Operator: Greetings and welcome to the Sharps Compliance Corporation Third Quarter Fiscal Year 2012 Earnings 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, Ms. Deborah Pawlowski, Investor Relations for Sharps Compliance Corporation. Thank you, Ms. Pawlowski. You may begin.

Deborah Pawlowski: Thank you, Luis, and good morning, everyone. We appreciate your participation with us today on our Third Quarter Fiscal Year 2012 Earnings Conference Call. You should have a copy of the news release detailing Sharps' financial results that was issued earlier this morning, as well as our announcement regarding our new joint marketing alliance with Daniels Sharpsmart, which we're very excited about and David will talk to more thoroughly here. If you can't find these news releases, they are available on our website at www.sharpsinc.com.

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 which 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 Third Quarter Fiscal Year 2012 Earnings Conference Call. I'm going to briefly review the quarter and discuss our key targeted markets. Then we'll have Diana delve further into the financials, after which I will review the recent announcement regarding our marketing alliance with Daniels before we open it up for questions.

We are very excited about this alliance and believe this unique combination of our mail-back solutions with their route-based pickup service can provide customers the most convenient, cost-effective, safe, and environmentally sound choice for their operations.

As for the third quarter, revenue of $5.3 million was up 17% year-over-year. Importantly, core revenue, which excludes the government contract, expanded 29% in the quarter, which generated strong growth in core billings as well, which were up 36% in the quarter. We believe our results demonstrate the traction we are gaining with our targeted marketing and sales activities in our key retail pharmacy, pharmaceutical manufacturer, and professional markets.

Now for the Retail market, billings of $1.4 million were up almost $600,000, or 73%, when compared with the prior year. This was driven by strong orders in advance of the 2012 flu shot season, as well as the impact of more immunizations administered in the retail setting.

The amount of healthcare services delivered to retail pharmacies continues to expand, which of course, bodes very well for us. Our Sharps® Recovery System™ is used in the vast majority of retail pharmacies to properly manage the collection, transportation, and treatment of syringes and other healthcare materials used to administer flu shots and other immunizations.

We're moving along well with our consumer focused, Complete Needle™ Collection & Disposal System. We expect to launch the Complete Needle™ solution into additional retail pharmacies over the remaining calendar year of 2012. We're also making headway with various sponsorship opportunities with suppliers to the diabetic market. In fact, this past month of April, Walgreens ran a new promotion for the Complete Needle™, and we expect a promotion in June of this year with a major diabetic product supplier.

In the Pharmaceutical Manufacturer market, we had another strong quarter, due to the continued rollout of two new Patient Support Programs and the initial launch of a third Patient Support Program during the March quarter. Billings in this market were up to $900,000, compared to almost $100,000 for the prior year, and up about $150,000 over the trailing quarter.

As you may know, billings in this market can fluctuate significantly, depending upon the timing of resupply orders and the launching of the new vendor-managed inventory programs. Our solutions to address critical areas of focus for pharmaceutical manufacturers, given the heightened intensity in their competitive environment, include product differentiation, social responsibility, improved interaction with patients, and creating a touch point for individual patient follow up that could lead to improved therapy outcomes.

Our Patient Support Programs provide the direct fulfillment of the Sharps® Recovery System™ to the pharmaceutical manufacturers' participant, so they have a safe and convenient means for disposing of the needles or injection devices utilized in therapy. Our proprietary SharpsTracer™ system tracks the return of the Sharps® Recovery System™ by the patient to the treatment facility and then makes this data available to the pharmaceutical manufacturer, which again, assists them in monitoring medicine, medication discipline, and provides them with a touch point for individual patient follow up.

We continue to make excellent progress in the growth of the Professional market, which represents about 15% of our total billings at just over $800,000 for the third quarter of fiscal year 2012. The over 85% growth in professional market billings was driven by the Company's targeted telemarketing initiatives, e-commerce driven website, and web-based promotional activities to educate doctors, dentists, vets and others of the significant costs advantage and convenience of our solutions. Our inside and online sales channels generated professional market billings of almost $650,000 in the reported quarter, which was more than double the $300,000 in the prior year quarter, and up 16% from $560,000 in the trailing second quarter of fiscal year 2012.

