SHARPS COMPLIANCE CORP
Form 10-Q
February 01, 2017

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended December 31, 2016
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)

(713) 432-0300
(Registrant's telephone number, including area code)

Indicate by check mark if 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 this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).
Yes ý No

Indicate by check mark whether the registrant is a large accelerated filer, a non-accelerated filer, or a smaller reporting company. See definition of "large accelerated filer", "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Securities Exchange Act of 1934.

Large Accelerated Filer	Accelerated Filer	Non-accelerated Filer	Smaller reporting company
		(Do not check if a smaller reporting company)	

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

As of January 30, 2017, there were 15,986,857 outstanding shares of the Registrant's common stock, par value $0.01 per share.

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
(Unaudited)
(In thousands, except share and par value)

	December 31, 2016	June 30, 2016
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	$ 7,234	$ 12,435
Accounts receivable, net of allowance for doubtful accounts of $72 and $63, respectively	5,766	5,814
Inventory, net	4,382	3,919
Prepaid and other current assets	727	695
TOTAL CURRENT ASSETS	18,109	22,863
PROPERTY, PLANT AND EQUIPMENT, net	6,878	5,032
OTHER ASSETS	118	84
GOODWILL	6,724	1,039
INTANGIBLE ASSETS, net of accumulated amortization of $803 and $502, respectively	4,264	1,129
TOTAL ASSETS	$ 36,093	$ 30,147
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES		
Accounts payable	$ 3,130	$ 1,620
Accrued liabilities	1,936	1,534
Current maturities of long-term debt	684	-
Deferred revenue	2,356	2,477
TOTAL CURRENT LIABILITIES	8,106	5,631
LONG-TERM DEFERRED REVENUE, net of current portion	534	483
OTHER LONG-TERM LIABILITIES	171	190
LONG-TERM DEBT, net of currrent portion	2,212	-
TOTAL LIABILITIES	11,023	6,304
COMMITMENTS AND CONTINGENCIES		
STOCKHOLDERS' EQUITY		
Common stock, $0.01 par value per share; 20,000,000 shares authorized; 16,282,472 and 15,740,458 shares issued, respectively and 15,986,857 and 15,444,843 shares outstanding, respectively	163	158

Treasury stock, at cost, 295,615 shares repurchased	(1,554)	(1,554)
Additional paid-in capital	27,747	25,331
Accumulated deficit	(1,286)	(92)
TOTAL STOCKHOLDERS' EQUITY	25,070	23,843
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$ 36,093	$ 30,147

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

SHARPS COMPLIANCE CORP. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(Unaudited)
(In thousands, except per-share data)

	Three-Months Ended December 31,	
	2016	2015
REVENUES	$ 9,707	$ 9,992
Cost of revenues	6,812	6,673
GROSS PROFIT	2,895	3,319
Selling, general and administrative	2,899	2,585
Depreciation and amortization	200	70
OPERATING INCOME (LOSS)	(204)	664
OTHERE INCOME (EXPENSE)		
Interest income	4	9
Interest expense	(27)	-
TOTAL OTHER (EXPENSE) INCOME	(23)	9
INCOME (LOSS) BEFORE INCOME TAXES	(227)	673
INCOME TAX EXPENSE - Current	-	58
TOTAL INCOME TAX EXPENSE	-	58
NET INCOME (LOSS)	$ (227)	$ 615
NET INCOME (LOSS) PER COMMON SHARE		
Basic	$ (0.01)	$ 0.04
Diluted	$ (0.01)	$ 0.04
WEIGHTED AVERAGE SHARES USED IN COMPUTING NET INCOME (LOSS) PER COMMON SHARE:		
Basic	15,929	15,467
Diluted	15,929	16,062

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

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SHARPS COMPLIANCE CORP. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(Unaudited)
(In thousands, except per-share data)

