Operator: Greetings and welcome to the Sharps Compliance Corporation Second Quarter Fiscal Year 2013 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, Jessie, and good morning, everyone. We certainly appreciate your participation on our second quarter fiscal year 2013 financial results conference call. You should have a copy of the news that was released earlier this morning that details Sharps' financial results. If you do not have it, you may obtain a copy from the Company's website at www.sharpsinc.com.

On the call with me today are David Tusa, President and CEO of Sharps Compliance; and Diana Diaz, Vice President and Chief Financial Officer. David and Diana will provide some formal remarks, after which we will open it up for questions. If you are listening via the webcast, you do have the ability to submit questions via the internet.

As you are aware, we may make some forward-looking statements during the formal presentation and the question-and-answer portion of this teleconference. These statements apply to future events which are subject to risks and uncertainties, as well other factors that could cause the actual results to differ materially from where we are today. These factors are outlined in our earnings release as well as in documents filed by the Company with the Securities and Exchange Commission and can be found at our website or at sec.gov.

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. I'll briefly review the second quarter and discuss our progress in our key targeted growth markets, and then I'll turn it over to Diana to review the financials in a bit more detail.

During the quarter, we continued our momentum with record core market revenue of $5.7 million for the second quarter of this fiscal year 2013. Our core revenue excludes the impact of the CDC contract which was terminated in January of 2012. Notably, what drove our performance was the continued progress within our targeted professional, pharmaceutical manufacturer and retail markets as we maintained our aggressive yet focused sales and marketing efforts.

Customer billings, which we believe to be an appropriate measure of our performance and progress, were down about $400,000 compared with the prior year period, reflecting the $700,000 impact from the termination of the maintenance portion of the CDC contract. Excluding that impact, core customer billings increased $300,000, or about 5% year-over-year, to a record $5.5 million in the second quarter of fiscal year

2013. Compared with the trailing quarter of fiscal year 2013, core customer billings increased about $100,000 or 2% from $5.4 million in the trailing first quarter.

Professional market billings, which represent just over 17% of the total billings, grew almost 32% to $1 million in the second quarter of fiscal year 2013 from about $720,000 in the prior-year period. The driving force behind the growth in the professional market is the targeted telemarketing activities and website promotional programs offered via the inside sales and online sales channel. Billings through this channel increased almost 39% year over year to nearly $800,000 in the second quarter. We are building a stronger awareness of our cost-effective solutions through inside and online sales channel in the professional market and believe we should continue to see substantial market inroads in the coming quarters.

The pharmaceutical manufacturer market billings grew in the second quarter to about $900,000 as a result of the timing of customer orders and resupply orders from one of the three new patient support programs that we were awarded in fiscal year 2012. As we previously mentioned, once all three programs are fully rolled out, we estimate they have the potential to generate as much as $3 million a year in annual recurring revenue.

However, our sales to this market can fluctuate measurably from quarter-to-quarter due to the variability in the timing of the orders associated with each program. Although we have not launched any new programs recently, we continue to believe that this market should be an area for growth as pharmaceutical manufacturers look for ways to improve patient interaction, monitor and potentially improve drug compliance and adherence.

Now, the retail market grew 10% in the second quarter of fiscal 2013 to about $1.4 million. This growth was driven by higher sales related to the flu shot business of about $122,000 in a market where we're the leader in providing retailers with solutions designed to manage medical waste generated as part of flu immunizations. Now, sales were also higher by about $60,000 related to our consumer-focused product, the Complete Needle™ Collection & Disposal System. These gains were partially offset by lower sales of the TakeAway Environmental Return System solutions, of about $70,000 due to initial launches in the prior year.

We generated about $1.2 million in revenue since the launch of our unique Complete Needle™ Collection & Disposal System for individuals required to self-inject medications for their health and well-being. We believe we're making good progress establishing the system as a standard of care for diabetics and other self-injectors through the retail channel.

Now, on to the flu season, I know everyone has seen the news and reports in the media, as well as the CDC regarding the severity of the flu season. Sales of our Sharps® Recovery System to retail pharmacies attributable to this year's flu season have increased about 40% year over year for the trailing twelve months. And, over the past four years, we've seen the flu shot related business nearly quadruple. Since we have previously established our leadership position with retail pharmacies administering flu and other shots, the growth over the past four years has been driven by more shots being administered in the retail or alternate-type setting. We continue to receive flu shot orders that we believe will positively impact the March 2013 quarter.

Now government; I believe many of you have seen the RFIs hosted by the Veterans Administration ("VA") related to the contemplated Consumer Medication Return Envelope Program. Now, in addition to responding to the RFIs, we participated in an Industry Day on January 22nd hosted by the VA as well as one-on-one meetings with VA decision-makers. Now, the VA continues its market research to identify qualified vendors, as well as finalizing specifics of the program. In conjunction with this process, the VA has announced publicly a tentative timeline for the program. This includes an RFP in March, responses due in April, and an award announcement in June of 2013.

