Operator: Ladies and gentlemen, thank you for standing by. Welcome to the Sharps Compliance Corporation First Quarter Fiscal Year 2013 Financial Update Conference Call. During today's presentation, the lines will be in a listen-only mode. Following the presentation, the conference will be opened for questions.

If you have a question, please press the star, followed by the one, on your touchtone phone. If you'd like to withdraw your question, please press the star, followed by the two. If you're using speaker equipment, please lift the handset before making your selection.

I would now like to turn the call over to Deborah Pawlowski. Please go ahead.

Deborah Pawlowski: Thank you, Maritsa, and good afternoon, everyone. We appreciate your participation in our First Quarter Fiscal Year 2013 Earnings Conference Call. You should have a copy of the news release detailing Sharps' financial results that was put out earlier this morning. If you do not have it, you may obtain a copy from the Company's website at www.sharpsinc.com.

On the call with me today, I have David Tusa, the Company's President and CEO; 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 some 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 for you in the press release, itself, which can be found on our website, as well as with the Company's other 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, Deborah, and welcome, everyone. I'm going to briefly review the quarter and discuss our progress and our key targeted growth markets, and then I'll turn it over to Diana who'll review the financials in a bit more detail.

We've started our fiscal year 2013 strong with a record level of core customer billing from the first quarter of $5.4 million, which was about $270 thousand, or 5%, higher than the prior-year quarter and almost $1 million, or 22%, higher than the sequential quarter. Core customer billings represent our total customer billings, excluding the impact of the CDC contract which was terminated back in January 2012.

Our first quarter growth reflects a positive impact of our aggressive and focused sales and marketing efforts, especially in the Company's Professional, Pharmaceutical, and Core Government markets.

Professional market billings, which represent just over 18% of the total billings, grew 43% to over $1 million in the first quarter of fiscal year 2013 compared with about $700 thousand in the prior-year period. And as we've mentioned during last quarter's call, we expected an approximate 30% sequential growth in the Professional market for this quarter, and we delivered a 28% growth in sequential quarterly billings.

Our inside and online sales channel, which is primarily targeted towards Professional markets, showed an increase of 64% to nearly $800 thousand in the first quarter from approximately $500 thousand in prior-year period, and was up 33% from the $600 thousand generated on a sequential quarter basis. Our internal plans reflect continued and significant growth from the Professional market as doctors, dentists, vets and other professionals become more aware of the convenience and cost-effectiveness of our mail-back solutions for the small quantity generator.

First quarter Pharmaceutical Manufacturer market billings more than doubled to $560 thousand, as a result of timing and resupply orders from two newly-established patient support programs initiated in late 2011. We are still in the rollout stage for the three programs we won last year, and expect to see more growth over the next few quarters.

Once fully rolled out, the three programs have the potential to generate as much as $3 million in annual recurring revenue. And as I mentioned previously, sales in this market can fluctuate measurably from quarter to quarter, due to the variability and timing of orders associated with each program. Although we have not launched any new programs recently, we continue to believe that this market should be an area for growth as pharma manufacturers look for ways to improve patient interaction, monitor, and potentially improve, drug compliance and adherence.

Our core government market billings increased $392 thousand for the first quarter, mostly as a result of the $230 thousand stocking order from the U.S. Department of Defense.

Importantly, we continue to pursue sizable opportunities with the government, including the potential for a rollout of our program with the Veterans Administration. We remain encouraged by the continued progress of our discussions with the VA.

Growth in these three markets were slightly offset by a $600 thousand year-over-year decline in the Retail market, due to the timing of consumer product launches in the prior year, including large orders supporting the launch of the Complete Needle™ and the TakeAway Environmental Return System™ envelope.

Although the flu shot orders were relatively flat for the quarter, they were up nearly 65% to $3.7 million for the trailing 12-month period. Over the past four years, we've seen the flu shot related business nearly quadruple. Since we have previously established our leadership position with retail pharmacies administering flu and other shots, the growth over the past four years has been driven primarily by more shots being administered in the retail setting every year.

