

Operator: Greetings, and welcome to the Sharps Compliance Corp. first quarter fiscal 2010 earnings teleconference and webcast. It is now my pleasure to introduce your host, Ms. Deborah Pawlowski, IR for Sharps Compliance Corp. Thank you, Ms. Pawlowski, you may begin.

Deborah Pawlowski: Thanks, Niki, and good afternoon, everyone. We appreciate your participation in our first quarter fiscal year 2010 earnings conference call. You should have a copy of the news release detailing Sharp's financial results that was released earlier this morning. If you do not have it, you may obtain a copy from the Company's website at www.sharpsinc.com. With me here, today, on the call are Sharps' Chairman and CEO, Dr. Burton Kunik, and Executive Vice President and Chief Financial Officer, David Tusa. Burt and David will provide their planned comments, and then we will open it up for questions. If you are listening via the webcast, you also have the ability to submit questions through 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. 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.

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

Dr. Burton Kunik: Thank you, Debbie, and welcome, everyone, to our first quarter fiscal year 2010 earnings teleconference call.

This was our third straight quarter posting record highs in both revenue and net income. The U.S. government contract, along with increased sales to retail clinics and pharmacies to address the flu shot season, drove the 260% quarter-over-quarter revenue gain. Sales to the retail market were very strong throughout the first quarter and are expected to continue into our second and possibly third quarters of fiscal 2010. The overall number of vaccinations administered is projected to increase significantly this year due to H1N1 concerns, and a greater percentage of vaccines are expected to be administered outside of the typical hospital and doctors' office settings. Retail clinics and pharmacies are markets in which Sharps has been the dominant disposal solution provider, and they have been very active marketing the flu shot. The second quarter will also benefit from the current government contract. We expect to record approximately \$11.5 million in revenue related to the contract and complete the product build-out portion. David will provide more details regarding our expectations.

This morning, we announced a new and exciting partnership with the Iowa Pharmacy Association, whereby we will provide our RxTakeAway™ line of products to their member pharmacies in the State of Iowa. This is the first major contract for the RxTakeAway™, which is specifically designed to safely dispose of unused pharmaceuticals and medications. Our RxTakeAway™ system is available in a variety of sizes of containers and return packaging. All come with prepaid postage to our incineration facility. The Association will place all orders for their members, and Sharps will handle the fulfillment of the system directly with participating Iowa pharmacies. Each pharmacy will have the ability to collect and conveniently dispose of their customers' unused medications, thereby removing the medications from potentially polluting our environment and placing children and teenagers at risk for accidental poisoning. It's a three-year agreement that automatically renews for one-year terms, thereafter. Importantly, as part of the agreement, the Association will also be an active partner in promoting our solution to other states. The program is funded by the State of Iowa, which could be a model for other states in the country.

Last month, a significant piece of legislation was passed in California that we believe provides us with significant opportunities to provide our patient support program to pharmaceutical manufacturers that sell

self-injected medications in that state. The State of California passed Senate Bill 486 on October 14, 2009, which requires pharmaceutical manufacturers in California who sell or distribute medications that are routinely injected at home to submit plans to the California Integrated Waste Management Board, on or before July 1, 2010, describing how they support and provide safe syringe and needle collection and disposal programs for their patients. Our proven patient support compliance program is specifically designed to address these requirements.

We currently have six major pharmaceutical manufacturers using our system, which includes the direct fulfillment of the Sharps Disposal by Mail System® to the pharmaceutical manufacturers' self-injecting patient support program participants. Our SharpsTracer™ system tracks the product return to the treatment facility, where the package is processed prior to destruction. This data is electronically transmitted and available to the pharmaceutical manufacturer via the Company's proprietary data warehouse, which assists the customer in monitoring drug usage and provides them with a touchpoint for individual patient follow-up. We believe this new bill will go a long way in improving public awareness surrounding the proper disposal of needles and help promote a shared responsibility for end-of-life sharps products.

With that overview, I'd like to turn the call over to David for a review of our financial performance and a more detailed description of the earnings release.