On to the Government market, as many of you are aware, the primary opportunity that we have in the government market remains the potential rollout of the VA pilot program that we began in

February of 2010, which was completed in mid-to-late calendar year 2011. We continue our discussions with the VA regarding this opportunity and are encouraged with the progress to date, but as with any government opportunity, timing is extremely difficult to predict.

So with that, let me turn the call over to Diana for a bit more on the details of the financials and then I'll further discuss the Daniels alliance. Diana?

Diana Diaz: Thank you David. 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.

The Home Healthcare market is still our largest served market, with billings in the third quarter of $1.5 million, which is a decrease of approximately 9% over the prior year period. Home healthcare billing fluctuates from quarter-to-quarter because we sell primarily through home healthcare related distributors, in which ordering patterns sometimes adversely affect quarterly billings. In fact, we received about $300,000 in home healthcare market orders during the first week of April 2012 that would have brought the March quarter billings in line with our expectations. This is a market that we believe will continue to grow at a steady pace over time, due to demographics, so we continue to work on expanding our key distributor as well as direct relationships.

Third quarter gross margin was 29%, compared with 31% in the prior year, a decrease driven primarily by ongoing facility costs that were launched in 2009 in conjunction with the U.S. Government maintenance contract that was terminated effective January 31, 2012. These costs, which are primarily lease related, reduced the gross margin by about 300 basis points. Roughly half of these costs, or 150 basis points, will be absorbed in current operations, while the remainder will continue until our Atlanta based facility is subleased.

The third quarter gross margin was also negatively impacted by about 100 basis points for unexpected maintenance and other costs in our treatment facility. The negative impact of leverage from lower revenue compared with the trailing second quarter is estimated to be another 300 basis points.

Third quarter SG&A expense of $2.2 million decreased from $2.4 million in last year's third quarter. The year-over-year decline reflects our ongoing efforts to drive greater success with fewer resources. In addition to tightening spending, we have realigned and refocused our sales and marketing activities, which is clearly driving results.

For the third quarter, our operating loss was about $800,000, compared with an operating loss of $1.1 million for the third quarter of last year. Our balance sheet remains very strong, with about $16.6 million in cash, and $20 million in working capital at the end of the quarter, which is comparable with the December 2011 quarter. We have no debt and a $5 million line of credit.

We received a federal income tax refund of $0.5 million dollars in April 2012, and with strong collections in April and May, we see a return of the cash position to about $18 million.

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

David Tusa: Thanks Diana. Now let's look forward. There've been many groundbreaking products and industry changing developments over the last year that we believe will bode very well for the Company in the near and long term. We continue to be encouraged by the progress of discussions about our innovative Complete Needle™ solution offering with retail pharmacies. The Complete Needle™ is a consumer-oriented, two-in-one product, designed to provide a convenient and cost effective disposal solution to the 13.5 million self-injectors in the United States through the retail pharmacy channel.

From late October through mid-November 2011, the product, including the optional return and treatment feature, was available free to Walgreens' customers as sponsored by Novo Nordisk. Just this past month in April, Walgreens offered a promotion of the Complete Needle™ for their customers purchasing syringes for the Complete Needle™. We believe the next promotion for the Complete Needle™ solution could be sponsored by a major diabetic supply company in the month of June 2012.

During the remainder of the calendar year 2012, we believe we have the opportunity to land at least two national retail pharmacy chain customers in either a major retail food/drug combo or mass merchandiser deal for the Complete Needle™ solution. This is very important to our strategy as we want the Complete Needle™ to be seen as "the solution" throughout retail pharmacies.

Now regarding sponsorship, the retailers are reaching out to their partners to encourage participation in the Complete Needle™ solution. Again, this is an important element to the program, as sponsorship significantly lowers the cost to the individual self-injector, while at the same time creating brand awareness and marketing opportunities for the sponsor.

