

SHARPS COMPLIANCE CORP
Form 10-K
August 27, 2014

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

Form 10-K
x ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended June 30, 2014
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

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

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

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

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

As of December 31, 2013, the aggregate market value of the Registrant's Common Stock held by non-affiliates was approximately \$60.3 million (based on the closing price of \$4.73 on December 31, 2013 as reported by The NASDAQ Capital Market).

The number of common shares outstanding of the Registrant was 15,290,073 as of August 25, 2014.

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 20, 2014 are incorporated by reference into Part III.

SHARPS COMPLIANCE CORP. AND SUBSIDIARIES
 TABLE OF CONTENTS *
 ANNUAL REPORT ON FORM 10-K

PART I

Item 1	<u>Description of Business</u>	3
Item 1A	<u>Risk Factors</u>	11
Item 1B	<u>Unresolved Staff Comments</u>	14
Item 2	<u>Description of Property</u>	14
Item 3	<u>Legal Proceedings</u>	15
Item 4	<u>Mine Safety Disclosures</u>	15

PART II

Item 5	<u>Market for Registrant’s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities</u>	15
Item 6	<u>Selected Financial Data</u>	17
Item 7	<u>Management’s Discussion and Analysis of Financial Condition and Results of Operations</u>	17
Item 7A	<u>Quantitative and Qualitative Disclosures about Market Risk</u>	26
Item 8	<u>Financial Statements</u>	26
Item 9	<u>Changes In and Disagreements with Accountants on Accounting and Financial Disclosure</u>	26
Item 9A	<u>Controls and Procedures</u>	26
Item 9B	<u>Other Information</u>	27

PART III

Item 10	<u>Directors, Executive Officers and Corporate Governance</u>	27
Item 11	<u>Executive Compensation</u>	28
Item 12	<u>Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters</u>	28
Item 13	<u>Certain Relationships and Related Transactions and Director Independence</u>	28
Item 14	<u>Principal Accountant Fees and Services</u>	28

PART IV

Item 15	<u>Exhibits and Financial Statement Schedules</u>	28
	<u>Signatures</u>	32

*This Table of Contents is inserted for convenience of reference only and is not a part of this Report as filed.

Table of Contents

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 pick-up 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 pick-up services).

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.

Table of Contents

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 61 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 have a warehouse facility in Atlanta, Georgia. As a result of the termination of the U.S. Government contract, the Company executed an agreement with the Atlanta facility landlord reducing its obligation under the lease for the 51,000 square foot facility by approximately 20,000 square feet effective September 1, 2012. Effective February 1, 2013, the Company subleased the remaining portion of the Atlanta facility to a third party. 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). During fiscal year 2013, the Company, under an agreement with Daniels Sharpsmart, began supplementing its treatment facility operations by utilizing four Daniels Sharpsmart treatment facilities 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 provide back-up treatment facility capabilities in the event of disruption at the Company's treatment facility in Carthage, Texas.

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 gallons; USPS approved shipping box with pre-paid 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, pre-paid return box.

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

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 (MSDs), 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.

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

Table of Contents

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 SharpsTracer[®], Complete Needle[™] Collection and Disposal System, Pitch-It IV[™] Poles, Trip LesSystem[®], Sharps[®] Pump and Asset Return System, Sharps Secure[®] Needle Collection and Containment System[™], Sharps[®] MWMS[™] (a Medical Waste Management System ("MWMS")), and Spill Kit TakeAway Recovery System[™].

MARKET OVERVIEW

The Company continues to take advantage of the many opportunities in the markets served as professional offices, retail pharmacies and clinics, communities, assisted living and long-term care facilities, home healthcare companies, consumers, pharmaceutical manufacturers, government agencies, health care facilities, individual self-injectors and commercial organizations become more aware of alternatives to the traditional methods of management of medical sharps waste, used healthcare materials and unused dispensed medications.

The Company's growth strategies are focused on the Retail, Pharmaceutical, Professional, Assisted Living, Home Health Care and Environmental markets. The Company believes its growth opportunities are supported by:

An increase in the number of used needles improperly disposed of outside the large healthcare setting and into the solid waste system to 7.8 billion each year (tripled volume over the past ten years) and an increase in the number of self-injectors in the country to 13.5 million over the same period;

An estimated 800,000 doctors, dentists, veterinarians, clinics, tattoo parlors and other businesses in the country that generate smaller quantities of medical waste, including used syringes to whom we offer a lower cost alternative to the traditional pick-up service. The Company addresses this market from two directions: (i) field sales which focuses on larger dollar and nation-wide opportunities where we can integrate the route-based pick-up 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;

An estimated 40% of the four billion dispensed medication prescriptions which go unused every year in the United States generating an estimated 200 million pounds of unused medication waste;

The pace of regulation of sharps and unused dispensed medications disposal which is gaining momentum at both the state and federal level - as of June 30, 2014, approximately 46 percent of U.S. citizens live in states that have enacted legislation or strict guidelines mandating the proper disposal of home generated used syringes while 67 percent live in states that have enacted or proposed legislation mandating the proper disposal of home generated dispensed unused medications. 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.

