SHARPS COMPLIANCE CORP
Form 10QSB
November 08, 2005

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-QSB

|X| QUARTERLY REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended September 30, 2005

|_| TRANSITION REPORT UNDER SECTION 13 or 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 for the transition period from ____________ to ____________.

Commission File Number: 0-22390

SHARPS COMPLIANCE CORP.
(Name of small business issuer in its charter)

Delaware	74-2657168
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
9350 Kirby Drive, Suite 300, Houston, Texas	77054
(Address of principal executive offices)	(Zip Code)

(713) 432-0300
(Issuer's telephone number)

Check whether the issuer (1) has filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act during the past 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.
Yes |X| No |_|

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

APPLICABLE ONLY TO CORPORATE ISSUERS

State the number of shares outstanding of each of the issuer's classes of common equity, as of the latest practicable date: 10,547,311 shares of Common Stock, $0.01 par value as of November 7, 2005.

Transitional Small Business Disclosure Format (check one): Yes |_| No |X|

SHARPS COMPLIANCE CORP. AND SUBSIDIARIES

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PART I FINANCIAL INFORMATION
ITEM 1. FINANCIAL STATEMENTS

SHARPS COMPLIANCE CORP. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS

ASSETS	September 30 2005 (Unaudited)
CURRENT ASSETS:	
Cash and cash equivalents	$ 262,647
Restricted cash	10,010
Accounts receivable, net of allowance for doubtful accounts of $22,182 and $21,757, respectively	1,201,530
Inventory	321,792
Prepaid and other assets	164,786
TOTAL CURRENT ASSETS	1,960,765

PROPERTY AND EQUIPMENT, net of accumulated depreciation of $683,204 and $650,532 respectively	413,297
INTANGIBLE ASSETS, net of accumulated amortization of $102,386 and $102,195 respectively	11,588
TOTAL ASSETS	$2,385,650
LIABILITIES AND STOCKHOLDERS' EQUITY	
CURRENT LIABILITIES:	
Accounts payable	$ 559,482
Accrued liabilities	295,098
Current portion of deferred revenue - incineration	197,446
Current portion of deferred revenue - transportation	870,469
Current maturities of capital lease obligations	50,613
TOTAL CURRENT LIABILITIES	1,973,108
LONG-TERM DEFERRED REVENUE - INCINERATION, net of current portion	57,668
LONG-TERM DEFERRED REVENUE - TRANSPORTATION, net of current portion	243,017
OBLIGATIONS UNDER CAPITAL LEASES, net of current maturities	28,731
OTHER LIABILITIES	62,250
TOTAL LIABILITIES	2,364,774
COMMITMENTS AND CONTINGENCIES	-
STOCKHOLDERS' EQUITY (DEFECIT)	
Common stock, $.01 par value per share; 20,000,000 shares authorized; 10,547,311 shares issued and outstanding	105,473
Additional paid-in capital	7,464,381
Accumulated deficit	(7,548,978
TOTAL STOCKHOLDERS' EQUITY (DEFECIT)	20,876
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY (DEFECIT)	$2,385,650

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

SHARPS COMPLIANCE CORP. AND SUBSIDIARIES
UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

	For the Three Months Ended September 30, 2005	2004
	(Unaudited)	
REVENUES:		
Distribution, net	2,602,644	2,352,596
Consulting services	1,741	11,771
Environmental revenue	55,727	55,019
TOTAL REVENUES	$2,660,112	$2,419,386
COSTS AND EXPENSES:		
Cost of revenues	1,560,919	1,387,544
Selling, general and administrative	892,377	867,905
Depreciation and amortization	32,863	42,901
TOTAL COSTS AND EXPENSES	2,486,159	2,298,350
OPERATING INCOME	173,953	121,036
OTHER EXPENSE		
Interest expense	(3,916)	(7,924
INCOME BEFORE INCOME TAXES	170,037	113,112
INCOME TAXES	(5,505)	(4,200
NET INCOME	$ 164,532	$ 108,912
NET INCOME PER COMMON SHARE		
Basic	$ .02	$ .01
Diluted	$ .02	$ .01
WEIGHTED AVERAGE SHARES USED IN COMPUTING NET INCOME PER COMMON SHARE		
Basic	10,547,311	10,538,1
Diluted	10,720,142	10,887,7