We've been very pleased with the rollout to about 24,000 retail pharmacies over the past year of our unique Complete Needle Collection & Disposal System™ for individuals who are required to self inject medications for their health and well-being. We generated over $1 million in revenue since its launch in the September quarter last fiscal year, and believe we're making good progress establishing the system as the standard of care for diabetics through the Retail channel.

We've also made very good progress with our Daniels marketing alliance, which has enabled us now to offer comprehensive medical waste management services versus just selling mail-backs. The reactions from customers have been very positive to the alliance and, to-date, we've closed about $500 thousand in business, most of which will launch in January 2013.

The pipeline of our Alliance opportunities includes a number of components: one, proactive new customer inquiries; two, existing mail-back-only customers, and three, our targeted new customer prospects, where we believe the combination of the mail-backs and the route-based, pickup service best suits their businesses by increasing convenience and lowering their costs.

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

Diana Diaz: Thank you. I'll just add on a few points below the top line to bring you up to speed on the financials for the quarter.

Gross margin was 30.1% in the first quarter of fiscal 2013 compared with gross margin of 31.7% in the fiscal 2012 first quarter. The margin contraction reflects the impact of the January 31, 2012 termination of the maintenance portion of the U.S. Government contract, including the absorption of approximately $115 thousand, or 220 basis points, of ongoing facility costs.

Selling, General & Administrative expense, or SG&A, in the first quarter was $2.1 million compared with $2.2 million in the prior-year period. The improvement reflects strong costs discipline and focused use of resources on the Company's targeted markets. We expect quarterly SG&A for fiscal 2013 to be at a similar level as the current quarter, barring additional marketing opportunities.

For the first quarter of fiscal 2013, the Company incurred an operating loss of about $640 thousand compared with $500 thousand in the same period the prior year.

The first quarter of 2013 net loss was about $640 thousand, or $0.04 per diluted share, compared with a net loss of $325 thousand, or $0.02 per diluted share, in the prior year. We see the breakeven point for us to be between the $6 million to $6.3 million revenue range on a quarterly basis.

Our balance sheet has remained very strong with $16.8 million in cash and cash equivalents as of September 30, 2012. The decrease in cash and cash equivalents from the prior year of $700 thousand reflects the Company's continued investment in sales and marketing and maintenance of operational infrastructure to support a much larger revenue run rate than it currently generates.

As of the end of the quarter, September 30, the Company had no debt outstanding and continued low maintenance capital requirements.

David, I'll turn it back to you.

David Tusa: Thank you, Diana. Looking at fiscal year 2013, we're very encouraged by the first quarter growth in billings and the opportunity that the entire fiscal year presents. We're pleased with our success in launching our consumer products in the three leading national retail pharmacy chains and many national and regional food and drug chains.

We expect to see sponsorship from a variety of ancillary product and pharmaceutical manufacturers that serve the diabetes and other self-injectable drug marketplace. We believe that we'll continue to make inroads in the professional market towards a tipping point, as we continually refresh and create new approaches to our marketing efforts. We're especially excited about the Daniels alliance and its recognition in the marketplace as a key player and a full-service provider of medical waste management services. We expect the alliance to make a positive impact on our core billings beginning in the March 2013 quarter. Our pipeline of opportunities has never been as robust as it currently is, which we believe will bode very well for 2013 and beyond.

And with that, Maritsa, we can open up for questions.

Operator: Thank you. As a reminder, ladies and gentlemen, if you would like to ask a question, please press the star, followed by the one, on your touchtone phone. If you are using speaker equipment, please lift the handset before making your selection. Once again, if you would like to ask a question, please press star, one on your touchtone phone.

Our first question comes from the line of Ryan Daniels with William Blair & Company. Please go ahead.

Ryan Daniels: Yes, good afternoon. Thanks for taking my question. Let me start with just a quick one on the ComplianceTRAC^{SM} program. I know that's something you were pretty excited about last quarter, when you launched it officially, and I'm curious, number one, if that's been helping you with some of the strengths you're seeing in the pipeline and lead generation, and then, number two, is the primary focus to still use that for new customer acquisition or have you thought more about pushing that out in the install basis?