David Tusa: Thank you, Burt. Good afternoon, everyone, and thank you for participating in our call. Revenue for the first quarter of fiscal year 2010 of \$15.4 million was \$11.1 million, or 260%, higher than the revenue for the first quarter of the prior fiscal year. Additionally, the first quarter revenue of \$15.4 million was over 75% of the revenue generated for the entire prior fiscal year, ended June 30, 2009. The revenue growth for the quarter was driven by two primary items, the first being \$11 million in billings associated with our U.S. Government contract for the Medical Waste Management System. The second driver is the approximately \$700,000, or 84%, increase in our retail market billings, resulting from the strong flu shot related business. This growth in sales was offset partially by an approximately \$550,000 reduction in pharmaceutical manufacturing billings, and about a \$285,000 reduction in billings for the home healthcare market. The reduction of pharma market billings is a result of the variability and the timing of orders of our patient support programs or, in other words, lumpiness in the orders. The reduction in home healthcare market billings was a result of the impact of the ordering patterns by our customers as well as additional distributor incentives designed to drive future growth in this fragmented home healthcare market.

We were also very pleased to see a 70% increase in professional market billings for the quarter. As many of you are aware, we've recently launched an outbound sales program through which we are reaching out to physicians, dentists and veterinarian offices, marketing our Sharps Disposal by Mail System® solutions. We are very encouraged by the positive response received from customers of our program. We believe our offering of a cost-effective and convenient medical waste solution to the professional market that could save the professional office up to 50% in costs over the traditional pickup service to be quite compelling.

The gross margins were very strong, over 70% for the first quarter. This compared with 43% for the prior year quarter. The increase in gross margins is a result of the substantial operating leverage inherent in the business model. We began to build out the Company's infrastructure over the past two years for a much larger organization. Although this decision adversely impacted margins in fiscal year 2008 and the first half of fiscal 2009, we are now seeing the positive impact of these actions as the fixed component of our cost of sales is increasing at a substantially lower level than our revenue is growing, hence, the reason for the increased margins and operating leverage. Gross margins were also positively impacted by the mix of the products sold, as a vast majority of the Company's incremental revenue is focused on the higher margin Sharps Disposal by Mail®, and Medical Waste Management System solutions offerings.

SG&A for the first quarter of \$1.8 million is consistent with the guidance we provided in our year-end earnings release. It's about \$650,000 higher than the prior year level of \$1.2 million. The increase in SG&A is attributable to higher non-cash 123R stock-based compensation expense, additional sales and marketing-related expenses, and professional fees. We expect to see SG&A expense remain in the \$1.8 million to \$2 million level a quarter, unless we decide to expand targeted sales and marketing activities over what is contemplated right now.

Operating income for the first quarter was \$9.0 million, or 58.4% of revenue. This is substantially higher than the prior fiscal year level of \$610,000, or 14.3% of revenue. Again, the increase in this key operating measure is a result of the operating leverage inherent in the business model.

Net income was \$5.8 million, or \$0.40 per diluted share for the first quarter of fiscal year 2010 compared with \$605,000, or \$0.04 per diluted share for the prior year. The substantial increase in net income was driven by the significantly improved operating and financial performance of the Company. We expect a tax rate for the fiscal year of 36%, which is consistent with what we reported for the first quarter. We're now officially a full taxpayer. We've completely utilized the Company's historic NOLs over the past few quarters. You'll note in the September 30th financials the \$1.5 million tax payable.

The balance sheet is very strong, reflecting \$8.4 million in cash and working capital of \$13.2 million at September 30, 2009. The increase in the accounts receivable of almost \$5 million for the quarter compared with the prior fiscal year end is attributable to a government contract billing of about \$4.3 million, which was collected earlier this month. Our current cash balance is around \$12.5 million. The balance sheet also reflects strong total assets of \$23 million, equity of \$16 million, and no debt.

Looking forward, we expect another strong quarter for the retail market, as concerns over H1N1 are fueling increased flu shots. We're also seeing an increase in the administration of flu shots outside the traditional doctor's office or large healthcare facility setting, which further supports growth in our retail market billings. For example, through today, to give you an idea of the strength that we're seeing in the flu shot business, which is the first month of our December 2009 quarter, we have about \$1 million in combined retail market customer billings and pending orders. This \$1 million for the first month of the quarter is in comparison to \$1.5 million in billings in the entire quarter ended September 30, 2009.

Of our \$40 million government contract, \$28.5 million is expected to be earned in the first contract year (12 months ending January 31, 2010). The remaining \$11.5 million is expected to be earned over the following four contract years as program maintenance. We have recognized \$17 million of the \$40 million contract; \$6 million during the second half of fiscal year 2009, and \$11 million during the most recent quarter ended September 30, 2009. We expect to recognize an additional \$11.5 million during the quarter ended December 31, 2009. This will complete the product portion of the contract, at which time the program moves into a maintenance phase, which will be roughly \$3 to 4 million per year in billings.

