Operator: Greetings and welcome to the Sharps Compliance Corporation First Quarter Fiscal Year 2012 Quarterly 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 begin.

Deborah Pawlowski: Thank you, Stacey, and good morning, everyone. We appreciate your participation in our First Quarter Fiscal Year 2012 Earnings conference call. You should have a copy of the news release detailing Sharps financial results that was put out earlier this morning, and if you don't have it, you may obtain a copy from the Company's website at www.sharpsinc.com.

With me here today on the call are the Company's President and CEO, David Tusa, and Diana Diaz, Vice President and Chief Financial Officer. David and Diana will provide formal remarks, after which we will open up the call 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 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.

So 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, to our First Quarter Fiscal Year 2012 Earnings conference call.

As we have discussed over the last year, we have refined our strategic focus, aligned resources to better address our targeted sales and marketing strategy, and increased our intensity in our efforts to capture the large market opportunities for our innovative medical waste and unused medication management solutions. I believe this strategy is beginning to pay dividends and are demonstrated in our first quarter results, coupled with our recent announcements of deals closed in the retail pharmacy and pharmaceutical manufacturer markets.

Now, as we drill down a bit into the fiscal year 2012 first quarter numbers, the Company generated a 10% increase in revenue over the prior year's first quarter and a 14% increase over the trailing fiscal year 2011 fourth quarter. The fiscal year 2012 first quarter revenue of $5.7 million was a record high if you exclude the impact of our U.S. Government contract. But more importantly, we have higher expectations for the remainder of fiscal year 2012, as we (i) roll out the recently announced Patient Support Programs for three new major pharmaceutical manufacturer customers, (ii) realize greater revenue from the recently announced Walgreens / Novo Nordisk Complete Needle sponsorship program, (iii) expand the Complete Needle offering to more retail pharmacies, and (iv) continue to generate strong growth in the professional market as we expand our reach into this significant opportunity.

Now, if we take a closer look at the first quarter by market, we'll see the first quarter billings for the **Retail Market** were down about $200,000 compared with the prior year. Last year's first quarter included $600,000 of billings related to the initial sale of our TakeAway Environmental Return System™ to the largest retail pharmacy chain in the country, which by the way, is now in over 25,000 retail pharmacies across the country. Partially offsetting the impact of the TakeAway was the sale to the same customer of our Complete Needle™ Collection & Disposal System, supporting the initial fill of over 100,000 units during the first quarter of this fiscal year.

The order patterns of our retail pharmacies for the flu shot season have been shifting a bit, so this business appears to be flat compared with last year's fiscal quarter, although we anticipate for the year to have the opportunity for the business to increase. Indications are there should be an increase in flu shots and, even more importantly, more of the flu shots administered in non-traditional settings. However, our immunizing retail pharmacy customers tend to be ordering more on a just-in-time basis as opposed to stocking up on systems that they had historically, thereby pushing orders into the December 2011 quarter. And when we compare the fiscal year 2012 first quarter retail billing with the sequential trailing quarter retail market, billings were up about $600,000, or 48%, reflecting primarily the impact of the initial fill of the Complete Needle™ System in the nation's largest retail pharmacy chain.

I'm going to talk a bit more about the Complete Needle™ Collection & Disposal System and the National Diabetes Month promotion sponsored by Walgreens and Novo Nordisk in just a bit.

Now, the **Pharmaceutical Manufacturer Market**… We saw billings in the quarter double to almost $300,000 as a result of the initial launch of the new Patient Support Program. Since last quarter, we have announced three Patient Support Programs with major pharmaceutical manufacturers. One of the programs launched earlier than we were originally anticipating, driving the growth in the first quarter. The other two will be launching in the December 2011 and March 2012 quarters, respectively. Combined, the three programs should generate about $3 million in annual revenue, once they are fully rolled out over the next year.

