

Operator: Greetings and welcome to the Sharp Compliance Corporation Third Quarter Fiscal 2011 Earnings 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, Rob, and good morning, everyone. We appreciate your participation in our third quarter fiscal year 2011 earnings conference call. You should have a copy of the news release detailing Sharps' financial results that was put out earlier this morning, and if you don't have it, you may obtain a copy from the Company's website at www.sharpsinc.com.

With me here today on the call are the Company's CEO and President, David P. Tusa; and Diana Diaz, Vice President and Chief Financial Officer. David and Diana will provide formal remarks, after which 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 today. These risks and uncertainties are available to you in the press release itself, as well as with the Company's filings with 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 third quarter fiscal year 2011 earnings conference call. As discussed in the earning release, as most of you are aware, we expect the majority of the future growth of the Company to be generated in three key markets: retail pharmacy, professional and government. And accordingly, over the last six months, we've refocused our sales and marketing approach and resources to be much better aligned with these opportunities. Our realigned marketing efforts include a more deliberate research based targeted and multi-layered approach with new promotional sales and awareness campaigns while promoting broader market access through the internet and other electronic media.

These efforts are aimed at having the business come to us. We believe the 28% growth in billings for the third quarter of fiscal year 2011, which, by the way, is historically our weakest quarter, is a solid demonstration of the benefits of this re-alignment.

So, let's take a closer look at the key markets, the retail markets, and specifically the success we're having with the TakeAway Environmental Return System™. This solution addresses the proper disposal of unused medications and has been extremely well received by retail pharmacies across the country, including Walgreens, Rite-Aid and Kroger. Revenue from this offering contributed \$535,000 to the results during the third quarter, compared with virtually zero in the third quarter of last year when the program was in its infancy.

Our progressive retail pharmacy customers are promoting our offering as a means to address the problem of an estimated 200 million pounds of unused dispensed medications that are improperly disposed of every year. This is adversely affecting our water systems, as well as placing our citizens at

risk for accidental and improper dosing. They see the TakeAway solution as a value added service offering they can offer to their customers, while also increasing foot traffic in their stores.

Initial response by pharmacies has clearly been very strong, but the success of the program is really going to be based on a pull through by their customers. There are approximately 50,000 retail pharmacies in the country, and we estimate the total annual market to be well in excess of \$40 million, assuming that each store sells just five TakeAway envelopes a week.

It's still too early to determine how well the pull through will be, but we are seeing continued emphasis on the solution by our retail market customers. You may want to check out your Sunday newspaper insert from this past weekend and see how Walgreens is promoting this offering.

We think we're in an excellent position to continue to build sales in this market. Over the years, we've developed very strong relationships with our retail pharmacy customers, which was based initially on our support of their flu shot and immunization programs where we provide cost effective and convenient medical waste disposal solutions. We followed this offering with the TakeAway Environmental Return System™, and importantly we're currently developing additional offers aimed at the retail pharmacy market, which we believe will also be very well received.

Now, let's get to the professional market. We believe our multi-layered marketing and awareness campaigns are positively impacting billings, as seen in the growth of our inside sales and e-commerce channels. When we look at the customer billings by channel, which we've included in the release as a supplemental schedule, you can see the inside and online billings channel grew 130% compared to the prior year quarter, and that's 168% for the fiscal year-to-date period. On average, the number of weekly orders by inside and online sales has grown from 56 in the third quarter of last fiscal year to 99 in the trailing second quarter and 127 in this fiscal year's third quarter. The trend has continued to strengthen through April, as well.

Why are we excited about this professional market opportunity? Well, there are an estimated 800,000 doctors, dentists, vets, as well as clinics, tattoo shops and other businesses that generate smaller quantities of medical waste, including used syringes and red bag waste. These offices and facilities, which must demonstrate proper management of their medical waste, are the current target market for our inside sales force and multi-layered marketing campaign, which is aimed at educating professional and related office administrators on the significant cost and convenience advantages of using the Sharps' Recovery System. And again, this is compared to what traditionally this market has used, which is the medical waste pickup service. We've said it over and over, and we've proven that, in most cases, we save these customers at least 50% versus a traditional medical waste pickup service.

As I mentioned on a number of other occasions, our challenge is merely making this target market aware of our solution offering and the alternative to the traditional pickup service. To put the opportunity in perspective, if we penetrated only 5% of this market, we could generate well over \$25 million in annual recurring revenue.

The total personnel in our inside sales group is currently 12. Our plan is to increase this but in a methodical way; building these efforts as we continue to grow the business.

