Operator: Greetings and welcome to the Sharps Compliance Corporation's third quarter fiscal 2010 financial results teleconference. It is now my pleasure to introduce your host, Ms. Deborah Pawlowski, Investor Relations for Sharps Compliance Corporation. Thank you, Ms Pawlowski, you may begin.

Deborah Pawlowski: Thank you, Christine, and good morning, everyone. We appreciate your participation in our third quarter fiscal year 2010 earnings conference call. You should have a copy of the news release detailing Sharps' financial results that was put out earlier this morning. If you do not have the release, you may obtain a copy from the Company's Web site, at www.sharpsinc.com.

With me on the call today are Sharps' Chairman and CEO, Dr. Burt Kunik, and Executive Vice President and Chief Financial Officer, David Tusa. Burt and David will provide the planned comments and then we will open it up for questions. If you are listening via the webcast, you also have the ability to submit questions via 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 that could cause the actual results to differ materially from what we discuss here. 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 Dr. Kunik to begin the review and discussion.

Dr. Burton Kunik: Thank you, Debbie, and welcome, everyone, to our third quarter fiscal year 2010 earnings teleconference call. Sharps Compliance is writing a new chapter in the Company's history, and we are excited about the opportunities that we see ahead of us. We continue to expand and develop the estimated $2 billion previously untapped market for our unique solutions to manage used syringes and unused medications for customers outside of traditional hospital and large healthcare operations. We have taken a number of strategic steps over the last year and are well positioned to capitalize on what we believe are billion dollar market opportunities in medical waste and unused medication disposal solutions.

As we previously discussed, the revenue decline for the third quarter was due to the transition from the product build-out to the maintenance phase of our first major U.S. Government contract. Despite the decline in overall revenue, our core market, which excludes the Government, grew 5%. We had significant revenue increases in several markets, most notably in the Pharmaceutical, Retail, and Professional markets.

We are focused squarely on the long term and proving out the significant new market opportunity that we are addressing with our full service solutions. Accordingly, we continue to invest in our operating infrastructure, sales force, and marketing activities. David will provide additional detail on where we have expanded.

I would like to take a moment to discuss our recently launched PELLA-DRX™, the first of its kind, patent-pending green Waste Conversion Process™, which eliminates medical waste going into landfills by 100%. This is truly a ground-breaking medical waste conversion process, which sets a new standard in environmental responsibility through the repurposing of medical waste and eliminates medical waste from landfills. The process transforms discarded medical waste into a new product called PELLA-DRX™, which is a clean, raw material used in the manufacture of industrial resources, vital to everything from highways to high-rise buildings.

As you know, the disposal of medical waste has presented major, interrelated concerns for American society, as the vast majority of medical waste is ultimately disposed of in landfills, creating massive liabilities for future generations to resolve. We want none of the medical waste we ever process to go to a landfill. Instead, it will be repurposed into a raw material that becomes part of a new product. The new process is a quantum leap forward in the environmentally responsible treatment of regulated medical waste and differentiates Sharps Compliance from other providers of medical waste management solutions.

I think what excites us the most about this endeavor is that our new conversion process has the potential to transform our society and the medical waste industry by addressing major problems that affect the lives of all Americans.

In addition, we renamed our Sharps Disposal By Mail System to reflect the value of recovering and repurposing (versus disposing) medical waste. Used needles, syringes, lancets and other medical waste will be recovered, transported and repurposed using the new *Sharps Recovery System™,* or the *TakeAway Recovery System™,* rather than being treated and compacted for depositing in landfills.

The rebranding of our product reflects the value of the environmentally-responsible process we have designed. We are intent on reducing our environmental impact as an organization and on finding ways to help our customers and their patients do the same. In fact, our initial discussions with pharmaceutical manufacturers, home healthcare companies, and government agencies have been overwhelmingly positive.

In summary, we have significant prospects in our pipeline and are persistent in our efforts to win additional programs. Despite having additional external drivers, such as the California legislation and the acknowledgment by the Government of the need to address the issues of unused medications and proper sharps disposal, we are learning the sales cycle is longer than we had originally anticipated. Nevertheless, over the long term, we expect we can capture a significant share of this market.