We have had a recent surge in the renewed interest of our Patient Support Program solution offering among pharmaceutical manufacturers that develop self-injectable medications that are supplied to patients primarily via specialty pharmacy. We believe our solution addresses what manufacturers are currently focused on, given the increasing intensity in their competitive environment, and these items are product differentiation, social responsibility, improved interaction with patients and creating a touch point for individual patient follow-up that could possibly lead to improved therapy outcomes.

For those of you who may not be familiar with our Patient Support Program, it includes a direct fulfillment of our Sharps Recovery System™ to the pharmaceutical manufacturer's program patients, which provide the proper containment, return and treatment of the needle or injection device utilized in therapy. Our proprietary Sharps Tracer® System tracks the return of the Sharps Recovery System™ by the patient to the treatment facility and then makes this data available to our pharmaceutical manufacturer customers. This assists them in monitoring medication discipline and provides them with a touch point for individual patient follow-up, which could potentially lead to better outcomes.

Now, on to the **Professional Market**, which, by the way, represented about 12% of the total billings at a record $702,000 for the first quarter of 2012. The nearly 50% growth in professional market billings were driven by the Company's telemarketing and internet marketing-based activities. These activities drove professional billings of $470,000 in the reported quarter compared with about $260,000 for the prior year quarter, and $375,000 in the trailing fourth quarter of fiscal year 2011. Sales through our distributor network for the professional market also increased about $70,000 from the prior year quarter and increased about $40,000 from the trailing fourth quarter. The distributor network channel, as we know, can be lumpy.

As many of you are aware, this market focuses on the hundreds of thousands of doctors, dentists, vets, tattoo and other facilities that have historically utilized a medical waste pick-up service for the required proper disposal. We have consistently shown that our solutions save our professional market customers 50% or more versus the traditional pick-up service. Our task is merely to find the most effective manner to get in front of the appropriate professional office decision maker, and we do this via our inside sales team, our e-commerce-driven website, innovative marketing campaigns, participation in industry trade shows, and other relevant electronic media. We've covered significant ground over the last year with our sales initiative in this professional market, and when you look at both our inside sales and web sales, the billings grew 84% compared to the prior year. And on average, the number of weekly orders from this channel more than doubled from 92 in the first quarter of the last fiscal year to almost 200 in this fiscal year's first quarter.

We continue to be very pleased with our new website, which launched in the middle of July, and post launch, we've experienced an approximate 100% increase in weekly sales through the web. We attribute this to not only the promotion of our new site, but also to the improved functionality and its sophisticated visual presence. If you have not seen it, I recommend you do so.

Now, the **Government Market**… Our government contract is in its maintenance phase, which for the current quarter, generated more than $700,000 of billings, which is almost double over the prior fiscal year quarter. This increase is a result of additional maintenance services that will be performed under the contract this year, namely product rotation. We expect about the same level of revenue for each quarter this fiscal year. We continue to work on new concepts and the extension of existing programs, but in the current environment, progress is slow. However, we are confident about the position we have at various agencies that we work with for when proposals are released to move forward.

Now, I want to take a few minutes and talk about what we believe to be a ground-breaking and industry changing program. As you may have seen in our joint release with Walgreens and Novo Nordisk last week, we announced a national promotion and sponsorship of our new patent-pending Complete Needle™ Collection & Disposal System. This system, and specifically the unique promotion program in support of National Diabetes Month, is a measurable step for us in the retail consumer market.

Now the challenge for us in this consumer market has always been the question of whether or not the individual consumer will pay for the proper disposal of syringes and needles. This first-of-its-kind retail program eliminates that issue. The pharmaceutical manufacturer and the nation's largest drug store chain together, in effect, purchase the solution from us and provide it at no cost to the user through rebates and redemption codes printed at the register.

Their benefit is increased brand loyalty, recognition as a quality corporate citizen, increased foot traffic in the stores, and an opportunity to directly communicate with the customers/patients. We believe this could serve as a model program for the country and expect larger participation and sponsorship of the offering by other retail pharmacies, as well as additional drug and ancillary product manufacturers. In fact, we are already in later stage discussions with additional retail pharmacies that could potentially launch programs after December 1st, 2011.