And, one last thing about inside sales, the initiative is also uncovering large dollar sales opportunities that might not have been discovered by our traditional field sales group. I believe you'll begin to see the impact from these larger sales opportunities in the inside sales billings over the next quarter or two. And, while we're in the early stages, we do believe we're gaining traction and our progress today demonstrates that our realignment of marketing efforts is working.

Now, let's talk government. Excluding the large US Government Agency contract, government market billings for the third quarter increased as a result of sales of the TakeAway Environmental Return

System™ in conjunction with the VA pilot. The VA pilot is currently operating in 22 states, plus the District of Columbia and it's in the process of being evaluated for a nationwide rollout.

We continue to make progress on the potential rollout of the pilot program to the VA Pharmacy Services Division's 5.5 million patients. The project has dedicated personnel studying the potential national rollout and the positive impact the program will have on VA patients, their families, communities and the environment. Rollout of the unused medication and medical waste management programs to all VA Pharmacy Services Division patients could generate as much as \$35 million a year in annual recurring revenue.

In addition to the VA pilot, we're also working on other government related opportunities that we believe could positively impact the market. We should be in a position over the next two or three quarters to talk more about this, but the government tends to be slower to make decisions than our commercial market. We continue to be encouraged by our conversations with various government agencies.

Just to wrap up my opening, we talked on the last quarterly earnings call about our implementation of the cost reduction initiative, whereby we reallocated resources throughout the Company to be better aligned with the implementation of a more targeted and aggressive sales, marketing and awareness building strategy. As a result of this strategy, we've not only reduced our cost structure, including a head count reduction of ten positions, we've also upgraded five key positions in the Company with what I believe to be more qualified personnel.

And with that, I'd like to turn it over to Diana, who will provide a bit more detail on the financials. Diana?

Diana Diaz: Revenue in our 2011 third quarter was \$4.5 million, which was \$900,000, or 24%, higher than the prior year. We realized growth in virtually all markets, specifically retail, US government contracts, assisted living, core government, home healthcare and the professional market.

Sales of the TakeAway Environmental Return System™ envelope solution contributed billings of \$665,000 in the third quarter of fiscal 2011, which was split among the retail pharmacy market and the core government market. Billings for the TakeAway envelope solution reflected the addition of a large national retail pharmacy and two food and drug chains, which selected Sharps' TakeAway envelope solution to feature in their pharmacies across the nation, as well as additional sales under the VA pilot program.

Professional market billings for the quarter increased \$66,000. The success of the inside and online sales efforts in this market, which increased \$172,000 or 130% over the prior year quarter, was masked by the variability of distributor network sales. Sales by the distributor network to the professional market decreased \$39,000 from the prior year quarter and \$107,000 from the trailing second quarter due to the timing of orders.

As David mentioned, the Company's telemarketing and internet marketing activities continue to perform extremely well, demonstrating increased sales order volumes and generating professional market billings of \$304,000 in the third quarter compared with \$132,000 in the prior year quarter and \$237,000 in the trailing second quarter of fiscal year 2011.

Sales of the TakeAway envelope solution to retail customers drove the 215% jump in retail market billings to \$810,000 in the third quarter, as well as the 5% increase from the trailing second quarter of fiscal 2011, more than offsetting the seasonal nature of flu shot related sales.

As of today, our TakeAway Environmental Return System™ solutions are sold in over 17,000 retail pharmacies, including independents, across the country.

Third quarter billings under the US Government contract of \$608,000 increased over the prior year and second quarter of fiscal year 2011, due to the beginning of the third option year, which included increased

revenue for additional maintenance services. And, outside of the large US Government agency contract, government market billings for the third quarter were up 92% to \$226,000 as a result of sales of the TakeAway System envelope solution, which is a component of the VA Pilot program that David discussed earlier.

Assisted Living/Hospitality market billings in the third quarter were up 45% to \$373,000 as a result of increased sales to existing customers as they realized growth from the aging patient population using their services, as well as an increase in our assisted living facility customer base that we believe is a result of our increased marketing activities.

Home healthcare market billings during the third quarter we're up 6% to \$1.6 million primarily due to improved sales by our home healthcare related distributors addressing the growing trend of patient volumes in the home healthcare industry.

Our gross margin improved to 31% for the third quarter, up from 24% in the prior year. Gross margin improved over 460 basis points over the trailing second quarter as a result of the mix of the products sold and to some degree the impact of the cost savings initiative.