With that overview, I'd like to turn the call over the David for a review of our financial performance and some more detail on our marketing and sales efforts.

David Tusa: Thank you, Burt, and good morning, everyone, and thank you for participating in our call. The third quarter revenue of $3.6 million was about $2.3 million, or 39%, lower than the prior year's third quarter revenue of $6 million. When excluding the revenue from the U.S. Government contract of about $400,000 in the current quarter and $3 million in the prior year quarter, revenue increased at a rate of 9%. This increase was driven by growth in billings in the Pharmaceutical Manufacturer, Retail and Professional markets. The Home Healthcare billings were down about $300,000, or 16%, over the prior year levels. In addition to the distributor incentive programs, we had about $250,000 of orders placed in late March that were not fulfilled until April 1, 2010 (therefore missing the quarter).

For the nine months ended March 31, 2010 revenue increased 157% from $13.6 million to $35 million. The growth was driven by U.S. Government contract billings of $22.8 million and the increase in the Retail market flu shot-related billings that were up about $2 million. Excluding the impact of the U.S. Government contract, year-over-year revenue increased $1.5 million, or about 14%.

Gross margin for the third quarter was 24% which was adversely impacted by the leverage on the lower volume, the mix of products sold, and the year-over-year investments that we made in the fixed component of our cost of sales. This fixed component, which is the cost of our operations and treatment facility infrastructure, increased by about $700,000 on a year-over-year basis. While much of the increase in the infrastructure was incurred in conjunction with the build-out of the U.S. Government contract, we also incurred incremental personnel costs in our Houston, Atlanta and Carthage facilities, as we ramp up for an anticipated growth in business. Additionally, we incurred start-up costs associated with the launch of our new Atlanta operations and distribution facilities, as well as the launch of the new waste conversion repurposing process. We believe all of these expenditures are very important to the positioning of the Company for future growth.

Gross margin for the nine months ended March 31, 2010 was 64% compared with 49% for the prior year period reflecting the increased revenue for the corresponding period.

SG&A for the third quarter of $2.2 million was about 50% higher than the prior year levels and only about $100,000 higher than the sequential quarterly amount of $2.1 million. The increase in year-over-year expenses is attributable to higher sales-related personnel, marketing and public relations expenditures.

We also incurred incremental patent, preparation and filing costs (associated with the PELLA-DRX™ repurposing process) legal expenses, as well as regulatory consulting fees.

For the nine months ended March 31, 2010, SG&A was $6.1 million, versus $4.0 million for the corresponding prior year period. Unless we flex higher for targeted sales and marketing activities, SG&A for the fiscal year 2010 should be about $8.2 million.

Our headcount increased year-over-year from 40 to 66, an increase in personnel of 26 people. Of this increase, 11 are operations and treatment facility-related personnel additions and 14 are sales and marketing-related additions. This brings our sales and marketing headcount now to 23, of which 12 are direct sales personnel; six are inside sales, and five are marketing and sales support positions. We believe the increase in sales and marketing-related personnel and expenditures to be a critical element of the success in landing more opportunities in our key markets, including are Government, Pharmaceutical Manufacturer, and Home Infusion.

We expect to add an additional three to four inside sales personnel by the end of June 2010 to our current staff of six. In addition to the professional markets, our inside sales group is now calling on smaller, independent home healthcare and assisted-living facilities. Each inside sales rep is making between 70 – 90 prospecting outbound calls per day. The close rate is about 10% (which is quite good when you consider that 60 to 70% of the prospects are currently off limits because they have a contract with a pickup service). New sales from this initiative are now approaching $20,000 a month with expected re-orders of about three per year. We continue to be very pleased with the progress of this group and believe the inside sales function can play a key role in the Company's future growth.

