SHARPS COMPLIANCE CORP
Form 10QSB
November 12, 2004

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, 2004

|_| 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 |_|

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: 10,538,144 shares of Common Stock, $0.01 par value as of November 5, 2004.

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

SHARPS COMPLIANCE CORP. AND SUBSIDIARIES

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PART I FINANCIAL INFORMATION

PART I FINANCIAL INFORMATION
ITEM 1. FINANCIAL STATEMENTS

SHARPS COMPLIANCE CORP. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS

ASSETS	Septembe 200
CURRENT ASSETS:	
Cash and cash equivalents	$ 147,5
Restricted cash	12,6
Accounts receivable, net of allowance for doubtful accounts of $12,986 and $12,986, respectively	923,1
Inventory	456,6
Prepaid and other assets	115,4
TOTAL CURRENT ASSETS	1,655,4
PROPERTY AND EQUIPMENT, net of accumulated depreciation of $536,432 and 507,945 respectively	506,9

INTANGIBLE ASSETS, net of accumulated amortization of $101,735 and $101,582 respectively	9,8
OTHER ASSETS	
TOTAL ASSETS	$ 2,172,3

LIABILITIES AND STOCKHOLDERS' EQUITY

CURRENT LIABILITIES:	
Accounts payable	$ 495,6
Accrued liabilities	289,4
Deferred revenue - pump return	80,0
Current portion of deferred revenue - incineration	132,8
Current portion of deferred revenue - transportation	625,8
Notes payable and current portion of long-term debt	
Current maturities of capital lease obligations	42,1
TOTAL CURRENT LIABILITIES	1,665,8
LONG-TERM DEFERRED REVENUE - INCINERATION, net of current portion	32,5
LONG-TERM DEFERRED REVENUE - TRANSPORTATION, net of current portion	187,3
LONG-TERM DEBT, net of current portion	
OBLIGATIONS UNDER CAPITAL LEASES, net of current maturities	79,3
OTHER LIABILITIES	55,7
TOTAL LIABILITIES	2,020,8
COMMITMENTS AND CONTINGENCIES	
STOCKHOLDERS' EQUITY	
Common stock, $.01 par value per share; 20,000,000 shares authorized;10,538,144 and 10,538,144 shares issued and outstanding, respectively	105,3
Additional paid-in capital	7,457,6
Accumulated deficit	(7,411,4
TOTAL STOCKHOLDERS' EQUITY	151,5
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$ 2,172,3

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

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

	For the Ended
	2004
	(Un
REVENUES:	
Distribution, net	$ 2,238,01
Consulting and environmental services	66,79
Manufacturing	114,58
TOTAL REVENUES	2,419,38
COSTS AND EXPENSES:	
Cost of revenues	1,387,54
Selling, general and administrative	867,90
Depreciation and amortization	42,90
TOTAL COSTS AND EXPENSES	2,298,35
OPERATING INCOME (LOSS)	121,03
OTHER INCOME (EXPENSE)	
Interest income	
Interest expense	(7,92
TOTAL OTHER INCOME (EXPENSE)	(7,92
NET INCOME (LOSS) BEFORE INCOME TAXES	113,11
INCOME TAXES	(4,20
NET INCOME (LOSS)	$ 108,91
NET INCOME (LOSS) PER COMMON SHARE	
Basic	$ .0
Diluted	$ .0
WEIGHTED AVERAGE SHARES USED IN COMPUTING NET INCOME (LOSS) PER COMMON SHARE	
Basic	10,538,14
Diluted	10,887,75

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 th Ended
	2004
	(Un
CASH FLOWS FROM OPERATING ACTIVITIES:	
Net Income (loss)	$ 108,91
Adjustments to reconcile net loss to net cash used in operating activities:	
Depreciation and amortization	42,90
Change in allowance for doubtful accounts	
Loss on disposal of equipment	27
Changes in operating assets and liabilities:	
Decrease in restricted cash	2,02
(Increase) decrease in accounts receivable	58,28
Increase in inventory	(63,45
Decrease in prepaids and other assets	23,32
Decrease in accounts payable and accrued liabilities	(135,75
Increase (decrease) in deferred revenue	75,71
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	112,22
CASH FLOWS FROM INVESTING ACTIVITIES:	
Purchases of property and equipment	(19,14
Patent	-
Proceeds from sale of equipment	17,87
NET CASH USED IN INVESTING ACTIVITIES	(1,27
CASH FLOWS FROM FINANCING ACTIVITIES:	
Payments on long-term debt	(31,67
Net payments on factoring agreement	(165,08
Payments on capital lease obligations	(9,45
Issuance of common stock	-
NET CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES	(206,20
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENT	(95,25
CASH AND CASH EQUIVALENTS, beginning of period	242,80
CASH AND CASH EQUIVALENTS, end of period	$ 147,55
NONCASH INVESTING AND FINANCING ACTIVITIES:	
Property and equipment additions acquired under capital lease obligations	$ 8,931

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, 2004

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 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, 2004 and the results of its operations and cash flows for the three months ended September 30, 2004 and 2003. The results of operations for the three months ended September 30, 2004, are not necessarily indicative of the results to be expected for the entire fiscal year ending June 30, 2005. 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, 2004.