SG&A for the third quarter of \$2.4 million was 11% higher than the prior year amount. Compared with the trailing second quarter, third quarter SG&A increased \$99,000, or 4%, due primarily to increased marketing related expenses as the Company realigned its sales focus and implemented more targeted and aggressive web-based and media campaigns to augment sales. The increase was partially offset by cost reductions in other SG&A areas resulting from our cost savings initiative. The Company expects SG&A for the fourth quarter of fiscal year 2011 to be at a similar level as the current quarter, barring the need to flex higher for additional sales and marketing programs.

As we stated on prior occasions, we've made infrastructure expenditures over the past year that we believe are critical for positioning us for future growth. We continue to believe that we have the infrastructure in place, even with the cost reductions in the current quarter, to facilitate another large US government program, as well as two to three times our current core business.

Operating loss for the third quarter was reduced to \$1.1 million compared with an operating loss of \$1.4 million for the prior year's third quarter and an operating loss of \$1.2 million for the trailing quarter ended December 31, 2010. For the third quarter, the Company generated a net loss per diluted share of \$0.04, improved over the net loss of \$0.07 per diluted share for the corresponding period of the prior year.

Now, I'd like to provide you a quick review of our year-to-date results. For the first nine months, revenue for fiscal year 2011 of \$14.4 million was \$20.6 million lower than last year. However, if you exclude the US government contract revenue of \$1.4 million in the current year and \$22.8 million in the prior year, our year-to-date revenue increased almost 7% on solid growth in the home healthcare, professional, retail pharmacy, and assisted living markets.

For the reported nine month period, SG&A expense was \$7.2 million compared with \$6.1 million for the corresponding period of the prior year. That's an increase of \$1 million, or 17%, reflecting the investments in our inside and online sales activities.

For the nine months ended March 31, 2011, the Company generated net loss per diluted share of \$0.15 versus net income of \$0.70 per diluted share for the corresponding period in the prior year. The loss for the nine month period of this year included a special charge of \$0.02 per diluted share related to the retirement of our former CEO.

Our balance sheet remains very strong with about \$17 million in cash and \$21 million in working capital at the end of the quarter. Subsequent to the end of the quarter, we received a federal income tax refund of \$2.7 million in April 2011 that we added to our cash balances. We have no debt and a \$5 million bank

line of credit. Based on the current level of infrastructure, including the SG&A expense, we continue to expect that we can achieve break even results at a quarterly revenue level of about \$6 to \$6.5 million.

Operator, you can now open the call for questions?

Operator: Thank you. We will now be conducting a question-and-answer session. If you 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'd 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 key. One moment please, while we poll for questions.

Thank you. Our first question is from Joe Munda of Sidoti & Company. Please state your question.

We have lost that line. We're now going to the line of Ryan Daniels from William Blair. Please state your question.

Andy O'Hara: Hi guys. This is Andy O'Hara in for Ryan today. I have a couple of questions relating to the VA pilot. You guys have indicated that you're now in 22 states and DC, and in the process of determining further expansion, do you have a good sense of what that process is exactly at the VA? And what the timeline looks like?

David Tusa: Thanks for the question. The pilot expanding to 22 states was really important because it brought additional regions into the program so they could solicit their input, which has been very positive. So, now we've moved from the evaluation stage really more to looking at the potential rollout. And, as I mentioned on the last call, we did submit a formal proposal for the national rollout. They're evaluating it and it's going through the process of the VA. We understand that they have a funding source that they're looking at. So, really I think it's just now a timing issue regarding two things: one, do they want to move forward, and two, how exactly do they want to roll it out.

You know, Andy we wouldn't talk about it unless we were very positive about it because of the positive feedback that we're hearing back from our contacts at the VA.

Andy O'Hara: Okay. That's helpful. And then, you had mentioned the funding, do you have any more color on the VA budget environment? Are they basing the same sort of pressures that many other government agencies are facing right now? Just any color there would be helpful.

David Tusa: I will say this, from a funding standpoint in general with government agencies, it's much more favorable now that the fiscal year 2011 federal budget has been passed and signed. And, that's very positive with respect to all of the government initiatives that we're working on. But with respect to the VA, they think that they have a source, I think will be a really good fit for this type of initiative.

Andy O'Hara: Okay, thanks. And then, just one final question; looking at your professional segment, we talked about previously, you're reaching out to the 800,000 doctors, dentists, vets, et cetera, can you give us an update on what percentage of these you've been in contact with and what percentage you're currently offering, or anticipate to be offering, the Sharps' Recovery System to?

David Tusa: This initiative has been well underway for about a year. We're up to 12 sales people right now making 60, 70, 80 calls a day, and we probably—and I'm going to guess at this—we have probably contacted 10,000 plus. What we have found is that roughly half of those are currently under contract, so we take their information, put them on a list, and call them back as their contract comes up for renewal. What we've shown so far is, of that remaining half, our close rate on those has been roughly 30%. So, 30% of the half that are not already under contract, which we're very excited about.

