Operator: Greetings. Welcome to the Sharps Compliance Corporation Fourth Quarter and Fiscal Year End 2012 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, Deborah Pawlowski, Investor Relations for Sharps Compliance Corporation. Thank you, Ms. Pawlowski. You may now begin.

Deborah Pawlowski: Thank you, Rob, and good morning, everyone. We certainly appreciate your participation in our Fourth Quarter and Fiscal Year End 2012 Earnings Conference Call. You should have a copy of the news release detailing Sharps' financial results that went out over the wires earlier this morning. If you do not, 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 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, as well as with the Company's filings with the Securities and Exchange Commission, which can be found at SEC.gov.

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

David Tusa: Thank you, Debbie, and welcome, everyone. I'm going to briefly review the quarter and the fiscal year, but also discuss our key targeted growth markets. Then we'll have Diana delve further into the financials.

Our fourth quarter sales were not at a level that we would have expected, especially in light of the many proposals and opportunities which we are advancing. This quarter just lacked demand events from which the previous three quarters of the fiscal year benefited, whether it was a product launch, a major flu shot order, or a patient support program.

So simply said, we didn't generate incremental business sufficient enough to overcome the loss of the maintenance portion of the government contract; however, we continue to remain very positive regarding our long-term growth prospects. Our outstanding proposals, the excellent reception our Daniels alliance is receiving, our inside, web-based and direct sales lead development progress, and the expanding launch of the Complete Needle™ Collection and Disposal System throughout the majority of retail pharmacies provide us with the basis for our continued long-term optimism.

Our fourth quarter revenue was $4.5 million, which was 9.8% lower than the prior year period. Customer billings were also down about $800 thousand year-over-year. These results reflect a

$720 thousand adverse impact from the termination of the maintenance portion of the U.S. government contract with a division of the CDC in January of this year. Strong billings in home healthcare, professional, and pharmaceutical manufacturer markets were dampened by the timing of various retail product launches and an unusually early flu shot season order in the trailing third quarter.

As I have stated on many occasions, we recognize that, until we build sufficient scale, we are subject to significant variability quarter-to-quarter in most of our markets. Excluding the maintenance portion of the U.S. government contract, our fourth quarter billings and revenue were relatively unchanged from the same period last year.

For the fiscal year 2012, revenue was up 12.3%, while core billings, which exclude the government contract, increased 15%, to $20.1 million, on strong growth in our targeted retail, professional and pharmaceutical manufacturer markets. We believe that we can drive higher revenue in fiscal year 2013, as we continue to grow our targeted markets.

We know that the professional market is a growth channel for us, given the hundreds of thousands of doctors, dentists, vets and other small quantity generator facilities that are unaware of Sharps' convenient and cost effective mail-back solutions for managing medical waste and used healthcare products. Professional market billings, which comprised 17.6% of total billings, were up almost 36% to about $800 thousand for the fiscal year 2012 fourth quarter. Fiscal year 2012 billings for the professional market grew 50% to $3 million from the prior fiscal year. Due to the significant size of this market, we have employed a variety of aggressive inside sales initiatives, web sales, and multimedia marketing and promotional campaigns, which are producing gains. We continue to plug away at this market, but we're still looking for the magic bullet, that we believe can trigger a tipping point in the professional market. We believe our recently announced internet-based ComplianceTRAC℠ program, which I'll touch on in a bit, should add to our arsenal of value-added solutions to continue growth in this segment.

Our pharmaceutical manufacturer market experienced strong growth of about 400% and 600% in the fourth quarter and fiscal year 2012 period, respectively. Sales of this market can fluctuate measurably from quarter-to-quarter due to the variability in timing of orders associated with each patient support program. The recent growth of this market is a direct result of three new programs that were launched over the last nine months. For those of you that are new to our story, these programs are designed to improve patient interaction and direct compliance by providing the Sharps® Recovery System™ to patients that opt-in to pharmaceutical manufacturers' support programs. We believe the uptick in sales reflects our success in demonstrating how our program provides a return on investment to pharmaceutical manufacturers through product differentiation, improved interaction with patients, and creating a touch-point for individual patient follow-up that could lead to improved therapy outcomes. While we've not closed any new patients for programs in about 10 months, we believe that we can leverage the success of our current programs to win additional deals.