Looking forward, we believe that the success of the Medical Waste Management System with our U.S. Government agency customer bodes very well for the potential sale of the Medical Waste Management System to other government agencies and commercial organizations. We believe the recognition of the Sharps Compliance solutions in the government circle could also result in increased sales of our traditional Sharps Disposal by Mail System® and RxTakeAway™ solutions to many agencies in the United States Government with whom we have had discussions. While we do not comment on individual sales opportunities, we will say that our medical waste and unused medication disposal solutions have been very well received by a number of government agencies. Additionally, the concern over H1N1 has also led to discussions of our solutions as well.

We believe the Company is uniquely positioned to facilitate the pharmaceutical manufacturers' compliance with the provision of the recently passed California Senate Bill 486 that Burt touched on earlier. We have six programs in place with pharmaceutical manufacturers, and it's very important to note that each one of these is a customized program. They're designed to best fit the needs of the manufacturer and the patient for each particular drug indication. We have significant experience with

customized patient support program solutions, and we have the infrastructure in place to quickly launch a program for our prospective pharmaceutical manufacturer customers. The sales pipeline of opportunities for our proven patient support programs has never been higher, and we believe fiscal year 2010 should be positively impacted by the sales opportunities in the pharmaceutical manufacturers' sector.

Burt touched on the Iowa Pharmacy Association agreement. We believe it's a major event. It shows that the country is beginning to address the dangers of the estimated 200 million pounds of unused medications improperly disposed of in our environment and endangering our citizens. The Iowa Pharmacy Association agreement, which is funded by the State of Iowa, could prove to be the model for the country to address the safe and convenient disposal of dispensed, unused medications. We believe that fiscal year 2010 could be positively impacted by a number of sales opportunities in the pipeline for the RxTakeAway™ line of solutions.

The December 2009 quarter is shaping up to be another very strong quarter considering the expected \$11.5 million in U.S. government billings and the expected continued strength of the flu shot market. We also expect to see strength in the pharmaceutical manufacturing billings and continued growth in the professional market billings. We should see strong margins in the December quarter similar to what that was generated in the most recent September quarter.

With the passing of every quarter, we believe we continue to prove out what we estimate to be a billion dollar market opportunity for the Sharps Disposal by Mail System®, and we also believe that the market for the RxTakeAway™ of the unused medication products to be an additional \$1 billion market. The Company is not only very well positioned as the market leader for the disposal of medical waste and unused medications generated outside of the hospital and large healthcare settings, but it is also very well capitalized and in a position to take advantage of the significant opportunities for our solutions in the market served.

Operator, we can open it up to questions. After the questions, Burt will make some closing remarks.

Operator: Thank you. Our first question comes from Ali Motamet from Boston Partners.

Ali Motamet: I was wondering if you could talk a little bit about the pipeline on the government side. Obviously, this was a really big order that you won, and I'm just wondering if there's anything else of that scale or if the future opportunities are in more of an incremental nature. While there may be many, they're each probably smaller.

Dr. Burton Kunik: We're visiting and meeting with many other government agencies as well as large commercial opportunities. Our Medical Waste Management System is being very well received for emergency preparedness. I don't see why we shouldn't do well in other government contracts as time goes forward.

Ali Motamet: And what about the size of those opportunities? This was a really great one for you. Anything, any other potential whales out there?

Dr. Burton Kunik: There's no reason to believe that we couldn't reproduce what we've already done.

Operator: Our next question comes from Tom Szulist from No Limits Capital.

Tom Szulist: Congratulations on a great quarter. The recent declaration of the government for H1N1, the state of emergency, does that affect the speed at which you can be deployed going forward?

Dr. Burton Kunik: I'd have to say that is still to be determined. It depends on how the states and the government want to address the emergency needs for managing the process. As a possibility if a whole lot of vaccine comes in at one time and a lot of different sites need to be established for administering the vaccine, that could create a call for our medical waste system. But, we're having very good success in

that marketplace right now, and I think we should continue to do so because of the fact that our major markets of all the retail clinics and the pharmacies are all very involved in giving the flu shots. It has increased our business substantially, and I think it's going to continue to do so as we see the H1N1 seems to be a virus that's going to stick around for a while. It doesn't have a beginning and an end like seasonal flu does. When you combine the H1N1 with the seasonal flu that should begin in the next few months, we're not sure, but we certainly are well positioned. I can tell you that we have inventory in place to manage any of the needs that come up from orders.