We believe our TakeAway Environmental Return System™ is uniquely qualified to meet all of the requirements of the program as currently presented. But in saying this, we can provide no assurances that the VA will launch the program nor select Sharps Compliance as the vendor.

Now our pipeline; we are building a solid pipeline of opportunities including significant activity through our joint marketing alliance with Daniels Sharpsmart. Excluding government, our pipeline of targeted opportunities currently exceeds $30 million in annual recurring revenue opportunities, with about 60% of this number attributable to alliance-type opportunities for both the mail-back, pick-up service and other services are integrated into the offering.

What we've learned over the past few quarters, as we've built this pipeline using new technology, is that a significant portion of our large dollar opportunities require the pick-up service for some of the locations or facilities in order to be able to service the entire prospective customer. So far we've closed about $600,000 in annual alliance related business, much of which has launched this month and will positively impact the March 2013 quarter. We expect the alliance to drive revenue growth and expand opportunities as we transform the Company into a comprehensive medical waste management provider for North America.

With that, I'd like to turn it over to Diana who's going to cover the financials in a bit more detail.

Diana Diaz: Thank you, David. Our gross margin was 29.7% in the second quarter of fiscal 2013, down 490 basis points from the prior-year period. The margin contraction reflected the impact of a number of items, including, first, the January 2012 termination of the maintenance portion of the CDC contract, including about 200 basis points for ongoing facility costs; second, about 110 basis points associated with additional accrued loss for lease-related liabilities for the Atlanta facility; third, treatment facility related repairs and seasonal labor; and finally, lower revenue compared with the prior year which included the CDC contract.

SG&A expense in the second quarter remained relatively flat at $2 million when compared with the prior-year period. We are investing in the development and expansion of our sales organization. Going forward, we expect our quarterly run rate for SG&A to be up about 5% as we grow our sales team and invest more in marketing.

For the second quarter, we had an operating loss of about $430,000 compared with operating income of $34,000 in the same period of prior year. Earnings before interest, taxes, depreciation and amortization, or EBITDA, was a loss of about $150,000 for the second quarter of fiscal 2013 compared with EBITDA of just over $300,000 in the same period of the prior fiscal year.

Net loss for the fiscal 2013 second quarter was about $430,000 or $0.03 per diluted share compared with net income of about $30,000 or basically breakeven for the prior-year period. Our breakeven level is quarterly revenue of about $6.2 million with a corresponding gross margin of about 34%.

Now, looking at a few of the highlights for the six months ended December 31, 2012. Core customer billings, which exclude the CDC contract, increased 5.2% to $11 million. We experienced strong growth in professional billings of over 37% to $2 million while pharmaceutical billings increased more than 50% to $1.5 million. Core government billings also increased by 133% or about $300,000 to $500,000 as a result of a large stocking order placed by the U.S. Department of Defense for about $200,000 through the distributor channel.

Retail billings were down about $400,000 to $2.6 million compared with the first half of fiscal 2012. This decrease is a result of timing of orders and new program launches in the prior-year period of both the Complete Needle™ Collection & Disposal System and the TakeAway Environmental Return System™ solution.

Flu business for the six months ended December 31, 2012 was basically flat in comparison with the prior-year period at $1.9 million.

Our balance sheet remained solid with $16.8 million in cash and cash equivalents as of December 31, 2012. As we mentioned last quarter, the decrease in cash and cash equivalents from June 30, 2012 of about $700,000 was due to our continued investment in sales and marketing and maintenance of operational infrastructure to support a much larger revenue run rate than we currently generate. At the end of the second quarter, the Company has no debt outstanding and continued low-maintenance capital requirements.

Given the Board of Directors' confidence in the underlying fundamentals of our business and the strength of our balance sheet, the Board authorized a stock repurchase program earlier this month for up to $3 million over a two-year period. We put the program in place to be opportunistic given the inefficiency in the trading of our stock. Our outlook for our business is strong and we think repurchasing our stock is a good use of available capital.

With that, I'll turn the call back to David.

David Tusa: Thank you, Diana. Before we turn it over to the Q&A, I believe it's important to understand that the Company and its growth opportunities have changed. We've evolved from a company selling mail-backs to an organization selling comprehensive medical waste management services. While we've always sold regulatory support, program management, customer service in our mail-back, the addition of the pick-up service complements that offering. I also believe our timing is very good as prospective customers in the market for these types of services are looking for alternative providers as they strive to reduce cost and improve operational efficiency in the current healthcare environment.

And with that, Jessie, let's open it up for questions.

Operator: Thank you. We will now be conducting our 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 key.

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

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

David Tusa: Good morning, Kristina.

Kristina Blaschek: Good morning, David. So, to start, I wanted to talk a little bit more about the $30 million pipeline and your larger prospects. Can you share a little bit more color on this pipeline, and what stage of discussions perhaps you are in with some of the opportunities? We're just trying to get a sense for perhaps timing of some of these opportunities.