The thing that we're doing as well, Andy, is awareness campaigns. We're reaching out to people in many different ways. If you look at our website, you'll see an entire section of videos that are aimed at the

professional market and how easy our solution is, and testimonials from customers. So, there is a multi-layered approach to this marketplace. And, as I mentioned in my opening, our biggest challenge is just getting in front of them and letting them know that there's an alternative to the traditional pickup service.

So, the trend as you see in the numbers—and that's why we disclose the channels—the trends look very positive and we continue to be very excited about this market.

Andy O'Hara: That's helpful, thank you.

Operator: Thank you. Our next question is coming from the line of Kevin Steinke of Barrington Research. Please, state your question.

Kevin Steinke: Hi, good morning. So, it looks like you're having some good momentum here in the retail segment by adding pharmacy chains for your TakeAway solution, and it sounds like most of the initial billings for the latest three chains that you added fell into the third quarter: Rite-Aid, Kroger and Winn-Dixie. Is that correct, that most of those billings happened in the third quarter or do you expect more to continue in the fourth quarter?

David Tusa: Good morning, Kevin. Yes, you're right in your assessment of the billings by quarter. We've approached all of the major retail pharmacies, as well as independents and we've done a pretty good job. We're up to 17,000 of the roughly 50,000. We think we're going to make continued progress with other retail pharmacies as well. In looking forward, what I think you could see is some additional orders hit in the June or the September quarters. And more importantly, what we're looking at over the June and September quarters would be the reorders of the existing program because that's really the key. The key is the pull through and the reorders.

Kevin Steinke: On that note, talking about the reorders, you've had the largest pharmacy chain, Walgreens, using the TakeAway for a couple of quarters now, and it sounds like things are going positively there from, but can you share a little bit more detail on reorder rates of TakeAway with Walgreens?

David Tusa: Well Kevin, we don't really like to talk about individual customers. But, I will say in general with the TakeAway, especially for the programs that have been out there for awhile, that we are seeing reorders. We are seeing pull through. But, I would really like to wait a couple more quarters until we start to assess whether the reorder rate will generate a successful program. So, let's watch it over the next couple of quarters and when we see how they come in, we'll be able to give you much better color.

Kevin Steinke: Okay, great, that makes sense. Another question: you've talked about how you're tweaking some of the ways you would attack the market through refocusing your sales and marketing organization and resources. And, I believe you talked a couple of quarters ago about how you started working with contracted sales organizations to target the government sector. Any comment on how that's progressing? Do you feel like that's providing more opportunities for you?

David Tusa: What we're doing is we're focusing out field sales people on the key markets and large dollar opportunities and specifically, on opportunities that we think that can be closed in a reasonable period of time, and we're starting to see some positive impact from that. On the inside sales front, we're adding to that and we're giving the inside sales folks the tools that they need to better get in front of the customers and giving them the tools they need to show how the systems work and to help close the deal.

Now, you're right, we did launch a contract sales organization push, but to date, we haven't seen a significant impact from that. We still continue to be encouraged by the government market. Some of it has to do with the fact that the budgets had not been passed. With the budget being passed now, we think that we have maybe a better opportunity on the contract sales side. But I probably need a couple more quarters to see the impact from the contract sales effort. It's not there yet but we still believe that it could be a great avenue to get into the government side, as well.

Kevin Steinke: Okay, great thanks. That's a helpful update. I'll jump back into the queue here.

David Tusa: All right, thank you, Kevin.

Operator: Thank you. As a reminder, ladies and gentlemen, if you would like to ask a question, you may press star, one on your telephone keypad. Our next question is coming from the line of Joe Munda of Sidoti. Please state your question.

Joe Munda: Good morning, guys.

David Tusa: Good morning, Joe. How are you doing?

Joe Munda: Good. As far as sales are concerned, is there any push to expand internationally and have you guys been contacted by any government agencies, as far as providing supply or support to what's going on in Japan? I know they're in desperate need for medical supplies and there's a huge demand there. Have you been contacted?

David Tusa: Well, first let's talk internationally. Our vertically integrated organization is right here in the United States with a treatment facility and a distribution center. We have more than we know what to do with here in the states. International business would be difficult because we don't have operations, or treatment facility operations in other parts of the country. So, we're focused on the United States and the two plus billion dollar market opportunity we have here.