Now, let me turn to something new - our recently announced alliance with Daniels, a leading worldwide provider of reusable containment solutions, collection, and treatment services for generators of larger quantities of medical waste. Daniels is the second largest medical waste Company in the United States. They are the leading medical waste Company in Australia and have a significant presence in the United Kingdom and Canada. With their route-based service combined with our easy-to-use and cost effective Sharps® Recovery and TakeAway™ Recovery Systems, we believe we can serve the entire U.S. market with the most cost effective means for managing Sharps' disposal, medical waste, and used healthcare materials treatment.

Of note, when our offerings are blended for larger customer operations that may have multi-site and multi-sized facilities, we believe our customers would receive the most efficient and cost effective solutions in the market today. Simply said, we believe this is a formidable alliance. It provides a superior offering for the healthcare market and, of course, for the customers.

With that, Operator, we're ready for questions.

Operator: 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 while we poll for questions.

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

Kristina Blaschek: Good morning. It's Kristina Blaschek in for Ryan today. Taking a closer look at the Daniels Sharpsmart joint marketing alliance you announced this morning and talked about in your prepared remarks, maybe you can help us understand a little bit more about the new capabilities that the alliance provides and specifically, how the partnership will work. For example, will you only be using Sharps® Recovery and TakeAway™ Recovery Systems, or will you also use Daniels' services for pickup only or will you also offer Daniels Sharpsmart system?

David Tusa: I think I can address all of that. First of all, what we're trying to do is refer opportunities to each other. In their business, they come across opportunities that are focused on the small quantity generator that they refer to us. We come across opportunities in the large quantities side that we refer to them.

Kristina Blaschek: Okay.

David Tusa: That's one. Then the second is the blending of the opportunities for future sales opportunities, and Kristina, I'll give you an example. Let's say that we're going after a 250-branch healthcare-related facility, so they have 250 facilities across the country. And let's say that in 200 or 225 of those, the mail-back works because the quantities fit the small quantity generator model, and the mail back is the most cost effective way to address that, but for the other 25 or 50, maybe they're larger facilities or maybe they generate significant volumes of medical waste. We can go in collectively and present to the customer a blended solution where these facilities would use the mail-back, but with the larger facilities, Daniels would come in and use their pickup service, so the customer wins. The customer wins in that they get the best solution for the volume and type of medical waste and used healthcare products that they're generating.

Now, the third one is existing customers. Daniels has existing customers that have needs on the small quantity side and we have many customers that actually have certain facilities where the volumes are too large for the mail-back, and we have, I think, a very impressive customer base including Fortune 100 and 500 companies. It would give us the opportunity to be able to bring Daniels in to our existing relationship where our customer may be using a pickup service.

Kristina Blaschek: Okay.

David Tusa: And because of the relationship that we have and the contract that we have with that customer that would allow us to bring Daniels in and introduce them and hopefully move that pickup portion of the business with an existing customer to Daniels.

And then one last one, I have four here on the sheet in front of me Kristina, and this last one's really important as well. We have many existing customers and we have many prospective customers and deals that we're chasing where the customer has Canadian operations. Daniels has a significant presence in Canada, so we could go in where we may have had difficulty before in dealing with all of the medical waste and used healthcare products generated by that prospective customer. We can now come in collectively and address all sized facilities and also be able to effectively address the Canadian market as well. This is very important in the opportunities that we're chasing. The Canadian side is very important and they're not going to want to deal with multiple vendors. So that's a long-winded response, but I hope it answered your question.

Kristina Blaschek: Yes, those examples are very helpful. As a follow up to that though, in the situation where you are referring some services or businesses to Daniels, will you be able to generate any type of referral fee for that or how does that work?

David Tusa: There is a referral fee mechanism, but I think what's much more important than a referral fee mechanism is that we're both going to be going after business that we may not have been able to get on our own, but collectively we can, so the objective here is to generate significant incremental revenue to both of us.

That's where we think the big win is, but yes, there is a small referral fee that's built into the agreement.

Kristina Blaschek: Okay, great. That's very helpful color.

Okay, next, moving on to gross margin, I had a follow up question. Can you tell us a little bit more about the 100 basis point impact from the unexpected maintenance and other costs of the treatment facility this quarter? Is there something that you think might continue going forward into the fourth quarter? I'm just trying to get a sense for what a good run rate is going forward, with that impact and then also with the cost from the government contract before the facility gets subleased.