David Tusa: Well, let me tell you what we've done. Over the last year, we've done a much better job of capturing the opportunities. We've launched, like many companies, Salesforce.com. And, what we did is, using this technology, it enabled us to capture all of the opportunities, and by many different campaigns within each one of those opportunities.

There's probably a good $5 million to $6 million of that $30 million that are probably in the later stage, but that entire pipeline, really when you look at it from a sales cycle standpoint, could be some of the opportunities that are smaller, it could be 30 to 60 days, and the larger opportunities could be a 12-month sales cycle. So, we're excited about the pipeline and capturing the opportunity, and at the same time being able to measure the success along the way. But, we're definitely seeing more and more opportunities move into later stage.

Kristina Blaschek: Okay, great. That's helpful color. Then moving on to the patient support programs, you mentioned you received resupply orders from a patient support program that started in 2012. Can you share some information or data on how that program is going relative to your initial expectation? I guess I'm trying to get a sense for the size of the resupply order relative to the initial program size.

David Tusa: Well, they're very lumpy types of orders. We may get a pharmaceutical manufacturer that may order up $200,000 to $400,000 in product, and they may draw down over a six-month period, a one-year period, just depending upon the patients and the need for the product.

We have one of our programs where it's a split model, where we actually generate some of the revenue on the backside when they return the unit. And obviously, that one has been a little bit slower than what we had anticipated. So, while we had $900,000 in this particular quarter, once they're fully rolled out and up and running and the returns are closer to our expectation, as we said, we think it will be about $3 million a year on an ongoing basis.

Kristina Blaschek: Okay, that's very helpful. And, if I could just ask one more, if I may. You indicated that the quarterly SG&A run rate will increase about 5% going forward to account for increased sales-related personnel and marketing expenditures. Can you talk about the increased investment, and if it's focused on any specific market?

David Tusa: What it's focused on, first of all, is top-notch quality sales people, bringing more sales folks into the organization that have experience in our core markets, all of our key markets. It could be pharmaceutical manufacturer, retail, or it could be markets such as assisted living, long-term care, or home health care, all of our traditional and core markets. So, we're bringing more people into the organization as we see the opportunities grow, and we're taking advantage of sales people when they come available and we're bringing them into the Company.

Then also, spending more on the marketing side. Our marketing is all about, Kristina, is just making the market aware of us as a provider of these services. One of the biggest challenges that we have is just to educate the marketplace, that there's an alternative provider out there that can provide the services in a very effective manner and also save them money.

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

Operator: Thank you. The next question comes from the line of Kevin Steinke of Barrington Research. Please proceed with your question.

Kevin Steinke: Good morning, Kevin Steinke, Barrington Research. Hey, David, just going back to the $30 million pipeline, has that increased significantly since the Daniels relationship? And, is a lot of that, you know pipeline related to Daniels? I don't know how much you can break it down, but just kind of curious how that's impacted the pipeline.

David Tusa: Well, when you look at it year over year, you know, it's probably tripled from where it was just a year ago, and you're probably talking about 50% to 60% of that pipeline that's related to what I'll call an alliance opportunity, Kevin. What that means is an opportunity where we're providing regulatory support, program management, customer service, the mail-back and the pick-up, for a comprehensive offering. Again, that's probably 50% to 60% of that pipeline. But, the pipeline has definitely expanded significantly since we're able to offer the comprehensive services.

Kevin Steinke: Okay, great. That's really helpful. Can you just give us an update on Complete Needle™ Collection & Disposal? You know, how that's progressing, and any further opportunities that you see there? Just any color you could provide would be helpful.

David Tusa: You heard earlier that part of the increase in the retail side was a result of the sale of more of the Complete Needle™ units, which is good. We sold that throughout most of the retailers.

One of the things we're working on is, and what we need to improve on is the actual return. The way that works is part of the revenue is generated when we sell the unit and another part is generated when the unit's return label is printed and returned to us. That redemption rate, we believe, is low right now. We're working hard to increase that redemption rate to drive more sales.

But we're very pleased with where it is in retail and how we've quickly moved it into the retail sector, and it is a product on the shelf in all your major pharmacies. We're working more on what we can do to improve that return redemption rate.

Kevin Steinke: Okay, great. Any update on what the pharmaceutical pipeline looks like? Are you continuing to uncover new opportunities in that market?

David Tusa: We do. That market just probably has the longest sales cycle of any market that we have. When you're working with the pharmaceutical manufacturer, you're asking them to spend money on their patients that they'd never spent before. And, while many of the states that their patients live do have laws requiring proper disposal, you still have to get in and work with pharmaceutical manufacturers and show them that they're going to generate a return on that investment. And, that's what we've been able to do back in 2012 with a few programs, and we're working with others. It's just a tougher sale and it's a longer sales cycle. So, there's a number of them that we're pursuing, but those are, besides government, probably the most difficult to predict timing.