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

SHARPS COMPLIANCE CORP. AND SUBSIDIARIES

UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

	For the Three M Ended Septembe
	2005
	(Unaudite
CASH FLOWS FROM OPERATING ACTIVITIES:	
Net Income	$ 164,532
Adjustments to reconcile net income to net cash provided by operating activities:	
Depreciation and amortization	32,863
Change in allowance for doubtful accounts	425
Loss on disposal of equipment	-
Changes in operating assets and liabilities:	
(Increase) decrease in restricted cash	-
(Increase) decrease in accounts receivable	(237,807)
(Increase) decrease in inventory	46,703
(Increase) decrease in prepaids and other assets	(85,466)
Increase (decrease) in accounts payable and accrued liabilities	2,979
Increase in deferred revenue	99,222
NET CASH PROVIDED BY OPERATING ACTIVITIES	23,451
CASH FLOWS FROM INVESTING ACTIVITIES:	
Purchases of property and equipment	(7,905)
Proceeds from sale of equipment	-
NET CASH USED IN INVESTING ACTIVITIES	(7,905)
CASH FLOWS FROM FINANCING ACTIVITIES:	
Payments on long-term debt	-
Net payments on factoring agreement	-
Payments on capital lease obligations	(11,326)
NET CASH USED IN FINANCING ACTIVITIES	(11,326)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	4,220
CASH AND CASH EQUIVALENTS, beginning of period	258,427
CASH AND CASH EQUIVALENTS, end of period	$ 262,647
NONCASH INVESTING AND FINANCING ACTIVITIES:	
Property and equipment additions acquired under capital lease	-

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

SHARPS COMPLIANCE CORP. AND SUBSIDIARIES
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS
September 30, 2005

NOTE 1. ORGANIZATION AND BACKGROUND

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

NOTE 2. BASIS OF PRESENTATION

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with the rules and regulations of the Securities and Exchange Commission ("SEC") and, accordingly, do not include all information and footnotes required under accounting principles generally accepted in the United States of America for complete financial statements. In the opinion of management, these interim condensed consolidated financial statements contain all adjustments (consisting of normal recurring adjustments) considered necessary for a fair presentation of the consolidated financial position of the Company as of September 30, 2005 and the results of its operations and cash flows for the three months ended September 30, 2005 and 2004. The results of operations for the three months ended September 30, 2005, are not necessarily indicative of the results to be expected for the entire fiscal year ending June 30, 2006. These condensed consolidated financial statements should be read in conjunction with the Company's Annual Report on Form 10-KSB for the year ended June 30, 2005. Certain prior year amounts have been reclassified to current form presentation.

NOTE 3. REVENUE RECOGNITION

The Company adopted the Securities and Exchange Commission's ("SEC") Staff Accounting Bulletin ("SAB") No. 101, "Revenue Recognition", which provides guidance related to revenue recognition based on interpretations and practices followed by the SEC. Under SAB No. 101, certain products offered by the Company have revenue producing components that are recognized over multiple delivery points (Sharps Disposal by Mail Systems, referred to as "Mailback" and Sharps Return Boxes, referred to as "Pump Returns") and can consist of up to three separate elements as follows: (1) the sale of the container system, (2) the transportation of the container system and (3) the treatment and disposal (incineration) of the container system. The individual fair value of the transportation and incineration services are determined by the sales price of the service offered by third parties, with the fair value of the container being the residual value. Revenue for the sale of the container is recognized upon delivery to the customer, at which time the customer takes title and assumes risk of ownership. Transportation revenue on Mailbacks is recognized when the customer returns the mailback container system and the container has been received at the Company's treatment facility. The Mailback container system is mailed to the incineration facility using the United States Postal Service ("USPS"). Incineration revenue is recognized upon the destruction and certification of destruction having been prepared on the container. Since the transportation element and the incineration elements are undelivered services at the point of initial sale of the container, the Mailback revenue is deferred until the services are performed. The current and long-term portions of deferred revenues are determined through regression analysis and historical trends. Furthermore, through regression analysis of historical data, the Company has determined that a certain percentage of all container systems sold may not be returned. Accordingly, a portion of the transportation and incineration elements is recognized at the point of sale.

NOTE 4. INCOME TAXES

During the three months ended September 30, 2005 the Company recorded a $5,505 provision for estimated Alternative Minimum Tax (AMT). The Company anticipates net-operating profits for the year ended June 30, 2006, although no assurance can be made. The Company expects to utilize its net operating loss carryforwards to offset any ordinary taxable income for the year ended June 30, 2006.

