

SHARPS COMPLIANCE CORP
Form 10-K
August 26, 2015

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, 2015
OR

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

For the transition period from _____ to _____ .

Commission File Number: 001-34269

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

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

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

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

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

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

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

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

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No
Indicate by check mark whether the Registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the Registrant was required to submit and post such files). Yes No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of the Registrant's knowledge, in definitive proxy or information

statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ý

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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, 2014, the aggregate market value of the Registrant’s Common Stock held by non-affiliates was approximately \$54.4 million (based on the closing price of \$4.26 on December 31, 2014 as reported by The NASDAQ Capital Market).

The number of common shares outstanding of the Registrant was 15,386,791 as of August 24, 2015.

DOCUMENTS INCORPORATED BY REFERENCE:

Portions of the Registrant’s Proxy Statement to be filed with the Securities and Exchange Commission pursuant to (1) Regulation 14A for the Annual Meeting of Shareholders to be held on November 19, 2015 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 or its subsidiaries or Company management, are intended to identify forward-looking statements. Such statements reflect the current risks, uncertainties and assumptions related to certain factors, including without limitations, competitive factors, general economic conditions, customer relations, relationships with vendors, governmental regulation and supervision, seasonality, distribution networks, product introductions and acceptance, technological change, changes in industry practices, onetime events and other factors described herein. Based upon changing conditions, should any one or more of these risks or uncertainties materialize, or should any underlying assumptions prove incorrect, actual results may vary materially from those described herein as anticipated, believed, 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 national provider of comprehensive waste management services including medical, pharmaceutical and hazardous. Our solutions facilitate the proper collection, containment, transportation and treatment of numerous types of healthcare-related materials, including hypodermic needles, lancets and other devices or objects used to puncture or lacerate the skin, or sharps, hazardous waste and unused consumer dispensed medications and over-the-counter drugs. We serve customers in multiple markets, such as home health care, retail clinics and immunizing pharmacies, pharmaceutical manufacturers, professional offices (physicians, dentists and veterinarians), assisted living and long-term care facilities (assisted living, continuing care, long-term acute care, memory care and skilled nursing), government (federal, state and local), consumers, commercial and agriculture, as well as distributors to many of the aforementioned markets. We assist our customers in determining which of our solution offerings best fit their needs for the collection, containment, return transportation and treatment of medical waste, used healthcare materials, pharmaceutical waste, hazardous waste and unused dispensed medications. Our differentiated approach provides our customers the flexibility to return and properly treat medical waste, used healthcare materials or unused dispensed medications through a variety of solutions and products transported primarily through the United States Postal Service ("USPS"). For customers with facilities or locations that may generate larger quantities of waste, we integrate the route-based pickup service into our complete offering. The benefits of this comprehensive offering include single point of contact, consolidated billing, integrated manifest and proof of destruction repository in addition to our cost savings. Furthermore, we provide comprehensive tracking and reporting tools that enable our customers to meet complex medical, pharmaceutical and hazardous waste disposal and

compliance requirements. We believe the fully-integrated nature of our operations is a key factor leading to our success and continued recurring revenue growth. We continue to take advantage of the many opportunities in all markets served as we educate the market place and as prospective customers become more aware of alternatives to traditional methods of disposal (i.e., route-based pickup services).

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As a leading full-service national provider of comprehensive waste management services including medical, pharmaceutical and hazardous, our key markets include pharmaceutical manufacturers, home healthcare providers, assisted living/long-term care, retail pharmacies and clinics and the professional market, which is comprised of physicians, dentists and veterinary practices. The Company's flagship product, the Sharp® Recovery System, is a comprehensive solution for the containment, transportation, treatment and tracking of medical waste and used healthcare materials. In October 2014, the Company launched MedSafe®, a patent pending solution for the safe collection, transportation and proper disposal of unwanted and expired prescription medications including controlled substances from ultimate users. MedSafe has been designed to meet or exceed the new regulations issued by the Drug Enforcement Administration ("DEA") implementing the Secure and Responsible Drug Disposal Act of 2010 (the "Act"), which became effective October 9, 2014.

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 74 full-time employees and 1 part-time employee. 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 own and operate a fully-permitted treatment facility in Carthage, Texas that incorporates our processing and treatment operations. Approximately four 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). The Company utilizes six treatment facilities owned by subcontractors of the Company which are located across the country for the proper treatment of medical waste and used healthcare materials generated by certain of our customers. This arrangement not only reduces the Company's return transportation costs associated with its Solutions but also provides back-up treatment facility capabilities in the event of disruption at the Company's treatment facility in Carthage, Texas. In July 2015, the Company acquired a route-based pickup service in Pennsylvania, which serves Pennsylvania, Maryland, and parts of Ohio.

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 health care 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 twenty-eight gallons; USPS-approved shipping box with prepaid priority mail postage; absorbent material inside the container that can safely hold up to 150 milliliters of fluids; a bag for additional containment and complete documentation and tracking manifest. The Sharps Recovery System is transported to our owned or contracted facilities for treatment. Upon treatment or conversion of the waste, we provide electronic proof of receipt and treatment documentation to the customer through our proprietary SharpsTracer® system. We introduced new systems this year to the Sharps Recovery System brand portfolio that are best suited for facilities with multiple treatment rooms. These new systems offer multiple sharps containers with a single return, prepaid return box.

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

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

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

ComplianceTRACSM: a more advanced web-based version of the Company's compliance and training program. ComplianceTRAC is designed to improve worker safety while satisfying applicable Occupational Safety and Health Administration ("OSHA") and other requirements for the end-user. The program includes employee training for Bloodborne pathogens, HHS-compliant HIPAA and Hazardous Communications. The online program also provides access to a database of over a million SDSs (MSDSs), safety plans, regulatory information and facility self-audits. The program is designed to replace outdated hard copy manuals with an updated platform available 24/7.

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

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

MARKET OVERVIEW

The Company continues to focus on core markets and solution offerings that fuel growth. Markets served are professional offices, retail pharmacies and clinics, assisted living and long-term care facilities, home healthcare, government, pharmaceutical manufacturers and other commercial organizations that require cost-effective services for managing medical, pharmaceutical and hazardous waste.

