 51% to \$19.4 million. The decrease was due to decreased billings for the U.S. Government contract of \$21.1 million partially offset by increased recurring revenue growth of \$1.4 million or 8%. The increase in core revenue as well as an expanded presence in the retail markets, has placed and will continue to place significant demands on our financial, operational and management resources. In order to continue our growth, we may need, at some point, to add operations, administrative and other personnel, and may need to make additional investments in the infrastructure and systems. There can be no assurance that we will be able to find and train qualified personnel, do so on a timely basis, or expand our operations and systems to the extent, and in the time, required.

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

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

The Company's Board of Directors oversees CEO and senior management succession planning. The process focuses on building management depth, considers continuity and stability within the Company, and responds to Sharps' evolving needs and changing circumstances. The Board approves continuity plans for the CEO and senior management succession planning to enable the Board to respond to planned or unexpected vacancies in key positions. The Board considers optimizing the ongoing safe and sound operation of the Company and minimizing any potential disruption or loss of continuity to our business and operations as it evaluates the plan.

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

We are dependent on a small group of customers. In addition, there is an inherent concentration of credit risk associated with accounts receivable arising from sales to our major customers. For the fiscal year ended June 30, 2011, two customers represented approximately 33% of revenues. Those same two customers represented approximately 22%, or \$660 thousand, of the total accounts receivable balance at June 30, 2011. To the extent these significant customers are delinquent or delayed in paying or we are not successful in obtaining consistent and additional business from our existing and new customers, our results of operations and financial condition would be adversely affected.

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

There are several competitors who offer similar or identical products and services that facilitate the disposal of smaller quantities of medical waste. There are also a number of companies that focus specifically on the marketing of products and services which facilitate disposal through transport by the USPS (similar to the Company's products). These companies include (i) smaller private companies or (ii) divisions of larger medical or solid waste companies. Additionally, we do compete, in certain markets, with Stericycle, the largest medical waste company in the country, which focuses primarily on a pick-up service business model. As Sharps continues to grow and increase awareness of the proper disposal of syringes and unused medications it does believe it may face more and possibly significant competition. We believe our comprehensive line of proven solution offerings, first mover advantages, excellent industry reputation, significant history of market and customer success, quality solutions and products, as well as our capabilities as a vertically integrated producer of products and services, provides significant differentiation in the current competitive market.

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

Although we enter into exclusive contracts with the majority of our enterprise customers, these contracts do not have provisions for firm long-term volume commitments. In general, customer purchase orders may be canceled and order volume levels can be changed or delayed with limited or no penalties. Canceled, delayed or reduced purchase orders could significantly affect our financial performance.

An inability to maintain existing government contracts or win additional government contracts over an extended period could have a material adverse effect on our operations and adversely affect our future revenue.

A material amount of our revenues were generated through the contract with a major U.S. government agency for the period from March 2009 through December 2009. Our revenues for the first year of the five year contract (one year plus four option years) were approximately \$28.5 million (\$6.0 million of which was recognized in fiscal year 2009, \$22.5 million was recognized in the first half of fiscal year 2010). In January 2010, we were awarded the first option year (ending January 31, 2011) valued at approximately \$1.6 million and was recognized from February 1, 2010 through January 31, 2011. In January 2011, we were awarded the second option year (ending January 31, 2012) valued at approximately \$3.0 and is to be recognized from February 1, 2011 through January 31, 2012. There is expected to be approximately \$3.0 million in revenue in calendar year 2011 for the maintenance component of the contract including \$1.5 million second half of calendar year 2011. The remaining two option years are expected to be approximately \$3.0 million per contract year. Although, the Company believes the amounts above to be reasonable based upon the underlying contract and its current project plan, it makes no assurances regarding the actual recognition of revenue by fiscal year, which could vary significantly from that noted above. All contracts with, or subcontracts involving, the federal government are terminable, or subject to renegotiation, by the applicable governmental agency on 30 days notice, at the option of the governmental agency. If a material contract is terminated or renegotiated in a manner that is materially adverse to us, our revenues and future operations could be materially adversely affected.