	Six-Months Ended December 31, 2016	2015
REVENUES	$ 19,238	$ 17,861
Cost of revenues	13,384	11,663
GROSS PROFIT	5,854	6,198
Selling, general and administrative	6,598	5,181
Depreciation and amortization	400	122
OPERATING INCOME (LOSS)	(1,144)	895
OTHERE INCOME (EXPENSE)		
Interest income	8	18
Interest expense	(58)	-
TOTAL OTHER (EXPENSE) INCOME	(50)	18
INCOME (LOSS) BEFORE INCOME TAXES	(1,194)	913
INCOME TAX EXPENSE - Current	-	78
TOTAL INCOME TAX EXPENSE	-	78
NET INCOME (LOSS)	$ (1,194)	$ 835
NET INCOME (LOSS) PER COMMON SHARE		
Basic	$ (0.08)	$ 0.05
Diluted	$ (0.08)	$ 0.05
WEIGHTED AVERAGE SHARES USED IN COMPUTING NET INCOME (LOSS) PER COMMON SHARE:		
Basic	15,898	15,443
Diluted	15,898	15,994

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

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SHARPS COMPLIANCE CORP. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
(Unaudited)
(In thousands, except share data)

	Common Stock		Treasury Stock		Additional Paid-in	Accumulated	Total Stockholders'
	Shares	Amount	Shares	Amount	Capital	Deficit	Equity
Balances, June 30, 2015	15,575,041	$ 156	(191,250)	$ (809)	$ 24,344	$ (105)	$ 23,586
			-	$ -			
Exercise of stock options	112,425	1	-	-	312	-	313
Stock-based compensation	-	-	-	-	676	-	676
Issuance of restricted stock	52,992	1	-	-	(1)	-	-
Shares repurchased	-	-	(104,365)	(745)	-	-	(745)
Net income	-	-	-	-	-	13	13
Balances, June 30, 2016	15,740,458	158	(295,615)	(1,554)	25,331	(92)	23,843
			-	-			-
Exercise of stock options	75,750	-	-	-	259	-	259
Stock-based compensation	-	-	-	-	273	-	273
Issuance of restricted stock	52,992	1	-	-	(1)	-	-
Issuance of common stock for acquisition	413,272	4	-	-	1,885	-	1,889
Net loss	-	-	-	-	-	(1,194)	(1,194)
Balances, December 31, 2016	16,282,472	$ 163	(295,615)	$ (1,554)	$ 27,747	$ (1,286)	$ 25,070

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

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SHARPS COMPLIANCE CORP. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)
(In thousands)

	Six-Months Ended December 31, 2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income (loss)	$(1,194)	$835
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation and amortization	708	379
Loss on disposal of property, plant and equipment	6	-
Stock-based compensation expense	273	358
Changes in operating assets and liabilities, net of effects of business acqusitions:		
Accounts receivable	543	434
Inventory	(359)	(943)
Prepaid and other assets	(66)	121
Accounts payable and accrued liabilities	1,134	(105)
Deferred revenue	(70)	415
NET CASH PROVIDED BY OPERATING ACTIVITIES	975	1,494
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property, plant and equipment	(1,978)	(761)
Cash proceeds from sale of property, plant and equipment	13	-
Additions to intangible assets	(79)	-
Payments for business acquisitions, net of cash acquired	(7,100)	(1,204)
NET CASH USED IN INVESTING ACTIVITIES	(9,144)	(1,965)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from exercise of stock options	259	313
Shares repurchased	-	(540)
Proceeds from long-term debt	3,000	-
Repayments of long-term debt	(291)	-
NET CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES	2,968	(227)
NET DECREASE IN CASH AND CASH EQUIVALENTS	(5,201)	(698)
CASH AND CASH EQUIVALENTS, beginning of period	12,435	15,157
CASH AND CASH EQUIVALENTS, end of period	$7,234	$14,459
SUPPLEMENTAL CASH FLOW DISCLOSURES:		
Income taxes paid	$-	$85
Interest paid on long-term debt	$49	$-
NON-CASH INVESTING AND FINANCING ACTIVITIES:		