While we're very excited about this initial program, we're focused on expanding the program, so it becomes available to the estimated 13.5 million self-injectors in our country. The retail pharmacy is an ideal distribution point for diabetics, migraine patients, infertility, allergy patients and a number of other self-injectors to obtain their needle disposal along with their drugs and ancillary supplies. Now, to give you an idea of the size of the market opportunity, with respect to the 13.5 million self-injectors, we estimate that if only 10% of the 13.5 million self-injectors in our country participated in the Complete Needle program, and only one quarter of those same patients complete the return of the system for proper treatment, this would result in about $25 million in annual revenue to the Company.

So, in summary, we continue to make steady headway in gaining traction in what we believe to be significant dollar market opportunities for the Company as follows:

- The retail market includes a $20 million opportunity for the Takeaway Environmental System, a $50 million market for the flu shot business, and again, a $25 million per year revenue opportunity for the Complete Needle System.
- Patient Support Programs for pharmaceutical manufacturers can generate anywhere from $0.5 million to $2 million per year per drug and, again, the pipeline of these types of opportunities is quite full, as we are seen as the leader with pharma in providing these comprehensive solutions for higher-end drugs.
- The government market includes opportunities such as the potential VA pilot rollout, which could generate $20 to $30 million of revenue per year to the Company.
- The professional market opportunity is estimated at $600 million in annual revenue. And if you only consider a 5% penetration of this market, we could generate over $30 million a year in annual recurring revenue.

The most important part about all of the above-noted market opportunities is that they're all recurring revenue, so the excitement of our growth prospects resonates throughout the Company and with our employee base.

So 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. Since David covered the top line in our key markets fairly thoroughly, I'll just hit on a few points to bring you up to speed on the financials.

First, our inside sales group has just 13 people in it now, which is the same as what we reported last quarter. Although we'd like to increase by two people per quarter, net of attrition, hiring and maintaining quality people is a constant challenge even in this economy. Nonetheless, those we do have working this channel are assertive in their efforts and continue to uncover new opportunities - and we continue to pursue new hires.

Assisted Living and Hospitality market billings for the quarter of 2012 were up 7% to about $300,000 as a result of increased sales to existing customers. Long term, we expect this market to grow based on the demographics of the country.

Home Health Care market billings for the first quarter of 2012 were almost $2 million and were down 12% compared with the prior year, but up 11% compared with the trailing fourth quarter of fiscal year 2011. This market is lumpy from quarter to quarter because we primarily sell through home health care-related distributers. This is also a market that we believe will continue to grow as it has over time due to demographics and, therefore, have worked on developing key distributer relationships.

Gross margin of about 32% was negatively impacted approximately 400 basis points for two reasons. The first was unplanned maintenance of the treatment facility, which reduced the gross margin by about 150 basis points. The second factor, which reduced gross margin by about 250 basis points, was the impact of the sale of the container-only portion of the Complete Needle System to the nation's largest retail pharmacy chain. The majority of our margin on the sale of the Complete Needle System is on the back end, when either the return postage and treatment is paid for by the consumer or a pharmaceutical sponsored redemption code is redeemed by the consumer. Therefore, we expect the December 2011 quarter's gross margin to be positively impacted by back end fees associated with the initial sale of over 100,000 units to the nation's largest retail pharmacy chain and returned by the consumer.

Selling, general and administrative expense in the first quarter of fiscal year 2012 was controlled at $2.2 million and we expect, at this time, for this to be the run rate for SG&A for the fiscal year.

Operating loss for the first quarter of fiscal 2012 was reduced by more than half to $500,000. Our strong cost discipline and increased revenue resulted in a reduction of our quarterly loss to $0.02 per share. If you factor out the 400 basis point reduction in gross margin, our loss would have been only $0.01 per share, which supports our continued belief that we will be break even at the $6 million per quarter revenue rate.

Our balance sheet remains very strong, with more than $18 million in cash and $20 million in working capital at the end of the quarter. We have no debt and a $5 million line of credit.

So with that, Operator, you can open the call for questions.

