Operator: Greetings and welcome to the Sharps Compliance Corporation First Quarter Fiscal Year 2014 Financial 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, Karen Howard, Investor Relations for Sharps Compliance Corporation. Thank you, Ms. Howard, you may begin.

Karen Howard: Thank you LaTonya and good morning everyone. We appreciate your participation in our First Quarter Fiscal Year 2014 Financial Results Conference Call. You should have a received a copy of the news detailing Sharps' results that was released earlier this morning. We also issued a release regarding our sales team leadership that you should have. If you do not have the releases, you may obtain them from the Company's website at www.sharpsinc.com.

On the call with me today are David Tusa, Sharps' President and Chief Executive Officer; 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 webcast, note that you do have the ability to submit questions through the Internet.

As you are aware, we may make some forward looking statements during this formal presentation and in the question-and-answer portion of this teleconference. These statements apply to future events, which are subject to risks and uncertainties, as well as other factors that could cause actual results to differ materially from where we are today. These factors are outlined in our earnings release as well as in documents filed by the Company with the Securities and Exchange Commission. These can be found at our website or at sec.gov.

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

David Tusa: Thank you, Karen, and welcome everyone to our First Quarter Earnings Conference Call. I'll briefly review the September quarter results as well as discuss how we're executing on our growth strategy and progress we're making in our targeted markets, and the recent change in sales leadership. I'll then turn the call over to Diana, who will review the financials in a bit more detail.

We reported revenue of $6.3 million for the first quarter, up nearly 22%, or $1.1 million over the prior-year period. I'm pleased to report that we achieved one of our key financial goals, which was break even profitability at the $6.2 million to $6.4 million revenue level. We reported net income of $122,000, or $0.01 per share, for the first quarter of fiscal year 2014. Traction in all of our core markets, focus, solid execution and our dedicated employees are the reason for the successful quarter.

Now, let's drill down to our key markets. The Professional market billings grew about $470,000, or 47%, in the first quarter, driven significantly by increases in both our inside and online sales channel, which grew about $327,000, as well as our Alliance-related business, which grew about $125,000 in this market for the September quarter. As most of you know, because of quarterly fluctuations within many of our markets, it's easy to lose visibility on longer-term trends, so I want to point out that we realized consistent quarterly sales growth in our Professional market, which resulted in trailing twelve month revenue in this market that's 31% higher than the prior year's trailing twelve months. We believe that this is evidence that our initiatives are working and our results are trending in a positive direction. Professional market customer billings totaled $4.3 million for the trailing twelve months ended September 30, 2013, and are now about 19% of our consolidated revenue.

Since our recently-hired Director of Inside Sales joined us, the Professional market has been his primary focus. He has been working closely with our Marketing and IT groups to develop new solution offerings, technologies and marketing initiatives to help the Inside Sales team members generate leads and close deals. We have high expectations for this initiative and believe that such actions should continue to generate successful results.

Now to the Retail market, we realized strong sales growth over the prior-year quarter, increasing almost $700,000, or 59%, over the prior year. While the quarterly sales levels fluctuate due to timing of orders for flu-shot related orders, this is another market where we've seen strong positive trends, again on the twelve month trailing basis. Representing 25% of our consolidated revenue, sales to the Retail market for the trailing twelve months ended September 30, 2013, were $5.7 million, up 22% compared with the prior-year trailing twelve month period. Flu shots and other similar services provided at retail pharmacies have been very visible to consumers and the industry forecasts the continued growth of such alternate site healthcare administration, which bodes very well for Sharps.

The Home Health Care market posted solid growth as well, up 12% to $2.0 million for the quarter. We also believe this market should be positively impacted by the administration of healthcare to the alternate site, which in this case is the home. Additionally, we're seeing consolidation in the Home Health Care industry which we believe could positively impact our sales in this market as this trend reduces the very fragmented nature of the business.

Assisted Living and Pharmaceutical manufacturer markets also posted positive revenue growth this quarter, up 15% and 8% respectively, to $432,000 and $605,000 respectively. We're seeing a significant amount of sales activity in both Assisted Living and Pharmaceutical manufacturer markets, and believe we should see additional growth in these markets in the future.