David Tusa: It could, and when you're running a treatment facility and you have a lot of mechanical equipment, you do sometimes run into unexpected expenditures. We would hope that we wouldn't, but it very well could happen in the next quarter or the following quarter.

Diana hit some of the adjustment items when we looked at the margins for the quarter. With the $5.3 million in revenue, the margin should have been closer to probably about 37%. Of course, as Diana mentioned, we had about 300 basis points related to the drag from the leased facilities and then we had 100 full basis points for the treatment facility. We should have been somewhere closer to 36% or 37%.

Kristina Blaschek: Okay, great. That's really helpful.

And then I have one more if I may. In your professional market you talked a little bit more about telemarketing initiatives and web-based promotional activity with doctors, dentists, and vets. Maybe you can provide some additional color on that and also, whether or not you have the data and you're willing to share a rough estimate on the number of practices you were able to connect with through these means, and how effective these initiatives are in converting them from traditional pickup to Sharps services?

David Tusa: First of all, we estimate whether it's direct or whether it's through distributors and, in this professional market, we probably have about 7,000 or 8,000 customers.

We've been pleased with the telesales and telemarketing initiatives, but over the last three to six months, we've seen reasonably significant growth in the contribution from the website, because of its e-commerce capability, and then all of the other web-based promotional activities, whether it's Google ads, display ads or email blasts, so Kristina, what we're going to do is continue to do those and others and we will reallocate resources as necessary, depending upon which one may work better than the other.

The key here is that we're just scratching the surface. With 7,000 or 8,000 of these professional market customers, it's just timing. With continued marketing, web-based marketing, telemarketing and other initiatives that we have going on, we think we have a real opportunity to generate some significant growth in this professional market.

Kristina Blaschek: Okay. Great. That's all I have for today. Thanks for all the color.

David Tusa: Thank you.

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

Brian Butler: Hello.

Diana Diaz: Good morning.

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

Deborah Pawlowski: Hi, Brian.

Brian Butler: Doing alright. I guess I'll start with the partnership. When you think about the professional market you've outlined, it's somewhere in the $600 million range. When you think of this partnership, can you put any brackets around what part of the market this opens up, size-wise, for you and Daniels?

David Tusa: I don't know if we're ready to talk with that level of detail, but I'll put it to you this way Brian. I think it has the impact to accelerate growth in most of our markets, except, obviously, the consumer markets for the Complete Needle™ and the TakeAway™. It has the opportunity in many of the other markets help us close larger deals. The examples I gave about a 200 or 300 facility prospective customer, and in some cases 500 or 600, are real examples, and while it should be able to accelerate growth and it should be able to help us land larger deals, these will hopefully accelerate the penetration of the markets and the dollar opportunities by each of the different markets.

Brian Butler: Okay. Is the number of those large chain opportunities out there? Are there hundreds or thousands of those?

David Tusa: Well, it's probably somewhere greater than hundreds and less than thousands, but we've been working with them pretty intensively here for the last week or two and we've already started to identify many large opportunities that, working together, we think we have a shot at being able to capture. They're going to be here the next couple of weeks as well and we're going to sit down with more time specifically identifying the opportunities, but, as with everything Brian, you've heard me talk about it as focus, focus, focus. It's really important that we work with them and we work upfront to identify the key opportunities and work together collectively to address them, because you don't want to get into thousands because, as you all know, when you try to get into the thousands, you don't get much done. But if you concentrate on the least number of opportunities that you think you have a real shot at, we think it could accelerate the growth.

Brian Butler: So we could possibly be seeing some benefits from this in your fourth quarter; if not, maybe your first quarter 2013?

David Tusa: I think that's accurate.

Brian Butler: Okay. Great. And then also can you give any color on the VA? I know you mentioned it briefly and are encouraged with the progress. What do you think are the hurdles, if we can just hear it again, that need to be overcome to move the VA from thinking about it to doing it?