David Tusa: Ryan, that's a good question. The ComplianceTRAC^{SM} launch has gone reasonably well. It's been used primarily to attract new customers versus existing, although we make it available to our existing customers, as well. It's probably too early to tell. Again, it's a fully comprehensive program and one that we think could satisfy all of our customers' blood-borne pathogen training and other requirements that they can do online, and we hope that's going to push some new sales into professional markets.

Ryan Daniels: Okay, that's helpful color. And then, one of the things I know you often have run into in the Professional market is individuals who like the idea of a mail-back program and see it as a cost saver, but still have ongoing contracts with the pickup service. I know that you have been created a database to do call backs when those contracts are near expiring, so I'm curious, if that's built up over the last year and a half or two years. Are you seeing a pretty good conversion rate when you go back to those individuals the second time around?

David Tusa: We do, Ryan. Actually, some of the growth that you've seen in the most recent quarters is attributable to just that. When we reach out to a doctor, dentist, vet, or whoever it is, if they do have to have a contract, we take all that information and then we reach back out to them three or four months before that contract renewal date and sign them up. It has been successful and, again, we think that's a portion of what's helped the recent growth.

Ryan Daniels: Okay, perfect. Two more quick ones and I'll hop off. First, the emergence of some of the national chains we're seeing, especially the urgent care clinics, seems like a great growth area, and I know that might be right, but I'm curious if you've looked at those ancillary care areas, which I'm sure you have, and do you have a specific account rep looking at those national accounts or some of the national vet chains, things of that nature?

David Tusa: We do, Ryan. We are looking at more and more chains, larger chains, whether it's dentists or whether it's vets, and I have to tell you what's really made that successful is the alliance with Daniels. What you find when you deal with these 200, 300 or 400 facility chains is that there are some locations that just like to pickup or the volumes of some of these locations are just too significant or too high for a mail-back, so the Daniels alliance has helped us.

I mentioned that we've closed about $0.5 million in business with them so far, and that was directly attributable to a combination of the mail-back and the pickup in a large chain. We think that we're going to be able to take that success and hopefully land more.

Ryan Daniels: Got you. And then my last one is anything on Hurricane/Super Storm Sandy? I know your product would seem perfect for that, so I'm curious if you've had any opportunity to provide services out there.

David Tusa: No, we have not seen any opportunities. I think right now everyone is focused on taking care of the individuals that are impacted by the hurricane, so we have not yet seen anything.

Ryan Daniels: Okay, thanks again for all the color.

Operator: Thank you. Our next question comes from the line of Brian Butler with Wunderlich Securities. Please go ahead.

Brian Butler: Good afternoon. Thank you very much for taking my call.

David Tusa: Hi, Brian.

Brian Butler: First question, can we get a little bit more detail on the Daniel partnership? You're talking about $500 thousand that's been signed up to-date. How is that split in the second half of your fiscal 2013?

David Tusa: It's going to start rolling out in January 2013, so we'll start to see some impact in the March quarter. And of that, $0.5 million in business is for the alliance. Roughly half of that will possibly impact the mail-back business, our business, and roughly the other half, obviously, Daniels.

Brian Butler: Okay and, when you think about the Daniels alliance, where do you see that partnership right now from rolling out to getting into a full-sale mode? I mean, are you halfway there? Is that really fully in place now? And if it is, maybe some more color on what the pipeline looks like.

David Tusa: We think we pretty much have it rolled out. There is somebody in this Company that is talking or working with someone at Daniels almost every day, so we have a significant pipeline of opportunities that we've jointly identified as ones that would benefit both companies from a combination of the mail-back and the pickup.

It's quite a robust pipeline and it includes customers in many of our markets; not just one market or two markets, but many of our markets. I don't want to get into too much detail for competitive reasons, but what we want to be able to do is attribute further growth in this Company to that alliance, and see what it does for it.