Kevin Steinke: Okay, great. Well, thanks for the update. I will get back out to the queue. Thanks.

David Tusa: Thanks, Kevin.

Operator: Thank you. The next question comes from the line of Brian Butler of Wunderlich Securities. Please proceed with your question.

Brian Butler: Good morning.

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

Brian Butler: Good. Doing well, the first question, just thinking of the high-level growth, I mean, through the first half, even after excluding the government contract cancellation, you know, growth has been kind of in that 3.5% range. Looking into second half, just kind of to replace the government contract loss, you're somewhere at the 12% level for the third and the fourth quarter. I mean, is that realistic? Is that level of growth kind of out there that can be captured with the spending and the programs you're putting in place right now?

David Tusa: I think that's a fair question, Brian. First, let me say this. I, to be honest with you, wasn't totally pleased with what we did in this second quarter at $5.7 million. Our internal expectations were higher than this. It was adversely impacted by a couple of things.

One, the December, the holiday season was just brutal on the professional market. It really slowed down, and we really expected more activity in the November/December timeframe for the professional market. The other thing is, you know, the home health care business is great, we love it, it's a longstanding market of the Company, but we had about a $250,000 order that came in on January 2nd. The quarter and our internal expectation should have been higher, and I think we have an opportunity to generate higher growth.

And, you know, we've already started January off with a strong—I think our sales orders for this January alone are close to $2 million. So, I think we have significant opportunity going forward. In the March quarter, you're going to start to see some of the impact of the alliance opportunities that we've landed. So, I think that we have the opportunity to generate much higher growth rates throughout the calendar year 2013, maybe heavily weighted maybe towards the third and fourth calendar year. There are plenty of opportunities out there, and we think we can generate the kind of growth that is more consistent with the type of opportunities and the market opportunities we have.

Brian Butler: Okay, great. And then, just kind of looking down at the segments, on the retail side, when you talk about a flu season, maybe you can provide a little bit more color, how is the third quarter for you guys shaping up versus the second, just kind of directionally? Is the third quarter going to be much bigger? I know the second quarter was good, but can you give a little bit more color on that?

David Tusa: Why we talked about the flu shot season in a trailing twelve months is that the ordering patterns are almost different every year. For instance, last year—calendar year, the March quarter of 2012 that was $1.3 million to $1.4 million because they were starting to order up in the March quarter for the flu shot season. Now, in this March quarter they may do that again, they may order up in the June quarter. We will see in the March quarter some pick-up just related to the severity of the flu shot season.

I think already we were already seeing in January about $400,000 to $500,000 in orders that are coming in because of the severity of the flu shot season. So, if they order up again early, in the March quarter like they did last year, then the March quarter should look really good from the retail standpoint. If they don't do it until the June quarter, then they'll be reflected in the June quarter. That's why you really kind of have to look at it on an almost a calendar-year type basis to see the impact of the flu shot season.

Brian Butler: I see. But looking sequentially, it looks like the seasonal impact from the stronger flu season is a little bit stronger in the third quarter, is that a fair statement at the least?

David Tusa: Well, sometimes it is, sometimes it isn't. Just this past calendar year, it was the March quarter that was a heavy quarter. Traditionally it's been the September quarter, but they seem to be ordering earlier, in the March and the June quarters, in advance. Most of our customers actually order up in advance, we ship it to the distribution center and the distribution center sends it to the stores. We do have one that orders on a real-time basis where we ship it directly to the stores.

So, again, if they order up early, in the March quarter, you'll see an impact in the March quarter. They may do it in the June quarter. But again, we really look at it overall on mainly a calendar year to calendar year basis really to truly get an impact and kind of smoothing out the effects of the difficulty in the ordering patterns.

Brian Butler: Okay. And then also, one last on the retail part, can you give any color and an update on the sponsorship programs? Just kind of what was done in the second quarter? And then, what the outlook/schedule is kind through on the mail-back programs from the retail side?

David Tusa: You know, they started off strong when we did—we launched that Novo program, and we've had a couple of other sponsorships. But, it's been kind of slow on the sponsorship. And, what we've been doing is encouraging the consumer with $5 off coupons, but, the sponsorship is not as heavy as what we had hoped for. We're actually redesigning the actual unit itself to stress more about the importance of not throwing the unit to trash and making sure it's returned for the proper treatment. But, while we're working on some sponsorship programs, it's been slower than what we had anticipated.

Brian Butler: Alright. Just a couple of, hopefully, quick housekeeping questions. In your other category on billing, and I might have missed this in your prepared remarks, what's in the other again? And, what caused that to be down 200,000 in the second quarter?

Diana Diaz: Some of our other markets are agriculture and some commercial, and those usually have a little bit more lumpy ordering patterns quarter to quarter.

David Tusa: So, did we have? We had a $200,000 order in the other for the prior-year period?

Diana Diaz: That's correct.

