Operator: Greetings and welcome to the Sharps Compliance Corporation Second Quarter Fiscal Year 2012 Quarterly Results Conference Call. At this time, all participants are in a listen-only mode. A brief question and answer session will follow the formal presentation. If anyone should require Operator assistance during the conference, please press star, zero on your telephone keypad. As a reminder, this conference is being recorded.

It is now my pleasure to introduce your host, Deborah Pawlowski, Investor Relations for Sharps Compliance Corporation. Thank you, Ms. Pawlowski. You may begin.

Deborah Pawlowski: Thank you, Latonia, and good morning, everyone. We appreciate your participation in our Second Quarter Fiscal Year 2012 Earnings conference call. You should have a copy of the news release detailing Sharps' financial results that was issued earlier this morning, and if not, you can find it at the Company's website, www.sharpsinc.com.

With me here today on the call are the Company's President and CEO, David Tusa, and Diana Diaz, Vice President and Chief Financial Officer. David and Diana will provide formal remarks, after which we will open up the call for questions. If you are listening via the webcast, you also have the ability to submit questions through the Internet.

As you are aware, we may make forward-looking statements both during the call and in the following question and answer session. These forward-looking statements are not guarantees of future performance and are subject to risks and uncertainties, as well as other factors, which could cause the actual results to differ materially from what we discuss here today. These risks and uncertainties are available for you in the press release itself, as well as with the Company's filings with the Securities and Exchange Commission.

So with that, let me turn the call over to David to begin the review and discussion. David?

David Tusa: Thank you, Debbie, and welcome, everyone, to our Second Quarter Fiscal Year 2012 Earnings Conference Call. We continue to make solid progress with our targeted marketing and sales activities in our key retail pharmacy, pharmaceutical manufacturer and professional markets. Our fiscal year 2012 second quarter revenue of $6.2 million was another quarterly record high when you exclude the impact of the government contract. We also achieved just slightly better than break even bottom line results. So we believe our strategy is working and we're beginning to see the corresponding benefits.

Before we get into the results, I first want to address the non-renewal of the government maintenance contract. As we previously announced last week, we received notification from the U.S. government that they do not intend to exercise their third year option for maintenance of the medical waste management system supporting a division of the CDC. The largest part of that program was the product build out, which totaled $28 million during the calendar year 2009. It was to be followed by four maintenance option years, valued from $1.6 to $3 million per year. It's our understanding that the decision to not renew the contract was a result of budget cuts experienced by this particular division and did not have anything to do with our performance under the contract. We passed every government audit over the past three years and there were many.

Most importantly, we are very proud of the program that we created to protect citizens from the dangers of medical waste in an emergency setting. So at the end of this month, we would have completed the second option year for maintenance. Revenue associated with the maintenance contract was about $700,000 in the second quarter. When you exclude these maintenance dollars, revenue for the quarter was still up measurably, 30% compared to the prior year period, and billings were up over 43% for the quarter. So as you might imagine, we are quite pleased with the success we are achieving so far in our core target markets. And again, we believe our growth strategy is working.

Now, let's take a closer look at the performance in the second quarter. For the retail market, billings were up $500,000 or 69% compared with the prior year, and this was driven primarily by a robust flu shot season. As you've heard me say on many occasions, our growth opportunity related to this market is driven by the fact that every year the percentage of flu shots and other injections administered in the retail pharmacy setting continues to grow as retailers are moving aggressively to provide convenient and cost effective healthcare services to their customers. This bodes well for us as our Sharps® Recovery System™ is used in a vast majority of retail pharmacies to collect, transport and properly dispose of the syringes used to administer the flu shot and other immunizations.

Now, on to the **pharmaceutical manufacturer** market… The launch of one of the three new Patient Support Programs and a resupply order through an ongoing program drove billings in this market up significantly to over $700,000 compared with less than $50,000 for the prior year. Billings in this market can be lumpy, depending upon the timing of resupply orders and the launching of new vendor managed inventory programs. And as mentioned last quarter, we see renewed interest in our Patient Support Program offering among pharmaceutical manufacturers that develop self-injectable medications. We believe our solutions address what manufacturers are currently focused on, given the increasingly intense competitive environment. These areas of focus include product differentiation, social responsibility, improved interaction with patients and creating a touch point for individual patient follow up that could lead to improved therapy outcomes.