David Tusa: Tom, as a follow-on to that, it's important to note that the Medical Waste Management System is designed for rapid deployment in emergency situations, whether it's a pandemic or whether it's a national manmade disaster, that's what it's designed for. I believe that's one example of how the system could potentially be used.

Tom Szulist: Your business model is basically for domestic business. Do you have an international model, and when could it be a potential additional revenue stream?

Dr. Burton Kunik: We do have some interest from some of our existing customers to work in the international area. We are not deploying too much resource for that, but we have already sent customized Sharps containers for one of our pharmaceutical manufacturer customers to Europe. That's going to take some development to grow that business, but we definitely should be a player in that marketplace.

David Tusa: We have a couple of questions that have come via the Internet. One of them is, "Do you continue to plan to grow organically or through acquisition?"

I'll tell you how we always answer that question, which is, there are so many opportunities that we have organically. We believe we're about 1% penetrated in a \$1 billion market each for sharps and for unused medication. We want to invest in the infrastructure, we want to invest in sales and marketing, and we want to invest in people to prove out these markets and continue as a leader. If there was an acquisition that made sense, it would have to be a product or a service offering that would be very complementary to what we provide now and one that would be capable of being sold to an existing customer base. We have so many opportunities in our core business that it's most likely that we're going to focus organically.

Burt, there's a question about the California legislation, "When does it require that the plans be submitted to the State of California, and are there any kind of market estimates related to California?"

Dr. Burton Kunik: Well, the Bill requires that plans be submitted to the California Integrated Waste Board by July 2010; that's just six months into next year. I think there's a lot of activity already taking place as a result of the Bill being signed a couple of weeks ago. The manufacturers are realizing that there is a need to address the situation, and I'm hoping that the business should come our way, being that we're perfectly positioned, experienced, and have a background for managing any new program that comes into play. We think it's going to be very good for our business going forward.

David Tusa: Here's another question, about maintaining the revenue pace once you've recognized the majority of the government contract.

You know, we're creating an industry, and we're proving a \$1 billion market opportunity for Sharps products and solutions and in the unused medication. We're focused on the market opportunity. Timing of deals closing is difficult to predict, but we're focused on the large opportunity and capitalizing on our leadership position. But with the opportunities we see in pharmaceutical manufacturing as well as government, we think there are plenty of opportunities to build a company of substantial revenue and one of profitability as well.

Operator: Thank you. The next question comes from Walter Young from Thompson Davis.

Walter Young: My question is about the State of Iowa's assistance in selling to other states. Can you describe that in more detail so that we can understand how that might work?

Dr. Burton Kunik: The Iowa Pharmacy Association feels fairly creative in what they've done in going to the legislature and getting funding for this, and feel that they could be very influential with other states in getting the program in place. We have an agreement with them that I think would benefit them as get other states in place, and I think that they can be very helpful for us. We're excited about that because when one association goes to another one to solicit them to do the same program, or similar programs, it's a lot more exciting for them to say, "Yes, let's go ahead and do that."

Walter Young: I agree with that. Do all fifty states have associations like this?

Dr. Burton Kunik: Yes, they do.

Operator: Thank you. We do have one more question, from Ali Motamet from Boston Partners.

Ali Motamet: You may have discussed this Iowa contract a little more, but can you help us understand the magnitude of it, to some extent?

Dr. Burton Kunik: This is an initial launch by the Iowa Pharmacy Association. They went to the government, and they've got around \$150,000 or \$160,000 granted to them for the purpose of launching the program, so that every pharmacy in the state that wants to get started on the program can. The funding was just for the initial launch of it, and they may very well go back next year to get more funding, or they might find different ways to fund it. I think it's the beginning of a program, and it really could be the model for the country.

Ali Motamet: That initial launch will have, in and of itself, some follow-up from a recurring basis from those pharmacies, is that correct?

Dr. Burton Kunik: Oh, definitely.

Ali Motamet: How much do you attribute to follow-up? I guess you're selling an initial piece, and then is there a utilization, is there some sort of a tax rate that you generally associate with that size of a deployment?

Dr. Burton Kunik: We don't really have the data yet because this is really new. This is a huge, new market, and we don't have the data to support how much the utilization's going to be. It is so dependent upon how much marketing they're going to do, and they've committed to do some serious marketing throughout the state to get people educated on the availability of the program and how it works. We don't have the data to say what the ultimate revenue is going to be for it, but it's a great beginning, and it should be good revenue.