As we mentioned last quarter, we're beginning to see new patient support program opportunities with Pharmaceutical manufacturers for new drug launches that have potential to positively impact calendar years 2014 and 2015. To give you an idea of the annual revenue opportunity, we're looking at as many as six potential new programs that, once fully rolled out, could generate up to $5 million in annual revenue. It's very exciting to see Pharmaceutical manufacturers adopt our programs, which we believe improve the patient experience, drug compliance and medication adherence.

Our business continues to be positively impacted by the changing demographics of the U.S. population as well as the change in the delivery of healthcare. As I mentioned last quarter, the National Institute on Aging has cited one out of every five Americans will be 65 years or older by the year 2030. This increases the need for cost effective medical waste management solutions in many of our markets, including Assisted Living and Long-Term Care. This trend bodes well for our opportunities with existing and perspective customers, as well as markets outside of Assisted Living and Long-Term Care.

Further, as a result of the uncertainty created by the current state of healthcare, our prospective customers are looking for cost savings now more than ever. But it is very important to note that we don't just differentiate ourselves with cost savings. We believe our excellent customer service, our obsession with responsiveness, our proactive regulatory support and operational efficiencies associated with our solutions, all play key roles in the sales process.

Before I turn the call over to Diana, I want to discuss the change in the leadership of our sales team. As you've seen, Brandon Beaver has been appointed our new Senior Vice President of Sales, replacing Berkley Nelson. Brandon has been a Sharps team member for over three years and has been a proven leader in our organization, driving the actions needed to accelerate sales growth. He has an in-depth knowledge of our markets, understands the value of our comprehensive medical waste and medication management solution offerings and consistently receives very positive feedback from our customers and prospects. Most importantly, Brandon works very well and actually thrives in our fast-paced, ever changing and dynamic environment that we live every day here at the Company. I'm excited to move Brandon into this role and look forward to his contribution to our continued growth.

And with that, I'll turn it over to Diana, who'll provide more details on the financials. Diana?

Diana Diaz: Thank you, David. We're off to a great start in fiscal 2014. Gross margin was 37% in the first quarter, up 700 basis points from the prior year's first quarter. This quarter’s margin improvement demonstrates the significant leverage we have in the business on higher sales volumes.

SG&A expense in the fiscal 2014 first quarter, $2.1 million, was comparable with last year and lower when compared with the sequential quarter of $2.2 million. We expect to maintain a quarterly level of about $2.2 million to $2.4 million in SG&A expenses over the next several quarters as we hire more sales persons and increase our investment in marketing.

Given the record core revenue level achieved, we generated operating income of $130,000 in the fiscal 2014 first quarter compared with an operating loss of about $640,000 in the same period the prior year and an operating loss of almost $700,000 in the sequential fourth quarter 2013.

Earnings before interest, taxes, depreciation and amortization, or EBITDA, was about $400,000 for the first quarter fiscal of 2014, compared with an EBITDA loss of about $365,000 in the same period of the prior fiscal year. Net income, as David mentioned, for the fiscal 2014 first quarter was about $122,000, or $0.01 per diluted share, compared with a net loss of $639,000, or $0.04 loss per diluted share, for the prior-year period.

Our balance sheet remains solid, with $15.3 million in cash and cash equivalents as of September 30, 2013, relatively comparable with the $15.5 million balance at June 30, 2013, and we continue to be debt free. Our financial position is very strong and this bodes well for us as we invest to build a larger company.

As previously disclosed, we do have an authorized stock repurchase program in place for up to $3.0 million extending through 2014. During the September quarter, we repurchased 19,000 shares at an average cost of $2.71 per share, totaling approximately $52,000. This results in total repurchases of approximately 44,360 shares purchased for about $126,000 since the inception of the program in January of 2013. Our outlook for the business is strong and we believe repurchasing our stock at an appropriate price is a good use of available capital.

And with that, I'll turn the call back to David.