For those of you who may not be familiar with our Patient Support Program, it includes direct fulfillment of the Sharps® Recovery System™ to the pharmaceutical manufacturers' program participant, which provides them with the proper containment, return and treatment of needles or injection devices utilized in therapy. Our proprietary Sharps Tracer System tracks the return of the Sharps® Recovery System™ by the patient to our treatment facility and then makes the data available to the pharmaceutical manufacturer, which assists them in monitoring medication discipline and provides them with a touch point for individual patient follow up, which, again, could lead to better outcomes.

The **professional** market, which, by the way, represented about 12% of the total billings, had a record $720,000 for the second quarter of fiscal year 2012. The nearly 40% growth in professional market billings was driven by the Company's telemarketing and web-based e-commerce activities. Our inside and online sales channel generated professional market billings of about $560,000 in this reported quarter, which was more than double the $240,000 in the prior year quarter and up about 19% from the $470,000 generated in the trailing first quarter of fiscal year 2012.

As many of you are aware, this market focuses on the hundreds of thousands of doctors, dentists, vets, tattoo shops and other facilities that have historically utilized a medical waste pickup service for their state regulated proper disposal. We have consistently shown that our solutions save our professional market customers up to 50% and, in some cases, more versus a traditional pickup service. Our task is to find the most effective manner to get in front of the appropriate professional office decision maker and educate them on the low cost, convenient and regulatory compliant alternative we offer. We do this via our inside sales team, e-commerce driven website, innovative marketing campaigns, participation in industry trade shows and other relevant electronic media.

We've covered significant ground over the last year with our sales initiatives. When you look at both the inside sales efforts, as well as the web sales, our billings grew 136% compared with the prior year quarter and up almost 20% from the trailing quarter. The increase over the sequential quarter was a bit lower than what we expected, as the holiday season hampered new sales activity. On average, the number of weekly orders for this channel has more than doubled from 99 in the second quarter of last fiscal year to 234 in this fiscal year second quarter.

We continue to be very pleased with our new website, which launched in the middle of 2011, actually July of 2011. Since the new website launch, we've experienced an approximate 100% increase in weekly sales from this channel. We attribute this not only to the promotion of the new site, but also the improved site functionality and its more sophisticated visual presence. We will be launching many new promotions and products via the website by the end of this month.

Now, the **government** market… Let me first say that it's our understanding that the decision by the government to not renew our large CDC contract has no impact on our proposed rollout of the VA program to its 5.5 million patients. Additionally, we do not believe the pool of funds designated for this proposed rollout has been targeted for budget cuts. With that said, timing of government opportunities is always difficult to predict, but we continue to be encouraged that the Veterans Administration Program, which concluded its pilot stage around the end of fiscal year 2011, may yet be rolled out across the country. This could ultimately be $20 million in annual revenue for the Company.

So with that, I want to turn it over to Diana for a bit more detail on the financials and then I'm going to provide a few thoughts on what we see as our continued growth drivers moving forward. Diana?

Diana Diaz: Thank you, David. Since David covered the top line in our key markets fairly thoroughly, I'll just hit on a few points to bring you up to speed on the financials.

The **home healthcare** market is still our largest market served, with billings in the second quarter of $1.7 million, which was up 6% over the prior year period. However, as you noted from the release and David's comments, the retail market is quickly growing to overtake that lead position. The home healthcare market is lumpy from quarter to quarter, because we primarily sell through home healthcare related distributors in which ordering patterns sometimes adversely affect quarterly billings. This is also a market that we believe will continue to grow at a steady pace over time, due to demographics, so we continue to work on expanding our key distributor relationships.

Gross margin expanded to about 35% on higher volume compared with 27% in the prior year. We incurred unexpected operations related costs during the quarter that shaved a couple of points off of this gross margin percentage.

Selling, general and administrative expense in the second quarter of fiscal year 2012 was controlled at $2 million, which was down from $2.3 million in last year's second quarter and $2.2 million in the trailing first quarter. We expect quarterly SG&A for the remainder of fiscal year 2012 to range from $2 million to $2.2 million, depending on the timing of specific marketing related promotional activities.

We generated operating income of $34,000, achieving the breakeven level we had anticipated once crossing the $6 million revenue level. Our balance sheet remains very strong, with more than $18 million in cash and $20 million in working capital at the end of the quarter. We have no debt and a $5 million line of credit.