NOTE 5. ACCOUNT RECEIVABLE

During September and October 2003, the Company secured judgments against Ameritech Environmental, Inc. ("Ameritech") totaling $176,958 related to the non-payment by Ameritech for services provided by the Company in 2002. Ameritech sold the assets of Ameritech representing collateral for the judgments to MedSolutions, Inc. of Dallas, Texas ("MedSolutions") in November 2003. During January 2004, the Company secured a Garnishment Order against MedSolutons whereby MedSolutions was ordered to pay to the Company $170,765, plus interest at 5%. Payments under the Garnishment Order were scheduled to be made monthly in the amount of $4,375 (inclusive of interest) with a balloon payment of $137,721 due November 7, 2004. MedSolutions is currently in breach of the Garnishment Order. During January 2005, the Company filed suit against MedSolutions and Ameritech in the 234th Judicial District Court of Harris County, Texas. The suit alleges collusion, fraudulent conveyance and fraudulent inducement by and between MedSolutions and Ameritech to defraud payment to the Company for amounts owed, as described above. The Company has also requested the Court to appoint a Receiver for all sums owed to protect assets pending review by the Court.

In the quarters ending March 31, 2003 and June 30, 2003, the Company wrote-off all outstanding amounts, $75,996 and $106,397 respectively, due from Ameritech. Therefore, any potential future recoveries of receivables would be recorded as a credit to the allowance for bad debts. Collection-related legal fees estimated at one-third of any amounts collected will reduce any recovery that may be received by the Company. Although the Company will continue to aggressively pursue collection of the outstanding amounts under the Garnishment Orders, no assurances regarding collection can be made.

NOTE 6. NOTES PAYABLE AND LONG-TERM DEBT

The Company maintains an arrangement with a financial institution for a $1.25 million asset-based line of credit. The agreement allows the Company to factor customer receivables generated out of its ordinary course of business. The maximum amount available under the line of credit is $1.0 million (or $1.25

million of its gross receivable balance). The agreement automatically renews on an annual basis (August 30 of each year) unless terminated by either party. The Company may borrow up to 80% of the eligible receivables presented and incurs interest on gross invoices financed at a prime rate of interest plus 2%, plus administrative fees of .25% on gross receivables presented. The interest rate decreases to prime plus 1.25% (versus 2%) at such times as the Company's Adjusted Quick Ratio is 1.25 to 1.00 or greater. Adjusted Quick Ratio is defined as cash plus accounts receivable (less than 90 days from invoice date), divided by current liabilities less deferred revenue. During the quarter ended September 30, 2005, there were no borrowings under the arrangement.

NOTE 7. OBLIGATIONS UNDER CAPITAL LEASES

Capital lease obligations consist of the following:

	September 30, 2005	J
Capital lease for purchase of accounting and operating system software and hardware, due in monthly installments of $4,061, interest imputed at 21% through February 2007	$ 59,467	$
Capital lease for purchase of phone system due in monthly installments of $455, interest imputed at 12% through August 2007	9,304	
Capital lease for purchase of copier/printer due in monthly installments of $157, interest imputed at 21% through August 2006	1,428	
Capital lease for purchase of phone system upgrades due in monthly installments of $157, interest imputed at 16% through December 2007	3,583	
Capital lease for purchase of forklift due in monthly installments of $290, interest imputed at 11% through July 2007	5,562	
	79,344	
Less: current portion	50,613	
	$ 28,731	$

NOTE 8. STOCK-BASED COMPENSATION

The Company adopted Statement of Financial Accounting Standards ("SFAS") No. 123, "Accounting for Stock-Based Compensation", but elected to continue to account for its employee stock-based compensation plan under Accounting Principles Board ("APB") Opinion No. 25, "Accounting for Stock Issued to Employees" and its related interpretations in accounting for its stock option plan. While the Company continues to use APB No. 25, pro forma information regarding net income (loss) and earnings per share is required under SFAS No. 123 and SFAS No. 148, "Accounting for Stock-Based Compensation - Transition and Disclosure - an amendment of SFAS Statement No. 123", including that the information be determined as if the Company had accounted for its stock options under the fair value method prescribed by SFAS No. 123.

