

Host: Thanks everybody for joining us after lunch. I'm Brian Post and I am a Research Analyst here at Roth. Joining us today is Sharps Compliance Corp. It's carved out an interesting niche in the medical services space. Presenting today will be Chief Executive Officer and President, David Tusa, and VP and CFO, Diana Diaz.

David Tusa: Thank you and thank you everyone for attending our presentation. Sharps Compliance is a fully integrated provider of cost-effective management solutions for medical waste and unused dispensed medications generated outside of the hospital and large health care facility setting.

What we do, we move medical waste and unused medications through the mail. Our strategy is to capitalize on our leadership position and continue to penetrate what we believe to be a market opportunity in excess of \$2 billion.

When you think of the medical waste industry, you think of the large hospitals and health care settings which are really facilitated by a pickup service, a truck and driver. That's not us. What we do is we provide disposal solutions for medical waste and unused medication outside of that setting, more of a smaller quantity generator setting.

We've quantified the market for the medical waste solutions at about a billion for the unregulated market and about \$800 million for the regulated market. What's the difference between those two? An example of the unregulated market is a home. It could also be a dairy farm. It's really anywhere outside of a health care type facility. A regulated market is more like a professional market – doctors, dentists, vets, assisted living facility or long-term care. What's moving each of these markets? The unregulated market is being moved by more and more legislation that is being enacted and proposed across the country, banning syringes in the trash.

The regulated market, what's moving that? It's cost savings and our solution offerings for the doctors, dentists and vets. The small quantity generator offerings are typically 50% or less than the cost of the traditional pickup service. We're saving money every day for the professional market.

Now, we have another solution offering, our TakeAway Recovery™ System. This addresses the proper disposal of unused medications which we've quantified at about a billion dollar market opportunity. Believe it or not, about 40% of all dispensed patient medications go unused every year, generating in excess of 200 million pounds of medication that go unused each year.

Again, we're seeing more and more legislation across the country requiring the proper disposal of unused medications. On the bottom left you will see the solution offerings – an envelope product, and a box product. The envelope is used by a consumer that can be purchased at a Walgreens or a Rite-Aid, and the box you'll find behind the counter in the independent pharmacies where they invite their patients into the pharmacy to bring their unused medication for disposal.

We are a vertically integrated solutions provider. What does that mean? We have everything under one roof, everything from the manufacturing, assembly, distribution, and our tracking system which is a state of the art tracking system. We track every package that goes out along the way, and when it comes back and has been treated. We also have both autoclave and incineration capabilities which are very important in that we can treat all types of medical waste and unused medications.

I am going to hit on a few of the key market opportunities. I get the question all of the time, where do you see the growth in the company. I am going to hit on a few of those. Retail pharmacies, we have had long standing relationships with the major retail pharmacies, and over the years we have been providing the

solutions that facilitate the disposal of medical waste. It is generated as part of a flu-shot program for a retail pharmacy.

The Sharps Recovery System™ supports the proper disposal of flu shots and other inoculations. This business has been growing for us as there have been more and more flu shots and other shots administered outside the typical health care setting. This is a huge market opportunity for us. The revenue has pretty much doubled every year for the last five or six years.

Also, we work with the major pharmacies in providing our Takeaway Recovery™ System, which is the unused medication solution. With Walgreens and Rite Aid, you can go into these pharmacies and you will find our envelope product which is used to facilitate disposal of patient generated unused meds. We are the only company in the country that is authorized by the Post Office to move unused medications through the mail. Why the retail pharmacies like the unused medication product? It drives foot traffic through the store and it helps them develop a better relationship with their patient.

Another significant market opportunity is the professional market. In the U.S., there are an estimated 800,000 professional offices, including doctors, dentists, vets, tattoos, allergy clinics, you can go on and on. All of these fall in the regulated market, as they are required to properly dispose of medical waste and they traditionally, or historically used a pick-up service. So if you think about it, a truck and a driver is sent to a professional office to pick up a box of medical waste. With our solutions, we move the medical waste through the mail.