Let me also provide some clarity regarding the impact of the non-renewal of the government maintenance contract. It had generated a generally lower than average contribution margin of about 35% on revenue of just over $700,000. As a result, we estimate that we will need to generate about $400,000 to $500,000 of ongoing revenue to replace this gross margin. We will be absorbing about $85,000 of facility cost per quarter into our current operation, which will have about 130 basis point gross margin impact on our current level of revenue, and there's about $75,000 in facility cost per quarter that we will continue to incur until our Atlanta facility is subleased. This equates to about 120 basis point gross margin impact on the current level of revenue.

David, back to you.

David Tusa: Thanks, Diana. Now, let's look forward. Here's what I see driving the growth of the business over the next six to 12 months. We continue to be encouraged by the progress of discussions with retail pharmacies, including grocers with pharmacies and mass merchandisers, about our innovative Complete Needle™ solution offering. As you may remember, the Complete Needle™ is a two-in-one product, designed to provide a convenient and cost effective disposal solution to the 13.5 million self-injectors through the retail pharmacy channel.

For the period from October 23 through November 19 of 2011, the product was available free to Walgreens customers through sponsorship from Novo Nordisk. The Walgreens program has been very successful, with about 60,000 units moved through the system so far. What we found to be equally exciting is that the post promotion unit sales of the

Complete Needle™ product are about 50% higher than the container only product that the Compete Needle™ product displaced back in August of 2011. Additionally, even without sponsorship, patients are purchasing the return label, as evidenced by the fact that almost 15% of the return labels issued to date were purchased by customers versus received free as part of the promotion.

These facts lead us to believe that we are creating awareness of the Complete Needle™ solution for the self-injector that, for the most part, was not available in the past. We believe we have an opportunity to establish the Complete Needle™ solution as a standard of care for the 13.5 million self-injectors, a significant number of which are diabetic. And within the next three to six months, we believe we have the opportunity to land another national retail pharmacy chain and either a major food/drug combo or mass merchandiser deal for the Complete Needle™ solution. This is very important to our strategy as we want this Complete Needle™ to be seen as a solution throughout the retail pharmacies.

Regarding sponsorship, the retailers are reaching out to their partners to encourage participation in the Complete Needle™ solution. Again, this is a key to the program as sponsorship significantly lowers the cost to the individual self-injector, while at the same time creating brand awareness and marketing opportunities for the sponsor. A recent development as a result of the success of the Complete Needle™ promotion program is that retail pharmacies are now soliciting sponsorship for not only the Complete Needle™ but also our TakeAway Environmental Return System™ envelopes as well. Sponsorship, which could lower or eliminate the cost of the unused medication disposable envelope, could significantly increase the sales of this product. To date we've sold over one million of the TakeAway envelopes into the retail market.

One last item on the retail front… We recently launched a pilot of the TakeAway envelope with a globally recognized mass merchandiser. If it proves successful for them, this program has a potential to roll out across the country within this fiscal year.

Now, pharmaceutical manufacturers… As I mentioned earlier, we should see a significant impact over the next six months from the rollout of the three Patient Support Programs announced in August and October of 2011. These programs generally begin in a pilot phase and roll out three to six months later. Two of the programs are our traditional upfront pricing models and one is a split revenue model. The two upfront pricing models should positively impact revenue over the next two quarters, while the split model program will generate additional revenue over calendar year 2012, as the program is rolled out nationally and units to be returned to our treatment facility begin to come back.

As for our outlook on the professional market… We continue to successfully make headway in the professional market, which represents what we believe to be a $600 million annual market. A penetration rate of only 5% could yield the Company $30 million in recurring revenue. We're working on many new and innovative ways to reach this market as quickly as possible, while we educate them on our cost effective alternative to the medical waste pickup service. We continue to be very encouraged by the growth to date, but believe the growth rate could be stronger over calendar year 2012.

And with that, Operator, I think we're ready for questions.

Operator: Thank you. We will now be conducting a question and answer session. If you would like to ask a question, please press star, one on your telephone keypad. A confirmation tone will indicate your line is in the question queue. You may press star, two if you would like to remove your question from the queue. For participants using speaker equipment, it may be necessary to pick up your handset before pressing the star keys. Once again, ladies and gentlemen, that's star, one on your telephone keypad at this time. One moment, please, while we poll for our first question.

