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Transcript of
Sharps Compliance, Inc.
Fourth Quarter 2014 Earnings Conference Call
August 13, 2014

Participants

Jennifer Belodeau – Investor Relations, IMS Group
David Tusa – President and Chief Executive Officer
Brandon Beaver – Senior Vice President, Sales
Diana Diaz – Vice President and Chief Financial Officer

Analysts

Joe Munda – Sidoti & Company
Nick Hiller – William Blair
Brian Butler – Stifel
Kevin Steinke – Barrington Research
Craig Hoagland – Anderson Hoagland
George Walsh – Gilford Securities

Presentation

Operator
Greetings and welcome to the Sharps Compliance Fourth Quarter Fiscal Year-End 2014 conference call. At this time all participants are in a listen-only mode. A question and answer session will follow the formal presentation. (Operator instructions.) As a reminder this conference is being recorded.

I will now turn the conference over to your host, Ms. Jennifer Belodeau of IMS. Thank you, you may begin.

Jennifer Belodeau – Investor Relations, IMS Group
Good morning and welcome to our conference call to discuss Sharps Compliance's financial results for the fourth quarter of fiscal 2014. On the call today, we have David Tusa, Sharps' President and Chief Executive Officer; Diana Diaz, Sharps' Vice President and Chief Financial Officer; and Brandon Beaver, Senior Vice President of Sales. David will review the company's business operations and growth strategies and Diana will review the financials. Brandon will discuss the sales organization and related initiatives. Immediately following their formal remarks we will take questions from our call participants.

If you are listening via webcast, please note that you have the ability to submit questions through the internet. As you're aware we may make some forward-looking statements during the formal presentation and in the question and answer portion of this teleconference. These statements imply the 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

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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. Go ahead, David.

David Tusa – President and Chief Executive Officer

Thank you. Good morning everyone and welcome to our fourth quarter and fiscal year-end 2014 earnings conference call. Let's go straight to the highlights; customer billings were very strong at $7.4 million for the quarter, up 46% over the prior year, which soundly exceeded our previously announced expectation of $7 million. The quarterly billings were also up 39% sequentially. The quarter included record growth in the retail segment, and very strong growth in our pharmaceutical manufacturer, professional and environmental markets.

Our pharmaceutical manufacturer market was solid, with an increase in quarterly billings of 91% over the prior year, more than twice the billings reflected in the sequential quarter. The increase was a result of several large orders for new inventory builds for existing customers.

Now, during the second half of calendar year 2014, we will be launching two new patient support programs for new drugs, and we expect to launch four additional patient support programs for new drug therapies, approximately 12 months thereafter. We believe we are the leading provider of innovative customized Sharps programs for pharmaceutical manufacturers. Our relationships in this sector are strong, and we are pleased to see that our customers recognize the value of our services, as a provider of data supporting drug compliance and medication adherence, not simply a waste disposal solution.

The professional market billings grew 38% in the fourth quarter over the prior year, and 30% sequentially. The professional market refers to customers such as dental offices, veterinarians, physicians and other healthcare-related facilities. The growth is largely a result of our inside and online sales channel efforts, which drove a 14% increase in billings to $1.1 million in the fourth quarter.

Retail market billings grew by 184% to $2 million as compared to billings of $700,000 in the fourth quarter of the prior year. This was related to the timing of large flu shot related orders for the upcoming season. Fourth quarter retail billings were 2.7 times those generated in the sequential quarter, and as many of you know, retail refers primarily to retail pharmacies, that utilize our systems to collect, transport and process syringes used to administer flu and other immunizations.

Next, our environmental services sector; we continue to see the positive impact of the marketing of our third party treatment services, which generated billings of over $300,000 in the fourth quarter and $755,000 for the entire fiscal year of 2014, a year-over-year increase of over 4x. We believe we could see increased growth in this sector, as we invest more in the marketing of these services and increase awareness of our services.