For the third quarter, we generated a loss of $0.07 a share versus net income of $0.09 a share for the period of the prior year. For the year-to-date period, the Company generated net income of $0.70 as compared with net income of $0.25 from the prior year period. The $0.25 in the prior year period included a $0.13 one-time tax credit.

The balance sheet remains very strong, with about $20 million in cash and $23 million in working capital. We have no debt and a $2.5 million line of credit.

Of the capital expenditures of $1.7 million for the nine months ended March 31, 2010, about $350,000 were attributable to equipment and other related expenditures associated with the Company's new PELLA-DRX™ repurposing project.

Looking forward, we remain very encouraged with the pipeline of pharmaceutical manufacturer opportunities that remain active. We have seen the sales cycle for these opportunities to be slower than our initial expectations. We have ongoing discussions with at least eight of targeted 15 pharmaceutical manufacturers that we believe will benefit from our Patient Support Program which could provide estimated annual revenue of over $25 million. The significance of the Patient Support Program is not only addressing the legislative requirements that go into effect this July in California, but also helps them improve patient experience and compliance, while providing our customers with patient outcome information. We believe the introduction of the PELLA-DRX™ Waste Conversion Process™ could be a key element to potentially accelerate the sales opportunities with pharmaceutical manufacturers, as pharmaceutical manufacturers have responded very positively to this green, environmentally-focused initiative.

We continue to dominate the medical waste management for the Retail clinic market across the country. Our solutions are utilized by all the major players as well as the many of the regional chains. We believe our leadership position in the Retail clinic market could benefit from the expected administration of healthcare outside the traditional setting to the alternate care facilities where we see our solutions as the best fit.

Again, when you look at the Retail clinic market, the flu shot market, we still estimate that only about 7% or 8% of the flu shots in this country are administered in the retail setting. We expect that percentage to increase and we will benefit from that.

We launched a VA pilot program in February of this year. While progress to date has been a bit slow, we believe the use of our Sharps Recovery or TakeAway solutions are being well-received by the patients and many VA Pharmacy Services divisions around the country. We are hopeful that the VA can make a decision on the rollout of the pilot program across the country by the end of the calendar year 2010.

We continue to work with a number of Government agencies for the potential sale of the Company's Medical Waste Management System, as well the possible expansion of our current program with a key U.S. Government agency. The timing and the closing of these large dollar opportunities are always difficult to predict, but we continue to feel very bullish about the recognition by the government sector of our solutions, as well as our opportunities to sell into this huge market opportunity.

We have seen an interest in our TakeAway solution to be used for the recovery and treatment of expired vaccines and drugs, including H1N1, Tamiflu and Relenza. The interest in our solutions have been both at the state and federal levels. We could see revenue from this new solutions offering over the next quarter or two as Government agencies make decisions regarding proper recovery and treatment of expired vaccines and drugs, including H1N1, Tamiflu and Relenza.

Our unused medication recovery solution, the TakeAway Recovery System, continues to be a leading solution as the country recognizes the proper disposal of unused medication as a serious problem. Our Iowa program is going very well, and we have recently signed up another state (North Dakota) with a similar program. We continue to be endorsed by major associations, including the National Community Pharmacists Association (NCPA), and others. We believe the market opportunity for unused medications could possibly be even larger than the market opportunity for the recovery and treatment of medical waste.

In closing, I believe it's important that we continue to invest in the Company's infrastructure, innovativeness and creativity, as shown with the recent repurposing program, the PELLA-DRX™ project. We'll continue to invest in sales, marketing and public relations initiatives as we lead the creation of what we believe to be a $2 billion market opportunity in the management of medical waste and unused medication generated outside the hospital and large healthcare setting.

One last thing before we turn it over to the Q&A, I'll remind everyone that we're really just beginning. This $2 billion market opportunity we're working on, we still consider to be less than 1% or 2% penetrated. So we're leading the creation of multi-billion dollar opportunities; we believe we're just getting started.

With that I'll turn it over for the Q&A.

Operator: Thank you. Our first question comes from the line of Ryan Daniels of William Blair.