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

A large professional market that consists of dentists, veterinarians, clinics, private practice physicians, urgent care facilities, ambulatory surgical centers and others such as acupuncture and tattoo services. This regulated market consists of small to medium quantity generators of medical, pharmaceutical and hazardous waste where we can offer a lower cost to service with solutions to match individual facility needs. The Company addresses this market from two directions: (i) field sales which focuses on larger-dollar and nationwide opportunities where we can integrate the route-based pickup service along with our mailback solutions to create a comprehensive medical waste management offering and (ii) inside and online sales which focus on the individual or small group professional offices.

The shift of healthcare from traditional settings to the retail pharmacy and clinic markets, where the Company focuses on driving increased promotion of the Sharps Recovery System. The number of U.S. retail clinics is projected to increase significantly, as much as 20%-25% per year, driven by the increasing demand of newly insured patients under healthcare reform, as well as patients looking for more convenient care and retail pharmacies increasing the variety and volume of healthcare services they provide. According to the Centers for Disease Control ("CDC"), 25% of flu shots for adults were administered in a retail clinic with the trend expected to increase. In addition to the continued growth in the flu shot business, there are also growth opportunities for more primary care in the retail or alternative site setting and correspondingly growth opportunities for the Company based on its significant presence in the retail market. A recent study shows that Americans visit retail clinics 10 million times a year, which represents only 2% of "all primary care patient encounters."

The passage of new regulations for ultimate user medication disposal allows the Company to offer new solutions (MedSafe and TakeAway Medication Recovery System envelopes) that meet the regulations for ultimate user controlled substances disposal (Schedules II-V) to retail pharmacies. Additionally, with the new regulations, the Company is able to provide the MedSafe and TakeAway Medication Recovery Systems to assisted living and hospice to address a long standing issue within long-term care.

The changing demographics of the U.S. population - one out of five Americans will be 65 years or older by 2030, which will increase the need for cost-effective medical waste management solutions, especially in the long-term care and home healthcare markets. With multiple solutions for managing regulated healthcare-related waste, the Company delivers value as a single-source provider with blended mailback and route-based pickup services matched to on the waste volumes of each facility.

Local, state and federal agencies have growing needs for solutions to manage medical and pharmaceutical waste — the Company's Sharps Recovery System is ideal for as-needed disposal of sharps and other small quantities of medical waste generated within government buildings, schools and communities. The Company also provides TakeAway Medication Recovery System envelopes and MedSafe solutions to government agencies in need of proper and regulatory compliant medication disposal.

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With an increased number of self-injectable medication treatments and local regulations, the Company believes its flagship product, the Sharps Recovery System, continues to offer the best option for proper sharps disposal at an affordable price. The Company delivers premium services to pharmaceutical manufacturers that sell high-dollar, self-injectable medications, which include data management, compliance reporting, fulfillment, proper containment with disposal, branding and conformity with applicable regulations. In addition, the Company provides self-injectors with online and retail purchase options of sharps mailback systems, such as the Sharp Recovery System and Complete Needle Collection & Disposal System, respectively.

A heightened interest by many commercial companies who are looking to improve workplace safety with proper sharps disposal and unused medication disposal solutions — the Company offers a variety of services to meet these needs, including the Sharps Secure Needle Disposal System, Sharps Recovery System, Biohazard Spill Kits and TakeAway Medication Recovery System envelopes.

In July 2015, the Company augmented its network of medical and hazardous waste service providers with an acquisition of a route-based pickup service in the northeast serving Pennsylvania, Maryland and parts of Ohio. Additionally, the Company has begun to service parts of Texas and Louisiana with route-based pickup service. With the addition of these route-based pickup regions and the network of medical and hazardous waste service providers servicing the entire U.S., the Company offers customers a blended product portfolio to effectively manage multi-site and multi-sized locations, including those that generate larger quantities of waste. The network has had a significant positive impact on our pipeline of sales opportunities — over 60% of this pipeline is attributable to opportunities providing comprehensive waste management service offerings where both the mailback and pickup service are integrated into the offering.

The Company has new solution offerings that include ultimate user medication disposal (MedSafe and TakeAway Medication Recovery System) and mailback services for DEA registrant expired inventory of controlled substances (TakeAway Medication Recovery System DEA Reverse Distribution for Registrants).

The Company's strong financial position with a cash balance of \$15.2 million and no debt as of June 30, 2015.

TERMINATED CONTRACT AND LEGAL SETTLEMENT

On January 29, 2009, the Company entered into a five-year contract with the United States Department of Veterans Affairs National Acquisition Center (“VA NAC”) to provide its Sharps MWMS, a rapid-deployment solution designed to provide medical waste collection, storage and treatment in the event of natural disasters, pandemics, man-made disasters or other national emergencies in support of the CDC Division of Strategic National Stockpile. Sharps MWMS also incorporated warehousing, inventory management, training, data and other services necessary to provide a comprehensive solution. Sharps performed under the contract through January 31, 2012. On June 30, 2014, the Company entered an agreement to settle its claims against the United States government and various agencies related to the January 2012 termination of the Company’s February 2009 contract with the CDC. The settlement agreement resulted in a cash payment of \$1.5 million, which was received by the Company in July 2014.

COMPETITIVE STRENGTHS

We believe our competitive strengths include the following:

Leading full-service national provider of comprehensive and cost-effective waste management services, including medical, pharmaceutical, and hazardous.

We offer a full line of solutions and services that address the proper management of medical waste, used healthcare materials and patient dispensed unused or expired medications (including controlled substances). We offer a blended

product portfolio that includes both a mailback and route-based pickup service to target prospective customers with multi-site and multi-sized locations that may include facilities that generate larger quantities of waste, including medical, pharmaceutical and hazardous. This blended offering includes a single point of contact, consolidated billing, regulatory support and complete integration of our SharpsTracer system. Our proprietary SharpsTracer tracking and documentation systems provide customers a comprehensive electronic record of receipt and treatment of their waste to meet regulatory requirements. The Company's mail or ship-back based services are generally offered at a significantly lower cost as compared to the traditional route-based pickup services for small quantity generators since the Company utilizes the existing infrastructure of USPS or in some cases United Parcel Service ("UPS") for return transportation. While competitors may attempt to replicate our comprehensive solution offerings, we believe the ability to offer such a comprehensive, value-added turnkey solution is a significant competitive advantage. We have only begun to offer this comprehensive solution over the past three years with the primary focus of our marketing efforts on educating the marketplace about us as an alternative to the historical provider of waste services, including medical, pharmaceutical and hazardous.