Issurance of common stock for acquisition	$1,889	$-
Unpaid consideration related to acquistions	$105	$529
Transfer of equipment to inventory	$104	$106
Property, plant and equipment financed through accounts payable	$368	$-

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

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SHARPS COMPLIANCE CORP. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

NOTE 1 - ORGANIZATION AND BACKGROUND

Organization: The accompanying unaudited condensed consolidated financial statements include the financial transactions and accounts of 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.), Sharps Safety, Inc., Alpha Bio/Med Services LLC, Bio-Team Mobile LLC and Citiwaste, LLC (collectively, “Sharps” or the “Company”). All significant intercompany accounts and transactions have been eliminated upon consolidation.

Business: Sharps is a leading full-service national provider of comprehensive waste management services including medical, pharmaceutical and hazardous for small and medium quantity generators. The Company’s solutions include Sharps Recovery System™ (formerly Sharps Disposal by Mail System®), TakeAway Medication Recovery System™, MedSafe®, TakeAway Recycle System™, ComplianceTRAC℠, SharpsTracer®, Sharps Secure® Needle Disposal System, Complete Needle™ Collection & Disposal System, TakeAway Environmental Return System™, Pitch-It IV™ Poles, Asset Return System and Spill Kit and Recovery System. The Company also offers its route-based pick-up service in an eleven (11) state region of the Northeast portion of the United States as well as in Texas and Louisiana.

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”) for interim financial information and with instructions to Form 10-Q 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 December 31, 2016, the results of its operations for the three and six months ended December 31, 2016 and 2015, cash flows for the six months ended December 31, 2016 and 2015 and stockholders’ equity for the six months ended December 31, 2016 and the year ended June 30, 2016. The results of operations for the three and six months ended December 31, 2016 are not necessarily indicative of the results to be expected for the entire fiscal year ending June 30, 2017. These unaudited condensed consolidated financial statements should be read in conjunction with the Company’s Annual Report on Form 10-K for the year ended June 30, 2016.

NOTE 3 - SIGNIFICANT ACCOUNTING POLICIES

Revenue Recognition: The Company recognizes revenue when services are provided and from product sales when (i) goods are shipped or delivered, and title and risk of loss pass to the customer, (ii) the price is substantially fixed or determinable and (iii) collectability is reasonably assured except for those sales via multiple-deliverable revenue arrangements. Provisions for certain rebates, product returns and discounts to customers are accounted for as reductions in sales in the same period the related sales are recorded. Product discounts granted are based on the terms of arrangements with direct, indirect and other market participants, as well as market conditions, including prices charged by competitors. Rebates are estimated based on contractual terms, historical experience, trend analysis and projected market conditions in the various markets served. Service agreements which include a vendor managed inventory program include terms that meet the “bill and hold” criteria and as such are recognized when the order is completed, at which point title has transferred, there are no acceptance provisions and amounts are segregated in the Company’s warehouse. During the three and six months ended December 31, 2016, the Company recorded revenue from inventory builds that are held in vendor managed inventory under these service agreements of \$0.8 million and

$1.8 million, respectively. During the three and six months ended December 31, 2015, the Company recorded revenue from inventory builds that are held in vendor managed inventory under these service agreements of $1.9 million and $2.5 million, respectively. As of December 31, 2016 and June 30, 2016, $2.2 million and $2.1 million, respectively, of solutions sold through that date were held in vendor managed inventory pending fulfillment or shipment to patients of pharmaceutical manufacturers who offer these solutions to patients in an ongoing patient support program.

Certain products offered by the Company have revenue producing components that are recognized over multiple delivery points (Sharps Recovery System and various other solutions like the TakeAway Medication Recovery Systems referred to as “Mailbacks” and Sharps Pump and Asset Return Systems, referred to as “Pump Returns”) and can consist of up to three separate elements, or units of measure, as follows: (1) the sale of the compliance and container system, (2) return transportation and (3) treatment service.