The Company uses the Black-Scholes option valuation model to value options granted. Because changes in input assumptions can materially affect the fair value estimate, the existing model may not necessarily provide the only measure of fair value for the employee stock options. The Company used the following weighted-average assumptions for options granted during the quarters ended September 30, 2005 and 2004, as follows: risk-free interest rates of 4.07% and 3.74%, respectively expected annual dividend yield of 0%; volatility factors of the expected market price of the Company's common stock of approximately 80.0% and 53%, respectively; and a weighted-average expected life of the options of 4.5 and 7 years, respectively.

Had compensation expense for stock based compensation been determined consistent with the provisions of SFAS No. 123 (and as amended by SFAS No. 148), the Company's net income (loss) would have been increased, as follows:

	Three Months Ended Septemb	
	2005	20
Net income, as reported	$ 164,532	$ 108,
Less: Total stock-based employee compensation expense determined under fair value based method for all awards, net of related tax effects	$ (67,907)	$ (64,
Net income, pro forma	$ 96,625	$ 43,
Basic and diluted net income per share, as reported	$ 0.02	$ 0
Basic and diluted net income per share, pro forma	$ 0.01	$ 0

NOTE 9. EARNINGS PER SHARE

Earnings per share is measured at two levels: basic per share and diluted per share. Basic per share is computed by dividing net income (loss) by the weighted average number of common shares outstanding during the year. Diluted per share is computed by dividing net income (loss) by the weighted average number of common shares after considering the additional dilution related to common stock options. In computing diluted per share, the outstanding common stock options are considered dilutive using the treasury stock method. The following information is necessary to calculate per share for the periods presented:

	Three Months Ende
	2005
Net income, as reported	$ 164,532
Weighted average common shares outstanding	10,547,311
Effect of Dilutive stock options	172,831
Weighted average diluted common shares outstanding	10,720,142
Net income per common share	
Basic	$ 0.02
Diluted	$ 0.02
Employee stock options excluded from computation of diluted per share amounts because their effect would be anti-dilutive	2,894,890

ITEM 2.

MANAGEMENT'S DISCUSSION AND ANALYSIS OR PLAN OF OPERATION

INFORMATION REGARDING FORWARD-LOOKING STATEMENTS

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

GENERAL

Sharps is a leading developer of cost effective solutions for improving safety and efficiency related to the proper disposal of medical waste by industry and consumers. These solutions include Sharps Disposal by Mail System(R), Pitch-It(TM) IV Poles, Trip LesSystem(R), Sharps Pump Return Box, Sharps Enteral Pump Return Box, Sharps Secure(R), Sharps SureTemp Tote(R), IsoWash(R) Linen Recovery System, Biohazard Spill Clean-Up Kit and Disposal System, Sharps e-Tools, Sharps Environmental Services and Sharps Consulting. Some products and services facilitate compliance with state and federal regulations by tracking, incinerating and documenting the disposal of medical waste. Additionally, some products and services facilitate compliance with educational and training requirements required by federal, state, and local regulatory agencies.

The Pro-Tec product line offers medical sharps disposal containers, specialized for safe disposal of biomedical waste in a full range of services. The Pro-Tec product line is a vertical business integration of the sharps disposal by mail products for the Company. The Company will have savings in product cost on its Sharps Disposable by Mail System(R) and sales to third parties of this product.

The Company's products are marketed to the following segments: healthcare, agriculture, commercial / industrial, hospitality, professional, retail and pharmaceutical.

RESULTS OF OPERATIONS

The following analyzes changes in the consolidated operating results and financial condition of the Company during the three months ended September 30, 2005 and 2004.

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

	Three Months 2005
Net revenues	100%
Costs and expenses:	
Cost of revenues	(59%)
Selling, general and administrative	(34%)
Depreciation and amortization	(1%)
Total operating expenses	(94%)
Income from operations	6%
Total other expense	0%
Net income	6%

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THREE MONTHS ENDED SEPTEMBER 30, 2005, COMPARED TO THREE MONTHS ENDED SEPTEMBER 30, 2004

Total revenues for the three months ended September 30, 2005 of $2,660,112 increased by $240,726, or 10%, over the total revenues for the three months ended September 30, 2004 of $2,419,386. The increase in revenues is primarily attributable to increased billings in Retail ($189,373) and Hospitality ($45,110) markets.

Cost of revenues for the three months ended September 30, 2005 of $1,560,919 were 59% of revenues versus $1,387,543 or 57% of the revenues for the corresponding period of the previous year. The increase in the cost of revenues as a percentage of revenue for the three months ended September 30, 2005 versus September 30, 2004 is a result of the increased inventory and handling costs.