David Tusa: Well, you know, I don't want to get into too many details Brian, but I will tell you that we're very far along and the given with the government opportunities is it just takes awhile for these fields to be closed. There's no guarantee that we're going to get it, but we wouldn't continue to talk about it if we didn't think it was an opportunity we had a real chance at landing. All the response we've heard back to date has been very, very positive. It's painful for us as well, because we like to get deals done and closed and behind us, so we're just going to have to work through it with them and hopefully bring this thing to closure. Timing is just extremely difficult to predict.

Brian Butler: Okay. And on to patient support programs. You have two of those. Were they fully ramped up in your third quarter or were you just in the process of ramping up?

David Tusa: They're just in the process. With the first one, which is the largest one, we have a lot of product out there with a lot of patients, and we'll start seeing the returns probably in the June and the September quarter. Hopefully, we'll start to see some even greater impact from that one. With the one that we launched in March, we were literally just getting started with the program and just starting to send the units out to the patients. We're still a ways from having the full impact for all three of these programs seen in the financials.

Brian Butler: Okay, so those are still ramping. Great.

Are there any set thoughts on the subleasing of the government facility that was servicing the government contract now that you've had a quarter or so to look at it? I mean, is there any update on when you think that might be subleased and those costs reduced?

David Tusa: We have a lot of people or a lot of companies looking at it, and we've had some pretty in depth discussions, but we don't want to rush to do a deal just to do a deal. We want to do the right deal for the Company, for the shareholders, and try to recover all of the remaining costs that we have out there. Hopefully, over the next maybe quarter or two, we can get something done, but again, with real estate, you know that's awfully difficult to predict.

Brian Butler: All right. On home healthcare, you had some volatility in this quarter, but overall that business is still looking strong and you still think about it as a mid-single digit grower?

David Tusa: I think you're right on it. Again, if we didn't have that one large order that came in, straddling the quarter, they would have been right in line with what we really would have expected, but I think you're right about the single digit growth.

Brian Butler: All right. So that should show up in the fourth quarter then and you'll get a little bump from that?

David Tusa: That's right.

Brian Butler: And Diana, did you say that after the operations in April that cash was now back at roughly $18 million?

Diana Diaz: With collections in April and May, we expect that cash will be back at the $18 million level.

Brian Butler: Is that in the fourth quarter or just by the end of May?

David Tusa: Should be by the end of May

Brian Butler: Okay. That's what I thought I heard. I just wanted to make sure. Great. Thank you very much.

David Tusa: Okay.

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

Kevin Steinke: Good morning. I just want to follow up again on the new Daniels relationship. I'm thinking about it primarily as a professional market opportunity, but you also mentioned that it could accelerate growth in some of your other targeted markets. Could you talk about some of the opportunities there, please?

David Tusa: Sure Kevin. Actually, it has the opportunity to affect many of our markets, whether it's assisted living, long term care, or home healthcare. If you can think of any healthcare-type of facility that may have multiple branches or significance in size, we're working through that, but we're excited because we see it has the potential impact to affect many of our markets.

Kevin Steinke: Okay. Great. And some of these larger opportunities that you're pursuing in conjunction with Daniels, are some of those targets, perhaps, under contracts with other providers and you're positioning yourself to capture contracts once those previous relationships have expired? Is there any of that that you need to be cognizant of?

David Tusa: We've already identified a number of opportunities that are at or near their expiration date where the customers are looking at other providers. We're expecting them to put the business out for bids. The other one is, again, our existing customers. We have contracts with our existing customers and we think we have the opportunity to bring them in under our contract. Yes, we're identifying the opportunities for monitoring these, but the larger ones would be ones that would be either not under contract or will be rolling off contracts.

Kevin Steinke: Okay. And, if possible, could you just give a little more detail on the promotional program that Walgreens did in April for, I believe, Complete Needle™ Collection and Disposal, and also the program you expect to launch in June with the diabetic company? Is that them picking up the cost of the shipping or how are those programs working?

David Tusa: In the month of April at Walgreens, if you purchased syringes or a Complete Needle™ system, you received $1 off the Complete Needle™ and then you received $5 off on the return. On the one in June that, we expect, will involve a diabetic supply manufacturer, the latest iteration I've seen is that if you buy their particular device, you would get the Complete Needle™ for free.