Fourth quarter retail market billings of $800 thousand were down about $300 thousand from the prior year. And as I mentioned earlier, the decline was due to timing associated with orders for the flu shot season and timing of consumer product launches within retail channels. Our consumer products include the Complete Needle™ Collection & Disposal System and our

TakeAway Environmental Return System™. As additional retail pharmacies add our products, we expect to recognize a higher level of billings for their first stocking order than we will for subsequent reorders. This causes lumpiness in billings from period-to-period, as it did on the downside this last quarter.

We are aggressively marketing the Complete Needle™ Collection & Disposal System, which is now on the shelves of two major retail pharmacy chains, as well as nine smaller chains, which represent an estimated 15,000 retail pharmacies in the United States. We expect another major retail pharmacy chain launch in the September 2012 quarter, which will increase the number of pharmacies selling the products to about 22,000. Again, the retail pharmacy launches this product to make available to the self-injector a convenient and cost effective needle disposal solution, and also to drive foot traffic, and to increase turns when compared with the container-only products historically sold.

Of greater importance is the activity regarding Complete Needle sponsorship, in which we believe we're making solid headway. Sponsors, whether it is a pharmaceutical manufacturer or a diabetic supplier, see their participation as a way to gain exposure and potentially drive brand loyalty for their products. Today, programs providing some level of sponsorship have totaled three. There are another six sponsor initiatives pending. Again, ours is the first and only solution of its kind that provides a home self-injector with the safe, cost-effective, and complete method for handling the syringes, lancets, set strips, and other sharps.

Retail market billings for fiscal year 2012 were up more than 13%, or $600 thousand, to $5.3 million over the prior fiscal year. This increase is driven by growth in the flu shot business of about $1.3 million. Complete Needle™ related sales of about $600 thousand, offset by initial launches of the TakeAway Environmental Return System™ of $1.1 million in the prior year.

We continue to pursue opportunities with the government, including the potential for a full rollout of our program with the VA. As you can imagine, the timing of this is unknown, although the pilot is seen as very successful and continued discussions regarding a full rollout are ongoing.

Before I turn the call over to Diana, I want to touch on two recently launched initiatives. First, is our web-based program, ComplianceTRAC℠, which is a more advanced and robust version of our prior compliance and training program. This program is designed to improve worker safety while satisfying applicable OSHA and other requirements. As I mentioned, we believe the enhanced program could assist in growing our professional market sales.

Also, our joint marketing alliance with Daniels Sharpsmart is progressing well. The alliance enables us to serve the entire U.S. medical waste market for small, medium, and large quantity generators. We are offering current and prospective customers a blended product portfolio to effectively address multi-site and multi-size locations. The alliance also facilitates cross-selling and referrals of each company's solution offerings. We work very well with Daniels, and believe the alliance has been very well received in the marketplace. We're working on many joint sales opportunities and the pipeline continues to grow.

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

Diana Diaz: Thank you, David. I'll just hit on a few points below the top line to bring you up to speed on the financials for the quarter and the fiscal year period.

Gross margin was 23.1% in the fourth quarter of fiscal 2012, down from gross margin of 35.3% in the fiscal 2011 fourth quarter. The reduction in gross margin was caused by (i) ongoing facility costs established in 2009 for the U.S. government contract that was terminated, effective January 31, 2012, of approximately $120 thousand, or 250 basis points, (ii) the accrued loss, recorded during the current year fourth quarter related to the Atlanta facility obligation of $300 thousand, or 655 basis points, and finally, (iii) lower revenue in the current quarter.

For the fiscal year, gross margin decreased to 30% from 32.1% in fiscal 2011, as a result of ongoing facility costs associated with the terminated U.S. government contract and the accrued loss related to the Atlanta facility lease noted above.

Selling, general and administrative expense for the fourth quarter decreased $500 thousand, or 18.7%, to $2.2 million compared with the same period of the prior year. The majority of the year-over-year change was due to $400 thousand in additional costs associated with a legal settlement and severance costs included in last year's fourth quarter. SG&A expense for fiscal 2012 decreased to $8.6 million from $9.8 million for the prior year period, reflecting disciplined cost management and focused spending efforts.