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Vertically-integrated full-service operations.

Our operations are fully integrated, including manufacturing, assembly, distribution, treatment, online tracking and customer reporting. We have manufacturing, assembly, distribution and warehousing operations in Houston, Texas. We own and operate a fully-permitted treatment facility in Carthage, Texas, that incorporates our processing and treatment operations. Approximately five 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 medications including controlled substances (i.e., both incineration and autoclave capabilities). The Company, under an agreement with several subcontractors, utilizes six treatment facilities located across the country for the proper treatment of medical waste and used healthcare materials generated by our customers. This has not only reduced the Company's return transportation costs but also provides back-up treatment facility capabilities in the event of disruption at the Company's treatment facility in Carthage, Texas. We track the movement of each shipment from outbound shipping to ultimate treatment and provide confirmation to the customer for their records using our proprietary SharpsTracer tracking and documentation system. We also track treatment volumes associated with pickup services provided as part of our blended product portfolio using SharpsTracer. We also provide customized reporting and comprehensive regulatory support for many of our customers. By controlling all aspects of the process internally, the Company is able to provide a one-stop solution and simplify the tracking and record-keeping processes to meet regulatory requirements for our customers. We believe the fully-integrated nature of our operations is seen by current and prospective customers as a key factor and differentiator leading to our success and leadership position in our industry.

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, home healthcare providers, assisted living/long-term care facilities and the professional market, which is comprised of physicians, dentists and veterinary practices. We also serve federal, state and local government agencies and hospitality, which includes hotels, commercial, industrial and agriculture.

Our billings by market for the years ended June 30, 2015, 2014 and 2013 are below (as expressed in percentages of revenues):

	Year Ended June 30,		
	2015	2014	2013
<u>BILLINGS BY MARKET:</u>			
Retail	28 %	24 %	24 %
Home Health Care	22 %	27 %	32 %
Professional	20 %	20 %	18 %
Pharmaceutical Manufacturer	15 %	14 %	11 %
Assisted Living	6 %	6 %	7 %
Government	5 %	2 %	3 %
Environmental	1 %	3 %	1 %
Other	3 %	4 %	4 %
	100 %	100 %	100 %

Highly scalable business model.

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

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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 strict guidelines regarding home sharps disposal. Passed or strict guidelines related to home sharps disposal covers 46% of the U.S. population. In addition to state restrictions on disposal of home-generated sharps by consumers, several counties have passed ordinances requiring businesses that sell syringes to the public, such as retail pharmacies and veterinary clinics to take back those syringes, once used, in regulatory-compliant sharps containers at no charge to the consumer.

In order to reduce accidental poisonings and pollution of our water and municipal water systems, twenty-two states and the District of Columbia have introduced legislation over the last few years intended to manage the disposal of consumer unused medications. Seven states and the District of Columbia have successfully passed such legislation. Passed or pending legislation related to disposal of consumer medications covers 67% of the U.S. population. Further, since 2009, the federal government, nine states and several counties have introduced legislation requiring manufacturer responsibility for consumer generated unused medications. State regulatory agencies are also addressing this issue within the regulated industry. Multiple states now require healthcare providers to avoid sewer and trash disposal of non-hazardous unused medications within their facilities. States such as California, Washington and Minnesota have required assessment and proper treatment by a medical waste disposal company for years. However, other states such as Colorado and Florida are now requiring even small healthcare providers to segregate unused medications for proper disposal. In addition, states are beginning to more closely scrutinize generators returning through reverse distribution unused medications that are actually waste pharmaceuticals and should be disposed of as such. As state and federal enforcement of these statutes increases, more companies could 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.

Environmentally-conscious solution provider.

In addition to providing cost-effective solutions for our customers, the Company is committed to discovering new sustainable initiatives that mitigate the effects of potentially hazardous waste on the environment. Our patented Waste Conversion Process™ repurposes regulated medical waste and unused medications into new resources used in industrial applications, such as the generation of electricity or recycled plastics used in the industrial sector. Our Universal Waste Shipback Program recycles the materials in light bulbs, batteries, and other mercury-containing devices for use in new applications. In addition, the use of recycled paper and plastic materials for many of our products further demonstrates our total commitment to environmentally sound business practices. As an organization, the Company is a leading proponent for the development of solutions for the safe disposal of sharps, unused medications (including controlled substances), light bulbs, batteries and other mercury-containing devices in the community and continually works to raise public awareness of the issue.

Experienced and accomplished management team.

Our senior management team has extensive industry experience and is committed to the continued growth and success of our company. Mr. David P. Tusa, CEO and President, in addition to his ten-plus years with the Company has over 20 years of business and public company experience in multiple industries and in companies with revenues up to \$500 million. Mr. Brandon L. Beaver, Senior Vice President of Sales, has broad healthcare sales and sales management experience with the Company and at a variety of firms including AIMS/Allied Care, a third party administrator and managed care company. Ms. Diana P. Diaz, CPA, MBA, Vice President and Chief Financial Officer, has over 25 years of finance, accounting, healthcare and public company industry experience. Mr. Gregory C. Davis, Vice President of Operations, has over 20 years of information technology and operations-related experience. Mr. Khairan Aladwani, Vice President of Assurance/Quality Control, has over 25 years of quality assurance and operations

experience, including medical devices, at a variety of companies both private and public. Mr. Dennis Halligan, Vice President of Marketing, has broad marketing experience with the Company and at a variety of firms, including Stir Creative and R.J. Reynolds.

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 could also benefit from the TakeAway Medication Recovery System, Medsafe, our hazardous waste solutions, our universal waste solutions or other specialized products. Although currently focused primarily on the proper management of used syringes and needles as well as unused medications (including controlled substances), 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.