So again, they've seen this as a way to increase their brand recognition and brand loyalty, by offering something to these patients that it may not be otherwise aware of.

Kevin Steinke: Great. Any update on sponsorship for TakeAway™? I know you referenced last quarter that there could be potential sponsor opportunities for the unused medication solution, as well.

David Tusa: Yes. We're working with that one, but I'll tell you that one is slower than I expected. We've had many discussions with many parties on the TakeAway™ sponsorship one, but that one's just going to take longer. The sponsorship on the Complete Needle™ we see as much more near term.

Kevin Steinke: Okay. And lastly, can you just talk about unit sales of the Complete Needle™ Collection and Disposal system with your existing partner, Walgreens. Exclusive of promotional programs, how's it trending? I believe you talked about it last quarter that sales on a stand alone basis without sponsorship had been quite good?

David Tusa: They really have. You know we don't like to talk about any particular customer, but I'll just say, overall, we've probably sold about 140,000 of the Complete Needle™ systems that have gone into the retail channel. We have a couple of other retailers that it's gone into, as well. What we had said before was that we expect that redemption rate on the return to be somewhere in the 5% to 10% and that's what it's looking like and that's based upon a combination of the return that they are able to give previous sponsorship, or subsidized price, or where patients are going on our website and just paying for the return. So we think that redemption rate is probably still good.

Kevin Steinke: Okay. Well thanks for the update. Good quarter.

David Tusa: Thanks, Kevin.

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

Walter Schenker: Two questions, or one-and-a-half, maybe.

On Daniels' JV, this is largely expected to be going forward on new contracts, as opposed to either marketing your service or their service to your existing customer base who are not up for renewal?

David Tusa: First of all, it's a marketing alliance, not an official joint venture. What it does is give us the opportunity to refer sales opportunities to each other, based upon the size. Again, we literally came across one just last week that was a pretty significant, large quantity opportunity that we referred to them, and then when they come across small quantity opportunities they refer them to us. That's one.

The second is the future sales opportunities, where we blend a combination of the mail-back with the pickup to design a solution that's best for that customer.

And then, number three, it's our existing customers. It can be existing customers of ours or existing customers of theirs - ours that have needs for pickup for larger facilities and theirs that may have outliers or small clinics that were a mail-back, but may work better as a pickup service.

So, it's current as well as future customer opportunities.

Walter Schenker: And this does not affect your telemarketing or any of your other marketing programs to people who might otherwise be Daniels' customers? You wouldn't know they were.

David Tusa: No. It wouldn't affect it at all - and we don't see them. Daniels' focus is primarily on the large quantity generators, the large hospitals or large healthcare facilities. So that small quantity side of the professional market is something that we'll continue to go after, just as we have before with telemarketing activities and web-based advertising and whatever we need to get to that market, and they're going to continue to go after hospitals and large healthcare facilities. It's the blended type of opportunities that we could go after collectively, where we would work together.

Walter Schenker: Okay. You sort of answered just now, but it was the same question on the Complete Needle™/Retail. You indicated, I think, that during periods where there is no sponsorship, it appears that you've gotten some stickiness with customers who initially got involved under a sponsorship and have been willing to continue to participate paying the full fare?

David Tusa: Yes, that's right. What we're doing is providing something to the patients. Believe it or not, there are 13,500,000 self-injectors in this country, and what we're doing is providing solutions that they've never had before. The only thing they've really had before is either throwing their syringes in the trash or maybe they would buy a cheap one quart container only. No mail-back feature, no disposal feature, but just a container. Some of them would buy those containers and maybe put the syringes in there and then throw it in the trash. What we're doing with the new product, new packaging and promotion is making these self-injectors aware that there is a way to properly dispose of the syringes. We were very pleased that some of the patients - even without sponsorship - are paying for the unit and paying for the return.

Walter Schenker: Okay. Thanks.

Operator: Our next question comes from Scott Holstead of Merrill Lynch. Please proceed with your question.

Scott Holstead: Hey, David, how are you?