For the fourth quarter of fiscal 2012, the Company incurred an operating loss of $1.2 million compared with $1 million in the same period of the prior year. The operating loss for the fiscal year 2012 was $2.5 million compared with an operating loss of $4.5 million in the prior fiscal year.

The fourth quarter was negatively impacted by $2 million in additional tax expense, due to the recording of a deferred tax valuation allowance, and $300 thousand for the accrued loss related to the Atlanta facility lease obligations. Excluding the deferred tax valuation allowance and accrued loss, fourth quarter 2012 net loss was $600 thousand, or $0.04 per diluted share, and net loss for fiscal 2012 was $1.5 million, or $0.10 per diluted share. We see the breakeven point for us to be between $6 million and $6.3 million revenue range per quarter.

Our balance sheet has remained very strong, with $17.5 million in cash and cash equivalents as of June 30, 2012. The decrease in cash and cash equivalents from the prior year of $800 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. The Company's cash and cash equivalent has remained in the range of $17 million to $20 million during the last 10 quarters. As of June 30, 2012, the Company had no debt outstanding.

David, I'll turn it back to you.

David Tusa: Thank you, Diana. Looking at 2013 and beyond, we are very encouraged with what we have in our pipeline. We expect to expand the number of retail outlets carrying our consumer products, while we see sponsorships from a variety of product and pharmaceutical manufacturers that serve the diabetic and self-injector marketplace. We believe that we'll continue to make inroads in the professional markets towards the tipping point, as we continually refresh and create new approaches through our marketing efforts. We are excited about the Daniels alliance and its recognition as a key player and full-service provider in the marketplace.

So with that, Operator, we can now turn it over for questions.

Operator: Thank you. We will now be conducting the 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. One moment, please, while we poll for questions. Once again, that is star, one.

Our first question is from the line of Ryan Daniels with William Blair. Please proceed with your question.

Kristina Blaschek: Good morning. It's Kristina Blaschek for Ryan today.

David Tusa: Hi, Kristina. How are you doing?

Kristina Blaschek: Hi, good, thanks. How are you, David?

David Tusa: I'm good.

Kristina Blaschek: Can we get a little bit more color on the timing of the pharmaceutical patient support programs. Specifically, what we're trying to get an idea for is if we can still expect a roughly $3 million run rate among the three new programs that were launched in the past nine months. And then also, separately, is the utilization and reorder rate consistent with your expectations?

David Tusa: First of all, yes. What we said is once the three programs are fully rolled out, they should generate about $3 million in annual revenue. The initial launches have gone well. I will say that the reorders are a bit behind our expectations or a bit slower than what we had expected, so we need a bit more time to get these programs fully rolled out before we'll see the full impact from them.

Kristina Blaschek: Okay, as a follow-up on that, when do you expect them to be fully rolled out?

David Tusa: Hopefully over the next few quarters, as programs become more prominent, as pharmaceutical manufacturers get more patients signed-up, and as the patients opt-in and request more of the systems, so probably at least another couple of quarters.

Kristina Blaschek: Okay, that's helpful color. And then, moving on to the retail market, can you give us some additional color on billings in the retail market this past quarter, and, specifically on timing of orders? When do you anticipate big orders being placed or what the size of these orders could be, roughly?

David Tusa: What that retail market number includes is flu shots, flu shot business and orders for the Complete Needle™. The best way to look at it going forward is that we have generated about $600 thousand revenue from the Complete Needle™. We have another major program that's launching in the September quarter that should probably add a couple of hundred thousand dollars to that retail number.

The real wildcard is the flu shot season. It's been difficult to predict when the orders will come in. We had a strong third quarter, the fourth quarter was weak and, typically, the first quarter, the September quarter, is strong from a flu shot perspective; and that's ordering patterns. It's the intensity of the flu shot season that really drives the volume, so it's been difficult to actually nail down the flu shot business. The good news is, when you look at it year-over-year, which is kind of how we look at this flu shot business, it's up about $1.3 million fiscal year 2012 over 2011.