Finally and as previously announced on June 30 of 2014, we completed a $1.5 million or $0.10 per share settlement with the US government related to our claims associated with the January 2012, termination of the CDC contract. The settlement represents a reimbursement of significant costs we incurred to unwind the obligations which were necessary for us to deliver products and services required by this five-year contract. We are pleased the issue was resolved in our favor, and we have cash in the bank. Now, we received the cash in July of 2014, so it's not yet reflected in the

June 30, 2014, balance sheet included in the earnings release. So all in all, a solid quarter; $7.1 million in GAAP revenue, 36% gross margins, and $0.11 in EPS, of which $0.10 is attributable to the CDC settlement.

For the full fiscal year 2014, we saw increased annual customer billings of 25%, highlighted by significant growth in our key markets, including professional, retail and pharmaceutical manufacturer. We also generated a significant improvement in profitability to $0.06 per share of net income for the full fiscal year.

I want to introduce Brandon Beaver, our Senior VP of Sales, who is on the call with us today. Brandon joined the company about three years ago and quickly grasped the business while gaining the confidence of customers and prospects. Brandon landed the first national deal, whereby we customized a solution for a customer that incorporated both mail-back and the pickup service.

Since taking the reins as the leader of the sales organization back in October of 2013, he has made many changes to significantly upgrade the sales team, with much stronger and experienced personnel. Also, he has refined and focused our sales approach, while leaning on marketing for prospect identification and collateral support. We are already seeing the impact of the changes, and we are looking to his team to drive sales growth for fiscal year 2015.

With that, I will turn it over to Brandon, so he can share more about the sales organization and related initiatives.

Brandon Beaver – Senior Vice President, Sales

Thanks David. First, let me say how excited the team is about the significant sales opportunities in front of us. The pipeline of opportunities is full, and we have solutions to meet the needs of these prospects. The company has committed significant resources, both financial and personnel related to our sales initiatives, and we plan to take full advantage of this commitment, turning it into increased sales.

As a comprehensive provider of medical and pharmaceutical and other waste management services for all markets served, we have differentiated ourselves in the marketplace by offering cost effective, customized solutions designed to address all the needs of the customer. We pride ourselves on responsiveness as well as excellent customer service. We are nimble and dynamic and can turn on a dime. The strength of the sales personnel we have in place facilitates management of numerous prospects at once, with minimal supervision. This allows us to move more effectively, and chase many more deals than we have in the past.

David has mentioned on previous calls, we have made many changes in our sales initiatives, including adding more salespeople and refining our sales approach, specific to each market. We believe we have the team in place that can deliver the sales needed to support the planned growth of the company. Between field sales support and inside sales, the team consists of 19 personnel. Our inside sales team focuses on opportunities of say $50,000 a year and less, while the field sales team generally focuses on $100,000 plus per year opportunities.

Of course, the sales cycle in the larger field sales opportunities is much longer, than the typical inside sales deals. We work very closely with our marketing group to continue to refine and add to the sales pipeline, and also for collateral and sales presentation support. This approach helps us stay focused on selling and closing deals. We plan to continue to drive growth of the retail, professional, home health and pharmaceutical manufacturer markets, while redoubling our efforts on the assisted

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living long-term care markets where we have admittedly lagged. We welcome the challenge to land more and larger deals, and look forward to a strong fiscal 2015.

With that said, I will turn it back to you David.

David Tusa – President and Chief Executive Officer
Thanks for the update Brandon. Now let's turn it over to Diana, who is going to provide more details on the financials.

Diana Diaz – Vice President and Chief Financial Officer
Thank you, David. During the fourth quarter, the company reported revenue growth of 35% to $7.1 million as compared to $5.3 million in the fourth quarter of last year. Gross margins were 36% in the fourth quarter, as compared to 30% in the prior year fourth quarter. The margin increase demonstrates our leverage on incremental sales growth.