Ryan Daniels: I was hoping we could dive a little bit more first into the PELLA-DRX™ System. I'm curious, how proprietary do you view that? I know you have a patent on it, but is it something that would be difficult for other waste management companies to create a similar solution?

And then the second part of the question is a little bit more on the margin front and what that will do. I know it cost you upfront to invest in that, but I would assume there are a few working components; such as that you can generate some revenue from selling the pellets. Obviously your cost goes down from not having to pay disposals but maybe the cost of processing that is a little bit higher. So from the net-net as we look out over the next year or two, what does that have the potential to do to your margin structure?

Dr. Burton Kunik: In terms of the proprietariness of our PELLA-DRX™ process. We spent a year or more developing this and one of the things we really spent a lot of time on was developing the patents that would be able to protect us in the marketplace. We didn't want to build a market for somebody else. We feel confident that the five or six patents that we filed will protect us in the marketplace.

David Tusa: Ryan, from a margin perspective, yes, there was investment this quarter in the PELLA-DRX™ process. If you look at it from a big picture perspective, the fixed cost component of our facilities and operations at facilities have been roughly $0.5 million per quarter, historically. They approached about $1.2 million for this particular quarter, but there was obviously incremental investment in the PELLA-DRX™ process. Right now, with roughly low volumes and just starting up, it is costing us a bit. But from a long-term perspective, it should be, at a minimum, cost neutral. More importantly, as you've mentioned, with the potential to expand the repurposing in medical waste outside of the sharps medical waste, that could present a revenue stream that would improve the margin perspective as well. But right now with the low volumes and just getting started, we are investing.

Ryan Daniels: If we look at the California legislation that is going to kick in for pharmaceutical providers in early July, I'm curious if the bulk of your conversations with the pharma companies continue to revolve around that? I know it might not be specific only to California, but does that remain the impetus to most of those conversations?

Dr. Burton Kunik: Senate Bill 486 in California is definitely stirring the conversation at the pharmaceutical manufacturers to take a look at what they could or should be doing come July 1. I think many of them or most of are preparing plans. No one has presented anything yet, but a bill just like the one in California is moving through the legislature of Minnesota even right now. One thing, Ryan, that we're finding is that with our PELLA-DRX™ introduction, the environmental issue that we're providing to them is as stirring as Senate Bill 486. I think the combination of the two should help us speed our way to some closing here.

Ryan Daniels: I'm just curious if you've seen any of the pharmaceutical companies yet come online or propose a solution at all? Have there been any pharma companies that have done stuff that are different from the home-based disposal that you're offering, like pickup solutions or anything of that nature?

Dr. Burton Kunik: Nobody has presented a plan yet.

David Tusa: Ryan, let me remind you too, these Patient Support Programs of pharmaceutical manufacturers are all custom programs. We're in later stage discussions with many pharmaceutical manufacturers and, believe it or not, all of the programs are different. Because of our ability to customize programs for the pharmaceutical manufacturers, we think it bodes very well for us. They all have different spins on how they want to present their programs, the information they want to receive, and how it affects the patient experience. As of right now, given we're in later stage discussions, it's just going to take just a little bit more time to see how and when they're going to be pulling the trigger.

Ryan Daniels: Has the whole healthcare reform debate and then the impact on pharmaceutical companies, in particular, with the hundreds of millions of rebates they've been required to give to Medicaid and some of the state programs, has elongated the sales cycle? Was that an unexpected blip that may have elongated that is now getting behind us so the pipeline could speed up a bit or, any thoughts there would be helpful. Thanks.

David Tusa: When it comes to the new healthcare bill and when it comes to healthcare, whether it's pharmaceutical manufacturers or whether it's just healthcare in general, we think we have the potential to benefit from that because it's all about saving money and it's all about pushing healthcare outside of the traditional setting to the alternate setting, which is our sweet spot. With respect to pharmaceutical manufacturers, we haven't seen anything yet.