David Tusa: And then we didn't have it this quarter; again, it's lumpy. So, they ordered upfront and then we'll see a lumpy order sometime in the future.

Brian Butler: All right. Just in thinking about that for the remainder of calendar 2013, is there going to be some growth in that area? Or is that something that's just not recurring that's going to be down? I think you did about $1.1 million in 2012. I'm just trying to see if this is going to be an area that's going to be a drag.

David Tusa: You know, I think that you can probably expect a similar number for '13. I don’t think you're going to see a significant increase or decrease in that. But, it's kind of a catch-all for other markets that are not defined in the schedule.

Brian Butler: Okay, that's great. That's what I was looking for. And then last, do you have cash from operations, the number, and the cap ex spending number for the quarter?

David Tusa: The cap ex is about $0.5 million for the six months. The EBITDA is $150,000 for the quarter.

Diana Diaz: Yes.

David Tusa: But, we're on track from a cap ex standpoint, as we've always said, that we can run this business with cap ex of $1 million or less, and we're on track for that.

Brian Butler: Okay, because it looks like you're about cash flow breakeven in this quarter, I mean just based on where your cash on the balance sheet ended up.

David Tusa: It is when you take the impact of receivables and payables, I look at it more from an EBITDA standpoint, it shows about a $150,000 loss which is essentially breakeven from a cash standpoint from operation.

Brian Butler: Okay. That's great. Thank you very much.

David Tusa: You bet.

Operator: Thank you. The next question comes from the line of Joe Munda of Sidoti. Please proceed with your question.

Joe Munda: Good morning.

David Tusa: Good morning, Joe.

Joe Munda: Thank you for taking my question. How are you?

David Tusa: Doing well.

Joe Munda: Real quick, you guys touched on the RFI, the VA opportunity. Can you remind us, what is the size of that contract opportunity? And, any idea on the structure of that contract if you guys were to be the choice for that contract?

David Tusa: Well, let me tell you what I know. First of all, we launched this pilot with the VA in 2010, and what this represents is the potential for the ultimate rollout of that product across the Veterans Administration, focused primarily on the TakeAway envelope which facilitates the disposal of unused medication. So, they issued the first RFI a few months ago and the second one shortly thereafter. The RFI is public and you can find it pretty easily. Just Google Consumer Medication Envelope Program and you'll find it on the government website.

But, when you look at it, what you'll see is it's a very comprehensive program; it's much more than just filling envelopes. There's very strict requirements regarding the program and it's designed to make it as easy and most convenient for the veteran. Now—and by the way, when you find the RFI and you read through there, that our program meets or exceeds all the requirements listed in that RFI, I'll say that.

Now, as far as the structure and the size, we don't really know other than as a benchmark, we know there are about six million patients under care by the VA that receive their medication from the VA. So, you know, if every one of those six million receive one envelope a year, it'd be roughly $15 million to $20 million.

So, that's all we know. We don't really know anything more than that. Again, we participated in all of the activities and the VA continues to do its market research. We think we're uniquely positioned on this program, but, you know, we won't know until we know.

Joe Munda: Do you know how many other people are competing for this contract?

David Tusa: No.

Joe Munda: Or any idea on that front? No?

David Tusa: No. The way it works, by the way, in both the commercial setting and in the government setting, the groups usually have a strategic acquisition group, a procurement group that really handles it independent from the business folks that are trying to secure their products and services. They work independently and they're out there working independently of the business folks trying to make sure that they find all vendors and that can provide top-quality products and services that they're looking for. They're pretty tight-lipped about it, but we'll know more over the next couple of few months.

Joe Munda: Okay. And, I have one question for Diana regarding gross margin. You spoke about some facility expense, you know, I guess repairing some of the facilities. How much of that was contributed to the gross margin? And second, when is that supposed to go away?

Diana Diaz: Well, Joe, the gross margin impact from the treatment facility cost was probably the smallest component with an impact on the gross margin. And, just because of the level of our revenue, it will impact gross margin when that comes in. We have periodic maintenance on the facility every other quarter or so, and it just so happened that we had some this quarter. There's not, you know, anything big going on—does that answer your question?

Joe Munda: Yes, that's perfect. Thank you.

Diana Diaz: Okay.

Operator: Thank you. The next question comes from the line of Wyatt Carr of Monarch Bay Securities. Please proceed with your question.

Wyatt Carr: This is Wyatt Carr, with Monarch Bay, and I appreciate you taking my questions. The first one, you talked a lot about this RFI. Are you seeing any competition from veteran-owned firms? And, do these firms, are they able to meet the kind of requirements that the VA has mapped in?

David Tusa: I really don't know, to be totally honest with you. I do know that they're out there talking to folks that they think that may be able to do this. Again, we know that we've been selling. We've probably sold well over a million of these envelopes over the last couple of years into both the retail sector and to the VA. We've been filling orders as well to the VA. So, we think we're well-positioned; we have a history of success with the VA. We have all the proper facilities and permits and meet all of the requirements. I know that we're well-positioned and we meet the requirements of the RFI. But that's not guaranteed that, again, that they'll launch the program or that they'll select us.