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 are recognized at the point of sale.

NOTE 4. INCOME TAX

During the three months ended September 30, 2004 the Company recorded a $4,200 provision for estimated Alternative Minimum Tax (AMT). The Company anticipates net operating profits for the year ended June 30, 2005, although no assurance can be given. The Company expects to utilize its net operating loss carryforwards to offset any ordinary taxable income for the year ended June 30, 2005.

NOTE 5. ACCOUNT RECEIVABLE

In 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. The assets of Ameritech representing collateral for the judgments were sold by Ameritech to MedSolutions, Inc. of Dallas, Texas

("MedSolutions") in November 2003. In 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 are 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. On November 9, 2004, the Company filed, in the 234th Judicial District Court of Harris County, Texas, an Application For Writ Of Garnishment After Judgment against MedSolutions' primary financial institution, J. P Morgan Chase Bank. The total amount currently owed by MedSolutions to the Company is $142,097.

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. Any recovery that may be received by the Company will be reduced by collection-related legal fees estimated at one-third of any amounts collected. 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

Notes payable and long-term debt consisted of the following:

	September 30, 2004	June 30, 2004
Factoring agreement with financial institution	$ -	$ 165,083
Note payable to Futura	-	13,889
Promissory note to a finance company for the purchase of an automobile	-	17,786
	-	196,758
Less: current portion of notes payable and long-term debt	-	185,932

Total notes payable and long-term debt ...	$ -	$ 10,826

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 is 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 will incur interest on borrowings at a prime rate of interest (4.5% as of September 30, 2004) plus 2%, plus administrative fees of .25% on gross receivables financed. During the quarter ended September 30, 2004 the maximum borrowed under the arrangement was $165,083. The balance at September 30, 2004 was zero.

NOTE 7. OBLIGATIONS UNDER CAPITAL LEASES

Capital lease obligations consist of the following:

	September 30, 2004	June 30, 2004
Capital lease for the purchase of accounting and operating system software and hardware, due in monthly installments of $4,061, interest imputed at 21% through February 2007	$ 92,131	$ 99,315
Capital lease for purchase of phone system due in monthly installments of $455, interest imputed at 12% through August 2007	13,372	14,315
Capital lease for purchase of copier/printer due in monthly installments of $157, interest imputed at 21% through August 2006	2,843	3,252
Capital lease for purchase of phone system upgrades due in monthly installments of $157, interest imputed at 16% through December 2007	4,801	5,077
Capital lease for purchase of forklift due in monthly installments of $290, interest imputed at 11% through July 2007	8,293	-

	121,440	121,959
Less: current portion	42,139	37,513
	$ 79,301	$ 84,446

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, 2004 and 2003, as follows: risk-free interest rates of 3.7% and 3.6%, respectively; expected annual dividend yield of 0%; volatility factors of the expected market price of the Company's common stock of approximately 53% and 32%, respectively; and a weighted-average expected life of the options of 7 years.

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 September 30, 2004	Three Months Ended September 30, 2003
Net income (loss), as reported	$ 108,912	$ (116,577)
Less: Total stock-based employee compensation expense determined under fair value based method for all awards, net of related tax effects	$ (64,937)	$ (73,403)
Net loss, pro forma	$ 43,975	$ (189,980)
Basic and diluted net loss per share, as reported	$ 0.01	$ (0.01)
Basic and diluted net loss per share, pro forma	$ 0.00	$ (0.02)

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 Ended September 30, 2004	2003
Net income (loss), as reported	$ 108,912	$ (116,577)
Weighted average common shares outstanding..................	10,538,144	9,822,023
Effect of Dilutive stock options......	349,606	-
Weighted average diluted common shares outstanding..................	10,887,750	9,822,023
Net income per common share		
Basic..............................	$ 0.01	$ (0.01)
Diluted............................	$ 0.01	$ (0.01)
Employee stock options excluded from computation of diluted per share amounts because their effect would be dilutive............	1,075,000	NA

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NOTE 9. RELATED PARTY TRANSACTION

On January 2, 2003, the Chief Executive Officer of the Company sold 356,000 shares of common stock in Sharps Compliance Corp. through a private sale. Purchasers of these shares included, among others, New Century Equity Holdings Corp. ("New Century") (200,000 shares), a 3% shareholder in the Company, John Dalton (50,000 shares), a 10.1% holder in the Company, and Philip Zerrillo (10,000 shares), a member of the Company's Board of Directors.

On September 24, 2003, the Company completed a private placement of 625,000 unregistered shares of its common stock for net proceeds of $500,000.

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ITEM 2.

MANAGEMENT'S DISCUSSION AND ANALYSIS OR PLAN OF OPERATIONS

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(TM), Pitch-It(TM) IV Poles, Trip LesSystem(TM), Sharps Pump Return Box, Sharps Enteral Pump Return Box, Sharps Secure(TM), Sharps SureTemp Tote(TM), IsoWash(TM) Linen Recovery 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(TM) and sales to third parties of this product.