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

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

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

Sharps is subject to extensive federal, state, and/or local laws, rules and regulations. We are required to obtain permits, authorizations, approvals, certificates and other types of governmental permission from the EPA, Texas and the local governments in Carthage, Texas with respect to our facility. Such laws, rules and regulations have been established to promote occupational safety and health standards and certain standards have been established in connection with the handling, transportation and disposal of certain types of medical and solid wastes, including mailed sharps. We

believe that we are currently in compliance in all material respects with all applicable laws and regulations governing our business, including the permits and authorizations for our incinerator facility. Our estimated annual costs of complying with these laws, regulations and guidelines is currently less than \$100,000 per year. In the event additional laws, rules or regulations are adopted which affect our business, additional expenditures may be required in order for us to be in compliance with such changing laws, rules and regulations. Furthermore, any material relaxation of any existing regulatory requirements governing the transportation and disposal of medical waste could result in a reduced demand for our products and services and could have a material adverse effect on our revenues and financial condition. The scope and duration of existing and future regulations affecting the medical and solid waste disposal industry cannot be anticipated and are subject to change.

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In November 2005 and September 2009, the EPA and the Texas Commission on Environmental Quality promulgated new regulations under the Clean Air Act and associated state statutes which will affect the operations of the incineration facility located in Carthage, Texas. These regulations modify 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. These regulations will also require us to obtain a Title V permit and conduct additional monitoring. We are required to comply with these standards by the end of 2012. Such changes will require us to incur capital expenditures in order to meet the requirements of the regulations. We have studied these amended regulations and their options, and decided in the interim to move forward with the process of adding alternative technology, autoclaving, which meets the EPA Clean Air Act requirements, for medical waste disposal which became fully operational in February 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. We believe autoclaving is environmentally cleaner and a less costly method of treating medical waste than incineration. Due to our continued growth, we anticipate that we will incur additional capital expenditures needed in order to meet the new air emission regulations. The additional capital expenditures are not expected to exceed \$1.0 million. We expect capital expenditures related to these new regulations to be made by the end of the first half of fiscal 2013.

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

Sharps' business utilizes a facility for the proper disposal or treatment of medical waste, used healthcare materials and unused pharmaceuticals. Our owned facility has both incineration and autoclave technologies in Carthage, Texas (Panola County). Prior to the purchase of the facility in January 2008, we had operated the facility since 1999 under a lease arrangement. Sharps' believes it operates and maintains the facility in compliance in all material respects with all federal, state and local laws and/or any other regulatory agency requirements involving solid waste disposal and the operation of the incinerator facility. The failure to maintain the permits for the treatment facility or unfavorable conditions contained in the permits could substantially impair our operations and reduce our revenues. Although we have an agreement with a secondary treatment facility to provide services in the event both the incinerator and autoclave are unavailable, any disruption in the availability of a disposal or treatment facility whether as a result of action taken by governmental authorities, natural disasters or otherwise would have an adverse affect on our operations and results of operations.

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

Our business requires us to handle materials that may be infectious or hazardous to life and property in other ways. Although our products and procedures are designed to minimize exposure to these materials, the possibility of accidents, leaks, spills, and acts of God always exists. Human beings, animals or property could be injured, sickened or damaged by exposure to regulated waste. This in turn could result in lawsuits in which we are found liable for such injuries, and substantial damages could be awarded against us. While we carry liability insurance intended to cover these contingencies, particular instances may occur that are not insured against or that are inadequately insured against. An uninsured or underinsured loss could be substantial and could impair our profitability and reduce our liquidity.

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

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

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

Our common stock has been listed on the NASDAQ Capital Market ("NASDAQ") under the symbol "SMED" since May 6, 2009. The daily trading volumes for our common stock are, and may continue to be, relatively small compared to many other publicly traded securities. Since trading on the NASDAQ, our average daily trading volume has been approximately 100,000 shares. It may be difficult for you to sell your shares in the public market at any given time at prevailing prices, and the price of our common stock may, therefore, be volatile.

ITEM 1B. UNRESOLVED STAFF COMMENTS

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

ITEM 2. DESCRIPTION OF PROPERTY

Sharps leases 190,489 square feet of space in Houston, Texas and College Park, Georgia. Sharps has manufacturing, assembly, distribution and warehousing operations on Reed Road in Houston, Texas, and corporate offices on Kirby Drive in Houston, Texas. We maintain a warehouse facility with manufacturing, assembly and distribution capabilities in College Park, Georgia. These leases expire from April 2014 to April 2015 with options to renew these leases for warehouses for 5 years and for office space 10 years.