Brian Butler: Okay, and let's then talk about the Retail segment; not as strong as I think you were looking for. Obviously, there are timing issues there; but when you think about it for a full year, for fiscal 2013, are you still in a place where you can have revenue growth year-over-year? At what level do you think that really can come in now? And finally, in that same vein, how do you get there?

David Tusa: I think we'll continue to see significant growth in the Retail sector. The flu shot business for us, every year, has increased substantially and you'll continue to see that as more and more flu shots are administered in retail settings.

As far as our other products, the TakeAway™ envelope and the Complete Needle™, I think we'll see growth in those areas from not only selling more and more units into the retail sector, but as we gain more and more sponsorships to accelerate the growth of the unit, as well as the back end side, the return labels. We've sold about 300,000 units of the Complete Needle™ so far and well over one million of the TakeAway™ envelopes and we really think we're just getting started in establishing the Complete Needle™ as the standard care in the retail setting for the diabetic.

Brian Butler: Okay, so you do expect year-over-year growth in 2013 in the Retail segment?

David Tusa: Yes, absolutely. It's just that this quarter was a bit odd in that, although the flu shot season for the year was great - it increased substantially - just the first quarter, because of timing issues, was pronounced flat for the quarter. And then last year, we had launches of the Complete Needle™ and the TakeAway™ in some major retailers, which we didn't have in this particular quarter. So, yes, we do expect to see growth in the Retail sector. We do consider that one of our key markets and expect continued growth.

Brian Butler: Okay, great. And then on the Pharma, when you talk about the three programs you're still ramping up, can you give a little bit more color on how far you are and when you will be fully ramped up on those three programs and at that $3 million run rate?

David Tusa: We hope that it'll ramp-up closer to $3 million over the next few quarters. It takes a while for these programs to rollout, to be made available to the entire patient population, and then on one of the opportunities, time for the units to come back. With one of these deals, we have a significant portion of the revenue on return. So, probably over the next few quarters, we should hopefully start to see a higher growth rate. These programs are coming closer to fully rolled out.

Brian Butler: What were the revenues in this quarter, just excluding the new programs?

Diana Diaz: New Pharma, $500 thousand.

David Tusa: $500 thousand of the $562 thousand, so it was the new programs that generated the vast majority of revenue for the quarter.

Brian Butler: Okay, great. Thank you very much. I'll hop back into queue.

Operator: Thank you. Our next question comes from the line of Joe Munda with Sidoti & Company. Please go ahead.

Joseph Munda: Good afternoon.

David Tusa: Hi, Joe.

Joseph Munda: Just to follow-up, I have two questions. First, on Hurricane Sandy... if an opportunity were to come along, how long, logistically, would that take for you to fill an order? Let's say, if you received an order from FEMA or the CDC; do you have the resources in place to fulfill a large order?

David Tusa: Absolutely - whether it's a large retailer or a government agency, that's what we do. It wouldn't take long, but we haven't been contacted; although, we think we could help. We could help significantly, but logistically, it would not take long at all.

Joseph Munda: Okay. In your prepared remarks, you talked about a tipping point in the Professional market. What are you referring to as far as that tipping point? I'm just a little confused.

David Tusa: When I think about the tipping point, I think about the point when you know that a much higher percentage of the Professional market is aware of the mail-back option. And with that, we think that we have the opportunity to close more business and accelerate the growth. So, the tipping point, I think, is when you start to see even higher levels of growth rate, driven by the awareness throughout the Professional market of the alternative to the pickup service for the small quantity generator.

Joseph Munda: Okay, and then this question is for Diana. How should we look at gross margin going forward? Are we going to see a trend? Have we hit a low point here or should we see a trend up from here?

Diana Diaz: As our revenue grows, obviously, the gross margin will increase and I think we've talked in the past about incremental revenue generating 50% margin.

Joseph Munda: Fifty percent margin.

Diana Diaz: So it's definitely a leverage situation.

Joseph Munda: Okay, so by the end of fiscal 2013, do you get the mid-30s range, high-30s range?

David Tusa: It's a pretty easy business model. You just add. If you add the incremental revenue and then use the 50% gross margin, you can see. We would expect margins for the Company to grow and grow significantly and the gross margins to get above 40% as they were in the past, when we were generating higher revenue.