As far as Japan, no we haven't been contacted. But, I will say that Japan is an example of potentially the perfect deployment of our medical waste management system. For instance, it would've been quite possible that had Hawaii been adversely affected—and of course we're glad they were not adversely affected—then that would've been a case for the deployment of our medical waste management system.

Joe Munda: Yes. Also with what's going on now with the flooding that's occurring in the Midwest, do you see a potential opportunity there?

David Tusa: You know it could be. The system is designed for natural and manmade disasters—and again, we don't wish disasters on any country—but we're ready to support it if we are called upon.

Joe Munda: One question for Diana: what was the capex spend for the quarter?

Diana Diaz: We're running about the same pace. We'll have capital expenditures of about a million for the year.

Joe Munda: One million for the year. You mentioned a break even number of \$6 to \$6.5 million in revenue; do you think that number is achievable in the next couple of quarters? Or is that more of a long term goal?

David Tusa: It wouldn't take much to get to that \$6 to 6.5 million when you consider the pipeline, and the opportunities that we have in front of us. When you look at the quarterly billings numbers, we saw increases in virtually all markets that we're selling to, which is a very good sign.

Joe Munda: Thanks, guys.

Diana Diaz: Thank you.

Operator: Our next question is from the line of Michael Prouting with 10K Capital. Please, state your question.

Michael Prouting: Yes, good morning, guys.

David Tusa: Good morning.

Diana Diaz: Good morning.

Michael Prouting: The question I was going to ask in a way was just asked, but maybe I can ask it slightly differently. As you anticipate reaching break even, do you think that's most likely to be achieved with continual singles or do you think that's more likely to be achieved with a big, "home run," contract?

David Tusa: The focus going forward is to grow the recurring revenue base of business. And that's where you see the growth, especially in this past quarter. It was all focused on recurring type revenue business versus large lumpy deals or potentially non-recurring deals. So, the plan is to focus on significant growth in recurring revenue business, which is consistent with the retail pharmacy market, with professional markets and with the VA pilot. That's what we're focused on, but that doesn't mean that along the way we won't have some potential revenue opportunities that would be lumpy. So, we want both, but from a long term perspective, we think the growth will be much more focused on the recurring revenue business versus the lumpy one-time business.

Michael Prouting: Okay, thanks; and if I can just ask one completely unrelated question. I'm curious if you're aware of any potential legislative initiatives that might catalyze the macro outlook for the business?

David Tusa: Well, legislation is important. It is something that the States have been working on for the last few years. We have roughly 30% of the American population that live in the states that are covered with the syringe disposal laws. What is it close to 60% on the unused medication?

Diana Diaz: That's correct.

David Tusa: On the unused medication you have 60% of Americans who live in states that may be either pending or enacted legislation regarding the proper disposal of unused medications. And, actually the unused medication legislation has moved quite quickly here over the last year, so I think you'll continue to see states looking at legislation. That is always helpful.

Keep in mind that with some of our key market opportunities, for instance the professional market, the legislation is already there. It's the professional market that's required to properly manage their medical waste and that's why we like that market so much. Again, our challenge there is just to get in front of them and to make them aware of an alternative to the traditional pickup service.

Michael Prouting: All right, thanks. That's all I had.

Operator: There are no further questions at this time. I would like to turn the floor back over to Mr. Tusa for closing comments.

David Tusa: Okay, thank you. Again, we appreciate everyone participating in the call. As we discussed, given our strong relationships with major national and retail pharmacies that use the Sharps' Compliance mail back solution; it's a part of their flu shot and other immunization programs and our unique ability to offer the TakeAway Environmental Return System™ to address the proper disposal of unused medications, again we believe we're very well positioned to capture significant revenue from the retail pharmacy market.

And, also of note, we think these programs are establishing a new standard of care for patients as the delivery of healthcare continues to evolve. We provide for the proper disposal of unused patient dispensed medication and over-the-counter drugs, excluding controlled prescriptions, as well as cost effective convenient methods for the proper disposal of medical waste in settings outside of the hospital, like the patient pharmacy or retail clinics that we see building around the country.

Again, we think we're in a unique position, in a very interesting time, as the conversions of national health issues, environmental awareness and the changing structure of our healthcare system drives the means for our solution to provide sound, cost effective, responsible and environmentally conscious approaches to handling unused medications and medical waste in non-hospital settings.

As we develop and expand relationships with our customers, which help them better solve their patients' needs, we are seeing these factors drive their decision-making process, which supports our belief that we can be the leader in this yet to be tapped two plus billion dollar market opportunity. I hope all of you share the excitement that we have in the company. We appreciate your continued support and look forward to further discussions. Thank you.

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