Wyatt Carr: Great, David. Thank you. And, this is a competitive situation, is that correct?

David Tusa: Sure. Anytime you're dealing with the government, they're going to do everything then they can to make sure that it's competitive.

But, I want to say something else. While this opportunity is important to the Company and it would be a large dollar opportunity, I think what is even more important than this is the growth of our core businesses. I'm very excited about the opportunities in all of our core markets, professional market, pharmaceutical manufacturers, and retail pharmacy business that we see everyday that's part of that pipeline that I mentioned earlier.

I think while government's important and it will be a great opportunity for us, I think the long-term value of this Company are growing opportunities, and driving revenue in the core business recurring revenue business. We're very focused on that, on that core business, and we're participating in the government RFI, and again it will be great to get that business, but we're not losing sight of the growth in the core side.

Wyatt Carr: Got you. And, the initiative on aggressive sales and marketing initiatives, what are your sales count, personnel, at this point? And, how many do you expect to add?

David Tusa: What we have is a two-field sales force. I think we're up to eight on the field sales. And, the field sales are focusing on larger dollar opportunities. We also have our inside sales, we have about six people on the inside sales. They're fielding inbound and then they're obviously focused on outbound as well to smaller opportunities that you can fill on the phone.

And the other initiative, which is a third initiative, which has been driving significant growth, is the web initiative. Believe it or not, we do quite a bit of business through our web. And, we think we've got a great website that captures you, that educates you quickly on the alternative to traditional methods of medical waste disposal, and then moves to sell you, even online, the products and services that can facilitate the medical disposal for your business. Those three are what we're focused on and we want to invest more money.

Now, we want to add a couple of more people on the inside sales and we're also looking at maybe one or two more on the field sales, and then at the same time looking to invest more on the web marketing.

Wyatt Carr: Okay, great. And, my last question, in the quarter, second quarter billings were basically flat and you basically talked about the holiday season and the impact. Was there anything else that was impacting you, such as Obamacare, that might have caused things to go flat in the quarter sequentially?

David Tusa: No, no. You're right about the professional market, it slowed down in the holiday season. And, we also had a large home health care order that if it would have come in four or five days earlier, we generated another couple of hundred thousand in revenue for us. So really, those were the impacts that we saw in the quarter. And again, with our internal expectations, our growth should have been higher.

Wyatt Carr: Okay. And then for Diana, this is on the—accounts receivable were up in spite of these revenues being basically flat sequentially. Was there something specific going on in the receivables?

Diana Diaz: It just really depends on the timing of the sales order, whether they came in October, November, or December what that timing is compared to the last balance sheet date which was June.

Wyatt Carr: Okay, great. Thank you very much for taking my questions.

David Tusa: You bet. Thank you.

Operator: Thank you. The next question comes from the line of Walter Young of Thompson Davis. Please proceed with your question.

Walter Young: Hi. My question has three parts, and I'm trying to understand the Daniels opportunity. And the three parts are, can you tell me what the average sales cycle is in this particular sector, where you have a part truck route pick-up and you have part mail-back? And, the second one is the average breakdown of the revenue that you would share with Daniels when you make one of these deals. And, the third is to describe the average recurring nature of this contract, is it likely to be an initial one-year order and you can kind of expect the order to be re-upped every year? Or, do they typically order six months' worth of services or is it less than that?

David Tusa: Okay. Let me hit the first one, Walter, the sales cycle. These are larger dollar opportunities where they may be individual smaller-quantity generators but there are maybe 300 or 400 of them; there could be 500 of them. So, although we talked about it as small quantity, the opportunity is obviously much larger in terms of dollars.

Now, what drives that sales cycle? It's the contract with their existing provider. So, the contract could be ending, the contract could be six months out, it could be a year out. What we find typically is they usually start about six months to a year before the contract or existing contract expires, before they'll start talking to other service providers. So—and, that's what we typically find. If you look at the pipeline, if you look at the opportunities, the larger ones are going to be closer to a sales cycle as long as six months, could be 12 months, could be 14 months, and then the smaller ones are usually shorter because they'll agree to talk or accept a proposal much closer to the end date of their existing contract.

On the revenue breakdown, let me just address it this way. What we're doing is we're meeting the need of the market and of the prospective customer. And what are they looking for? They're looking for regulatory support, compliance, program management, they're looking for customer service, and then they're looking for a mail-back or a pick-up or a combination thereof, which usually in most cases it's a combination thereof. So, we put a comprehensive proposal together for the customer that includes all of that. So, as far as our piece of it, it's usually about half. It could be 40% to 50% of it could be the Daniels pick-up service and the other 50% to 60% of it could be all of our services as well as our mail-back.