David Tusa: Thanks, Diana. Before we move into the Q&A session, I just want to make a few comments. We feel the transformation of Sharps into a comprehensive provider of medical waste and unused medication management solutions has taken hold. Fiscal year 2014 is off to a terrific start and I'm thankful to all of our employees for their contributions to this growth and their commitment to our Company. We're all focused on growing into a much larger company and taking advantage of the market opportunity that we have in front of us.

So with that, Operator, let's open it up 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 gentleman, that's star, one to ask a question at this time. One moment please while we poll for our first question. Our first question comes from Joe Munda with Sidoti & Company; please proceed with your question.

Joe Munda: Good morning Dave and Diana. Thanks for taking the question.

David Tusa: Morning.

Diana Diaz: Good morning.

Joseph Munda: David, I'd like to start off real quick, before we get into the numbers here, with the departure of Berkley Nelson. As I recall, he was just hired recently, in March, so he was on the job for a little more than half a year. A, what happened there and where did he go? And B, this Brandon Beaver who has been with the company, I read in another press release, for roughly three years, why wasn't he considered for the job when Claude Dance departed. Why all of a sudden the internal focus on hiring the Head of Sales?

David Tusa: Okay Joe, I'll be glad to answer your question. Berkley started with the Company back in February. Among the many things that I have to do, or the tasks that I have in running the Company, is making sure we have all the right people in the right place. And, I recognized in Brandon a talent over the last five or six months and I spent a lot of time working with him. I think that he's very well respected by our customers. All of our customers know him and we're a unique company. It's fast-paced, very dynamic, very flexible and it takes a unique person to be successful. He works extremely well in an environment such as this. I had to make a decision and I made the change, and I think Brandon is going to be very successful in the role, considering the kind of environment that we're in.

Joseph Munda: Okay. And, I think you said he's responsible for four and a half million. So, his forte is in the Professional market…?

David Tusa: No, all markets. He not only has been the person leading the charge on the sales side and landing many of the larger deals, but he manages a significant book of business with our key customers. Our sales personnel have two jobs; managing large accounts, as well as selling new ones. I think Brandon understands very well the comprehensive offering that we have with the Daniels Alliance and being able to effectively bolt-on the truck-based pick-up, whatever we need, as part of the solution. So, I'm confident in the change and the move and I think that he's the best person in there to facilitate further growth in this business.

Joseph Munda: Okay, that's helpful. And then, David, in your prepared remarks, you talked about the initiatives in the Professional market. Can you give us a little bit more color as to what any specific initiative that is leading to the traction that you guys are seeing in that space?

David Tusa: I'll tell you a few things. For competitive reasons, Joe, I'm not going to talk about a lot of details, but we've brought in a new head of inside sales. That's a call center person and a person that has run call centers up to 800 people. And, one focused on selling. What Bob Peterson is doing is basically changing our approach to make the sale as easy as possible. You know, we're asking our Professional market customers to do something different, to move from a truck-based pick-up to a mail-back solution. I believe that he has, and he's going to continue to do, a very good job of making the inside sales approach much more efficient, and I hope it's going to result in acceleration of sales.

Joseph Munda: Okay, and then in regards to the truck-based pick-up that you just mentioned, I'm just wondering how much of the Daniels Alliance contributed to, A, the overall revenue in this quarter, and B, the growth in the quarter that you guys saw?

David Tusa: Well, the specific growth that we mentioned was in the Professional market of about $125,000, just for the quarter, but it's really more than that because what we're doing is offering the pick-up service to existing customers where it makes sense. That’s some of the business that we utilize the pick-up versus a mail-back. I don't have any exact numbers yet for new opportunities but $125,000 is the amount for the quarter.

Joseph Munda: Okay. And, one final question here. You touched on the Pharmaceutical segment. Six potential programs, roughly $5 million in revenue opportunity, is that spread out over a certain amount of time? Or, if you were to hit every opportunity that $5 million would hit when?