Selling, general and administrative ("SG&A") expenses for the three months ended September 30, 2005 of $892,377 were less than three percent (3%) higher than the SG&A for the three months ended September 30, 2004 of $867,905.

Interest expense for the three months ended September 30, 2005 of $3,916 decreased by $4,008, or 51%, over interest expense for the three months ended September 30, 2004 of $7,924. The decrease in interest expense is primarily due to the reduction in Notes Payable and Long-term Debt (See Note 6 of the Notes to the Condensed Consolidated Financial Statements).

LIQUIDITY AND CAPITAL RESOURCES

Cash and cash equivalents increased by $4,220 to $262,647 at September 30, 2005 from $258,427 at June 30, 2005.

Accounts Receivable increased by $237,382 to $1,201,530 at September 30, 2005 from $964,148 at June 30, 2005 directly as a result of the increase in billings generated by the Company for the quarter ended September 30, 2005 versus the quarter ended June 30, 2005.

Inventory decreased by $46,703 to $321,792 at September 30, 2005 from $368,495 at June 30, 2005. The decrease was primarily due to timing of the bulk purchase of Pitch-It(TM) IV Poles affecting the inventory balance at June 30, 2005.

Property and equipment decreased by $24,767 to $413,297 at September 30, 2005 from $438,064 at June 30, 2005. This decrease is primarily attributable to depreciation expense of $32,672 recognized for the quarter.

Management believes that the Company's current cash resources along with its asset-based factoring line will be sufficient to fund operations for the twelve months ended September 30, 2006.

CRITICAL ACCOUNTING ESTIMATES

Certain products offered by the Company have revenue producing components that are recognized over multiple delivery points and can consist of up to three separate elements as follows: (1) the sale of the container system, (2) the transportation of the container system and (3) the treatment and disposal (incineration) of the container system. Since the transportation element and the incineration elements are undelivered services at the point of initial sale of the container, the revenue is deferred until the services are performed. The current and long-term portions of deferred revenues are determined through regression analysis and historical trends. Furthermore, through regression analysis of historical data, the Company has determined that a certain percentage of all container systems sold may not be returned. Accordingly, a portion of the transportation and incineration elements is recognized at the point of sale.

INCINERATOR FACILITY- REGULATORY DEVELOPMENTS

The EPA has proposed a change in the Clean Air Act, which could effect the operations of the leased incineration facility located in Carthage, Texas. The proposed regulation modifies the emission limits and monitoring procedures required to operate an incineration facility. The proposed rule could necessitate changes to the Company's leased incinerator and pollution control equipment at the facility or require installation of an alternative treatment method to ensure compliance. Such change, if enacted in its current form, would require the Company to incur significant capital expenditures in order to meet the requirements of the proposed regulations. The proposed regulation, as currently written, allows a minimum period of three years and a maximum of five years to comply after the date the final rule is published. Management is not able to predict when, or if, the proposed rule change may be enacted; however, based upon correspondence received from the EPA, the new regulation could be enacted as early as November 30, 2005.

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RECENTLY ISSUED ACCOUNTING STANDARDS

In November 2004, the FASB issued FASB Statement No. 151, which revised ARB No.43, relating to inventory costs. This revision is to clarify the accounting for abnormal amounts of idle facility expense, freight, handling costs and wasted material (spoilage). This Statement requires that these items be recognized as a current period charge regardless of whether they meet the criterion specified in ARB 43. In addition, this Statement requires the allocation of fixed production overheads to the costs of conversion be based on normal capacity of the production facilities. This Statement is effective for financial statements for fiscal years beginning after June 15, 2005. Earlier application is permitted for inventory costs incurred during fiscal years beginning after the date of this Statement is issued. Management believes this Statement will have no impact on the financial statements of the Company once adopted.

In December 2004, the FASB issued FASB Statement No. 152, which amends FASB Statement No. 66, Accounting for Sales of Real Estate, to reference the financial accounting and reporting guidance for real estate time-sharing transactions that is provided in AICPA Statement of Position (SOP) 04-2, Accounting for Real Estate Time-Sharing Transactions. This Statement also amends FASB Statement No. 67, Accounting for Costs and Initial Rental Operations of Real Estate Projects, to state that the guidance for (a) incidental operations and (b) costs incurred to sell real estate projects does not apply to real-estate time-sharing transactions. The accounting for those operations and costs is subject to the guidance in SOP 04-2. This Statement is effective for financial statements for fiscal years beginning after June 15, 2005. Management believes this Statement will have no impact on the financial statements of the Company once adopted.