So, when we're going after these larger dollar opportunities, that's typically how they look. We're not going to go after something where 90% of it is a pick-up. We're going after the opportunities where we think we could provide unique value in that the prospective customer has many different-size facilities and it's the best way to save them money and improve operational efficiency by allowing the smaller facilities to focus on their mail-back and the larger ones to focus on the pick-up if that's the most cost-effective manner of servicing them.

Walter Young: Okay, good. Then just what is the average recurring nature of the contract?

David Tusa: Everything we're working on is annuity business. I mean, the generation of medical waste doesn't stop. So, when we talk about an annual opportunity, that's annual recurring revenue. For instance, we mentioned earlier that we've closed about $600,000 of alliance-related business. That's recurring revenue. We look at it, we look at this, what the annual contract value would be.

Walter Young: And, it couldn't be expanded by 10% to 20% the next year, it's pretty much that's what this contract is?

David Tusa: What we will typically do is, what we do, and it's going to make a commitment to the customer that, you know, our revenue increases as their business grows, maybe they expand and maybe they add 20 or 30 facilities, and then the business would grow. We work with them to minimize price increases and administrative and other-type charges that you typically see in the industry. So, we make a commitment to them over a period of time, and we work with them proactively to minimize the waste that needs to be treated, medical waste.

Walter Young: So, are they one or two-year contracts?

David Tusa: They could be anywhere from one to three years.

Walter Young: Okay.

David Tusa: And, what we've typically seen in our business is that sign up, that we think will be very happy with the service, the responsiveness and the cost related to this, so we just want to get them signed up, one to three years. And, I think we've done a great job of being able to retain customers.

Walter Young: Thank you.

Operator: Thank you. The next question comes from the line of Walter Schanker of MAZ Partners. Please proceed with your question.

Walter Schanker: Hi. To go off on a tangent, which I'm surprised hasn't been brought up, in talking about the share buyback, the term opportunistic was used. It seems to me that—there will be a question at the end—it seems to me that with your stock near its multiyear low given your growth prospects and having watched many companies announce share buybacks and then do nothing, why wouldn't you just have a regular buyback in place where within certain price parameters, which is what many companies do, during the market everyday buying stock. And, as the price moves up, you can reduce the amount of stock you're buying and it still leaves you the flexibility if there is a block around or something, you can buy it. I mean, either you want to buy it at $2.5 or you don't, why wouldn't you be in everyday as opposed to whatever opportunistic means, which I'd be happy to have you explain?

David Tusa: Sure. No problem. First of all, the program that the Board has approved and that we're launching has a lot of regulatory parameters around it. For instance, you can't buy or you can't participate during windows. For instance, when we announced it, we really are not able to start buying until about two to three days after earnings release, which is today. So the way the rules work is a few days after the earnings release, and you can buy—and there's parameters, limitations, it's 25% of the average trading volume for the last four weeks, exclusive of blocs, which you could purchase one block a week. So, we are moving forward with that, and that over the next few days we'll take a hard look at the share price and make a decision on buying, and I expect that we will.

Walter Schanker: Okay. I mean, because those regulatory rules have been in effect for a long time, all companies who do buybacks in one form or another live with them. Again, it seems to me that if you are as optimistic as you seem to indicate going forward and given your stock price, it's hard to understand why having announced that you wouldn't be—and you haven't done it yet, so I understand, but there'll be another update at the next conference call in three months to find out what you've actually done.

David Tusa: Right.

Walter Schanker: It seems to me you have the opportunity within those parameters everyday to have a broker buying some stock and it would seem to me within the price parameters you control, you set it up to do that.

David Tusa: We are. We're going to do that here in a few days. And the brokers do just that.

Walter Schanker: Okay. I look forward to hearing your progress in three months then. Thank you.

David Tusa: Okay.

Operator: Thank you. The next question comes from the line of Craig Hoagland of Anderson, Hoagland & Company. Please proceed with your question.

Craig Hoagland: Hi. A couple of quick clarifications. The Complete Needle™ product was being stocked in national chains in Q1. Did any volume continue into Q2? And, are those rollouts now complete?

David Tusa: Yes. The rollouts, we're in all of the major, and in many of the regional, pharmacies. It's pretty much everywhere now.

Diana Diaz: We were complete with the rollouts in the September quarter, and we're starting to see reorders at this point. And so, it seems to be moving through the retail pharmacies.

David Tusa: Yes. Go to the diabetics section of your local pharmacy and there's a real good chance you're going to see that Complete Needle™ on the shelf.

Craig Hoagland: Right, okay. So, Q1 was the last quarter there or initial stocking orders of size?

David Tusa: September quarter, right.

Diana Diaz: Yes.

Craig Hoagland: Okay. And in terms of the pharmaceutical business, you've talked previously about approximately $3 million of new programs sold in 2012, and then there were some older programs that might have totaled a million dollars a year that were in reorder mode. Are those programs still ongoing? And, is there reason to get—if these new programs did run at $3 million, is there reason to expect that, based on the current book of business, the pharma revenue would be higher than that?