We haven't seen anything with respect to the rebate issues that you've mentioned, but I will tell you, with the recent push of the environmental spin on the offering, it has really helped us. It helped us to move past the product manager into the regulatory group, and in some cases, even the CEO level of major pharmaceutical manufacturers. In addition to compliance with laws and patient experience and providing the patients the proper recovery of the medical waste, now we're moving into a different arena, into the environmental side.

Many pharmaceutical manufacturers and many government agencies have green initiatives, and this is the perfect fit into the green initiative. We think that that could be a key that not only helps push these along, but it can differentiate us, Ryan. When we talked earlier about the whole PELLA-DRX™ process, we believe has the opportunity to accelerate sales, but it is a huge differentiator for us.

Operator: Our next question comes from the line of Jeff Kalicka of Mangrove Partners.

Jeff Kalicka: I'd like to kind of pick up on California. I'm curious how you feel your effort in California may or may not have been impacted by the news that, back in February WM Healthcare Solutions', which is a subsidiary of Waste Management, extensive mail back sharps product line was approved by the California Department of Public Health for sale and use in the state of California?

Dr. Burton Kunik: California's been doing that for 10 - 15 years, and we've been approved there for 10 or 15 years. Being approved by the State of California only recognizes the fact that the postal service gave you a permit. They just use that for an opportunity to make an announcement. I don't think that has anything to do with their ability to succeed in the marketplace; that was just announcing the fact that they got it. Most people don't even announce that.

Jeff Kalicka: Right, so you don't see their product being announced and the relationship people may have with Waste Management already impacting what may be your future results in California then?

Dr. Burton Kunik: No, absolutely not. We're talking about pharmaceutical manufacturers, and they are looking for customized programs that have design changes to it and fulfillment opportunities with it. They're not looking for a garbage company to just manage it for them. I don't think that their entrance into that has anything to do with our ability to move in that marketplace**.**

Jeff Kalicka: You talked about the sales cycle being a bit slower. What areas were a bit slower than you had anticipated?

David Tusa: It was the pharmaceutical manufacturing where the sales cycle was a bit slow and in the large Government opportunities that we had. To give you perspective on the Government side, these were not small dollar opportunities. We could be working on the addition of our *RxTakeAway Solution*™ to the existing Government contract. You're talking about a $10 **-** $15 million opportunity. The recovery and treatment of unused medications across the country of which it appears there are about 25 million doses of H1N1 that will expire. That could be a $12 to $15 million program. These are large dollar opportunities. They take a bit longer, but I'd just remind all of you that you see what happens to our financials when we land these large deals.

Deborah Pawlowski: David, I think that maybe Jeff would like to understand more about, within the sales cycle itself, like dealing with the pharmas, what's the part that's taking longer? I think that you had alluded earlier to the customization of the programs.

David Tusa: That's right, customization and design of the programs are all different, and that takes a little bit of time in working with them to come up with the best solution that works best for them for their patients, and for whatever initiatives that they have in-house, whether it's a green initiative or a compliance issue. We are in later stage discussions. We are working on some designs and the design phase on a number of programs and they just take a little bit longer to get done. But they are larger dollar opportunities.

Jeff Kalicka: Do you now have an idea of when you would expect to be able to announce something? Have you been hearing from people that they should get back to you by a certain date and so we'll have a better idea of when we should start hearing stuff then on these opportunities?

David Tusa: You should look at these as we want these things to close sooner rather than later. But we would be pleased if we could land a number of these deals before the end of the calendar year. The pharmaceutical manufacturers are required to post their plan by July 1, 2010. We're targeting more toward the end of the calendar year. Between now and then we expect to see more opportunities announced.

Operator: Our next question comes from the line of Kevin Steinke of Barrington Research. .

Kevin Steinke: I was hoping you could give us an update on the Government market, recurring revenue opportunities there, as well as potential expansion of the five-year federal government agency contract that you talked about before?

David Tusa: There are a number of Government opportunities. The VA pilot, when it rolls out, will be a significant recurring revenue program. There are about five and one-half million patients under the pharmacy services division. They started back in February with the rollout. I think initially that they had said it would take maybe three to six months to complete the pilot and complete the assessment of the pilot. But if we do this thing realistically, I think it will be the end of the calendar year before we'll see something. But, again, that would be a significant recurring revenue opportunity.