Kristina Blaschek: Okay, that's helpful. Along the same lines with the flu shot, we've seen a lot more advertising among retail chains recently regarding shots for meningitis or shingles, for example, in addition to flu. Has this or do you anticipate this having any impact to your business from the retail or professional markets?

David Tusa: Actually, it's even more than that. What the retailers are working to do is smooth-out that seasonality with the flu shot and, with that, introducing more services and more shots, the ones you mentioned and other shots, as well as other treatments. What they want to do is take advantage of the convenience of a retail clinic, with more and more patients running through there to the retail pharmacies or retail clinics.

So yes, we do see that as positive. I think everything that you read, when you read about healthcare and the change in healthcare, talks about more and more patients that are going to be in the system. There are a lot of really good articles out there about how the retail clinics might be able to help with the system or with treating patients in the healthcare system going forward.

Kristina Blaschek: Okay, great. Thanks for all the color today.

David Tusa: Thank you.

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

Brian Butler: Good morning. Thanks for taking my questions.

David Tusa: Good morning, Brian. How are you?

Brian Butler: I'm doing all right. How about yourself?

David Tusa: Doing good.

Brian Butler: I just wanted to go into the retail a little bit more. At the end of the third quarter, you had talked about another large promotion from, I think, a diabetic supply company coming through on the Complete Needle™ in June. Did that play out or was that pushed out?

David Tusa: We had one that did come in and it was a diabetic supplier. We did not get a significant impact from that, but we are involved in one right now in the month of August, and we're seeing increased orders of our Complete Needle™ System, which we believe is attributable to the recent promotion. The way I look at this Brian, is, once we have the Complete Needle™ throughout most of retail, which will be by the September quarter, then what we expect to see is more and more of these promotions. I think we have six of them pending. So, by September, you'd have the Complete Needle™ pretty much throughout all of the retail chains and then, in the September and the December quarters, we would hope to see additional orders and additional pull through as a result of the promotional activity.

Brian Butler: On those six sponsorships, or those pending ones, how does that play out? Is that going to be over all of fiscal 2013, or is that really over the next quarter or two quarters?

David Tusa: First of all, the programs usually last about a month, so let's say that after we have the last Complete Needle™ launch at the end of September, what you'll probably see is monthly promotions over the next couple of quarters, and they're usually direct. Again, it's usually diabetic suppliers, as well as the pharma manufacturers.

Brian Butler: Okay, and when you look at this quarter for retail being just under, I think, a million dollars in revenue, is that kind of the baseline? Maybe another way to think about is a baseline kind of business without any demands or promotions under the current kind of number of pharmacies you have working. Is that fair, or is there something else that's really missing?

David Tusa: No, I think that's a fair statement, and we'd like to see a pick-up, starting with the next quarter with the launch of another Complete Needle™ program. The only wildcard, as I mentioned, is the flu shots business. It seems to me the ordering patterns on that seem to be different every year, and it's very, very difficult to predict. But I think it's probably a safe assumption to say it's about a million a quarter baseline for that retail market.

Brian Butler: And then that should step up, though, I would expect with the addition of another national chain.

David Tusa: Right.

Brian Butler: On the professional side, you saw good growth there. You've now had, essentially, a quarter with the Daniels partnership. Can you give any more color on what you think that will look like in your fiscal 2013 from a revenue side, or maybe talk about what the pipeline looks like for projects or chains that you guys are bidding on?

David Tusa: First, let's talk about the professional market. For the first quarter of the fiscal year, which would be the September quarter that we're in, we're already seeing a nice ramp-up in the professional market. We're probably looking at 30% sequential growth and, hopefully, have that quarterly number double year-over-year, so we're starting off fiscal year 2013 with very, very positive trends in the professional market, and that's both our inside sales, as well as the online initiatives, that are just driving that growth, Brian.

Now, when you look at Daniels separately, Daniels will affect much more than just the professional market, and let me tell you where we are with that. On the last call, I told you we were excited about the Daniels alliance, because of the opportunities for referrals between companies, and the blending of our solutions on future opportunities, as well as introducing Daniels to some of our existing customers that have facilities that generate large quantities. If you look at where we are, we announced this in May and we started working together shortly thereafter, say in June, and even over the last couple of months, the alliance has generated over a hundred opportunities. Now, these opportunities are anything from a doctor's office that could be generating maybe $500 or a $1,000 a year, to opportunities that could be a few hundred thousand dollars a year for the alliance, and we're excited that we've started.