Operator: Thank you. We will now be conducting a question and answer session. If you would like to ask a question, please press star, one on your telephone keypad. A confirmation tone will indicate your line is in the question queue. You may press star, two if you would like to remove your question from the queue. For participants using speaker equipment, it may be necessary to pick up your handset before pressing the star keys. One moment, please, while we poll for questions.

Our first question comes from Ryan Daniels with William Blair. Please proceed with your question.

Andrew O'Hara: Hey, guys, it's Andy O'Hara in for Ryan today. Just a couple of quick questions... In terms of the promotional program for National Diabetes Month, could you just talk a little bit about how that program came about? Did you approach the pharma manufacturer or did it happen the other way around?

David Tusa: Morning, Andy. What we did is... we came up with this concept in about October or November of last year, the concept being that we have very strong relationships with our retail pharmacy customers. And then, what we would do is work with the retail pharmacy, who in turn would work with a pharmaceutical manufacturer. So, in this case, Walgreens was the one that identified Novo Nordisk as one that they thought we'd like to work with for this initial program of about a month.

Andrew O'Hara: Okay. And then, is there any potential for longer term sponsor programs potentially going beyond that initial one month?

David Tusa: Sure, yes, good question. First of all, the pharmaceutical manufacturer wanted to sponsor it for much more than a month and it was the retailer who wanted to, at least initially, limit it to a month so they could decide if they wanted to maybe bring other sponsorship in going forward. I think it's also important to note, Andy, that we're in later stage discussions with a number of retail pharmacies who are reaching out to sponsors as we speak, and we hope that, after December 1st, we will have the opportunity to announce more programs with other retail pharmacies that have brought in sponsorship.

Andrew O'Hara: Okay. And then, is there any potential for a similar pharma sponsored program but for the TakeAway envelopes that you guys were selling in the retail pharmacies?

David Tusa: Actually, that's an even better question. We have learned that the retailers are looking at doing the same thing, and some of them actually have started to do it, and are reaching out to pharmaceutical manufacturers for sponsorship of the TakeAway program. That started about a month or so ago. In other words, if it works extremely well for the syringes, then why wouldn't it work for the unused medication?

Andrew O'Hara: All right, really helpful, guys. Thanks a lot.

Operator: Thank you. Our next question comes from Kevin Steinke with Barrington Research. Please proceed with your question.

Kevin Steinke: Good morning. You referenced the approximate 100% increase in weekly sales coming through the website and I'm just kind of curious what markets you're really hitting with the website sales. Does it kind of cut across markets or what areas are you reaching that you might not have, absent the website?

David Tusa: Well, Kevin, it really does reach across many, many markets. We've seen orders from literally all markets, but I think it's focused primarily right now on the Professional market - doctor, dentist, vet, tattoo - but we've had orders via the website from many, many different markets. Some of the pharmacies ordered our TakeAway box systems through the website, so I'd say the vast majority of it is the Professional market, but definitely other markets are impacted as well.

Kevin Steinke: Right. Okay. And, it's still very early since the launch of the Complete Needle™ Collection and Disposal System and I think this promotion with Novo Nordisk is just kicking off now, but are there any early indications you can talk to about regarding the uptake of the product by self-injectors at all?

David Tusa: It's very, very early. What we can tell you is that, before the promotion, we did see the sale of the units running roughly at about the rate of 100,000 a year, which is kind of what we expected, but it's really too early to tell. But what really is exciting about this is you have the largest pharmacy retailer and one of the largest insulin manufacturers who agree with us, that this could be *the* way to deliver the solutions to these greatly underserved 13.5 million self-injectors.

Kevin Steinke: Great. And any update on TakeAway reorders? I think you talked last quarter about a 35% reorder rate there, which was pretty good.

David Tusa: That's on the initial program that we launched back in September. It's up to about 40% on the reorder side. Again, we probably need more time to assess that now. And as per Andy's question earlier, if pharmaceutical manufacturers decide to step in and support that as well, then obviously those numbers would go up.

Kevin Steinke: Great, thanks for the update. I appreciate it.