The mail is an existing infrastructure, and we have shown, on a consistent basis in this professional market, that our solutions can save 50% or maybe more than the cost of the traditional pick-up service. So we are saving money for these professional offices during these economic times. Our goal here is to continue to educate the market, drive awareness and develop a recurring revenue opportunities. Of these 800,000 facilities, we are maybe one or two percent penetrated. We see this market as a significant opportunity.

On the government side, we are involved in a pilot with the Veterans Administration, where our solutions are provided to veterans across the country. It is up to around 20 states that our solutions are offered. We have the opportunity to expand this program to all five and a half million patients in the veterans administration's pharmacy services division. We are excited about the pilot program and are working with the Veterans Administration and are hopeful, no guarantees, but are hopeful that this will get rolled out into a much larger program.

Back in February 2009, we were awarded a \$40 million contract with a major U.S. Government agency, for our proprietary medical waste system. We've designed a rapid deployment solution that is used in the event of an emergency. It's an increasingly recognized part of emergency preparedness programs, and it's a full service out-sourced solution, \$40 million in total. \$28.5 million was recognized in the first year which was basically the calendar year 2009. We're now in the third year, and it's in the maintenance phase which generates \$3 million a year.

Why does this work for us? Again, we specialize in medical waste solutions designed for situations outside the traditional setting. If you think about an emergency, you think about potentially a pandemic or some sort of natural disaster or man-made disaster. Our solutions would be deployed to those particular areas to facilitate the proper collection, disposal and transportation of the medical waste generated in that setting.

Our channels to market – this is a very important slide. We have many market opportunities. You see them on the right side of the slide. We have direct sales which are field sales. They're focused on larger opportunities that justify the making of a sales call out to a particular prospective customer.

The inside sales we launched about a year ago. We're up to 11 employees, and we think that could increase significantly over the next year. The inside sales is really an outbound calling campaign where we're reaching out to this professional market and, in some cases, some of the other markets, such as the home health care market where it's very fragmented. We're reaching out to them and calling on them and making them aware that we can save them 50% or more with respect to their medical waste disposal services.

The other thing is website and eCommerce. We've moved, over the last couple of months, aggressively into marketing campaigns that are focused on direct mail, internet mail, email blast and even social media to get out in front of the marketplace.

With respect to these professional offices, I think we're one of the best kept secrets in that they just don't realize that there is an alternative to the traditional pickup service when it comes to the proper disposal of medical waste. Again, we can save them money, and we believe it's a much more convenient solution offering.

I'm going to turn it over to Diana to cover the financial highlights, and hopefully we'll have a few minutes left here at the end for a little Q&A.

Diana Diaz: Thanks David. We'll cover a few items that are important to our business model. Recurring revenue is very important to us, and we're really focused on growing the recurring revenue of our business while at the same time not losing focus on some big opportunities that are out there, some of which David talked about.

We've got early market penetration, especially in the retail pharmacy market as well as in the home health care market, and we've got first mover advantage. We're the leader in the market in moving medical waste and unused medications through the mail.

And we've got unique operating leverage which I'll go through here in a few minutes.

I'd like to walk through our billings by market segment. In 2008 we had \$13.2 million in billings, and in the trailing 12 months ended December 2010 we had almost \$18 million in billings. As you can see, the makeup of our customers has changed.

Home health care has always been important to us. It's where the company started 15 years ago and it's still an important part of our business, but we've moved into some other diverse areas, especially with the growth of our retail business and the professional market, which was fairly nonexistent in 2008. We also serve the assisted living market, pharmaceutical market, and the government market.

Here's a look at our full year results. In the top corner, you've got our core revenue. We've broken out our core business from the government contract. This is the emergency preparedness program that David spoke about. You can see that it was a very significant part of our operations in fiscal year 2010, and even back in 2009, but it has trailed off into the maintenance phase at this point.

We've had growth from 2007 to our trailing 12 months ended December, but it's not at a growth rate that we're really happy with, and so we have really focused on looking at the areas where we have a real opportunity to grow at a much faster pace than this. David walked through those. Those were the retail pharmacy area, the professional market, and the government market.