Selling, general and administrative expense increased to $2.3 million or 33% of sales in the fourth quarter of fiscal 2014, as compared to $2.2 million or 41% of sales in the fourth quarter of fiscal 2013. SG&A for the fourth quarter of fiscal 2014 increased due to the hiring of additional sales personnel and new marketing initiatives. We believe that SG&A will increase in fiscal year 2015 by about 5% to 6%, with the increase being focused on sales and marketing initiatives.

The company generated operating income of $1.7 million in the fourth quarter of fiscal 2014, compared with an operating loss of about $700,000 in the same period last year. The company recorded EBITDA, earnings before interest, taxes, depreciation and amortization of $1.9 million for the fourth quarter of fiscal 2014, compared to an EBITDA loss of $435,000 in the fourth quarter of last year. The company reported net income of $1.6 million or $0.11 per basic and diluted share, compared to a net loss of about $700,000 or $0.05 per share for the prior year period. Fiscal year fourth quarter net income, EBITDA and operating income include the $1.5 million or $0.10 per share legal settlement, related to the company's claim against the US government that David discussed earlier.

Now looking at a few of the highlights for the year ended June 30, 2014. Revenue of $26.6 million in fiscal year 2014 increased 23% compared to revenue of $21.5 million last year. Customer billings increased 25% to $26.6 million in fiscal year 2014. Professional billings increased 38% to $5.3 million in 2014 as compared to $3.9 million last year.

Pharmaceutical Manufacturer billings increased 55% to $3.7 million in fiscal 2014, as compared to $2.4 million in the comparable period of last year. Retail billings increased 27% to $6.4 million as compared to $5 million in the last year. Flu business for fiscal year 2014 of $5.1 million was up 41% in comparison with the prior year period.

Fiscal year 2014 gross margin was 34% as compared to gross margin of 30% last year. SG&A expense was $9.1 million in the year ended June 30, 2014, an increase of 6% over the prior period, as a result of our increased investment in sales and marketing initiatives. Operating income improved to $1 million in fiscal 2014, as compared to an operating loss of $2.7 million in fiscal 2013.

EBITDA improved significantly to $2.1 million in fiscal 2014, as compared to an EBITDA loss of $1.6 million in fiscal 2013. Net income in fiscal 2014 was $1 million or

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$0.06 per basic and diluted share, compared to a net loss of $2.7 million or a loss of $0.18 per basic and diluted share in fiscal 2013.

Full year net income, EBITDA and operating income include the $1.5 million legal settlement related to the company's claims against the government. Our balance sheet remains solid with $13.7 million in cash and cash equivalents at June 30, 2014, and no debt. Our accounts receivable at June 30 are $4.7 million, which is higher than we typically carry, but reflective of very strong sales in the month of June. Today's current cash balance is over $60 million, which reflects the collection of much of the June 2014 receivables, and the $1.5 million settlement payment from the US government.

As we previously disclosed, Sharps has an authorized stock repurchase program in place for up to $3 million, extending through calendar 2014. During the June 2014 quarter, the company did not repurchase any shares; however, over the term of the two year program, we have repurchased 161,801 shares at a cost of $681,000.

With that, I will turn the call back to David.

David Tusa – President and Chief Executive Officer
Thanks Diana. Just a couple of statements before we turn it over to the Q&A. We believe we have made significant progress in fiscal year 2014, ending with a strong fourth quarter. But with that said, we are not content. While our 25% growth rate in fiscal year 2014 is good, our penetration rate of most of the key markets is still very low. So we believe we have an excellent opportunity to capture additional market share, and grow in fiscal year 2015 and beyond, as we educate the marketplace about our cost effective and operationally efficient systems.

Our sales team is as strong as the company has seen, and we expect solid performance from them. We believe we are well positioned to take advantage of the shift in healthcare from the traditional to the alternate site, and to continue to introduce innovative solutions in many markets, including pharmaceutical manufacturer, but we are selling data and compliance, not just disposal. And finally, we have a great group of employees. I don't believe you will find a more motivated, talented, dedicated, and yes, sometimes obsessed, team of people. We all work extremely well together, and everyone drops whatever they may be doing to support a sale.