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Over the past three years, the Company has developed a network of medical and hazardous waste service providers including those with route-based pickup services, which allows the Company to serve the entire U.S. medical and hazardous waste market. In July 2015, the Company augmented its network of medical and hazardous waste service providers with an acquisition of a route-based pickup service in the northeast serving Pennsylvania, Maryland, and parts of Ohio. Additionally, the Company has begun to service parts of Texas and Louisiana with route-based pickup service. With the addition of these route-based pickup regions and the network of medical and hazardous waste service providers serving the entire U.S., the Company offers clients a blended product portfolio to effectively target current and prospective customers with multi-site and multi-sized locations including those that generate larger quantities of medical and hazardous waste. The offering includes a single point of contact, consolidated billing, regulatory support and complete integration of our SharpsTracer system. The Company believes the comprehensive offering will continue to assist the Company in landing larger opportunities whereby the customer has both large and small quantity facilities generating medical waste, used healthcare materials and hazardous waste.

We are positive about anticipated growth opportunities in the Retail market. Regarding the future of this market, a recently published report by Accenture cites that the number of U.S. retail clinics are projected to increase significantly, as much as 20%-25% per year, driven by the increasing demand of newly insured patients under healthcare reform as well as patients looking for more convenient care and retail pharmacies increasing the variety and volume of healthcare services they provide. According to the CDC, 22% of flu shots for adults were administered in a retail clinic with the trend expected to increase. In addition to the continued growth in the flu shot business, there are also growth opportunities for more primary care in the retail or alternative site setting and correspondingly growth opportunities for the Company based on its significant presence in the retail market. A recent study shows that Americans visit retail clinics 10 million times a year, which represents only 2% of “all primary care patient encounters.”

Since June 30, 2011, the Company experienced growth of almost sixteen times or \$4.6 million in the pharmaceutical market. We continue to see interest in our patient support program solution offering among pharmaceutical manufacturers as it relates to self-injectable medications especially related to new drug launches. We believe manufacturers are now, more than ever, focused on (i) product differentiation, (ii) improved interaction with patients and (iii) creating a touch point for individual patient follow-up that could lead to improved therapy outcomes. In fiscal year 2012, we launched three new patient support programs announced in August and October 2011. In fiscal year 2015, we launched three additional patient support programs and expect to launch two more patient support programs for new drug therapies over fiscal year 2016. The patient support programs include the direct fulfillment of the Sharps Recovery System to the pharmaceutical manufacturers’ program participants, which provides the proper containment, return and treatment of the needles or injection devices utilized in therapy. Sharps’ proprietary SharpsTracer system tracks the return of the Sharps Recovery System by the patient to the treatment facility and then makes available to the pharmaceutical manufacturer electronic data. This data assists them in monitoring medication discipline and provides them with a touch point for individual patient follow-up, which potentially could lead to better outcomes. We believe the Company is the leader in providing solutions of this type to this market.

Enhance sales and marketing efforts.

Field Sales – The Company maintains a field sales team that focuses on larger dollar and nationwide opportunities in most of the markets served. The field sales team is able to address much larger opportunities where we can integrate the route-based pickup service along with our mailback solutions to create a comprehensive waste management offering. We have seen success with this approach in fiscal years 2013 through 2015 and believe the comprehensive offering capabilities will continue to accelerate revenue growth of the Company.

Web and Inside Sales — Through targeted telemarketing initiatives (inside sales), e-commerce driven website and web-based promotional activities, we believe we can drive significant additional growth as we increase awareness of the Company’s innovative solution offerings with a focus on individual or small group professional offices.

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Improve product and service awareness to attract new customers.

As we grow, we continue to focus additional marketing and sales efforts designed to educate professional offices, retail pharmacies and clinics, assisted living and long-term care facilities, home healthcare, government, pharmaceutical manufacturers and other commercial organizations that require cost-effective services for managing medical, pharmaceutical and hazardous waste of the benefits of our solution offerings and the need for safe, cost-effective and environmentally-friendly methods of waste treatment, including medical, pharmaceutical, and hazardous. 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 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 ultimate user medication disposal (MedSafe and TakeAway Medication Recovery System) and mailback services for DEA registrant expired inventory of controlled substances (TakeAway Medication Recovery System DEA Reverse Distribution for Registrants). These innovative product and service offerings allow us to gain further sales from existing customers as well as gain new customers who have a need for more comprehensive products. We will continue our efforts to develop new solution offerings designed to facilitate the proper and cost effective management of medical waste, used healthcare materials, pharmaceutical waste, hazardous waste 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.

CONCENTRATION OF CREDIT AND SUPPLIERS

There is a concentration of credit risk associated with accounts receivable arising from sales to our major customers. For the fiscal year ended June 30, 2015, one customer represented approximately 17% of revenue. This customer represented approximately 7%, or \$0.5 million, of the total accounts receivable balance at June 30, 2015. For the fiscal year ended June 30, 2014, one customer represented approximately 20% of revenue. This customer represented approximately 13%, or \$0.6 million, of the total accounts receivable balance at June 30, 2014. For the fiscal year ended June 30, 2013, one customer represented approximately 22% 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.

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

We maintain relationships with multiple raw materials suppliers and vendors in order to meet customer demands and assure availability of our products and solutions. With respect to the Sharps Recovery System solutions, we own 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. We utilize national suppliers for the majority of the raw materials used in our other products and solutions and international suppliers for Pitch-It IV Poles.

INTELLECTUAL PROPERTY

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

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COMPETITION

There are several competitors who offer similar or identical products and services that facilitate the disposal of smaller quantities of medical waste. There are also a number of companies that focus specifically on the marketing of products and services which facilitate disposal through transport by the USPS (similar to the Company's products). These companies include (i) smaller private companies or (ii) divisions of larger companies. Additionally, we compete in certain markets with Stericycle, the largest medical waste company in the country, which focuses primarily on a pickup service business model. With the addition of the route-based pickup services offered through a network of medical and hazardous waste services providers as well as plans to expand our route-based pickup services in Texas and throughout the northeast, the Company believes it is better positioned with its comprehensive medical waste management offering to compete with Stericycle. As Sharps continues to grow and increase awareness of the proper disposal of syringes and unused medications (including controlled substances), it could face additional and possibly significant competition. We believe our comprehensive line of proven solution offerings, comprehensive medical waste management service offerings, first mover advantages, excellent industry reputation, significant history of market and customer success, quality solutions and products, as well as our capabilities as a vertically-integrated producer of products and services 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 \$200,000 per year. In the event additional laws, rules or regulations are adopted which affect our business, additional expenditures may be required in order for Sharps to be in compliance with such changing laws, rules and regulations.