We are both very pleased with the amount of opportunities that have been generated in a relatively short period of time. I will say that somebody in this Company is talking to somebody at Daniels on a daily basis, probably more than once a day. It's really been well-received, and, again, we think it's going to affect much more than just the professional market. And although we're obviously focused domestically here, we've also run across some opportunities with our existing customers that are looking for international solutions, so we're working with Daniels on those as well. And we're just getting started. We've been very pleased with the amount of activity and with the opportunities that we see out there, so really, at the end of the day, the proof is in the pudding. We'll be pleased when we have a quarter where we can talk about the amount of revenue that was attributable to that alliance.

Brian Butler: Okay, and then on the pharmaceutical side, you mentioned that you had no new programs over the last 10 months. Is there anything in the pipeline for new programs or is the focus now just on expanding the three programs you have?

David Tusa: No, there are opportunities in the pipeline that we're working on. You have to keep in mind, that with pharmaceutical manufacturers, you're asking them to do something they've never done before; you're really changing behaviors. What you're doing is working with them to show them how you can improve the relationship with the patient and how you can obtain patient data that may be helpful in improving outcomes and therapy outcomes. We've done a very good job with all the programs we've launched. We’ve had a little bit of a lull over the last three quarters, but we do have a number of opportunities in the pipeline. We're using the success of the existing programs to try to land more, but those have always been a little bit longer selling cycle and ones where we're really changing behavior.

Brian Butler: And then, across all of those segments, how does the competitive environment look? Are you seeing any large pushes from any of the larger players, or any regional players that are trying to impact the mail order disposal?

David Tusa: Yes, the environment is very competitive, and we do see competition. We see competition every day, and with the Daniels alliance, we probably see even more because of the fact that we're involved in the mail back, as well as introducing the pickup service to some of our customers. So it is a competitive environment, but we think we're very well-positioned to compete because the market opportunity is so huge.

Brian Butler: How comfortable do you feel about getting to breakeven in fiscal 2013? It's a sizable increase, but not unbelievable. What are your thoughts on reaching breakeven?

David Tusa: Well Brian, it wouldn't take much as we've said. If you look at what we've done over the prior three quarters, not including the June quarter, when we were on a roll with 20-plus percent revenue growth rate, it wouldn't take a lot. Growth in the retail and professional sectors and landing a deal here or there would get us there pretty quickly. We're focused on growing the top line and we're focused on profitability as well. I think we've done a great job of controlling our costs, our SG&A, and it's just a matter of continuing to invest in sales and marketing and growing these sectors.

Brian Butler: But not unrealistic targets for you?

David Tusa: No, not at all.

Brian Butler: Okay, and then can you give a little more color on your discussions with the VA and the pilot program? At the end of the third quarter you were talking to them a lot. Has that increased or decreased? Just a little more color on what everyone is looking at as timing and/or likelihood of that program.

David Tusa: The discussion is probably about the same level as what they have been, and as I've told you and everyone else, it's extremely difficult to predict the timing on any kind of government opportunity. That's what's so exciting about this Company, we don't spend all of our time every day thinking about just the government opportunity; we have many other markets and we have significant growth opportunities, so no change. I really don't have much of an update on that.

Brian Butler: And lastly, looking forward on the capital spending, do you have capital spending for the fourth quarter, and then, thoughts on 2013. Are you planning on making any big expansions or any large capital expenditures?

David Tusa: Historically, we run about $1 million per year in maintenance cap ex, and no, we don't expect that to change significantly Brian.

Brian Butler: Okay. Great, thank you very much.

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

Kevin Steinke: Good morning.

Diana Diaz: Morning.

David Tusa: Hi, Kevin.

Kevin Steinke: I wanted to talk a little bit more about ComplianceTRAC℠ and what led you to launch that advanced version of your training program. Was that something you were hearing from customers, or just more of an internal decision?