David Tusa: Thanks, Kevin.

Operator: Thank you. Our next question comes from Joe Munda with Sidoti. Please proceed with your question.

Joe Munda: Good morning, guys.

Diana Diaz: Morning.

Joe Munda: Just real quick here… What is the main difference between Complete Needle and TakeAway? Is it just that Complete Needle is being subsidized by the pharmaceutical companies?

David Tusa: No, Joe. The TakeAway refers to the unused medication disposal product, and the Complete Needle addresses the proper disposal of syringes.

Joe Munda: I thought TakeAway was also needles. No?

David Tusa: Well, TakeAway, as it relates to what we've talked about in these numbers in the retail side, is focused on unused medication.

Joe Munda: Okay. Also, can you give us an update on PELLA-DRX? There was nothing in the press release on it.

David Tusa: Sure. We continue to process and repurpose the medical waste that we receive at our facility that's treated through the autoclave. And we keep the medical waste out of the landfills. It's actually one of the things that we use when we're selling, whether it's a retail pharmacy or whether it's a pharmaceutical manufacturer, the fact that their patients' medical waste is not going into a landfill.

Joe Munda: Okay. Are you guys recognizing any revenue from it or…

David Tusa: No, we're not. The cost associated with it pretty much offsets the landfill cost that we would have historically incurred. It is very expensive to landfill medical waste.

Joe Munda: Okay. And then, I just have two other questions. Diana had mentioned you have 13 sales people currently and you would like to add two a quarter. Is there a quota number or a benchmark number each rep has to hit as far as sales is concerned?

Diana Diaz: Yes. We hope and expect that our seasoned sales people will generate revenues of about $200,000 a year, and if we look back at this last quarter, our sales people are definitely working at that level. They've had some really good successes and we just need to get more people in and trained and get them as part of the Company, and we feel like the model's working well.

Joe Munda: Now, is that $200,000 in new sales or does that include recurring revenue as well?

Diana Diaz: This includes recurring revenue.

Joe Munda: Yes. And that was quarterly or yearly?

Diana Diaz: On an annual basis.

Joe Munda: On an annual basis. And I'm sorry, David. You were talking – I hopped on a little late – there are 13.5 million self-injectors. You said 10% of that market would be 25 million, correct?

David Tusa: What we said is there's 13.5 million – there's a new study; I actually found it a week or two ago – self-injectors in this country, and when you do the math…

Joe Munda: Mm-hmm.

David Tusa: Let's say 10% of those participated in our Complete Needle program, and then only 25% of that 10% actually completed the return… that equates to about $25 million a year in revenue to us.

Joe Munda: Okay, so 2.5% of the total market is $25 million.

David Tusa: It's a split model. In my example, we're paid roughly $5 upfront on that 10% of 13.5 million patients, and then on the return, the 25% of that 10%, we receive about $20. The majority of the margin is on the back side, with the return of the unit.

Joe Munda: Okay. And then my last question, in regards to cash right now… You have $18 million in cash, no debt. What are your plans to do with the cash?

David Tusa: We're looking at a number of things, Joe, potential expansion opportunities within the Company that we think we may need to do to facilitate the growth of the Company, but we're not talking more than maybe $1 or $2 million in incremental cash expenditures. As I've said many times, what's very important about our Company in dealing with government agencies, large pharmaceutical manufacturers and large retail pharmacies is they want to see a very well-capitalized company. So, a lot of that cash on the balance sheet is used to support the strength of the Company in dealing with these large customers.

Joe Munda: Okay. And, I'm sorry, one other question… What was cap ex for the quarter?

Diana Diaz: It was a couple of hundred thousand.

David Tusa: Yes, it was a couple of hundred. Maintenance cap ex is usually about $1 million.

Diana Diaz: That's right.

Joe Munda: A million…?

David Tusa: Annually.

Joe Munda: A year. Okay, thank you. I'll hop back in the queue.

Operator: Our next question comes from George Walsh with Gilford Securities. Please proceed with your question.