So thank you to all the employees for a successful fiscal year 2014. We look forward to an even better fiscal year 2015. With that operator, let's open it up for questions.

Operator
(Operator instructions.) Our first question is coming from Joe Munda of Sidoti & Company. Please proceed with your question.

<Q>: David, thank you for the color on the segment breakouts, very helpful but I wanted to focus my comments on what's going on in home healthcare and assisted living. Brandon had talked about redoubling efforts there, can you give us some sense of why there is a lag that's occurring there, and does that have any correlation to the distributor business that you guys are currently doing?

David Tusa – President and Chief Executive Officer
I will tell you what I am going to do, Joe, I am going to take on home healthcare and I am going to let Brandon address the assisted living. On the home healthcare, a lot of that business is driven by distributors, and ordering patterns are not always perfectly matched up with the quarters. I think the better way to look at home healthcare is to

look at the year. If you look at the year, we were up about 8% for the year, which is probably the highest growth rate we have had in that home healthcare sector in quite a while. I have always said I thought we should do a 10% to 15% increase. So really for the year, it was close to our expectations, and Brandon, why don't you address the assisted living long-term care?

Brandon Beaver – Senior Vice President, Sales
Sure. So really recently, we have had a redoubling of effort on long-term care. It's obviously a very fragmented industry market. We have had some decent success with some of our national accounts, and now with the redoubling of efforts going back into some of those national accounts, and getting deeper penetration within our existing national accounts, and obviously our inside sales, focusing on all of your single and two, three, four type locations, and we feel that we are tackling it from a couple of different angles now. Not just from a national perspective, but really going back after the fragmented side of the smaller locations around the country.

<Q>: Brandon, how much of an opportunity is that fragmented side of the business?

Brandon Beaver – Senior Vice President, Sales
Joe, it's significant. We have done a decent job of landing some good national contracts and talking about penetration there, but a vast majority of long-term care, assisted living is small, fragmented sites throughout the country. So our inside sales has made a significant effort as of late to penetrate that side of the business.

David Tusa – President and Chief Executive Officer
Joe, as you know, we have calculated— and it's in our investment presentation - we have calculated that that market is $84 million and we are about 2% penetrated. So our solutions work extremely well in the assisted long-term care market. We do have some major customers, but now it's taking that low penetration rate and turning it into more sales. And as Brandon mentioned, it's a combination of field sales and larger accounts, and I think he is very effectively using inside sales as well to go after the more fragmented piece of it.

<Q>: David, how many reps did you add in the quarter, I guess sequentially, if you look over third quarter and to this quarter?

Brandon Beaver – Senior Vice President, Sales
Joe, I will answer that. Since January, we have added four additional field and support sales folks. So beginning January of this year, we had six; we're up to ten at this juncture.

<Q>: Few more questions here, helpful. David, can you walk us through the third party burn business, and how you come across that business, how you're soliciting for it, as well as some of the economics involved?

David Tusa – President and Chief Executive Officer
We have talked about this over the last couple of years. With the third party burn, a significant portion of our mail-backs are now being treated at Daniel's facilities, it really frees up significant capacity at our treatment facility. So over the last six to nine months, we have really turned up the marketing, and this turned into sales. There is a real demand out there for third party treatment and third party incineration services. So we market that through our marketing department and offer many services to many markets and hope to see that grow. It's a very profitable business, and it's one that we think we can continue to grow, and I have always said, Joe, you have heard

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us say this before, we want to turn that treatment facility into a profit center instead of a cost center. I think we are well on our way to doing that.

<Q>: Two more real quick, I guess a question for Diana. In terms of gross margin, what is driving the expansion here in the quarter, just better utilization? Can you give us some sense of what is really driving the gross margin expansion?