David Tusa: That's a really good question. We've had an OSHA Compliance and Bloodborne Pathogens Training Program for years, and years and years. Whether it be a hardcopy or on a disc, and I have to tell you, it's from customers. I love to get out and talk to customers, as does our sales team. I go to trade shows and spend a lot of time, as much time as I can, talking to people. What we hear more and more is, "Boy, we really like that web-based." Everything you do these days is web-based now, and a robust web-based training program, from a safety perspective, as well as compliance, was needed. So we started working on that about four or five months ago and recently launched it. We think that our customers and prospective customers will see it as value-added. What we're doing Kevin is, we're using it in selling to new Professional Market customers by offering it to them at a very, very reasonable introductory price as they sign-up with us as a customer. We're not really using it to generate significant revenue. We're using it as a way to drive new business in the professional market.

Kevin Steinke: Okay, well you answered my second question with the end of your answer there, not viewing it as a significant revenue generator, but more as an end to sell your Waste Collection and Recovery Solutions, it sounds like.

David Tusa: Right.

Kevin Steinke: Okay, and the six sponsorship opportunities pending, are they all related to the Complete Needle™ Collection & Disposal System, or are some of your other products involved, like the TakeAway?

David Tusa: No, they're focused on the Complete Needle™ System, the diabetic products. It's a combination of ancillary product, as well as pharmaceutical manufacturers.

Kevin Steinke: Okay and any update on potential sublease of the Atlanta facility? Are you still having discussions in that regard?

David Tusa: We basically have a deal on 20,000 of the 51,000 square feet. We still have 30,000 remaining. So we're making progress and hope to have this thing wrapped up in a reasonable period of time.

Kevin Steinke: Okay, great. Thanks for the update. I'll jump out of the queue for now.

David Tusa: All right, thanks Kevin.

Operator: Our next question is from the line of Walter Schenker of MAZ Partners. Please proceed with your question.

Walter Schenker: Thank you. Actually it's two, hopefully short questions. You continue to add staffing to the in-house professional marketing group, which was basically flat in round numbers at $800 thousand sequentially. Is that seasonal pattern or why wouldn't that keep going up each quarter sequentially?

David Tusa: Walter, that's a good question; it's a fair question. It was flat sequentially. I will tell you that the third quarter of fiscal 2012 had a couple of large distributor orders in that Professional Market that didn't come in the fourth quarter. I think what's more important is if you look into the current September quarter, we see about a 30% growth sequentially, which would represent about a doubling of the professional market sales year-over-year. So yes, while it was a bit of a slow period, we think it's going to start growing again quite a bit in the September quarter.

Walter Schenker: And the second question, maybe I'm missing the implications, but you indicated that on the retail pharmacy business you're adding another major chain this quarter, which will increase the number of outlets by 40%. I think maybe, it's 50, 30, 40, 50, something like that, from the mid-teens to about 22,000 units. Wouldn't that indicate a meaningful initial stocking order in this quarter?

David Tusa: It would, yes. We'll get an opening stocking order in the September quarter to launch that program. That's important. What I think is even more important is we'll have that solution throughout most of the retail pharmacy chain. Then we'll follow back up with sponsorship and hopefully start to drive some pull-through and some reordering.

Walter Schenker: Okay, and lastly, you sort of hinted and talked about a hundred opportunities. Will we see at least some revenues that can be attributed to those opportunities, meaning Daniels, in the September quarter?

David Tusa: Yes. I think you'll actually have a little bit, but not much in the June quarter, and then you'll start to see some impact in the September quarter. We've already closed, probably on an annual basis, about $100 thousand in customers, but yes, I think you'll start to see the pickup of the Daniels lines or revenues from that alliance in the September quarter.

Walter Schenker: And again, saying it's from one doctor's office to potentially six-figure contracts, in very gross terms, those hundred opportunities total some number of millions of dollars in total?

David Tusa: Probably so. Again, we're just getting started. We have a lot of inquiries. It impacts many markets, more than just the professional markets. As we start laying some of these fields, it will be another quarter before we'll be able to get more comfortable with the pipeline.

Walter Schenker: Okay, thank you.

Operator: Our next question is from the line of Joe Munda with Sidoti & Company. Please proceed with your question.