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SHARPS COMPLIANCE CORP. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

NOTE 3 - SIGNIFICANT ACCOUNTING POLICIES (continued)

In accordance with the relative selling price methodology, an estimated selling price is determined for all deliverables that qualify for separate units of accounting. The actual consideration received in a multiple-deliverable arrangement is then allocated to the units based on their relative sales price. The selling price for the transportation revenue and the treatment revenue utilizes third party evidence. The Company estimates the selling price of the compliance and container system based on the product and services provided, including compliance with local, state and federal laws, adherence to stringent manufacturing and testing requirements, safety to the patient and the community as well as storage and containment capabilities.

Revenue for the sale of the compliance and container is recognized upon delivery to the customer, at which time the customer takes title and assumes risk of ownership. Transportation revenue is recognized when the customer returns the compliance and container system and the container has been received at the Company's owned or contracted facilities. The compliance and container system is mailed or delivered by an alternative logistics provider to the Company's owned or contracted facilities. Treatment revenue is recognized upon the destruction or conversion and proof of receipt and treatment having been performed on the container. Since the transportation element and the treatment elements are undelivered services at the point of initial sale of the compliance and container, transportation and treatment 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 compliance and container systems sold may not be returned. Accordingly, a portion of the transportation and treatment elements are recognized at the point of sale.

Business Combinations: The Company includes the results of operations of the businesses that are acquired as of the respective dates of acquisition. The Company allocates the fair value of the purchase price of acquisitions to the assets acquired and liabilities assumed based on their estimated fair values. The excess of the fair value of the purchase price over the fair values of these identifiable assets and liabilities is recorded as goodwill.

Income Taxes: Deferred tax assets and liabilities are determined based on differences between financial reporting and tax bases of assets and liabilities and are measured using the enacted tax rates and laws that will be in effect when the differences are expected to reverse. A valuation allowance is established when it is more likely than not that some portion or all of the deferred tax assets will not be realized. The establishment of a valuation allowance requires significant judgment and is impacted by various estimates. Both positive and negative evidence, as well as the objectivity and verifiability of that evidence, is considered in determining the appropriateness of recording a valuation allowance on deferred tax assets. Under generally accepted accounting principles, the valuation allowance has been recorded to reduce the Company's deferred tax assets to an amount that is more likely than not to be realized and is based upon the uncertainty of the realization of certain federal and state deferred tax assets related to net operating loss carryforwards and other tax attributes.

Accounts Receivable: Accounts receivable consist primarily of amounts due to the Company from normal business activities. Accounts receivable balances are determined to be delinquent when the amount is past due based on the contractual terms with the customer. The Company maintains an allowance for doubtful accounts to reflect the likelihood of not collecting certain accounts receivable based on past collection history and specific risks identified among uncollected accounts. Accounts receivable are charged to the allowance for doubtful accounts when the Company determines that the receivable will not be collected and/or when the account has been referred to a third party collection agency. The Company has a history of minimal uncollectible accounts.

Stock-Based Compensation: Stock-based compensation cost for options and restricted stock awarded to employees and directors is measured at the grant date, based on the calculated fair value of the award and is recognized as an expense over the requisite service period (generally the vesting period of the equity grant).

Fair Value of Financial Instruments: The Company considers the fair value of all financial instruments, including cash and cash equivalents, accounts receivable and accounts payable to approximate their carrying values at December 31, 2016 and June 30, 2016 due to their short-term nature. The carrying value of the Company's debt approximates fair value due to the market rates of interest.