Our first question comes from Ryan Daniels with William Blair. Please proceed with your question.

Andrew O'Hara: Hey, guys, it's Andy O'Hara in for Ryan today. I just have a couple of quick questions. So, it looks like your sales and marketing efforts are really paying off in the key end markets. Can you guys give us an update on the current number of inside sales reps (I think there were 13 for the last couple of quarters) and then the number of direct sales reps as well and how they divide into different geographies?

David Tusa: Well, Diana, you take the inside sales and I'll hit the field sales.

Diana Diaz: Okay. We're still running at about 13 folks in inside sales and we're still targeting to get to 15 or 16 by the end of our fiscal year at the end of June. We still see attrition, but we're continuing to maintain our levels, and we're looking for a few good sales people, so they're doing a good job.

David Tusa: On the field sales side, Andy, we're up to about seven and what we've been doing over the last six months is making some changes. We've made a number of replacements and we're hiring what we believe are very, very strong people that can reach those key markets, the key markets being pharmaceutical manufacturer and retail. Those two markets are the ones that benefit from the field sales group, because they are the ones with the larger dollar revenue opportunities.

Andrew O'Hara: Sure, sure. And then, given the amount of traction you are getting, do you have a target for the next one, two or three years in terms of continuing to grow the sales force to keep that momentum in the key markets?

David Tusa: That's a good question, and I can tell you, one of the challenges that we have as a growing company is the continued investment in sales and marketing, which we think is very, very important, but at the same time, we want to make sure that we protect the P&L. So as we identify more and more opportunities and if we believe it makes sense to bring more people in, then we'll do that. But with the group that we have now and a few more inside sales folks, I think we can generate some significant growth with pretty much the team that we have in place.

Andrew O'Hara: Okay, that's helpful. And then, on the pharmaceutical segment, the program that launched in the quarter, roughly how large was that in terms of run rate revenue?

David Tusa: First of all, one of them was a resupply order to an existing customer. And remember, these are vendor managed inventory programs, so with the vendor managed inventory program, there's an upfront order. In this case, it was a reorder of about $250,000 to resupply their vendor managed inventory account, and then they'll draw down on that as the patients order the system.

Andrew O'Hara: Right.

David Tusa: The other one was another $300,000 or so, which was the second supply order for one of the new programs that was launched last year. It's a supply order in advance of the national rollout, because, again, the pharmaceutical manufacturer wants that significant volume, so as they roll it out across the country, they have the volumes in place and we can ship on a fulfillment basis.

Andrew O'Hara: Okay, that's helpful. And just one last question, if you will… In terms of the sponsor subsidized programs for Complete Needle™ and TakeAway, what do you see as the total yearly opportunity for those two programs, once some of those sponsor subsidies get in place and both of the programs are rolled out across all the major retail locations?

David Tusa: Well, Andy, let's first talk about Complete Needle™. This is the way that we've quantified, I think on a conservative basis, what it could mean if it was rolled out across a retail chain. There are 13.5 million self-injectors in this country, and let's say 10% of those have the opportunity to participate in a program like we just did with Walgreens, and let's say that of those 10%, only 10% of those print the return label and return the unit back to us, that's about $25 million a year in annual revenue. So, we think it could be a significant opportunity. And again, as we roll out more of these programs across the retail market, hopefully this is going to become the standard of care in dealing with self-injectors who receive their medications through the retail pharmacy.

The TakeAway market is significant. Instead of trying to quantify that market, I guess a better look at it is this. We moved about a million units and that was with the customer paying anywhere from $3.50 to $4. So if we could substantially reduce that cost, you would expect that, instead of moving a million units a year, the number could increase substantially, especially if it was free. We're talking significant numbers and significant revenue opportunities. As it develops, as we see the sponsorship and once we have the opportunity to lower the cost, I think we'll have a much better idea of how many more units would move if the cost was much lower or if it was free.

Andrew O'Hara: Sure - and just a quick follow-up to that… In the next year, can you ballpark for each of those where you think that run rate might hit?

David Tusa: I think it's a little too early right now, Andy. These are new programs. The TakeAway is about a year old and the Complete Needle™ was launched in August, so I think it would be better if we give it some more time to launch more programs and see how sponsorship rolls out. I think we'll have a much better idea of the impact on the Company then.