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 affect the incineration portion of our operation of the treatment facility located in Carthage, Texas. These regulations modified the emission limits and monitoring procedures required to operate an incineration facility. These new regulations and the Company's Title V permit required additional emissions-related monitoring equipment and compliance. Such changes required us to incur capital expenditures, which have been reflected in cash flows from investing activities in the Company's consolidated statement of cash flows in order to meet the requirements of the new regulations.

ITEM 1A. RISK FACTORS

We may be unable to manage our growth effectively.

We continue to experience core revenue growth for fiscal year 2015 as we saw the benefits of our marketing activities in all of our target markets. Revenue increased 16% to \$30.9 million for the fiscal year ended June 30, 2015 driven by increases in the retail market due primarily to flu shot related business, government purchases of unused medication management solutions, continued rollout of new patient support programs in the pharmaceutical market, targeted telemarketing initiatives and promotional activities in the professional market and increases in the assisted living market. The increase in revenue and execution of our growth strategies has placed and will continue to place significant demands on our financial, operational and management resources. In order to continue our growth, we may

need at some point to add operations, administrative and other personnel and to make additional investments in the infrastructure and systems. There can be no assurance that we will be able to find and train qualified personnel, do so on a timely basis or expand our operations and systems to the extent and in the time required.

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

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

The 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 a concentration of credit risk associated with accounts receivable arising from sales to our major customers. For the fiscal year ended June 30, 2015 one customer represented approximately 17% of revenue. This customer represented approximately 7%, or \$0.5 million, of the total accounts receivable balance at June 30, 2015. To the extent significant customers are delinquent or delayed in paying, or we are not successful in obtaining consistent and additional business from our existing and new customers, our results of operations and financial condition would be adversely affected.

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

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

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

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

could significantly affect our financial performance.

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

We are subject to extensive federal, state and/or local laws, rules and regulations. We are required to obtain permits, authorizations, approvals, certificates and other types of governmental permission from the EPA, 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. 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 \$200,000 per year. In the event additional laws, rules or regulations are adopted which affect our business, additional expenditures may be required in order for us to be in compliance with such changing laws, rules and regulations. Furthermore, any material relaxation of any existing regulatory requirements governing the transportation and disposal of medical waste could result in a reduced demand for our products and services and could have a material adverse effect on our revenues and financial condition. The scope and duration of existing and future regulations affecting the medical and solid waste disposal industry cannot be anticipated and are subject to change.

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 affect the incineration portion of our operation of the treatment facility located in Carthage, Texas. These regulations modified the emission limits and monitoring procedures required to operate an incineration facility. These new regulations and the Company's Title V permit required additional emissions-related monitoring and compliance. Such changes required us to incur capital expenditures, which have been reflected in cash flows from investing activities in the Company's consolidated statement of cash flows in order to meet the requirements of the new regulations.

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

Our business utilizes a treatment facility for the proper disposal or treatment of medical waste, used health care materials and unused pharmaceuticals. Our owned facility has both incineration and autoclave technologies in Carthage, Texas (Panola County). 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 treatment and disposal and the operation of the incinerator and autoclave facility. The failure to maintain the permits for the treatment facility or unfavorable conditions contained in the permits or new regulations could substantially impair our operations and reduce our revenues. During fiscal years 2013 through 2015, the Company, under agreements with several subcontractors, utilized six treatment facilities owned by subcontractors of the Company, which are located across the country for the proper treatment of medical waste and used healthcare materials generated by our customers. This has not only reduced the Company's return transportation costs but also provides back-up treatment facility capabilities in the event of disruption at the Company's treatment facility in Carthage, Texas. Any disruption in the availability of a disposal or treatment facility, whether as a result of action taken by governmental authorities, natural disasters or otherwise, would have an adverse effect on our operations and results of operations.

The handling 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.

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

A material amount of our revenues were generated through a contract with a major U.S. government agency for the period from March 2009 through the contract's termination in January 2012 totaling \$33 million. In the years subsequent to the contract's termination, our Company-wide revenues experienced a decrease compared to prior periods. Although the Company has secured additional U.S. Government business during fiscal year 2015, there can be no assurances that future periods will include similar business. All contracts with, or subcontracts involving, the federal government are terminable or subject to renegotiation by the applicable governmental agency on 30 days' notice at the option of the governmental agency. If a material contract is terminated or renegotiated in a manner that is materially adverse to us, our revenues and future operations could be materially adversely affected.

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

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

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 67,000 shares. It may be difficult for investors to sell shares in the public market at any given time at prevailing prices, and the price of our common stock may, therefore, be volatile.

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

We rely upon sophisticated information technology systems, infrastructure and security procedures and systems to operate our business and ensure the secure storage and transmission of information. The size and complexity of our computer systems make them potentially vulnerable to breakdown, malicious intrusion and random attack. Likewise, computer networks and the internet are, by nature, vulnerable to unauthorized access. An accidental or willful security breach could result in unauthorized access and/or use of sensitive data. Our security measures could be breached by third-party action, computer viruses, accidents or error or misconduct by an employee or contractor. Because techniques used to obtain unauthorized access, disable or degrade service or to sabotage computer systems, change frequently, it may be difficult to detect immediately and we may be unable to implement adequate preventive measures. Unauthorized parties may also attempt to gain access to our systems or facilities through various means, including hacking into our systems or facilities, fraud, trickery or other means of deceiving employees, contractors

and temporary staff. We have encountered threats of this type from time to time, none of which have materially impacted our operations or financial results. Although we maintain a system of information security and controls, a party that is able to circumvent our security measures could cause interruption in our operations, damage our computers or those of our users or otherwise damage our reputation. Depending on the severity, any of these events could adversely affect our operations and financial results. In addition, if we were to experience an information security breach, we may be required to expend significant amounts to remedy, protect against or mitigate the effect of the breach, and we may not be able to remedy the situation in a timely manner, or at all. While we have invested in protection of data and information technology, there can be no assurance that our efforts will prevent breakdowns or breaches in our systems that could adversely affect our business.