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, 2004 and 2003.

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 Ended September 30, 2004	2003
Net revenues.................................	100%	100%
Costs and expenses:		
Cost of revenues..........................	(57%)	(61%)
Selling, general and administrative........	(36%)	(42%)
Depreciation and amortization..............	(2%)	(2%)
Total operating expenses.....................	(95%)	(105%)
Income (Loss) from operations............	5%	(5%)
Total other income...........................	0%	(1%)
Net loss.....................................	5%	(6%)

THREE MONTHS ENDED SEPTEMBER 30, 2004, COMPARED TO THREE MONTHS ENDED SEPTEMBER 30, 2003

Total revenues for the three months ended September 30, 2004 of $2,419,386 increased by $422,174, or 21%, over the total revenues for the three months ended September 30, 2003 of $1,997,212. The increase in revenues is primarily attributable to increased billings in Healthcare ($169,396), Retail ($159,312) and the Agriculture ($126,412) markets.

Cost of revenues for the three months ended September 30, 2004 of $1,387,544 were 57% of revenues versus $1,217,710 or 61% of the revenues for the corresponding period of the previous year. The decrease in the cost of revenues as a percentage of revenue for the three months ended September 30, 2004 versus September 30, 2003 is a result of the increased revenue since a portion of the cost of revenues is relatively fixed.

Selling, general and administrative ("SG&A") expenses for the three months ended September 30, 2004 of $867,905 were reasonably consistent with SG&A for the three months ended September 30, 2003 of $836,386.

Interest expense for the three months ended September 30, 2004 of $7,924 decreased by $13,159, or 62%, over interest expense for the three months ended September 30, 2003 of $21,083. The decrease in interest expense is primarily due to the reductions in Notes Payable and Long-term Debt (See Note 6 of the Notes to the Consolidated Financial Statements).

LIQUIDITY AND CAPITAL RESOURCES

Cash and cash equivalents decreased by $95,251 to $147,552 at September 30, 2004 from $242,803 at June 30, 2004. The decrease in cash and cash equivalents is primarily a result the payment on the balance of the factoring agreement debt of $165,083 and the reduction in accrued liabilities of $135,751. These reductions were partially offset by the net income of $108,912 and depreciation and amortization of $42,901.

Inventory increased by $63,453 to $456,691 at September 30, 2004 from $393,238 at June 30, 2004. The increase was primarily due to the bulk purchase of Pitch-It(TM) IV Poles for $100,548 at the end of September 2004.

Property and equipment decreased by $32,820 to $506,980 at September 30, 2004 from $539,800 at June 30, 2004. This decrease is primarily attributable to depreciation expense of $42,901 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, 2005.

RECENTLY ISSUED ACCOUNTING STANDARDS

In January 2003, the FASB issued FASB Interpretation No. 46 ("FIN 46"), "Consolidation of Variable Interest Entities", and subsequently revised the interpretation in December 2003 ("FIN 46R") which requires that companies that control another entity through interests other than voting rights should consolidate the controlled entity. As revised, FIN 46R is generally effective for financial statements for interim or annual periods ending on or after March 15, 2004. The related disclosure requirements are effective immediately. Management does not believe the adoption of FIN 46R will have any impact on the Company's financial position or results of operations.

In April 2003, the FASB issued SFAS No. 149, "Amendment of Statement 133 on Derivative Instruments and Hedging Activities", which amends SFAS No. 133 to provide clarification on the financial accounting and reporting of derivative instruments and hedging activities and requires that contracts with similar characteristics to be accounted for on a comparable basis. The provisions of SFAS No. 149 are effective for contracts entered into or modified after June 30, 2003, and for hedging relationships designated after June 30, 2003. The adoption of SFAS No. 149 will not have a material impact on the Company's results of operations or financial position.

In May 2003, the FASB issued SFAS No. 150, "Accounting for Certain Financial Instruments with Characteristics of Both Liabilities and Equity", which establishes standards on the classification and measurement of certain financial instruments with characteristics of both liabilities and equity. The provisions of SFAS No. 150 are effective for financial instruments entered into or modified after May 31, 2003 and to all other instruments that exist as of the beginning of the first interim financial reporting period beginning after June 15, 2003. The adoption of SFAS No. 150 did not have a material impact on the Company's results of operations or financial position.

ITEM 3. CONTROLS AND PROCEDURES

Within the ninety days prior to 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 13a-14. 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

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

ITEM 2. CHANGES IN SECURITIES

On September 24, 2003 the Company completed a private placement of 625,000 shares of common stock at a price of $0.80 per share. The proceeds of $500,000 have been utilized by the Company for working capital purposes as well as to support growth plans to further expand the business into the industrial, retail, and other markets.

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)

10.5 Employment Agreement Amendment (filed herewith)

ITEMS 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 11, 2004

By:/s/ Dr. Burton J. Kunik

Dr. Burton J. Kunik
Chairman of the Board, Chief
Executive Officer and President

Dated: November 11, 2004

By:/s/ David P. Tusa

David P. Tusa
Senior Vice President,
Chief Financial Officer
and Corporate Secretary