In December 2004, the FASB issued FASB Statement No. 153. This Statement addresses the measurement of exchanges of nonmonetary assets. The guidance in APB Opinion No. 29, Accounting for Nonmonetary Transactions, is based on the principle that exchanges of nonmonetary assets should be measured based on the fair value of the assets exchanged. The guidance in that Opinion, however, included certain exceptions to that principle. This Statement amends Opinion 29 to eliminate the exception for nonmonetary exchanges of similar productive assets and replaces it with a general exception for exchanges of nonmonetary assets that do not have commercial substance. A nonmonetary exchange has commercial substance if the future cash flows of the entity are expected to change significantly as a result of the exchange. This Statement is effective for financial statements for fiscal years beginning after June 15, 2005. Earlier application is permitted for nonmonetary asset exchanges incurred during fiscal years beginning after the date of this Statement is issued. Management believes this Statement will have no impact on the financial statements of the Company once adopted.

In December 2004, the FASB issued Statement No. 123 (revised 2004) ("FAS 123 (R)"), Share-Based Payments. FAS 123 (R) requires all entities to recognize compensation expense in an amount equal to the fair value of share-based payments, such as stock options granted to employees. The Company is required to apply FAS 123 (R) on a modified prospective method. Under this method, the Company is required to record compensation expense (as previous awards continue to vest) for the unvested portion of previously granted awards that remain outstanding at the date of adoption. In addition, the Company may elect to adopt FAS 123 (R) by restating previously issued financial statements, basing the amounts on the expense previously calculated and reported in their pro forma disclosures that had been required by FAS 123. For public entities that file as small business issuers, FAS 123 (R) is effective as of the beginning of the first interim or annual reporting period that begins after December 15, 2005. Management has not completed its evaluation of the effect that FAS 123 (R) will have, but believes that the effect will be consistent with the application disclosed in its pro forma disclosures.

In May 2005, the FASB issued Statement No. 154, Accounting Changes & Error Corrections, which replaced APB Opinion No. 20 and FASB Statement No. 3. This statement changes the requirement for accounting and reporting of a voluntary change in accounting principle and changes required by an accounting pronouncement when the specific transition provisions are absent. This statement requires retrospective application to prior periods' financial statements of changes in accounting principle. If it is impracticable to determine either the period-specific effect or the cumulative effect of the change, this statement requires that the new accounting principle be adopted prospectively from the earliest practicable date. SFAS No. 154 is effective in the period that begins after December 15, 2005, and early adoption is permitted in the fiscal years beginning after SFAS No. 154 was issued. The Company does not expect the new standard to have any material impact on our financial position and results of operations.

ITEM 3. CONTROLS AND PROCEDURES

As of the date of this report, the Company carried out an evaluation, under the supervision and with the participation of the Company's management, including the Company's Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of the Company's disclosure controls and procedures pursuant to Exchange Act Rule 13(a) - 15(e) and 15(d) - 15(c). Based upon that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that the Company's disclosure controls and procedures are effective in timely alerting them to material information relating to the Company (including its consolidated subsidiaries) required to be included in the Company's periodic SEC filings. There were no significant changes in the Company's internal controls or in other factors that could significantly affect these controls subsequent to the date of the Company's evaluation.

PART II - OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

During September and October 2003, the Company secured judgments against Ameritech Environmental, Inc. ("Ameritech") totaling $176,958 related to the non-payment by Ameritech for services provided by the Company in 2002. Ameritech sold the assets of Ameritech representing collateral for the judgments to MedSolutions, Inc. of Dallas, Texas ("MedSolutions") in November 2003. During January 2004, the Company secured a Garnishment Order against MedSolutons whereby MedSolutions was ordered to pay to the Company $170,765, plus interest at 5%. Payments under the Garnishment Order were scheduled to be made monthly in the amount of $4,375 (inclusive of interest) with a balloon payment of $137,721 due November 7, 2004. MedSolutions is currently in breach of the Garnishment Order. During January 2005, the Company filed suit against MedSolutions and Ameritech in the 234th Judicial District Court of Harris County, Texas. The suit alleges collusion, fraudulent conveyance and fraudulent inducement by and between MedSolutions and Ameritech to defraud payment to the Company for amounts owed, as described above. The Company has also requested the Court to appoint a Receiver for all sums owed to protect assets pending review by the Court.