Andrew O'Hara: All right. Thanks a lot, guys.

Operator: Once again, ladies and gentlemen, to ask a question, please press star, one on your telephone keypad. Our next question comes from Joe Munda with Sidoti. Please proceed with your question.

Joe Munda: Good morning, guys. Thank you for taking my call and my question.

David Tusa: Morning, Joe.

Joe Munda: Real quick, Diana, I kind of missed that part where you talked about gross margin erosion. Can you go over that again? You said 130 basis point impact in the next quarter and then 120 basis point impact in the quarters going forward, or is that combined? I'm sorry. I missed that.

Diana Diaz: Okay, this was talking about the ongoing impact of the non-renewal of the government maintenance contract, and it will be a combined impact of, I guess, 250 basis points.

Joe Munda: Okay.

Diana Diaz: That includes $85,000 of facility costs that we're going to absorb into our current operations and $75,000 in costs related to the facility in Atlanta that will be alleviated whenever that facility is subleased.

Joe Munda: Do you have a timeframe on when that facility is going to go online?

David Tusa: It's already been listed for sublease. This all happened very, very quickly and we're moving as fast as we can to minimize the exposure related to that lease. The good news is that it's a very nice property. It's within a mile of the Atlanta airport, which makes the space valuable from that standpoint. So, we'll need a little bit more time to see how quickly we're going to be able to minimize that exposure on the Atlanta lease.

Joe Munda: Okay, so then I'm guessing, going forward, you are looking at 32% gross margin?

David Tusa: Well, the 35% was a bit low. We had some unusual costs that ran through there on the cost of goods sold side. It probably should have been closer to 37% or 38% without those, so again, from a longer-term perspective, the 130 basis points is probably what we're going to have for the foreseeable future.

Joe Munda: Okay. You guys talk a lot about the pharmaceutical manufacturer. How many are you currently working with?

David Tusa: We're working with probably seven pharmaceutical manufacturers. We talk about the three that we announced in August and November of last year, because those are the newest ones. The resupply order that impacted this quarter was from one of the ones that are outside those three new ones. It was an older program that we've had in place, where they're reordered and re-upped on their vendor managed inventory account.

Joe Munda: Okay. And then on the new product side, I know you probably can't go into too much detail, but is it geared more towards retail? Is it geared towards pharmaceutical? What is the greatest point of growth for you when launching new products?

David Tusa: Are you talking about just new products in general?

Joe Munda: Yes.

David Tusa: Lately, it seems like it's been the retail market, and I'll tell you why. The retailers are moving more and more aggressively into providing healthcare services to their customers/patients, so that's what we've seen as both the TakeAway Environmental Return System and, of course, the Complete Needle™ system are aimed at the retail side. We are working on some other product offerings which will probably impact the professional market. We're going to be launching something by the end of this month that we think has the impact to improve the catalog of products in the professional market side. Again, that will roll out over the next week or so.

Joe Munda: Okay. And as far as the VA program is concerned, you said that has nothing to do with the budget cuts from the CDC for the non-renewal, but with the way things are going right now in government, can you see that possibly being cut as well or is that totally separate and not up for discussion?

David Tusa: Joe, we were told by the folks that we're working with at the VA that the funding has not been impacted by budget cuts. Could that change? I guess, but at this point, we were told that it's not, so we're moving forward with them to try and finalize the process. We can't make any guarantees, though, and of course, with any government program, the timing is always difficult to predict.

Joe Munda: All right. Great. Thank you.

David Tusa: Thanks, Joe.

Diana Diaz: Thank you.

Operator: Our next question comes from George Walsh with Gilford Securities. Please proceed with your question.

George Walsh: Good morning.

David Tusa: Morning, George.

Diana Diaz: Morning.

George Walsh: Just a balance sheet question, a couple of items... The inventory was about $2.5 million versus about $1.7 in June. Was there anything special in the increase there?

David Tusa: That was related to the rotation. As part of that government maintenance contract, George, one of the service elements that we were providing was rotation services, so we had to order up on inventory for purposes of rotating our inventory out of their inventory. The contract provides fresh product to be introduced into their inventory and then we take their inventory and put it back into ours. So it was a little bit of a pickup there.

The other thing is buildup for some of these vendor-managed inventory programs. Yes, it's a bit high and you should see that tweak down over the next quarter or two.