Joseph Munda: Good morning.

David Tusa: Morning, Joe.

Joseph Munda: A lot of my questions were answered already. Just real quick on the alliance with Daniels, is that exclusive, or are you able to form other alliances, other partnerships, with other distributors?

David Tusa: We have an exclusive alliance with Daniels, with us providing the Mail-Back side and Daniels providing the Pickup side.

Joseph Munda: Okay, I'm just wondering, have you ever taken a look at partnering with a company like Syncom, who's has the exposure in the healthcare space, and who does do pickups? Is that something that you are looking at?

David Tusa: Well, we've looked at many different alliances and many different markets. With Daniels, what they have is a network that allows us to service the country, which is very, very important, and working with them will help us to land more deals. We already do some business in many markets, including the hospitality market you refer to.

Joseph Munda: Okay, and how many customers does Daniels have, if you can ballpark that?

David Tusa: They're a private company and they really don't disclose those numbers.

Joseph Munda: Yes, okay. And then, an earlier caller touched on the VA. Are you seeing any early indicators of any possibilities? I know there are a number of cuts that the government is proposing, for instance, with the Department of Defense. I just want to get your overall thoughts on possibilities with the VA.

David Tusa: Joe, I'm just going to tell you this quarter is still where it was last quarter. We really don't have much in the way of update. Government opportunities are extremely hard to predict and let's just really leave it at that.

Joseph Munda: Okay, and any news on anything with FEMA or the CDC?

David Tusa: No. We're working on a couple of other opportunities, but they're not with those particular agencies.

Joseph Munda: Alright. Thanks.

Diana Diaz: Thank you.

Operator: As a reminder, to ask a question you may press star, one.

The next question is from the line of George Walsh with Gilford Securities. Please proceed with your question.

George Walsh: Morning, David.

David Tusa: Morning.

George Walsh: Just a question on that $2 million deferred tax valuation allowance. Does that impact the cash in the future instead of non-cash items? Just what was involved there?

David Tusa: Well look, here's the way it works. In the accounting world, which is a very conservative approach to accounting, you look at it from a historical standpoint, and from a historical standpoint with the losses over the last year, that deferred asset has to be evaluated. The easy way to think about it is tax deductions available to offset future taxable income. So it's not representative or reflective of the lack of confidence in the business going forward. It's really more of an accounting entry to take a conservative approach to an asset value on the balance sheet.

George Walsh: Okay, but right now, it's a non-cash item?

Diana Diaz: That's correct.
David Tusa: Right, that's correct.

George Walsh: Okay, all right. When you speak about Daniels, and more than the professional market, can you just elaborate a bit on what those other markets would be?

David Tusa: I'd love to George, but for competitive reasons I really don't want to. I can tell you that we're busy working with them on many, many prospects, but I'd really like to shy away from that right now.

George Walsh: Okay, also the other side with Daniels you mentioned international, is that primarily Canada, or are there other countries available?

David Tusa: No, there are other countries that have the potential to launch some business. It's early on. We have some inquiries and we have talked with Daniels, and if it was something that would rollout, the Daniels alliance would be perfect for it.

George Walsh: Okay, but it will still be a matter of using your facility in the United States, not a matter of constructing another facility?

David Tusa: No, it would not involve our facility in the United States. We would be taking advantage of a Daniels infrastructure internationally.

George Walsh: Okay, I think that covers it for me. Thanks.

David Tusa: All right, thanks, George.

Operator: Thank you. Ladies and gentlemen, at this time, we have reached the end of our allotted time for the question-and-answer session. I will now turn the floor back to Management for closing comments.

David Tusa: Thank you, Operator. In closing, I just want to reiterate that we have a significant and building pipeline of opportunities on which we are working as we advance our solutions and innovations through the strong relationships we've built in our retail, pharmaceutical manufacturer, and professional customer base.

We believe our future performance will improve due to the proper execution of a variety of initiatives, including connecting sponsors and retailer for our consumer products, our Daniels relationship, as well as our ongoing inside sales, tradeshow, web marketing, and other promotional activities. We thank you for your interest in Sharps Compliance and appreciate your support and participation in today's call.

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