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(UNAUDITED)

NOTE 3 – SIGNIFICANT ACCOUNTING POLICIES (continued)

Fair Value Measurements: The Company employs a hierarchy which prioritizes the inputs used to measure recurring fair value into three distinct categories based on the lowest level of input that is significant to the fair value measurement. Our methodology for categorizing assets and liabilities that are measured at fair value pursuant to this hierarchy gives the highest priority to unadjusted quoted prices in active markets and the lowest levels to unobservable inputs, summarized as follows:

- Level 1 – Quoted prices in active markets for identical assets or liabilities.
- Level 2 – Other significant observable inputs (including quoted prices in active markets for similar assets or liabilities).
- Level 3 – Significant unobservable inputs (including our own assumptions in determining fair value).

We use the cost, income or market valuation approaches to estimate the fair value of our assets and liabilities when insufficient market-observable data is available to support our valuation assumptions. The purchase price allocations relating to the acquisitions completed during the six months ended December 31, 2016 and year ended June 30, 2016 utilized level 3 inputs.

NOTE 4 – RECENTLY ISSUED ACCOUNTING STANDARDS

In May 2014, guidance for revenue recognition was issued which supersedes the revenue recognition requirements currently followed by the Company. The new guidance provides for a single five-step model to be applied in determining the amount and timing of the recognition of revenue related to contracts with customers. The new standard also requires additional financial statement disclosures that will enable users to understand the nature, amount, timing and uncertainty of revenue and cash flows relating to customer contracts. Companies have an option to use either a retrospective approach or cumulative effect adjustment approach to implement the standard. The guidance is effective for annual reporting periods beginning after December 15, 2017 (effective July 1, 2018 for the Company.) The Company is evaluating the impact that the new accounting guidance will have on its consolidated financial statements and related disclosures and has not yet determined the method by which it will adopt the standard.

In July 2015, guidance for inventory measurement was issued, which supersedes the policy currently followed by the Company. The new guidance requires the Company to measure inventory at the lower of cost and net realizable value. The provisions of the new guidance are effective for annual reporting periods beginning after December 15, 2016 (effective July 1, 2017 for the Company) including interim periods within that reporting period. The adoption of this guidance is not expected to have a material effect on the Company's consolidated financial statements.

In February 2016, guidance for leases was issued, which requires balance sheet recognition for rights and obligations of all leases with terms in excess of twelve months. The new guidance also requires additional disclosures about the amount, timing and uncertainty of cash flows arising from leases. The provisions of the new guidance are effective for annual periods beginning after December 15, 2018 (effective July 1, 2019 for the Company), including interim periods within the reporting period, and early application is permitted. The Company is currently evaluating the impact of the new guidance on its consolidated financial statements.

In March 2016, new guidance for stock-based compensation was issued, which simplifies the accounting for stock-based compensation related to income taxes and balance sheet and cash flow classifications. In addition, an entity can make an entity-wide accounting policy election to either estimate the number of awards that are expected to vest or account for forfeitures when they occur. The provisions of the new guidance are effective for annual reporting periods beginning after December 15, 2016 (effective July 1, 2017 for the Company) including interim periods within the reporting period. The Company is currently evaluating the impact of the new guidance on its consolidated financial statements.

NOTE 5 - INCOME TAXES

The establishment of valuation allowances requires significant judgment and is impacted by various estimates. Both positive and negative evidence, as well as the objectivity and verifiability of that evidence, is considered in determining the appropriateness of recording a valuation allowance on deferred tax assets. Under generally accepted accounting principles, the valuation allowance has been recorded to reduce the Company's net deferred tax asset to an amount that is more likely than not to be realized and is based upon the uncertainty of the realization of certain federal and state deferred tax assets related to net operating loss carryforwards and other tax attributes. The Company's net deferred tax assets have been fully reserved by a tax valuation allowance.