David Tusa: Good. How are you doing Scott?

Scott Holstead: Good. Congratulations on the marketing partnership with Daniels. That sounds exciting.

David Tusa: Thank you. We agree with you.

Scott Holstead: Let me ask you this. About a year ago, you were discussing that you viewed this as a billion dollar marketplace that was basically penetrated less than 1%. You also mentioned that customers with Stericycle contracts were going to be coming due, and that you expected a significant penetration into that market or into their market. I'm trying to get my hands around the numbers in terms of revenue, and I'm hearing that I would expect that the revenue growth would be by millions quarter-over-quarter. Are you surprised, because at 30% cost savings and how easy it is to use your product, I'm just trying to get my hands around why revenues aren't ramping up more significantly?

David Tusa: Well, first of all, that billion dollar number that you talked about was an overall number that we used to use probably over a year ago. We've really broken that down now in our investor presentation to regulated market and unregulated market. We've also come up with a market for the TakeAway™. For instance, the professional markets that I think you're referring to meaning doctors, dentists, and vets. We see that now at about an $800 million market opportunity, and, yes, I would agree with you, we've put a lot of resources into that professional market and we've seen significant growth in that market.

It has been a little bit slower than what we would have expected, because we think we've got a great offering for that professional market, that small quantity generator. We continue to launch marketing, whether it's telemarketing, web-based marketing, or attendance at trade shows. Whether it's 15,000 to 20,000 dentists or vets, we keep pushing forward and, hopefully, at some point, creating a tipping point when most everyone in the industry becomes much more aware of our solution offerings.

So, we're forging ahead. We've had to significantly increase the revenue in that professional market and we're hopeful that the growth rates will increase going forward.

Scott Holstead: Okay. Great. That's my only question. Thank you and, again, congratulations.

David Tusa: Thanks.

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

Walter Young: Hi. My question helps me understand the Daniels opportunity, as well. Can you maybe give an update on the size of the market you now address versus the size of the market you addressed before the announcement? And then, how do you split the revenue, if you do refer? Is it just a straight referral and then they're dealing directly with Daniels or is there a separate billing and a separate organization? Thanks.

David Tusa: I'm going to answer that last one first. What we're going to do is whatever the customer wants, whether the customer wants to deal with each of us or with a single point of contact, whatever they want to do. The most important thing is that we're going to design solutions for that customer that include the appropriate blend or combination of each the mail-back and pickup services.

So, we'll work with the customer to best determine how it's actually going to be billed to them and so on and so forth. Basically, Walter, if I have a 250 location facility that could be a $3 or $4 million opportunity for both of us that we're not getting because you need a combination of both the mail-back and the pickup, then that could end up being $2 million for us and a million for them. It's going to be based upon the pricing that each of us puts forward and we're going to work together to make sure that the pricing is right. It's right and aggressive, if it's needed to capture the opportunity.

So, again, I think this alliance is important to us as a Company and it is important for the industry, because it's going to be a new solution offering, but most of all, it is important for the customer. They win. The customer wins with a blended offering that's going to give them the best price and the most convenient method.

Now, on your other question regarding the markets… We're still going after all those same markets that we're going after now. We just think that this may accelerate our ability to land larger deals.

Walter Young: Okay, and then, can you talk about how you're going to do this? Is this a joint marketing effort or will each one just continue to market like they have been in the past?

David Tusa: Well, each of us is going to market as we have in the past on the business that's specific to our business. And then we're going to work on joint marketing - we're actually working on that right now - that we're putting together to go out to the prospective customers and some current customers that will talk about the combined solution of the alliance and being able to blend the solution to give them the best price.

Walter Young: And what will the brand name for the joint offering be?

David Tusa: To be determined.

Walter Young: I got you. Thank you.

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

George Walsh: David, can you quantify the size of Daniels for us and, in terms of description of the company and scope of their operations or revenues or whatever else you can share with us?

David Tusa: Well, you know they're a private company.

George Walsh: Right.