David Tusa: Well, it would start to ramp up in calendar 2014 and probably fully rolled out by as early as calendar 2015. When these programs start, they start slow and then they gain steam. It usually takes about twelve months for them to get fully rolling. I think what we see as important in this market is that we're doing a good job of convincing Pharmaceutical manufacturers that there is a lot of value with the patients for programs that include the mail-back to help them and their patients with improved medication adherence and drug compliance. This is something new for the industry and we're the leader in it, and we're proud to launch more and more of these programs.

Joseph Munda: And, are you aware of anybody else competing for this same potential $5 million?

David Tusa: I'm sure there's someone else. These are run through an RFP process and we've done very well in the RFP processes, but I'm sure there are potentially one or two others out there.

Joseph Munda: Okay, alright. I think that's it. And, oh yeah, Case Keenum started for the Houston Texans last Sunday. I was wondering what your thoughts were.

David Tusa: He did. Well he played three quarters extremely well and then the offensive line didn't play in the fourth quarter and they lost. Other than that he did a great job. Thank you for the comments.

Operator: Our next question is coming from Brian Butler of Wunderlich Securities. Please proceed with your question.

Brian Butler: Good morning, thank you for taking my questions.

David Tusa: Good morning, Brian.

Brian Butler: Just to start back on the alliance revenue, when you think about opportunity, can you give a little update on the color and what's in that pipeline or where you think that pipeline stands today?

David Tusa: We've talked about this, Brian, before about pipeline of at least $30 million. Now, of course, that's many opportunities or larger dollar opportunities where a portion of the opportunity is driven by the need for the combination of the pick-up with the mail-back. These are larger opportunities with a longer sales cycle. We're just going to see over the next few quarters what we can do and what we can put on the P&L. We can talk about a pipeline all day long but I'd rather talk about it when we land the deals and you see it in the P&L.

Brian Butler: Alright, but from your perspective it hasn’t changed and these opportunities are still out there? And, what I'm looking at is has your optimism or outlook on the partnership changed since the partnership has started or has it gotten more attractive?

David Tusa: It's gotten more attractive. I've been very excited about it. We've worked very well with the staff at Daniel's. I was on the road for the last couple of days, out with sales calls with major prospects. It sure is nice to present yourself as a comprehensive provider of medical waste and unused medication management solutions, instead of a mail-back company. It's a much different presentation, our marketing materials are different and I think it's going to provide us the opportunity to land larger deals. We can basically facilitate any national deal across the country, so we’re very positive about it. Again, there is a significant pipeline but let's get some of these deals landed, let's let them start showing up in the P&L.

Brian Butler: Okay. And then, on the Home Health segment, you had really strong growth there. Give me a little bit more color on what was the driver there, and just your thoughts on, is that sustainable for a business that has typically been a bit slower grower?

David Tusa: It basically is a little bit high for the quarter but 5% to 10% should be achievable and maybe even higher. As I mentioned in my remarks, there are two things going on. One, there's more and more healthcare moving to the alternative site setting so the Home Health Care business is growing. Secondly, there's consolidation that's going on in the Home Health Care world. That's a very fragmented business and with consolidation, that helps us. It helps us because it moves business into existing customers and allows us to be able to launch the mail-back program with companies that are acquired by existing customers. Five percent to 10% is achievable but more importantly I think we have the potential to do even more than that.

Brian Butler: And, did this quarter benefit from Alliance revenue or was this all just organic growth?

David Tusa: You mean in the Home Health Care market?

Brian Butler: Yes.

David Tusa: No, this was just all organic.

Brian Butler: Okay. And was there any one item that was very big in this quarter that would not repeat? I know all of these are order driven.

David Tusa: No. It's the existing customer base, and again, we did see an uplift with some of our customers who are making acquisitions and rolling the mail-back out. We're helped with that.

Brian Butler: All right. And, one more question, on the Retail side with the strong flu shot, was any of that which you can piece out or pull forward from the second quarter or was this a little bit of a make up from the lower-than-expected growth you saw in the fourth quarter of FY13?