Joseph Munda: Okay.

Operator: Thank you. Our next question comes from the line of Kevin Steinke with Barrington Research. Please go ahead.

Kevin Steinke: Good afternoon. I wanted to follow-up a little bit on the gross margin question there. I noticed in some of your recent filings that you're talking about the fact that you're going to ship some of the collected medical waste from your customers to a Daniels treatment facilities, and I was wondering if that could have a positive impact on your costs and, potentially, help out gross margin at all in the future.

David Tusa: Kevin, that's a very good question. We're doing a number of things with Daniels. It’s not just the joint marketing alliance. We're actually utilizing their facilities for the return of units, where the customer is located closer to the Daniels facility than to our facility. We started doing that a few months ago, and I think it'll take a couple more quarters to start to see the positive impact from that, because units that go out today don't necessarily come back tomorrow. They take a while before they come back.

So, yes, over the next couple of quarters, as you see more and more units going to the Daniels facility versus ours, it will have a positive impact on the gross margin, because our return transportation costs will definitely be lower.

Kevin Steinke: Okay, great. Also, related to gross margin, I believe last quarter you said you had a deal in place to sublet about 20,000 square feet out of the 50,000 at the Atlanta facility. Any update there? Is that deal closed now, and will we see the benefits of that going forward?

David Tusa: Yes, that deal closed and we recorded the impact of that in the June quarter, so you don't see any drag related to that 20,000 of the 50,000 square feet. We still have 30,000 left and we're looking at a couple of deals. We don't have anything yet that's imminent, but we think we made significant progress closing the sublease of the 20,000 of 50,000.

Kevin Steinke: Right. Diana, was there anything in particular going on with the tax rate this quarter? I know you showed a little bit of tax expense. How should we think of that for the rest of the year?

Diana Diaz: The small amount of tax expense is just our state tax obligation, so we'll only have a little bit there. At this point, the benefits that would've been generated from the taxable losses in the quarter were offset by additional valuation allowance. So, obviously, once we become positive and we start to eat into the valuation allowance, then it will be re-evaluated depending on the circumstances at that time; but you won't see any federal income tax expense or benefit while we have that valuation allowance out there.

Kevin Steinke: Okay. And on the three patient support programs that you are currently rolling out, what have been the early results and do you think they're positive enough that they're going to attract interest from other potential patient support program customers?

David Tusa: Yes, they have been seen as very positive. The customers and the patients are happy and so are we. And we do think that it will help us in trying to gain more customers, based upon the success of these programs, Kevin, and we're chasing many of them. It's just really difficult to predict timing and when they'll flow.

Kevin Steinke: Thanks. I'll hop out of the queue for now. Thanks for the update.

David Tusa: All right. Thanks, Kevin.

Operator: Thank you. Our next question comes from the line of George Walsh with Gilford Securities Incorporated. Please go ahead.

George Walsh: David, the other day, the Company put out an announcement relative to a Nebraska MED disposal program. I wonder if you could go into that a little bit; and what the viability of that or trend of that is with other states at this point.

David Tusa: George, we closed the first one of these state opportunities a couple of years ago, when Iowa stepped up and put the funds together to support a program. The most recent one is Nebraska and the program right now is focused primarily in Lincoln, Nebraska. The way it works is, if you're a participating pharmacy in that Lincoln, Nebraska area, then you're able to get free TakeAway Return System™ boxes or the envelopes. The envelopes are made available to individual patients. The boxes are used when patients are invited to bring back the unused meds and put them back in the boxes that return to us.

We think it's really important, as you see more and more states and cities looking for ways to properly dispose of unused medications, to provide this service to their citizens. I think we're going to see more and more cities, and in some cases states, launching programs like this, where they make our solutions available to patients.

It's an important part of the growth of the Company. It's not only selling through Retail, but also having states and governments and cities become involved and support programs for their residents.

George Walsh: Was this done by Lincoln, Nebraska, meaning the city, or was this program done by the state in Lincoln?