George Walsh: David, I was wondering if you could review the real shifts in the model here, which I think is very, very significant, as you point out in the news release and as you sit here today, with the Patient Support and Complete Needle and now even looking at the TakeAway, the enhanced partnerships with the retailers and the pharmaceutical manufacturers. As you went into with the Complete Needle, the back end benefit obviously has some impact on this quarter with the gross margins. How do you feel about that going forward, being able to get to that $6 million in break even and about that 40-45% gross margin?

David Tusa: Well, George, the model for the Complete Needle was devised this way for a number of different reasons. What we had to first displace in the retail pharmacy was just the container only. The retail pharmacy has been selling just a sharps container in a box with no return or treatment capability for years. Hundreds of thousands of those have been sold for years and years and years. So we had to have a product that would do two things. One, it would displace the people that wanted to buy just a container. If you want to do that, you can continue to do that and the price is $4.99. But what we wanted was, with that same product, to be able to facilitate the return and the proper treatment. So it's a two-in-one product; therefore, that's why the model is the way it is.

Now, the margins up front are not significant, maybe 20 or 25% on that initial sale, but on the back end, when it's returned back to us, the net margin is over 70%. So, that's the model. The model is also one that works with a retailer and a sponsor, so that's what we've done. If we would have had returns in this same quarter and it didn't straddle, the margin would not have been as nearly impacted, because we would have returns at a much higher margin. So the investment we made up front was important in getting into the stores and launching this new program.

George Walsh: Okay, I understand that point. I guess my question has to do with the way it's shipped and how you're building this up. It's a mixed question… how much you ship versus how much comes in and as you're rolling this thing out and as you're looking at certain areas, as a certain revenue generation, as a break-even level, I'm just wondering if the margins would be affected more relative to mix.

David Tusa: No, George. I don't think so. Over a period of time, once you give a few quarters for a chance for more programs and for units to be returned, with the way we've modeled it out, it would still have a blended margin, consistent with what we've seen in the past.

George Walsh: Okay, that's the answer. So, it would blend and that's what you see coming of it. Okay. All right. Also, any update on the Veteran's Administration, just in terms of how they're looking at the program now and their potential rollout?

David Tusa: No, there's really no update. It's slow when dealing with a government agency. But we wouldn't continue to talk about it if we didn't think we had an opportunity to close the deal, so the timing, as with any government opportunity, is extremely difficult to predict.

George Walsh: Okay. And, you did mention in the annual report the idea of follow up with other government agencies, either a follow-up potentially with the large government order you had or potentially another government agency. Is there any general update on that?

David Tusa: Yes, we're still working with the government agencies on potential expansion of our existing program, and we're also working on a couple of other programs. But there's no update on those at this time.

George Walsh: Okay. And would you still characterize, at this point, dealing with some of those kinds of project base as opposed to the recurring revenue stream you're developing, or do you feel those could develop somehow? Well, the VA would certainly be a recurring model, but could certain others also develop into a recurring model?

David Tusa: Yes, actually, there are a couple that we're looking at that are recurring revenue. The only opportunity we're looking at that may have some possible up front lumpiness would be, again, potential expansion of the existing program.

George: Okay. All right, thanks a lot.

David Tusa: Thanks, George.

Operator: Mr. Tusa, there are no further questions at this time.

David Tusa: Right. Thank you, Operator. I just want to close the call with a few key points about the Company that I'd like everyone to take away, which are very important to the success of the Company. We're well capitalized, with over $18 million in cash, and we don't have a need for additional cash. The business is not expensive to maintain - as I mentioned earlier, about $1 million, maybe at the most $1.5 million, in maintenance capital expenditures a year. We're the recognized leader in the majority of the markets we serve, many of which we've created ourselves. And our total market opportunity, which is estimated at more than $2 billion, includes a Professional market opportunity of $600 million, which we are less than 1% penetrated. We believe that we're now demonstrating headway in our efforts to capture our targeted gross market opportunities.

And with that, I'll thank everyone for participating in the call and we appreciate your continued support.

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