Diana Diaz: Right.

George Walsh: Is there a significant ongoing impact with the CDC non-renewal on your inventory or on the balance sheet in general?

David Tusa: No, because that inventory was theirs.

George Walsh: Also, property, plant and equipment was down a bit to $5 million versus $5.3 million since June. Anything special there?

Diana Diaz: Normal depreciation and…

George Walsh: Okay.

David Tusa: One of the good news stories, George, is that the maintenance cap ex on this Company is relatively low, so in this particular quarter, the deprecation overtook the actual expenditures.

George Walsh: And as you went through those costs relative to the non-renewal, it sounded like the two items were warehousing items. Is there anything special as far as overhead, staff costs or anything like that? Do you have to move people around? Can they be absorbed elsewhere? How will you be handling that?

David Tusa: We have a plan in place and we're doing both of those items. There's a potential to move folks around and there's a possibility for elimination of a couple of positions. We're working through that to make sure that we do the right thing and protect the P&L, but at the same time, not impact the operations of the business.

George Walsh: Okay. Also, you mentioned the pilot program for TakeAway with a mass merchandiser. Can you just describe that a bit more? I know you obviously can't go into names, but can you just clarify that a bit more? What is that and what does that entail?

David Tusa: What it is, George, is they've launched the TakeAway envelope in one state of the United States and they're going to use that as a pilot, as a test. If successful, then they would look at a rollout across the rest of the country.

George Walsh: Is their pilot based on the idea that they are subsidizing it or is it based on the idea of a $4 item?

David Tusa: Well, right now, they're selling it as the $4 item, although they are looking at it as a potential for subsidy, as well. They're really looking at it from both standpoints. We'll see through this pilot the pull through, reaction and response from the patients and customers, and use that to hopefully work with them to roll this across the country.

George Walsh: Okay. And you mentioned something else… When you talked about the sponsorship aspect of this, you used the phrase that the retailers are soliciting sponsorship. They're also in there with the pharmacy and I'm presuming with the pharmaceutical companies. Am I getting that correct?

David Tusa: It's really more than just pharmaceutical manufacturers. If you think about diabetic suppliers, you really think about any product that's sold into that diabetic market as a potential sponsor, in addition to the drug. So when we talk with the retailers, we tell them that, for this program to be successful, we believe it's important that they bring sponsorship in, so we can reduce the ultimate cost to the patient. They will benefit from increased foot traffic and by providing an additional service to the patients. That's how we approach it. They reach out, but it is more than just pharmaceutical manufacturers.

George Walsh: So there are multiple players in the whole service that a self-injector would use that are potentials for subsidizing this return system. How is this going? Does one guy say, "Why do I have to bear the cost? How about the needle guy versus the guy that's doing the drug?" How are the efforts going in coordinating that or do they all see the benefits of working together? Can you describe how that's moving along?

David Tusa: We've been pleased with the reaction from the potential sponsors, and yes, they're looking at it from the standpoint of how much sponsorship is required. On some of the larger deals we're chasing, we haven't seen mass pushback. They have been working with us to try to come up with a program that works well for everyone, because, of course, the pharmaceutical manufacturer or the other sponsor, whoever it may be, and it can be multiple sponsors, want to be able to see a return on their investment. If you look back at the Walgreens Novo deal, if you went on to the Complete Needle™ website and entered the redemption code, a splash page appeared with an advertisement for Novo Nordisk FlexPen.

So, I think, as long as these sponsors see a benefit and see that they are getting a return on the investment that they're making, they're going to be positive on it. That's what we've seen. We've had very positive discussions with them.

George Walsh: Okay. And who is making the major marketing effort of soliciting these sponsorships? Is it you? Is it the retailer? Is it you working with the retailer? How is that coordinated?

David Tusa: Typically, it is us working with a retailer, and when we work with the retailer, the retailer reaches out for sponsorship. Once they find potential sponsors, then they bring us into the program to explain it to them and to work with that sponsor on a particular program. It may be a customized program. So what we're doing is… we're letting the retailer with the stroke that they have bring in the sponsorship and then we come in behind that to work to close a program.

George Walsh: Is there a coordinating person or staff member at the pharmacies that you're dealing with for this program?