David Tusa: The ordering patterns in the flu shot business are erratic at best. That's why, when I spoke about the market; I talked about looking at it from a trailing twelve month basis. So, from a trailing twelve standpoint…

Diana Diaz: Retail was up 21%.

David Tusa: Okay. So 21% Retail trailing twelve year-over-year. And, that 21% represents at least a 21% increase in flu shots administered in the Retail setting. And, that's the beautiful part about this business, that we have a pretty significant lock on the Retail clinic market, and every year more flu shots and other shots and other health care are administered in Retail settings. We're taking advantage of that and the numbers are increasing as a result of increased popularity of the retail clinic.

Brian Butler: And so is that then, from a trailing twelve month basis, is that 20% kind of the right way to think about what the Retail business can grow at?

David Tusa: I think so. That's what we've seen. We've seen about a 20% to 25% increase, at the minimum, over the last few years when you look at it on year-over-year basis. So, that's the way we look at it, and by the way, that increase that we generated was consistent with our internal forecasting, so that was consistent with what we expected.

Brian Butler: All right, great. And, in the Pharmaceutical business, you talked about the six potential programs of $5 million. That's incremental to the programs that you have right now, right?

David Tusa: That's correct.

Brian Butler: Right. So, when you think about the program that you have right now, I think your target was something around $3 million for the programs you have. I think on a trailing twelve month basis, you're probably running somewhere around $2.5 million. Is the expectation still to get to that $3 million or is the $2.5 million really the right run rate for those three programs?

David Tusa: No, we still think that they'll ultimately generate the $3 million, maybe even higher. But, the new programs are incremental.

Brian Butler: Is there a step-up somewhere that is going to happen in the future that you guys have any visibility on? Or, is that just really just waiting on the ordering patterns to come together?

David Tusa: It's really adopted at the patient level and increasingly more patients are adopting the existing programs. There's an increase in the orders that we fill for that business so you see it again, you see a ramp up in the first year and then over the next year you see more patients opting into the programs.

Brian Butler: So, is that $600,000, the right way to think about that growth in the first quarter? If you think of the $2.5 million on a trailing twelve month basis, that's probably better, that should just be incrementally increasing quarter-to-quarter as those rates of adoption increase?

David Tusa: Right. That's right.

Brian Butler: Alright, I think that was everything that I had. Thank you very much.

David Tusa: Thanks Brian.

Operator: Our next question is coming from Kevin Steinke of Barrington Research. Please proceed with your question.

Kevin Steinke: Good morning. Congratulations on the nice results.

David Tusa: Thank you, thanks Kevin.

Kevin Steinke: So, SG&A expense was just a tad below your targeted level in the quarter, of $2.2 million to $2.4 million, but it sounds like you expect it to pick up and maybe are looking to hire some people. Is that the way to think about it?

David Tusa: That's exactly right. We're hiring right now. We're hiring sales people as we speak and we're investing more on the marketing side. I think when we mentioned…

Diana Diaz: $2.2 million to $2.4 million.

David Tusa: $2.2 million to $2.4 million on a quarterly basis is most likely what we're going to see, starting as early as the December quarter.

Kevin Steinke: Are you hiring on both the inside sales and the direct sales side?

David Tusa: Yes, both sides.

Kevin Steinke: Okay, and the nice pick up in gross margin, was there anything one-time in that or is that just purely leverage, as you talked about?

Diana Diaz: There really wasn't anything unusual in the margin this time and it was really associated with the increased leverage.

Kevin Steinke: Okay, great. The Alliance contribution of about $125,000 in the quarter, is that a level that we should think of as sustainable over the next couple quarters here?

David Tusa: Yes, I believe so, and again, with landing more deals, we should hope to see that increase. But, that one should be at that level, maybe potentially higher.

Kevin Steinke: Right, okay. And, similar to the Home Health Care market, you saw some nice growth in Assisted Living, although that was more of a continuation of the nice trends you saw in fiscal 2013. So again, what are you seeing in that market? And, do you think that this type of growth is pretty sustainable?