David Tusa: It was done by the state, but Lincoln is the first area where it's being launched. .

George Walsh: All right. And the other... you said there was a contract there with the Department of Defense. I'm just curious as to what that was, if you can provide just a little detail on that. And that was through a distributor; it wasn't a direct sale?

David Tusa: Right. The Department of Defense will buy through one of the big three wholesalers. We've had a contract with the Department of Defense for a couple of years, a DAPA [distribution and pricing agreement] contract, where pricing was established and all products were made available to them, so they started ordering. They've ordered a number of different products, that they can use in clinics or any kind of health care facility that's generating smaller quantities of syringes and other types of medical waste.

We were very pleased to see that. We can make no guarantees, but, hopefully, they'll continue and those purchases can grow.

George Walsh: Does that have any correlation with the VA or is that its own thing?

David Tusa: No, it's its own thing. It's totally separate.

George Walsh: Okay, all right.

David Tusa: Okay. Thanks, George.

Operator: Thank you. Once again, ladies and gentlemen, if you would like to ask a question, please press the star, followed by the one, on your touchtone phone. If you are using speaker equipment, please lift the handset before making your selection.

Our next question comes from the line of Craig Hoagland with Anderson Hoagland & Company. Please go ahead.

Craig Hoagland: Hi, David. I wanted to return to the Professional market for a minute. We saw really good sequential growth there and it was also really good year-over-year growth after most of last year being pretty flat, sequentially. Do you see this as the start of a period of more rapid sequential growth or do you see it as more of the step-up quarter and then we'll grow more slowly from here?

David Tusa: Well, the Professional market has grown significantly quarter-over-quarter, year-over-year for a couple of few years now, so…

Craig Hoagland: I show it was $700,000 or $800,000 each of the last four quarters and then a step-up to a million this quarter.

David Tusa: Well, it's on a pretty steady basis, as it has increased year-over-year. Ryan asked that question earlier about the benefits of reaching back out to customers and their contracts, which is good, with more and more sales in marketing, trade shows, and promotions, basically just to get the word out to the Professional market that there are alternatives to that traditional pickup service. I think we're starting to gather steam in creating more awareness of our solutions in that Professional market. Again, we see this as a key market and one that we think could generate significant growth, even higher than the levels we've seen in the recent quarter.

Craig Hoagland: Last quarter, you gave us an inkling of what growth might be. Do you care to do that going forward?

David Tusa: We were already a couple of months into the quarter, so I had a preview. We're only a month into it now. I'll just say that we started the month of October strong. I'm not going to make any projections, but I will say that it does look like we'll have a healthy increase in the December quarter.

Craig Hoagland: Should we interpret your remarks that the year-over-year growth rate could accelerate further from here?

David Tusa: Well, we sure think so. We think we're starting with such a low base. If you really look at what we're doing, the penetration level is just tiny. I always tell folks we're maybe 1%, or on a good day 2%, penetrated into that Professional market, so we're starting with such a low base that I think that we do have the opportunity to generate higher growth rates even as we go forward and the base improves.

Craig Hoagland: Thank you.

Operator: Thank you and that does conclude our Q&A portion of the conference call. I would now like to turn it back. Please go ahead.

David Tusa: Thank you, everyone. We appreciate your participation in the call. We really think that we're gaining traction in our marketing effort, which has been demonstrated in growth in our core billings. Now, the focus on our targeted markets, our intensity and the drive of our sales team is resulting in the growth in revenue and the growth in the pipeline of opportunities available to us.

We're known by our customers as a company with a high degree of responsiveness and flexibility, and we think that’s one of the key differentiators for us; and that’s going to be a critical component of the growth going forward.

Again, we're making great headway with our marketing alliance with Daniels. We're starting to see some of the benefits of it, with deals closing, and we think that's going to play a key component in beginning to take market share away from traditional service providers in the medical waste industry.

So with that, thank you everyone for your participation and your interest in Sharps Compliance. We appreciate your support and thank you for your participation in today's call.

Operator: Thank you. Ladies and gentlemen, that does conclude our conference call for today. You may now disconnect.