The number of U.S. retail clinics is projected to increase significantly, expecting business to increase 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. The two leading retail pharmacies in the country are emphasizing their efforts to grow their capability as a low cost provider of health care services for non-chronic conditions. The number of pharmacists nationwide trained to deliver vaccines has quadrupled since 2007. Vaccines offered in retail clinics include season flu programs as well as year round programs for pneumococcus, shingles, pediatric immunizations, HPV and international travel;

Table of Contents

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 home healthcare and assisted living markets;

The change in delivery of healthcare (more health care being administered in an alternative site) as well as uncertainty created by the current state of healthcare; facts which are driving more healthcare providers to increase efficiencies and reduce costs;

Over the past two years, the Company has developed a network of medical and hazardous waste service providers including those with route based pick-up services which allows the Company to serve the entire U.S. medical and hazardous waste market. We offer clients a blended product portfolio to effectively target prospective customers with 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 pick-up service are integrated into the offering;

New solution offerings including the Complete Needle™ Collection and Disposal System (designed for the traditional under-served home self-injector), the TakeAway line of products for unused medications (including TakeAway Environmental Return System™), the Medical/Professional TakeAway Recovery System and enhanced patient support programs with pharmaceutical manufacturers; and

The Company's strong financial position with a cash balance of \$13.7 million and no debt as of June 30, 2014.

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 Centers for Disease Control, 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 Centers for Disease Control and Prevention ("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. We offer a blended product portfolio that includes both a mailback and route-based pick-up 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 pick-up 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 two 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.

Table of Contents

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 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). During fiscal years 2013 and 2014, the Company, under an agreement with Daniels Sharpsmart, utilizes four Daniels Sharpsmart 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 pick-up 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 pharmaceutical manufacturers, home healthcare providers, assisted living/long-term care facilities, retail pharmacies and clinics and the professional market which is comprised of physicians, dentists and veterinary practices. We also serve federal, state and local government agencies, hospitality which includes hotels, commercial, industrial and agriculture.

Our billings by market for the years ended June 30, 2014, 2013 and 2012 are below (as expressed in percentages of revenues):

	Year Ended June 30,		
	2014	2013	2012
<u>BILLINGS BY MARKET:</u>			
Home Health Care	27 %	32 %	31 %
Retail	24 %	24 %	24 %
Professional	20 %	18 %	14 %
Pharmaceutical Manufacturer	14 %	11 %	10 %
Assisted Living	6 %	7 %	6 %
Environmental	3 %	1 %	1 %
Core Government	2 %	3 %	2 %
Other	4 %	4 %	4 %
U.S. Government Contract	0 %	0 %	8 %
	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.

7

Table of Contents

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™ repurposed 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 dispensed medications, 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 health care 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, health care 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.

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.

8

Table of Contents

GROWTH STRATEGIES

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

Further penetrate existing customers and markets.

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

Over the past two years, the Company has developed a network of medical and hazardous waste service providers including those with route based pick-up services which allows the Company to serve the entire U.S. medical and hazardous waste market. We offer 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 Sharps Tracer 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, expecting business to increase 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. The two leading retail pharmacies in the country are emphasizing their efforts to grow their capability as a low cost provider of health care services for non-chronic conditions. Given our strong market share, we believe we are very well-positioned to capitalize on this trend which would, in-turn, drive demand for our cost-effective solutions.

Since June 30, 2011, the Company experienced growth of over twelve times or \$3.4 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. 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 which assists them in monitoring medication discipline and provides them with a touch point for individual patient follow-up which potentially could lead to better outcomes. During the second half of calendar year 2014, the Company will launch two new patient support programs for new drugs. In addition, during calendar year 2015 and through the first half of calendar 2016, Sharps expects to launch four additional patient support programs for new drug therapies. 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 nation-wide opportunities in most of the markets served. The field sales team is able to address much larger opportunities as a result of its network of medical and hazardous waste service providers which allows the Company to integrate the route-based pick-up service along with our mailback solutions to create a comprehensive waste management offering. We have seen success with this approach in fiscal year 2013 and 2014 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.

Table of Contents

Improve product and service awareness to attract new customers.

As we grow, we continue to focus additional marketing and sales efforts designed to educate home health care providers, physician and dental clinics, pharmaceutical manufacturers, consumers, communities and government agencies of the benefits of our solution offerings and the need for safe, cost-effective and environmentally-friendly methods of 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 the Complete Needle™ Collection and Disposal System (designed for the traditional under-served home self-injector),