David Tusa: On the Assisted Living side, to be honest with you, I was a little disappointed in that growth. We have much higher expectations for Assisted Living. I mean, our solutions are just a perfect fit for assisted living and long-term care, and we have opportunities with existing customers to expand business with existing customers, as well as new customers. So, that's an area where we're focused on and where we think we have the opportunity to see significant growth. I'll tell you, that number was below our internal expectations for the quarter.

Kevin Steinke: Okay, well nonetheless, congrats again on the nice results. I'll turn it over.

David Tusa: Thanks, Kevin. Thank you.

Operator: Our next question comes from Nick Hiller with William Blair. Please proceed with your question.

Nick Hiller: Hey guys, good morning and thanks for taking my call. Most of my questions have been asked already. I just want to follow up on the gross margin again. As we look at the rest of the year, is that 37% kind of the go-forward number now?

Diana Diaz: Really you have to look at the incremental revenue and we said that incremental revenue comes in at 50% margin. And so, if you look back and see where our revenue comes in each time, the margin will change if the revenue is lower or if it's higher. So, hopefully we're at this revenue level and you should see 37% again.

Nick Hiller: Okay great, thanks. That's all I had.

Diana Diaz: Okay.

Operator: Our next question comes from the Joel Goldsmith with Goldsmith Asset Management. Please proceed with your question.

Joel Goldsmith: Yeah, hi, good morning. Congratulations on a very nice quarter. Could you talk to seasonal factors in terms of how the December quarter will compare to the quarter just reported in terms of potential weakness that comes from doctors offices closing and things like that in the Christmas season, versus the positive uplifting business from the flu season?

David Tusa: Really, the only area where we see significant seasonality is going to be the Retail sector due to the flu shot business. And again, the ordering patterns can be somewhat erratic, but we will have flu shot business in the December quarter. Most likely it won't be as high as what it was in the September quarter but we'll still have some flu shot business that will come in. As far as the Professional market, doctors, dentists and that, we really shouldn't see seasonality as a result of that.

Joel Goldsmith: Okay. Thank you. I just would also say congratulations for getting your quarterly reports in so early. It's really unusual to see a small company report so early in the season.

David Tusa: Well, we're a small company that has a lot of people here with much more experience than what you would expect in a small company, because we're here to make it a big company and not a small company. I appreciate the comment but that's how we do everything every day.

Joel Goldsmith: Okay, very good.

Operator: Once again ladies and gentlemen, to ask a question at this time, please press star, one on your telephone keypad. Our next question comes from George Walsh with Gilford Securities. Please proceed with your question.

George Walsh: David, a very good quarter on the revenue and the growth in all segments. You know you hit that nice $6.3 million mark. Just as best you can, looking forward through the balance of the year, do you feel like that's a revenue bogey mark you can continue to hit? Or, is there still seasonality and lumpiness this that will affect it going forward?

David Tusa: George I'm surprised that question didn't come earlier. You win the prize for asking it because I knew the question would come. We don't provide guidance, we don't make projections, but I will tell you that all of our core markets are very strong and we had a very good quarter for September. We continue to see strength in all of our core markets. Yes, the Retail may be down because of the seasonality on the flu shot side, so we see strength in all the other markets.

George Walsh: And, congratulations on that positive EBITDA. That's a good thing to see, and obviously the more consistent that is the better. But the good thing with this quarter is, like you said, as those revenues increase you see the leverage that's involved in that. So, the model is there, it's just a matter of loading those deals and booking the revenue. So, congratulations.

David Tusa: Well, thanks George. Thanks for the comments.

Operator: At this time, I would like to turn the floor back over to Mr. Tusa for closing comments.

David Tusa: Great, thank you. We continue to believe that we can capture a much larger share of the medical waste and unused medication market through our comprehensive and customer focused offerings. Again, we transformed from a mail-back company into a comprehensive medical waste solution provider. We're a dynamic company that has the flexibility to address unique situations and we customize solutions for all of our customers' requirements. Believe me when I say that my excitement in the business and the future of the company resonates throughout the organization. So, thank you everyone for participating in our call.

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

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