You can see the gross margin and operating margin are definitely impacted by a higher level of revenue. We took the opportunity that the government contract gave us to invest in our business. Since that build-

out phase was completed, we invested in our treatment facility, our warehouse facility, added additional space, and added additional sales people in order to be ready for a much bigger company. We believe that with the infrastructure we've invested in, we could grow two to three times our core business as well as another large government deal.

We'll show you a little bit of the quarterly trends. Once again, the core revenue is at the top. You can see the gray bar is our core revenue that we are working hard right now to grow. We believe that if we can achieve a revenue level on a quarterly basis of \$6 to \$6.5 million, we'll achieve break-even results. We need just a few items to close in order to achieve that result.

You can see as the revenue increases, the results should fall to the bottom line. Once we get across that mark to get to break-even level, gross margin will just come through to the bottom line.

On our balance sheet, we've got just under \$18 million in cash. We also have a prepaid federal income tax refund of \$2.5 million that will come in over the next few months, before the end of the calendar year. We've got a straightforward equity structure, and we've got a \$5 million line of credit, which we have not borrowed against.

I would like to point another aspect of our treatment process – our Waste Conversion Process™. Compared with other medical waste companies, most of the medical waste they treat goes into a landfill. Well, ours goes through a slightly different process. The medical waste is autoclaved, shredded and then processed into pellets which are used as an alternative energy source for fuel intensive businesses, like cement kilns. We feel proud that our medical waste is not going into landfills.

Lastly, a few highlight points. We believe we've got an estimated \$2.8 billion market opportunity which we think we've only penetrated 1% to 2%. We've got first mover advantage in transporting and treating medical waste and unused medications through the mail. There are increased state and federal regulatory drivers in both the unused med and the medical waste area. We do have a vertically integrated and full service operation. It's important to have an incinerator as well as the autoclave treatment when you're dealing with medical waste, and we've got a highly scalable business model with operating leverage once we hit the break-even point. And we've got a great management team. David?

David Tusa: We've got plenty of time for question and answers. If you have a question, please wait for the microphone so we can catch it for the webcast.

Questioner: You talked about break even at \$6 to \$6.5 million quarterly revenue, if I remember right. Two questions, when do you think you can get there, and what would the margins look like at that revenue run rate?

David Tusa: The \$6 to \$6.5 million that we mentioned would get us to the break-even point. It would be low 40's gross margin, and it would be pretty much break-even on the bottom line there.

As Diana mentioned, we have many opportunities, and the pipeline is quite full. It wouldn't take much in the way of closing additional deals or growth in a number of areas to achieve that break-even level.

Questioner: Part of the, I think, success of the business going forward will be displacing the traditional pickup services. Can you give us an idea of how successful you have been in scenarios where people may or may not be under contract? What's the uptake rate?

David Tusa: Just to give you an example to your question, our inside sales campaign has been going on for about nine or ten months, and what we're finding is about roughly half of the prospects are under

contract and that's fine. We take their information, and we'll get back with them before that contract comes up for renewal.

Of the remaining half, the current closure rate is about 30% and, again, this is still a tiny portion. We've probably only called 1%. So, we're very pleased with the closure rate. We've added some new tools to the inside sales folks. You can go on our website, and you can actually see videos now of how the system works and hear testimonials from doctors and dentists and vets. I think that's going to help us to accelerate that growth rate and hopefully the close rate as well.

Questioner: There was a slide in the presentation that showed some big banner drug store labels on. Can you give a little more commentary on who you're working with, the timing, how long you've been working with them? Who's left to work with?

David Tusa: OK. We've been working with the major retail pharmacies for the last three to five years with respect to providing them disposal for the medical waste, which is syringes that are generated in administering flu shots. That business for us has pretty much doubled every year.