David Tusa: No. Once they're fully rolled out, then we expect to see as much as $3 million. And, they're all rolled out now totally and we're not seeing the full impact yet, but we still expect to see that.

Craig Hoagland: I think there were programs that preceded those—are there?

David Tusa: There are. There are a few programs that have preceded. We do have a few other ones and we will occasionally see—receive stocking orders on it.

Craig Hoagland: Okay. So, a million-dollar estimate for those old ones might be too high?

David Tusa: Probably so.

Deborah Pawlowski: Operator, I'm afraid we're running out of time. Could you give us one more follow-on question, Craig, and then we can take one more inquiry.

Craig Hoagland: Sure. I was just curious if you could comment on how the professional market sales have gone in the month of January.

David Tusa: I would say this. We, for the month of January so far, we had total sales orders of, like I said, close to $2 million. We did see a pick-up in the professional side after the December quarter, but we really need to see how February and March rolls out to see how it's going to perform for the quarter. But, we definitely did see a pick-up after the holiday season.

Craig Hoagland: Okay. Thanks a lot.

Operator: Thank you. And, our final question of the day comes from the line of George Walsh of Gilford Securities, Incorporated. Please proceed with your question.

George Walsh: David, are there any small-quantity service opportunities with Daniels—within Daniels' existing customer base at this point?

David Tusa: George, there are so many opportunities that we have out there. What we're really focused on is opportunities where there can be significant element between both the mail-back and the pick-up. And, that's what we're focused on, we've got a prospect list, and that's what we're really focusing on first and foremost rather than trying to maybe pick up some small business from some existing Daniels customers. We think that pipeline for the new opportunities that we have that neither have a relationship with are much greater.

George Walsh: Okay. And is that, when you talk about people looking for alternatives, that's what you're focusing on, you know, alternatives in terms of maybe their current provider and having a combined service, a small quantity of pick-up and mail-back service?

David Tusa: That's right. Where the contracts will be coming up for renewal in six months to a year and we're in there because they're looking for potential alternatives to the existing provider. And, by the way, we have situations as well where we come in with the mail-back and the pick-up, and on occasion, we've also brought in a hazardous waste provider as well where some of these facilities required hazardous waste disposal, so we have an alliance for that as well.

But, what we do is we provide a single point of contact for that customer. They work with us, they work with our sales people, they work with our customer service on all of their needs for whatever service that they need, whether it's a mail-back, a pick-up or hazardous waste. So, they're looking to save money, they're looking for regulatory support, and they're looking for a single point of contact, one contract.

George Walsh: Okay. And, when you speak of the pipeline we're dealing with there is the value of some of these contracts, if you could, if they went with an alternative that are up for renewal over the next year or two. Is that the quantification of that over the next—I think $30 million you said that would be over the next year?

David Tusa: That's right. That's correct. Well, over the next year, 18 months is generally the time period throughout there. Now and 18 months from now when their contracts, existing contracts would come up for renewal, we have the opportunity. Now, we're obviously working with them well in advance of the contract renewal, but yes, that's what that represents.

George Walsh: Yes. But, that's what you identified and are talking to right now one way or another.

David Tusa: That's correct.

George Walsh: Okay, all right. And, anything else with Daniels in terms of, you know, as this moves forward, as you're working together, other expansions of the marketing alliance, or how you guys are working together?

David Tusa: What we're working on is—and again, for competitive reasons, I don't want to talk about it much—we're working on a number of different opportunities, all of them in our core business, and ones that we think that could capture North America, meaning Canada as well as the United States. So, will not talk about it too much yet, there's other opportunities that we're working on that we think, whether it's—whether it's expanding the relationship with an existing customer that we have or whether it's just launching new programs for programs that expand off in Canada as well.

George Walsh: Okay. All right. Thank you, David.

David Tusa: You bet. Thanks, George.

Operator: Thank you. We have reached the end of our question-and-answer session. At this time, I would like to turn the floor back over to David Tusa for any closing comments.

David Tusa: Thank you, Jessie. In closing, I'd like to note that I'm regularly amazed at the access that we have as a small company to major organizations and government agencies across the country as a result of the uniqueness of our offering, their recognition of our flexibility and responsiveness, and the clear market need for alternative solutions for medical waste and unused medication management.

All of us at Sharps are driven every day to close new sales and grow this Company significantly. Through all of this, I believe we have to maintain our entrepreneurial spirit but nonetheless establish a structure designed for scale, also to enforce priorities to properly employ our resources. Our Board and management team are committed to the continued growth of Sharps and furthering our leadership position in the medical waste management arena.

We appreciate your continued interested in Sharps and hope you share our excitement about the potential of the Company.

Operator: Thank you. Ladies and gentlemen, this does conclude today's teleconference. You may disconnect your lines at this time. Thank you for your participation, and have a wonderful day.