Ali Motamet: Thank you very much.

Operator: Our next question comes from John Sauder from Passel.

John Sauder: I've been a shareholder for over two years now, and these calls are a little frustrating because of this continual lack of actual data. For instance, on the California contract, you said the plan would have to be submitted by July of next year, but you didn't say when the plans would have to be implemented, or give any idea of the magnitude of the market size or of Sharp's potential revenue from it. I think a lot of the shareholders probably share my frustration in the lack of detailing, color that we get call after call, and so I'd encourage you to open up and at least give us more magnitude information here.

Dr. Burton Kunik: Well, first of all, let me say that we've created the industry here. We're the leader in the industry, and some of this is brand new. This is the first time in the history of the country that the pharmaceutical manufacturer has been identified as having responsibility for disposing of used syringes by people who self-inject. The magnitude of that, we're not sure of, except we can sure say that now they have an obligation to produce whatever plan they plan to produce, to go on their own website as well as the California Integrated Waste Board website as to what their plans are for managing the collection and disposal of the used syringes they sell in the State of California. That's every manufacturer that sells self-injectable medication in the State of California.

Now, what their plan's going to be, we're not sure. We do know that we have the best plan; we're convinced we have the best plan to offer them to manage their needs. We hope to get much of that business within Sharps, but I don't think we're prepared to quantify that because we don't know what the manufacturer is going to do. Are they going to provide the disposal for the people in California, or are they going to say, "Look, we have to do this. We'll provide for disposal for all of our patients across the country," which would make a huge difference. As much as I'd like to be able to give much more concrete numbers, if you can ride with us here as we create this industry and prove out the fact that we have the best solution in the marketplace, I think you're going to see our numbers grow just as you're seeing them today.

Operator: Our next question comes from Ali Motamet from Boston Partners.

Ali Motamet: What about the implementation date, was there anything specified? Can you address how you think the process unfolds? I know sometimes scale is difficult to capture.

Dr. Burton Kunik: Well, the requirements of the California Bill are only that they submit the plan to be posted. It doesn't say what the plan needs to be. I think the Senator's idea in sponsoring the Bill was to let competition take place. Let everybody try to put their best plan out there, let people see what they have to offer, and there will be a competitive advantage to the people who offer the best plan. There's not a requirement for the plan specified, and so, everybody's going to wait and see who's going to do what, and how they're going to go about it. I don't think we or anyone else knows exactly what's going to come about. But we know that the manufacturers that we're already working with are going to have a pretty good plan to put up, and it's going to drive the competitors to have to cover the table as well. It's an excellent opportunity for us, there's no question about it.

David Tusa: I think it's also important to note that the pipeline of opportunity has grown significantly in light of the legislation. We're the clear leader to providing patients support programs, with our proven systems, and pharmaceutical manufacturers see us as a leader. We're working with them more now than we ever have been in this market. We think that we can not only help them in being compliant with this bill, but we also think it will also generate many more opportunities for us.

Ali Motamet: Do you think we will have any potentially big contracts, potential announcements leading up to this point, or is this the type of thing where they're going to implement it slowly, and we have to see how it unfolds, but we're looking well positioned?

David Tusa: I think we need a little bit more time, but there is a significant amount of activity on the pharmaceutical manufacturing side, and you could potentially see some revenue in the December quarter. But most likely starting in the March quarter, you'll see activity related to the increased activity on the pharmaceutical manufacturing side.

Ali Motamet: Thank you very much.

Burt Kunik: We believe we have the most cost-effective and convenient solution to address the proper disposal of syringes and unused medication outside of the hospital or large healthcare setting. We believe the events that are happening around us such as the potential H1N1 pandemic and the passage

of the California legislation should result in many additional opportunities for the sale of our Medical Waste Management System™ solutions.

We see significant potential for continued growth. We are building a solid team to grow sales and execute our plans and are establishing Sharps as the expert in addressing not just this current pandemic, but emergency preparedness for whatever event may require deployment of vaccines, antibiotics or other medications.

The passage of the legislation in California is critical as well to our future because typically, when it comes to individual safety and the environment, that state tends to lead the way and others soon follow. Their recognition of the significance of the potential harm of improperly disposed syringes should be commended. Several of our pharma customers were ahead of the state in recognizing the value of their taking a lead in addressing their products end-of-use waste management.

As you can probably tell, we are energized about our future. Thank you for your time and interest in Sharps.

Operator: Thank you. This concludes today's teleconference. Thank you for your participation.