If you look at the retail pharmacies and retail clinics, we're probably got about 75% of the market. And why is that? Well, when you think of a grocery store or you think of a pharmacy, you don't think of a pickup service walking in the front door to pick up the medical waste. When you use our solution, you use it. It's behind the counter. You package it, and you just set it out for the mailman who comes there every day.

Now, the unused medication side of the house is a relatively new product that we've launched that addresses unused medication. We set Walgreens up, and I think that was the September quarter of 2010 that we booked our first initial order with them. They've been promoting it like we have as a first of its kind program, and since Walgreens jumped on board we've had Rite-Aid and Kroger and actually a number of other retail pharmacies that have implemented the program. Again, they like it because they're improving the interaction with their patients, and they're developing a better relationship with the consumer and helping to do the right thing environmentally in keeping these unused medications out of the rivers and streams.

The other reason is, you can read about it, unused medication is one of the hottest topics and in dealing with the proper disposal of it. It's actually in a number of states the leading cause of overdose by teenagers.

What we're doing is we're helping them address this issue, and at the same time helping increase foot traffic into their stores as well as improve the relationship with their customers and patients.

Questioner: This is a follow up. Are you disappointed in the pull through rate? You've been there six months. What would you anticipate that rate to be in the next six months?

David Tusa: Since September we had the envelope solutions in their store. We have seen reorders since the initial launch. Actually, we've moved from a shelf type product to a permanent placement item in Walgreens. I think we're going to need more time to really truly be able to gather data regarding the pull through. At the end of the day it's all about pull through; it's not just getting them out there, it's actually having them sold, used, and brought back. We've been very encouraged with the reorder level and we think, probably over the next couple or few quarters we'll be able to get a better idea with respect to pull through and what kind of reoccurring revenue that we think we can generate.

Questioner: Can you tell me what your economic model is?

David Tusa: Well, we sell to the retailer and then the retailer sells it to the patient. That's the way it works with the envelopes. Now, the boxes that are used in the independent pharmacies are large boxes behind the pharmacy counter. The pharmacy pays for those and invites the patients back in and they can dispose of their unused meds for free. The independent pharmacies love it. It's been great to work with. They like it because it increases foot traffic. I've had a number of them tell me that since the boxes have been in place they've had a 10% to 15% increase in their foot traffic. So, they're promoting it with their patients and the patients love it. I've been in some of these independent pharmacies and they're full, and people are bringing their medications back.

Questioner: I haven't really followed the company since the secondary, which I think was in 2009. But I think at that point you were pretty optimistic that you could grow beyond the maintenance of the government contract. Maybe you could just talk about what you were expecting then to come through that didn't and why?

David Tusa: Sure. With respect to the government contract, the CDC deal that we had with emergency preparedness program, we've worked with them now for at least a year, maybe more, with the potential to add additional products and offerings to that current contract. For instance, the offering now doesn't offer unused medication solutions, which they want to add. The other thing is that we think there's an opportunity to expand it. It's a relatively small program and it's one that we think we have the opportunity to expand.

The other government opportunity was a VA pilot, and the VA pilot launched just around the time of that period of the secondary offering. We were and are very excited about that pilot and the potential roll out to all 5.5 million patients in the VA. But, with any government opportunity, timing is always very difficult to predict.

One other thing is that we thought we would see a better response from the pharmaceutical manufacturers with respect to the legislation that was out there that was about to be enacted. We didn't see as much activity there as we would have liked, so we've actually changed our approach with respect to the pharmaceutical manufacturers. And, that's something that I think we'll be able to announce over the next couple of quarters.

Questioner: I thought they were supposed to be held responsible for their products?

David Tusa: There was a law in California that required them to post their plans and be responsible for the proper disposal of the medical waste generated by their patients, by their home self-injecting patients. And while they posted plans for that, there was no law there with respect to implementing programs such as ours. It was more of educational plans and educating patients over what maybe they can do, how they can properly dispose of the medical waste. But again we are working on a different approach to bring pharmaceutical manufacturers into the fold, which we think makes a lot of sense, and can help them promote their offerings to their patients and to the community and to the country.

Host: That takes us to the end of our time. Thank you.