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

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

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 119,489 square feet of space in Houston, Texas. Sharps has manufacturing, assembly, distribution and warehousing operations on Reed Road in Houston, Texas, and corporate offices on Kirby Drive in Houston, Texas. The Company amended the corporate office lease agreement on August 5, 2015, to include an additional 9,368 square feet of space in Houston, Texas to expand corporate office space effective in November 2015. The Company's leases expire in 2020 with options to renew the leases for warehouses for 5 years and for office space for 10 years.

We own and operate a fully-permitted 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 100 tons per day of medical, pharmaceutical and other healthcare related waste. The incinerator at the facility is currently permitted to treat 40 tons per day of municipal solid waste with 10% of this amount identified as applicable to healthcare facility generated medical waste, while the autoclave is capable of treating up to eight tons per day of medical waste.

ITEM 3. LEGAL PROCEEDINGS

None.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

PART II

ITEM MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS, AND
5. 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, the Company's common stock had an average trading volume of approximately 67,000 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, 2013 through August 24, 2015) for each quarter within the last two fiscal years.

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	Common Stock	
	High	Low
<u>Fiscal Year Ending June 30, 2014</u>		
First Quarter	\$3.07	\$2.57
Second Quarter	\$5.10	\$2.99
Third Quarter	\$5.36	\$4.19
Fourth Quarter	\$4.70	\$3.89
<u>Fiscal Year Ending June 30, 2015</u>		
First Quarter	\$4.78	\$4.31
Second Quarter	\$5.55	\$4.16
Third Quarter	\$6.35	\$4.25
Fourth Quarter	\$6.95	\$5.51
<u>Fiscal Year Ending June 30, 2016</u>		
First Quarter (August 24, 2015)	\$6.99	\$6.10

Stockholders: At August 24, 2015, there were 15,386,791 shares of common stock held by approximately 156 holders of record. The last reported sale of the common stock on August 24, 2015 was \$6.31 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: On January 7, 2013, the Company announced that its Board of Directors approved a stock repurchase program effective January 3, 2013, authorizing the Company to repurchase in the aggregate up to \$3 million of its outstanding common stock over a two-year period. On March 5, 2015, the Board approved a two-year extension of the stock repurchase program through January 1, 2017. The shares would be purchased from time to time on the open market or in privately negotiated transactions, at the Company's discretion, in each case, in compliance with Rule 10b-18 under the Securities Exchange Act of 1934, as amended, subject to market and business conditions, applicable legal requirements, explicit black-out dates and other factors. The purchases will be funded using the Company's available cash balances and cash generated from operations. The program does not obligate the Company to acquire any particular amount of common stock and may be modified, suspended or terminated at any time at the Company's discretion in accordance with Rule 10b-18.

During the three months ended June 30, 2015, Sharps repurchased no shares. As of June 30, 2015, approximately \$2.2 million remained of our \$3.0 million repurchase program.

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 year 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 June 30, 2010 in our common stock and in the stock represented by each of the two indices.

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*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, 2015:

<u>Plan Category</u>	Number of securities to be issued upon exercise of outstanding options, warrants and rights	Weighted average exercise price of outstanding options, warrants and rights	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a))
	(a)	(b)	(c)
2010 Stock Plan as approved by shareholders (1) (2)	1,085,245	\$ 4.20	1,597,030

Notes:

(1) Represents stock options issued under the Sharps Compliance Corp. 2010 Stock Plan. The 2010 Stock Plan replaced the 1993 Stock Plan in November 2010. There are 302,558 stock options issued under the 1993 Stock Plan (with a weighted average exercise price of \$5.31) which remain outstanding subsequent to the replacement of the 1993 Stock Plan.

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

ITEM 6. SELECTED FINANCIAL DATA

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

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	For the Year Ended June 30,				
	2015	2014	2013	2012	2011
Revenues	\$30,902	\$26,570	\$21,530	\$21,787	\$19,395
Operating Income (Loss)	\$1,236	\$965	\$(2,709)	\$(2,521)	\$(4,536)
Net Income (Loss)	\$1,160	\$956	\$(2,712)	\$(3,621)	\$(2,975)
Net Income (Loss) per share:					
Basic	\$0.08	\$0.06	\$(0.18)	\$(0.24)	\$(0.20)
Diluted	\$0.07	\$0.06	\$(0.18)	\$(0.24)	\$(0.20)
Total Assets	\$29,751	\$26,461	\$25,532	\$27,638	\$30,598
Total Debt	\$-	\$-	\$-	\$-	\$-
Cash and Cash Equivalents	\$15,157	\$13,717	\$15,503	\$17,498	\$18,280
Working Capital	\$19,711	\$17,888	\$16,643	\$18,607	\$20,226
Total Stockholders' Equity	\$23,586	\$21,904	\$21,070	\$23,180	\$25,865

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

The discussion and analysis presented below should be read in conjunction with the consolidated financial statements and related notes appearing elsewhere in this Annual Report on Form 10-K. See "Information Regarding Forward Looking Statements."