SHARPS COMPLIANCE CORP. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

NOTE 5 - INCOME TAXES (continued)

No state tax expense was recorded for the six months ended December 31, 2016 as it was not material due to the valuation allowance and net operating losses. The Company's effective tax rate for the six months ended December 31, 2015 was 8.5% reflecting estimated state income taxes. The Company's tax benefit associated with taxable losses during the six months ended December 31, 2016 was offset by a deferred tax valuation allowance. The Company's tax expense associated with taxable income during the six months ended December 31, 2015 was offset by the utilization of net operating loss carryforwards.

NOTE 6 - NOTES PAYABLE AND LONG-TERM DEBT

The Company's credit agreement, which was effective on April 9, 2015 with a commercial bank and subsequently amended on June 20, 2016 and November 2, 2016 ("Credit Agreement"), provides for a $9.0 million line of credit facility, the proceeds of which may be utilized as follows: (i) $4.0 million for working capital, letters of credit (up to $1.0 million) and general corporate purposes and (ii) $5.0 million for acquisitions. Indebtedness under the Credit Agreement is secured by the Company's accounts receivable and inventory with advances outstanding under the working capital portion of the credit facility at any time limited to a Borrowing Base (as defined in the Credit Agreement) equal to 80% of eligible accounts receivable plus 50% of eligible inventory. Advances under the acquisition portion of the credit facility are limited to 75% of the purchase price of an acquired company and convert to a five-year term note. Borrowings bear interest at WSJ Prime (for the working capital line) and WSJ Prime plus 0.25% (for the acquisition line) with a floor of 3.0%. The interest rates as of December 31, 2016 were approximately 3.75% (for the working capital line) and 4.00% (for the acquisition line). Interest rates as of June 30, 2016 were 3.5% (for the working capital line) and 3.75% (for the acquisition line). The Company pays a fee of 0.25% per annum on the unused amount of the line of credit.

At December 31, 2016, long-term debt consisted of the following (in thousands):

Non-interest bearing, unsecured note payable assumed in acquisition (See Note 13), monthly payments of $7; maturing September 2018.	$146
Term loan, bearing interest at 4.00%, monthly payments of $50; maturing July 2021.	2,750
Total long-term debt	2,896
Less: current portion	684
Long-term debt, net of current portion	$2,212

As of December 31, 2016, the Company also had $0.3 million in letters of credit. The Company's availability under its credit facilities is currently approximately $5.9 million ($3.7 million for the working capital and $2.2 million for the acquisitions).

The Credit Agreement contains affirmative and negative covenants that, among other things, require the Company to maintain a minimum level of tangible net worth of $7.0 million, minimum liquidity of $6.0 million and a minimum debt service coverage ratio of not less than 1.35 to 1.00. The Credit Agreement, which expires on April 9, 2018, also contains customary events of default which, if uncured, may terminate the Credit Agreement and require immediate repayment of all indebtedness to the lenders. At December 31, 2016, the Company was in compliance with all the financial covenants under the Credit Agreement except the minimum debt service coverage ratio. A waiver was granted by the lender to the Company to cover the three months ended December 31, 2016. With an amendment executed in November 2016, which revised the calculation of the debt service coverage ratio, the Company expects to be in compliance with all amended covenants through at least December 31, 2017.

Payments due on long-term debt during each of the five years subsequent to December 31, 2016 are as follows (in thousands, unaudited):

Twelve Months Ending December 31,	
2017	$684
2018	662
2019	600
2020	600
2021	350
	$2,896

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

NOTE 7 – STOCK-BASED COMPENSATION

Stock-based compensation cost for options and restricted stock awarded to employees and directors is measured at the grant date, based on the calculated fair value of the award and is recognized as an expense over the requisite service period (generally the vesting period of the equity grant). During the three and six months ended December 31, 2016 and 2015, stock-based compensation amounts are as follows (in thousands):

	Three-Months Ended December 31,		Six-Months Ended December 31,	
	2016	2015	2016	2015
	(Unaudited)		(Unaudited)	
Stock-based compensation expense included in:				
Cost of revenues	$ 13	$ 10	$ 25	$ 18
Selling, general and administrative	121	207	24	