Diana Diaz – Vice President and Chief Financial Officer
It's just the leverage that we get with higher revenues. We have said before there is a fixed cost component and cost of sales that's about $1.1 million per quarter. The product costs range from about 48% to 50% of revenue, and if we look at that model compared to our revenue for the quarter, we are right in line with those estimates, at 36%.

<Q>: And then I guess my final question for you David, you're sitting now on $16 million in cash, no debt, any plans, acquisitions or dividend—any idea what we could expect from the use of cash?

David Tusa – President and Chief Executive Officer
That's a great question Joe. We have actually, and you have heard me talk about this; we do look for expansion opportunities in a number of different ways. One, we look at launching new products, new services; and for the first time, over the last couple of quarters, we actually have looked at some acquisition opportunities. Now for an acquisition opportunity to make sense, it has got to be a product or service that can be sold into our existing as well as prospective customer base, a product or service that makes sense, something that can be cross-sold.

The other thing is that it's got to have low integration risk; we are not going to jeopardize our organic growth business, our core business, and go out there and do something that doesn't make sense. So it has to be easily integratable, little to no integration risk, products and services that can be sold into the existing as well as prospective customer base, and ones as well that generate the kind of margins that we have begun to expect. So we have looked, and we are looking at some opportunities and we think that we are well positioned with a significant cash balance, and no debt to be able to act on these, again if we think it makes sense. So we are working on some things, and if we do get some closed, you will be the first to hear about it.

Operator
Our next question is coming from Ryan Daniels of William Blair. Please proceed with your question.

<Q>: This is Nick Hiller in for William Blair. Just one quick question on the Veolia partnership, I mean, is that something you expect to focus on selling to existing customers or is that something you'd look at retailers, or maybe even a consumer focus?

David Tusa – President and Chief Executive Officer
It's really for existing and prospective customers, and we have just started to market that. We think it's an excellent complementary service offering that our existing and prospective customers could have a significant interest in. We are just starting to market that and to sell that, and hopefully, going forward over the next couple of quarters, we will be able to give updates on it.

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Our next question is coming from Brian Butler of Stifel. Please proceed with your question.

<Q>: First, on the Daniel partnership, can you just give kind of a quick status and maybe update on maybe where that stands, and any thoughts on some larger contracts maybe coming in the next 12 months? I mean, obviously it has been beneficial, but it still seems like the long selling cycles seems like there are still some larger ones out there?

David Tusa – President and Chief Executive Officer
There really are. I mean, when you look at our pipeline of opportunities on the larger deals, the national deals, virtually all of them have some element of the need for the pickup, to be integrated with the mail-back. We work closely with Daniels every day, and taking quotes and working with them to put the best solution together for the prospect. Brandon, if you looked at your pipeline, and you looked at the quality of these sales reps, by the way, I understand the pickup service is doing extremely well. We still see that as an integral part of the growth.

Brandon Beaver – Senior Vice President, Sales
Absolutely.

<Q>: Any way to quantify it? I mean, obviously, it's kind of a wide range, but just trying to think about the partnership again—it appears to have been successful. Maybe another way to say it is -- any sense on what kind of the contribution has been in 2014, and what it might look like?

Brandon Beaver – Senior Vice President, Sales
We generated incremental business of probably $1 million, $1.5 million or so as a direct result of having that alliance with Daniels and being able to combine both the mail-back and the pickup, as the best solution for the customer. I will just say that there are many, many opportunities out there that are much higher than $1 million, to $1.5 million, that we believe we have the opportunity to close.

<Q>: Then on the pharmaceutical piece of the business, I think you finished the year with just around $3.7 million in revs from that; is that a good base for the current group of programs that you have in place for moving for your fiscal 2015? Then, the six new programs over the next 18 months, is that still another $2 million to $3 million of incremental revenues on top of that?

David Tusa – President and Chief Executive Officer
Right. What do we think Diana, what did we say?