RESULTS OF OPERATIONS

The following analyzes changes in the consolidated operating results and financial condition of the Company during the year ended June 30, 2015, 2014 and 2013, respectively. The following table sets forth for the periods indicated certain items from the Company's Consolidated Statements of Operations (dollars in thousands except for percentages expressed as a percentage of revenues):

	Year Ended June 30,					
	2015	%	2014	%	2013	%
Revenues	\$30,902	100.0%	\$26,570	100.0%	\$21,530	100.0%
Cost of revenues	19,907	64.4%	17,581	66.2%	15,183	70.5%
Gross profit	10,995	35.6%	8,989	33.8%	6,347	29.5%
SG&A expense	9,496	30.7%	9,100	34.2%	8,619	40.0%
Legal settlement	-	0.0%	(1,538)	(5.8%)	-	0.0%
Depreciation and amortization	263	0.9%	462	1.7%	437	2.0%
Operating income (loss)	1,236	4.0%	965	3.6%	(2,709)	(12.6%)
Other income	36	0.1%	24	0.1%	12	0.1%
Income (loss) before income taxes	1,272		989		(2,697)	
Income tax expense	112	0.4%	33	0.1%	15	0.1%
Net income (loss)	\$1,160	3.8%	\$956	3.6%	\$(2,712)	(12.6%)

YEAR ENDED JUNE 30, 2015 AS COMPARED TO YEAR ENDED JUNE 30, 2014

Total revenues for the fiscal year ended June 30, 2015 of \$30.9 million increased by \$4.3 million, or 16.3%, from the total revenues for the fiscal year ended June 30, 2014 of \$26.6 million. Billings by market are as follows (in thousands):

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	Year Ended June 30,		Variance
	2015	2014	
	(Unaudited)	(Unaudited)	(Unaudited)
<u>BILLINGS BY MARKET:</u>			
Retail	\$8,726	\$ 6,406	\$ 2,320
Home Health Care	6,802	7,251	(449)
Professional	6,225	5,311	914
Pharmaceutical Manufacturer	4,855	3,735	1,120
Assisted Living	1,879	1,713	166
Government	1,756	495	1,261
Environmental	368	755	(387)
Other	891	941	(50)
Subtotal	31,502	26,607	4,895
GAAP Adjustment *	(600)	(37)	(563)
Revenue Reported	\$30,902	\$ 26,570	\$ 4,332

*Represents the net impact of the revenue recognition adjustments required to arrive at reported generally accepted accounting principles (“GAAP”) revenue. Customer billings include all invoiced amounts associated with products shipped during the period reported. GAAP revenue includes customer billings as well as numerous adjustments necessary to reflect (i) the deferral of a portion of current period sales and (ii) recognition of certain revenue associated with products returned for disposal or treatment. The difference between customer billings and GAAP revenue is reflected in the Company’s consolidated balance sheet as deferred revenue. See Note 2 “Revenue Recognition” in “Notes to Consolidated Financial Statements.”

This Annual Report on Form 10-K contains certain financial information not derived in accordance with GAAP, including customer billings information. The Company believes this information is useful to investors and other interested parties as customer billings represents all invoiced amounts associated with products shipped during the period reported. Such information should not be considered as a substitute for any measures derived in accordance with GAAP and may not be comparable to other similarly titled measures of other companies. Reconciliation of this information to the most comparable GAAP measures is included above.

The increase in revenues is primarily attributable to increased billings in the Retail (\$2.3 million), Government (\$1.3 million), Pharmaceutical Manufacturer (\$1.1 million) and Professional (\$0.9 million) markets. The increase was partially offset by decreased billings in the Home Health Care (\$0.4 million) and Environmental (\$0.4 million) markets. The increase in Retail market billings is due to increases in flu shot related business. The growing trend of retail pharmacies expanding their healthcare services and Sharps’ estimated 75% market share in this segment drive growth for the Company. The increase in Government billings is primarily related to increased sales of the Company’s TakeAway Medication Recovery System envelopes and MedSafe solutions to multiple Government agencies. The increase in Pharmaceutical Manufacturer market billings is due to the continued rollout, including resupply orders, of several patient support programs including three new patient support program launches in the current year. The programs include the direct fulfillment of the Sharps Recovery System to the pharmaceutical manufacturers’ program participants, which provides the proper containment, return and treatment of the needles or injection devices utilized in therapy. The increase in Professional market billings is a result of continued targeted telemarketing initiatives and promotional activities to educate doctors, dentists, veterinarians and other healthcare professionals about the favorable economics and convenience of the Company’s Sharps Recovery System. The decrease in Home Health Care market billings is due to the timing of distributor purchases. The decrease in Environmental market billings was due to timing of projects.

Cost of revenues for the year ended June 30, 2015 of \$19.9 million was 64.4% of revenues. Cost of revenues for the year ended June 30, 2014 of \$17.6 million was 66.2% of revenue. The higher gross margin for the year ended June 30,

2015 of 35.6% (versus 33.8% for the year ended June 30, 2014) was due to the leverage gained from higher revenue.

Selling, general and administrative (“SG&A”) expenses for the year ended June 30, 2015 and 2014 were \$9.5 million and \$9.1 million, respectively. SG&A expense increased \$0.4 million due to ongoing investment in sales and marketing-related initiatives.

The Company generated operating income of \$1.2 million for the year ended June 30, 2015 compared to \$1.0 million for the year ended June 30, 2014. Operating income for the year ended June 30, 2014 was positively impacted by a \$1.5 million legal settlement related to the Company’s claims against the U.S. government related to a contract termination. Without the impact of the prior year legal settlement, operating income increased \$1.8 million over the prior year mainly due to the increase in revenues and gross profit (discussed above).

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The Company generated income before income taxes of \$1.2 million for year ended June 30, 2015 versus \$1.0 million for the year ended June 30, 2014. Income before income taxes was positively impacted by improvement in operating income (discussed above).

The Company's effective tax rate for the year ended June 30, 2015 was 8.8% reflecting primarily estimated state income taxes. The effective tax rate for the year ended June 30, 2014 was 3.3%. The Company's net deferred tax assets have been fully reserved by a tax valuation allowance.

The Company generated net income of \$1.2 million for year ended June 30, 2015 compared to net income of \$1.0 million for the year ended June 30, 2014. Net income was positively impacted by operating income (discussed above).

The Company reported diluted income per share of \$0.07 for the year ended June 30, 2015 versus diluted income per share of \$0.06 for year ended June 30, 2014. Diluted income per share was positively impacted by improvement in net income (discussed above).

Without the impact of the prior year legal settlement, income before taxes, net income and diluted income per share increased \$1.8 million, \$1.7 million and \$0.11 per share, respectively, during the year ended June 30, 2015 over the prior year.