We own and operate a facility in Carthage, Texas that houses our processing and treatment operations in an estimated 12,000 square foot building on 4.5 acres of land. The facility is permitted to process 40 tons per day of municipal solid waste. The incinerator at the facility is currently permitted to treat eleven tons per day of municipal solid waste while the autoclave is capable of treating up to seven tons per day of waste.

ITEM 3. LEGAL PROCEEDINGS

None.

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PART II

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

Market Information: Beginning May 6, 2009, the Company's common stock has been quoted on the NASDAQ under the symbol "SMED". Previously, the Company's common stock was quoted on the over-the-counter ("OTC") Bulletin Board under the symbol "SCOM". Since trading on the NASDAQ (May 6, 2009), the Company's common stock had an average trading volume of approximately 2,170,000 shares traded per month. The table below sets forth the high and low closing prices of the Company's common stock on the NASDAQ (July 1, 2009 through August 30, 2011) for each quarter within the last two fiscal years.

	Common Stock	
	High	Low
Fiscal Year Ended June 30, 2010		
First Quarter	\$ 10.18	\$ 6.21
Second Quarter	\$ 11.91	\$ 7.97
Third Quarter	\$ 10.27	\$ 5.85
Fourth Quarter	\$ 7.68	\$ 3.98
Fiscal Year Ended June 30, 2011		
First Quarter	\$ 5.40	\$ 4.00
Second Quarter	\$ 5.87	\$ 3.98
Third Quarter	\$ 5.75	\$ 3.74
Fourth Quarter	\$ 5.35	\$ 3.58
Fiscal Year Ending June 30, 2012		
First Quarter (August 30, 2011)	\$ 4.09	\$ 2.98

Stockholders: At August 30, 2011, there were 15,066,345 shares of common stock held by approximately 167 holders of record. The last reported sale of the common stock on August 30, 2011 was \$4.09 per share.

Dividend Policy: The Company has never declared nor paid any cash dividends on its common stock. The Company currently intends to retain its cash generated from operations for working capital purposes and to fund the continued expansion of its business and does not anticipate paying any dividends on our common stock in the foreseeable future.

Issuer Purchases of Equity Securities: The Company has no reportable purchases of equity securities.

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Corporate Performance Graph*: The graph compares the cumulative total return (i.e., stock price appreciation) on The Company's common stock from the first day it began trading on the NASDAQ and each quarter thereafter with the cumulative total return for the same period on the NASDAQ Small Cap Index and the Dow Jones US Waste and Disposal Services Index. The graph assumes that \$100 was invested on May 6, 2009 in our common stock and in the stock represented by each of the two indices.

*The Corporate Performance Graph and related information shall not be deemed "soliciting material" or to be "filed" with the SEC, nor shall such information be incorporated by reference into any future filing under the Securities Act or the Exchange Act, except to the extent that we specifically incorporate it by reference into such filing.

Securities Authorized for Issuance under Equity Compensation Plans:

The following equity compensation plan information is provided as of June 30, 2011:

Plan Category	Number of securities to be issued upon exercise of outstanding options, warrants and rights (a)	Weighted average exercise price of outstanding options, warrants and rights (b)	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a)) (c)
2010 Stock Plan as approved by shareholders (1) (3)	176,500	\$ 4.51	754,000
1993 Stock Plan as approved by shareholders (2)	711,626	\$ 4.40	122,673
Total	888,126	\$ 4.43	876,673

Notes:

- (1) Represents stock options issued under the 2010 Sharps Compliance Corp. Stock Plan.
- (2) Represents stock options issued under the 1993 Sharps Compliance Corp. Stock Plan.
- (3) The 2010 Stock Plan replaced the 1993 Stock Plan in November 2010.

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ITEM 6. SELECTED FINANCIAL DATA

The following selected historical financial data has been derived from our audited financial statements and should be read in conjunction with the historical Consolidated Financial Statements and related notes (in thousands except earnings per share data):

	For the Year Ended June 30,				
	2011	2010	2009	2008	2007
Revenues	\$ 19,395	\$ 39,156	\$ 20,297	\$ 12,841	\$ 11,956
Operating Income (Loss)	\$ (4,536)	\$ 14,398	\$ 3,464	\$ (1)	\$ 727
Net Income (Loss)	\$ (2,975)	\$ 9,356	\$ 4,197	\$ 82	\$ 785