David Tusa: I wouldn't say that. We have very, very good relationships with all the retail pharmacies, so we work with our key contacts who identify within the company the key person that may be working with vendors for sponsorship. I don't think it's a set person at every retail pharmacy, but with the relationships we have, we can pretty quickly get to that person.

George Walsh: All right. Okay, thank you, David.

David Tusa: Thanks, George.

Operator: Our next question comes from Jeffrey Matthews with Aram Partners. Please proceed with your question.

Jeffrey Matthews: Hi. Thanks very much. I haven't followed the Company all that closely since the IPO, but I wanted to get a bigger picture of where you fit in the healthcare world today versus what your thinking was when you went public, and in three, four, or five years from now, where will you fit? What does the model look like, both from an operational point of view (where in the system are you) and also from a margin structure? Thank you.

David Tusa: Sure. Good question. Actually, the Company went public through a reverse merger back in the mid to late '90s. What you're probably referring to is the secondary offering in December of 2009.

Jeffrey Matthews: Exactly, yes.

David Tusa: A lot has happened over all of those years. From a really big perspective, the Company back in the late '90s and early 2000s focused primarily on one market, the home healthcare market. That's really where the Company was established. So what happened over the next few years is we've moved into many markets, as you can see in the earnings release when you see the listing of all the different markets, whether it's professional, pharmaceutical manufacturer, retail… And then over the last few years, we've really started to see the revenue ramp up with success in penetrating these markets.

But from a standpoint of healthcare, we're focused on saving money, and we're focused on addressing the impacts of the aging population and the epidemic that we see in a diabetic market. So if you're a doctor, dentist or vet and you're paying the medical waste pickup service and you want to save money, then we would have the opportunity to save you money. If you're a pharmaceutical manufacturer and you're selling a high end drug, maybe a rheumatoid arthritis drug, and you want to provide a solution to your patients so they can properly dispose of the syringes and, at the same time, provide you with compliance data or any data that could help improve the therapy outcomes, then that's what we do for pharmaceutical manufacturers so they see a return in that they're able to market to the customer and as well potentially increase market penetrations with their drug.

The retail sector is a great example of saving money, as well. During the flu shot season, our solutions are much more cost effective than sending a truck and driver to the CVS or Walgreens or Target or wherever flu shots are being administered. With our mail back solution, we save them money. So, what we focus on is… how can we introduce new solutions that save money for our customers, and for some of our other customers, particularly in the retail chain, how can we help further their business and the success of their business by introducing products that they can offer to their customers and maybe increase foot traffic.

So, I think we've established over the last few years the key markets that we're focused on - pharmaceutical manufacturer, professional, the retail market and government - because we think in those markets we can drive significant growth. And I think this last quarter is a great example of that, with 43% increase in billings in all of our key markets. So, with that said, the overall market is huge - we calculate it to be over a $2 billion market - so we're still just scratching the surface of the opportunities that we see in our marketplace.

Jeffrey Matthews: And when it matures for you, what does the margin structure (gross margin, pre-tax margin, etc.) of your business look like?

David Tusa: We've always said that $6 million would get us breakeven at roughly a high 30 or 40% margin. As we execute on the plan and start to generate higher levels of revenue, I think a sustainable gross margin, at significantly higher revenue levels, could be 50% and you could see an operating margin of 20%. As evidence of that, just look back in 2009 and 2010, when we had the significant impacts on the large government contract, and you'll see how the operating model works and how there's significant operating leverage of both the gross margin and operating level margin.

Jeffrey Matthews: Okay, thanks very much.

David Tusa: Sure.

Operator: We have come to the end of the time allotted for the Q&A session for today, so I would like to turn the call back over to management for closing comments.

David Tusa: Thank you, Operator. In closing, I want to leave you with five key points about the Company and its opportunities. (1) We're well capitalized with over $18 million in cash, and we have no need for additional capital. (2) This business is not expensive to maintain, with only about $1 million in maintenance capital expenditures per year. (3) We're the recognized leader in a majority of the markets that we serve, many of which we're creating ourselves. (4) Our market opportunity is estimated at more than $2 billion per year, including a professional market opportunity of $600 million, where we're less than 1% penetrated. (5) We believe that we are demonstrating success in our efforts to capture our target growth markets and to generate continued revenue growth.

Thank you for participating in the call, and we appreciate your continued support.

Operator: This concludes today's teleconference. You may disconnect your lines at this time and thank you for your participation.