Diana Diaz – Vice President and Chief Financial Officer
$2 million to $3.5 million for those six programs and these programs that might come up later.

David Tusa – President and Chief Executive Officer
Right. We've got a couple of launching in the next two quarters, and then we have four more that will launch roughly about a year after that. I will put it this way Brian, do think it's a good base, but if you look at fiscal year 2015, we think that we probably have the opportunity to grow that business by30%.

Diana Diaz – Vice President and Chief Financial Officer
Yes.

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David Tusa – President and Chief Executive Officer
By about 30% over the next year. So it could be higher, if we landed some more deals between now and then, but we think we are pretty safe with 30% increase year-over-year in that market; and by the way, every time we land one of these deals, then you are further filling up the pipeline. We actually have some deals that will fall into the 2016 quarter. So we are excited about that. We believe we were the key innovator in helping pharmaceutical manufacturers launch these programs. So we stay focused on it, and believe that that's going to continue to be a growth market for us.

<Q>: And then this year, you were just at breakeven, call it $26.5 million in revs, just under breakeven I guess. With the new sales force initiatives, in fiscal 2014, did that number then move up, I guess, by around $0.5 million, so is it really now $27 million or $27.5 million is where breakeven is, and again, I think Diana mentioned that operating leverage is still kind of that 45% to 50% on the revenue above breakeven?

Diana Diaz – Vice President and Chief Financial Officer
Right. We are pretty much at the breakeven level this quarter, $7.5 million in revenue.

David Tusa – President and Chief Executive Officer
But you know what's interesting—not interesting, but what's important to note though, Brian, is that we are focused on revenue growth, and we're focused on sales and we are focused on marketing. What we want to do is to invest, where appropriate, SG&A dollars into sales and marketing. We want to drive revenue. I mean, if you look at the year, if you look at this past year, what did we do?

The revenue was up 23% and the SG&A was up 5%. So we think we have the opportunity to continue to expand that operating leverage but we are going to be smart. We are going to spend money where it's appropriate, and it's going to be focused on sales and marketing. But at the end of the day, we want to drive revenue growth. We know that profitability is going to be there, but in the meantime, we need to make sure that we are spending what's necessary to drive continued revenue growth.

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

<Q>: So you are talking now about six new pharmaceutical manufacturer programs, I believe last quarter it was five. So I guess we can assume you added a new one recently, or there was a new deal recently signed?

David Tusa – President and Chief Executive Officer
That's correct.

<Q>: And that's, I guess, it sounds like roughly $0.5 million annual run rate is the way to think about it?

David Tusa – President and Chief Executive Officer
Well that's on average. Actually we landed that one recently. That's going to be the one that's going to fall into the second half of the calendar year. So that's why we have two of them that we will be launching in the second half of the calendar year. They are on average, about $0.5 million, but some could be smaller, some could be significantly larger.

<Q>: I think you made a comment, and I may have missed this, about new business being up 41%, is that correct?

David Tusa – President and Chief Executive Officer
We said that customer billings were up for the quarter, 46%, is that what you—?

<Q>: Yeah, okay. No, I must have missed that or misheard that. In terms of the retail market, you saw a little bit of a shift in timing in the flu shot business. How significant of a pull forward was that, just trying to get a sense of how we should think about the next quarter in that business?

David Tusa – President and Chief Executive Officer
Well, let me answer it two ways; we had about $700,000 that moved to the June quarter from the March quarter. But if I am looking it from a big picture perspective, we really try to look at these things on an annual basis, trailing 12 and then the forward 12. From a forward 12 standpoint, the way that we look at these retail businesses, we think we are pretty safe in saying that should increase by 20% or so for fiscal year 2015. And again, because of the lumpiness, and because of the mismatching sometimes of the orders, I think that's the best way to look at it.

Operator
Our next question is coming from Craig Hoagland of Anderson Hoagland.