YEAR ENDED JUNE 30, 2014 AS COMPARED TO YEAR ENDED JUNE 30, 2013

Total revenues for the fiscal year ended June 30, 2014 of \$26.6 million increased by \$5.0 million, or 23.4%, from the total revenues for the fiscal year ended June 30, 2013 of \$21.5 million. Billings by market are as follows (in thousands):

	Year Ended June 30,		Variance
	2014	2013	
	(Unaudited)	(Unaudited)	(Unaudited)
<u>BILLINGS BY MARKET:</u>			
Home Health Care	\$7,251	\$ 6,721	\$ 530
Retail	6,406	5,041	1,365
Professional	5,311	3,863	1,448
Pharmaceutical Manufacturer	3,735	2,413	1,322
Assisted Living	1,713	1,576	137
Environmental	755	182	573
Government	495	732	(237)
Other	941	755	186
Subtotal	26,607	21,283	5,324
GAAP Adjustment *	(37)	247	(284)
Revenue Reported	\$26,570	\$ 21,530	\$ 5,040

*Represents the net impact of the revenue recognition adjustments required to arrive at reported generally accepted accounting principles ("GAAP") revenue. Customer billings include all invoiced amounts associated with products shipped during the period reported. GAAP revenue includes customer billings as well as numerous adjustments necessary to reflect (i) the deferral of a portion of current period sales and (ii) recognition of certain revenue associated with products returned for disposal or treatment. The difference between customer billings and GAAP revenue is reflected in the Company's consolidated balance sheet as deferred revenue. See Note 2 "Revenue Recognition" in "Notes to Consolidated Financial Statements."

This Annual Report on Form 10-K contains certain financial information not derived in accordance with GAAP, including customer billings information. The Company believes this information is useful to investors and other interested parties as customer billings represents all invoiced amounts associated with products shipped during the period reported. Such information should not be considered as a substitute for any measures derived in accordance with GAAP and may not be comparable to other similarly titled measures of other companies. Reconciliation of this information to the most comparable GAAP measures is included above.

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The increase in revenues is primarily attributable to increased billings in the Professional (\$1.4 million), Retail (\$1.4 million), Pharmaceutical Manufacturer (\$1.3 million), Environmental (\$0.6 million) and Home Healthcare (\$0.5 million) markets. The increase in billings was partially offset by decreased billings in the Government (\$0.2 million) market. The increase in Professional market billings is a result of continued targeted telemarketing initiatives and promotional activities to educate doctors, dentists, veterinarians and other healthcare professionals about the significant cost advantage and convenience of the Company's Sharps Recovery mailback system when compared with the traditional pickup service for the small quantity generator sector. The increase in Retail market billings is due to increases in flu shot related business. Retail pharmacies are increasing the amount and variety of healthcare services they provide and this segment represents a long-term growth driver and key competitive advantage, given Sharps' estimated 75% market share in this segment. The increase in Pharmaceutical Manufacturer market billings is due to the continued rollout, including resupply orders, of several patient support programs. The programs include the direct fulfillment of the Sharps Recovery System to the pharmaceutical manufacturer's program participants which provides the proper containment, return and treatment of the needles or injection devices utilized in therapy. The increase in Home Health Care market billings is due to the timing of distributor purchases. The increase in Environmental market billings was driven by focused marketing initiatives around third party treatment services which are starting to gain traction. The decrease in Core Government billings was due to distributor sales of \$0.2 million in the prior year to a major U.S. agency to facilitate the launch of our solutions in selected military bases.

Cost of revenues for the year ended June 30, 2014 of \$17.6 million was 66.2% of revenues. Cost of revenues for the year ended June 30, 2013 of \$15.2 million was 70.5% of revenue. The higher gross margin for the year ended June 30, 2014 of 33.8% (versus 29.5% for the year ended June 30, 2013) was due to the leverage gained from higher revenue.

SG&A expenses for the year ended June 30, 2014 and 2013 were \$9.1 million and \$8.6 million, respectively. SG&A for fiscal year 2014 was negatively impacted by legal expenses of \$0.3 million related to our claim to the CDC related to the termination of the government contract and severance costs of \$0.1 million for a former officer of the Company. SG&A for fiscal year 2013 was negatively impacted by severance costs of \$0.2 million for a former officer of the Company. Excluding these items, SG&A expense increased \$0.3 million due to increased sales and marketing-related spending.

The Company generated operating income of \$1.0 million for the year ended June 30, 2014 compared to an operating loss of \$2.7 million for the year ended June 30, 2013. Operating income for the year ended June 30, 2014 was positively impacted by a \$1.5 million legal settlement related to the Company's claims against the U.S. government related to a contract termination. In addition to the legal settlement, the improvement in operating income resulted from higher billings along with improved gross margin as a result of greater operating leverage gained from higher revenue (discussed above).

The Company generated income before income taxes of \$1.0 million for year ended June 30, 2014 versus a loss before income taxes of \$2.7 million for the year ended June 30, 2013. Income before income taxes was positively impacted by the \$1.5 million legal settlement and other improvement in operating income (discussed above).

The Company's effective tax rate for the year ended June 30, 2014 was 3.3% reflecting primarily estimated state income taxes. The effective tax rate for the year ended June 30, 2013 was (0.6%). The Company's net deferred tax assets have been fully reserved by a tax valuation allowance.

The Company generated net income of \$1.0 million for year ended June 30, 2014 compared to a net loss of \$2.7 million for the year ended June 30, 2013. Net income was positively impacted by the \$1.5 million legal settlement and other improvement in operating income (discussed above).

The Company reported diluted income per share of \$0.06 for the year ended June 30, 2014 versus diluted loss per share of (\$0.18) for year ended June 30, 2013. Diluted income per share was positively impacted by the \$1.5 million

legal settlement and other improvement in net income (discussed above).

PROSPECTS FOR THE FUTURE

The Company continues to focus on core markets and solution offerings that fuel growth. Markets served are professional offices, retail pharmacies and clinics, assisted living and long-term care facilities, home healthcare, government, pharmaceutical manufacturers and other commercial organizations that require cost-effective services for managing medical, pharmaceuticals