In the quarters ending March 31, 2003 and June 30, 2003, the Company wrote-off all outstanding amounts, $75,996 and $106,397 respectively, due from Ameritech. Therefore, any potential future recoveries of receivables would be recorded as a credit to the allowance for bad debts. Collection-related legal fees estimated at one-third of any amounts collected will reduce any recovery that may be received by the Company. Although the Company will continue to aggressively pursue collection of the outstanding amounts under the Garnishment Orders, no assurances regarding collection can be made.

On June 14, 2004, the Company provided Mr. Ronald E. Pierce, its then current Chief Operating Officer ("Mr. Pierce"), with notice of non-renewal of his employment agreement. As such, July 14, 2004 was Mr. Pierce's last day of employment. The Company has advised Mr. Pierce that under the terms of the employment contract no further compensation (including services) was due. The Company then received various letters from Mr. Pierce's attorney advising that Mr. Pierce is taking the position that the non-renewal of the employment agreement was not timely and, therefore, Mr. Pierce was terminated without cause. Additionally, Mr. Pierce claims that the Company had no right to terminate him on the anniversary date of his Agreement without the obligation of paying Mr. Pierce as if he were terminated without cause. Mr. Pierce has demanded severance related payments totaling approximately $280,000 (including an $80,000 bonus) along with the full accelerated vesting of 500,000 stock options previously awarded to Mr. Pierce. The Company believes that notice of such non-renewal was timely, and that in accordance with Mr. Pierce's employment agreement, the Company was entitled to provide notice thirty (30) days prior to the anniversary of its intent to terminate the agreement, and no severance would therefore be due to Mr. Pierce. On July 30, 2004, the Company received notice from Mr. Pierce's attorney requesting commencement of arbitration to resolve the claim. No further communications have been received from Mr. Pierce's attorney since July 30, 2004. The Company believes it has meritorious defenses against Mr. Pierce's claims and has not recorded a liability related to this matter.

On or about February 25, 2003, Jason Jodway, a then employee of the Company since April 1999, resigned in lieu of termination of employment by the Company. Thereafter, Mr. Jodway formed Attentus Medical Sales, Inc., a competing entity of the Company. In March 2005, the Company's wholly-own subsidiary Sharps Compliance, Inc., filed a lawsuit in Harris County District Court, Texas against Mr. Jodway and Attentus Medical Sales, Inc. The lawsuit claims, (i) breach of a confidentiality agreement, (ii) misappropriation of trade secrets and (iii) tortious interference with the Company's existing and prospective contracts and business relationships. On April 7, 2005, the defendant filed its answer and counter claims against Sharps Compliance, Inc. asserting breach of contract, quantum merit and violation of the Texas Payday Act alleging that his last day of employment was March 29, 2003 and that he is entitled to receive two weeks of back wages and commissions. On September 19, 2005, the Company amended its pleadings and added claims asserting conversion, unjust enrichment, unfair competition and trademark infringement in violation of the Lanham Act, false advertising in violation of the Lanham Act, trademark dilution under the Texas Business and Commerce Code, and tortious interference with existing and/or prospective customers. On April 28, 2005, Defendants filed an Amended Answer and Counterclaims adding counter claims asserting slander, business disparagement and tortious interference with contractual and prospective relationships. On April 29, 2005, Mr. Jodway and Attentus Medical Sales, Inc. filed a Notice of Removal of the action from Harris County Circuit Court to the United States District Court, Southern District of Texas. The Company denies any obligation to Mr. Jodway for his back wages, commissions and denies all other allegations. The Company intends to vigorously pursue its affirmative claims against Mr. Jodway and Attentus Medical Sales, Inc., seek injunctive relief for violations of the Lanham Act, money damages and attorneys fees, although the Company has not quantified its damages to date.

ITEM 6. EXHIBITS

(a) Exhibits:

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

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

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

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

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

SIGNATURES

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

REGISTRANT:

SHARPS COMPLIANCE CORP.

Dated: November 8, 2005

By: /s/ Dr. Burton J. Kunik

Chairman of the Board, Chief Executive Officer and President

Dated: November 8, 2005

By: /s/ David P. Tusa

Executive Vice President,
Chief Financial Officer,
Business Development
and Corporate Secretary