<Q>: I was wondering -- the professional growth rate was very strong for the fiscal year. Would you expect that to continue in the high 30s, or do you think that might moderate some going forward?

David Tusa – President and Chief Executive Officer
Well, that's one of my favorite markets, because we are somewhere between maybe 1% or 2% penetrated in the $600 million plus market. The 38% was good. I think we have the opportunity to generate even greater growth. This is an area where we can save the prospect significant dollars and that we can introduce a system that's very operationally efficient. The key there is getting to the customers. So what Brandon and his crew are doing, is going out for large national accounts, and we do have a number of large national accounts, and then we have our inside sales group dialing and smiling, and going after the individuals, while we have a marketing initiative with Dennis and his crew, using different marketing and internet-based initiatives, to drive growth as well. So it's really kind of a three-pronged attack. So while 38% is good, I can tell you, that was probably below what our internal expectations were.

<Q>: And then on gross margin leverage, this year, you picked up just under 400 basis points on a $5 million increment of revenue. Diana, would you expect that kind of leverage to continue on the next $5 million of revenue?

Diana Diaz – Vice President and Chief Financial Officer
Well I think we just have to go back to our model. Each quarter has got about $1.1 million and fixed costs that are in cost of sales and then the product cost ranges from 48% to 50%, and so as we look going forward, we would expect our margins to be in the high 30s, from a percentage basis when you do the math.

<Q>: So it's really leveraging that $1.1 million?

Diana Diaz – Vice President and Chief Financial Officer
It really is.

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Operator
Our next question is coming from George Walsh of Gilford Securities. Please proceed with your question.

<Q>: Brandon, I had a question, just a little more philosophical I guess, as you look at the company. But primarily, the mail-back service is marketed to the service provider in home healthcare, the professional market. But the pharmaceutical manufacturing is where you are effectively bundling with the product itself and OEMs so to speak. How do you see the markets developing for this? Are there more bundling opportunities? Can you work with larger entities to do more of that? Do you think the focus is really that you go after the one that's providing the healthcare service?

Brandon Beaver – Senior Vice President, Sales
George, I look at it a couple of different ways. We look at our pharmaceutical markets as working directly with the actual payor, working directly with new injectable drugs coming out, which obviously facilitate down to the patient level. Does that mean that we'd not work through different avenues? Certainly not. We are going to explore all opportunities that would lead us back to ultimately that home injectable patient.

Regarding other additional markets, just seeing through the financials, we obviously work through distributor relationships, as well as directly to some of our payors direct. So it's across the board really, but I will tell you from a sales standpoint, we truly uncover all rocks, through all different ways that make sense for the organization.

<Q>: Yeah. I am just curious as to how this works, say like the mail-back for unused drugs, something like that, is that something where you could bundle with like a Cardinal Health or something like that, does that make sense or it doesn't work that way?

David Tusa – President and Chief Executive Officer
Right now George, with products like the unused medication, that's used primarily in the long-term care, the long-term care industry, and to some extent on the retail side. But at least right now, there probably aren't a lot of opportunities to bundle those. There could be in the future, and we think that there are potential opportunities to expand that unused medication business.

<Q>: Anything with the injectables, relative to that also, with the distributor?

David Tusa – President and Chief Executive Officer
We have looked at that. It's tough; it's tough to do something like that but we have looked at that. George, it all gets down to resource allocation, and we want to go after the opportunities where we think we have the highest probability of sales, the highest revenue, and the highest margins. So if you're taking resources away and looking at some of these other avenues, you potentially have an opportunity cost associated with that, with the deal that you could have closed that was a little bit more straight-forward.

Operator
At this time, I'd like to turn the floor back over to management, for any additional or closing comments.

David Tusa – President and Chief Executive Officer
Thank you everyone for joining us. We appreciate the support of the company, and we look forward to speaking with you next quarter.

Operator
Ladies and gentlemen, thank you for your participation. This concludes today's teleconference. You may disconnect your lines at this time and have a wonderful day.

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