As far as the Government program that we have and expanding that, I think it is in the same category. By the end of the calendar year 2010 is a reasonable timetable to look at. It is $10 to $15 million, and it's going to take a little bit of time. We're working on a major expired vaccine recovery program using our TakeAway for the Government. We may see something on that in the next couple of quarters, so these are large dollar opportunities that I think we have the potential to see rollouts and some announcements again throughout calendar year 2010.

Kevin Steinke: With regard to the home healthcare market, I know you've been doing some distributor incentives there and now also attacking smaller players with the inside sales force. Do you expect to get additional traction in that market in the next year or so from those incentives or the inside sales force, or how are you viewing that market in general?

Dr. Burton Kunik: The home healthcare market is a really good opportunity for us, and we are addressing it through our inside sales, as well as through the distributor marketplace is going to create much more success for us. It has always been a good market for us and right now, with the healthcare reform, there's even going to be more return on investment for home healthcare. Our future looks good as we move forward, and our marketing inside and outside sales working on that marketplace is going to increase revenue there.

Kevin Steinke: I know you mentioned the launch of the rebranding effort in the fourth quarter. I was just wondering if that will result in some incremental expenses, or are there any other incremental investments or expenses we should be aware of going into the fourth quarter?

David Tusa: From a marketing perspective, you could see more in the sales and the marketing side and getting the word out on the rebranding and the environmental message. We spent a lot of money this past quarter with sales marketing and public relations. We'll probably do that again in the June quarter. We are educating the entire country, and in many cases the world, on this market opportunity, which we think we have a 1% to 2% penetration in. And, yes, we will invest forward. We're not going to go crazy and you're not going to see incremental millions of dollars in marketing incentives, but we're going to continue to spend on a targeted basis. So, again, probably a similar type of SG&A in the fourth quarter that we had in this third quarter.

Kevin, just to circle back just quickly with you on the Government side, the vaccine and the drug recovery for the country for expired vaccines and drugs is going to be significant. The best way to think about that is about $0.50 a dose, and if there are 25 million doses that will expire, results in a roughly $12.5 million opportunity for a solution like ours.

Kevin Steinke: On the operations and infrastructure side, do you see any additional investments going over in the fourth quarter from what you made in the third quarter, or any other initiatives you're working on there that might contribute to expenses?

David Tusa: Kevin, not in the fourth quarter. We spent quite a bit in the third quarter. That will probably be going to wrench back just a bit, but it'll still be significant. It'll probably be $1.1 million in fixed costs component of the cost of sales going into the fourth quarter. Keep in mind we have an infrastructure in place now so that I estimate we could do another $40 million Government contract. We could probably increase our core business two to three times and have the infrastructure in place to be able to facilitate that growth. We wouldn't go out and spend this money, whether it's sales and marketing or infrastructure, if we weren't confident in our ability to land more deals. We did this a couple of years ago, and I remember when everyone was squawking back in 2008 when we started spending and expanding the infrastructure. That was a critical decision that we made that led to the successful execution of our

Government programs. That was smart; we're going to continue to spend smartly, probably about the same, maybe just a little bit less in the fourth quarter for the operations side.

Operator: I would now like to turn the floor back over to management for closing comments.

Dr. Burton Kunik: In closing, I want to reiterate my confidence in the long-term prospects of the Company and its solution offerings. Our new Waste Conversion Process™ not only keeps medical waste out of landfills and creates a new product, but also provides us with additional firepower that we believe will help to accelerate the closing of sales opportunities. The environmental message we are now illustrating with our new PELLA-DRX™ is being very well received by current and prospective customers. It is also becoming apparent that the market for the management of unused medications generated outside the healthcare setting could very well be larger than the market for medical waste management generated outside of the healthcare centers. We are extremely well positioned to continue to capitalize on the many market opportunities available to us.