David Tusa: And I think I said in my comments, George, that they're the second largest in the United States in the medical waste industry, number one in Australia and a significant player in the U.K. and in Canada so, obviously, they're a company of significant size. Here in the United States, their facilities are very impressive - and the management team, as well - their operations give them a nationwide presence and cover a significant portion in United States. I really can't say more than that, because they're a private company.

George Walsh: Okay. Can you tell us how this alliance came about? Was it a long conversation, they knew of you, you knew of each other? How did you guys get noticed with this?

David Tusa: That's actually a really good question, George. About two months ago, we were chasing a deal, a really nice sized deal with about 250 individual facilities. We didn't get that deal, because about 20-25% of the facilities were too large for the mail-back. We didn't have an offering and they wanted to be able to deal with one group. After we kicked the ground a couple of times, we started looking at how we could enhance the offering to be able to bring in, where appropriate, a pickup service for these larger opportunities. We had met the Daniels folks about a year ago, so, I guess about a month-and-a-half ago, I just picked up the phone and called them. Since then, it's moved pretty quickly; because we both realized that together we had a real opportunity to generate some incremental revenue that each of us may be missing, because we don't have that blended solution.

The other thing we did was we talked to a couple of our customers, and shared at least a framework with them and they were excited. They said, "Wow, that would sure make a lot of sense so we don't have to try to push everything into a mail-back."

So that's how it happened. Again, it's a great company with a great reputation. We've been very impressed with their management team and their treatment facilities, so it came together quickly. We both realized that together that we had a better chance to grow each of our companies.

George Walsh: I think you referred to a ramp-up on this but does it take a couple of quarters for this to ramp up in terms of telemarketing?

David Tusa: I'll know more over the next week or two, but probably a couple of quarters. We're going to spend a lot of time with them over the next couple of weeks, but a couple of quarters is probably reasonable.

George Walsh: Will you be making any special marketing dollars investment?

David Tusa: I don't think it's going to be a lot. We have tremendous internal resources with marketing materials, and they're already working on putting some materials together with Daniels, but I don't see any huge numbers.

George Walsh: Would you be on each other's websites or anything like that?

David Tusa: We're literally working through that right now.

George Walsh: Could you expand a little bit more on Canada? If it's a mail-back program in Canada, do you have to do a special coordination with the Canadian post office there?

David Tusa: With Canada, in this business, the most important thing is that your operations have a treatment facility located in the country where you're doing business. Daniels has treatment facilities in Canada and, obviously, the pickup service, but they also have an eco-ship which is a product that is moved via courier for smaller quantities of medical waste.

They have the infrastructure in place in Canada, right now, so if I'm working on a large deal and had both U.S. and Canadian requirements and Daniels can come in to handle Canada, then I'm going to have a much better chance at getting that U.S. business being able to handle both countries.

Again, it gets back to the incremental revenue. If that's a total $2 million deal and Canada $300,000 or $400,000, that's great. Daniels is more than capable of handling that in Canada, and then we would generate most likely the majority of that remaining revenue.

George Walsh: David, it sounds to me like, besides the marketing, there seems to be a fair amount of elements where there is a combining of execution capabilities on this, right?

David Tusa: Absolutely. I think you're right on. Again, we've been impressed with their ability to execute and ours, as well. We have very similar styles in working together and moving quickly on key opportunities.

George Walsh: So they had some type of mail-back program in Canada, but not in the United States?

David Tusa: That's correct, not in the United States.

George Walsh: Regarding green initiatives, is there anything about your capabilities in the United States with PELLA-DRX that could be expanded there?

David Tusa: Yes, that's actually part of the agreement we have with them. They're taking a look at the PELLA-DRX process and the potential of implementing the PELLA-DRX process in their current operation.

George Walsh: Okay**.** Just looking forward, how do you envision this thing working out over the next three to five years with this type of alliance - for expanding it in different ways? Where else could it go?

David Tusa: We're focused on penetrating those key markets and, if this alliance can help us penetrate those key markets more quickly, then that's a win for the Company. And the same thing goes for Daniels. If they're able to come in and be involved in more opportunities, because of our relationship or because we have a portion of the business, then they win as well. That's what we're focused on every day, as we've talked about it a number of times. We come in, we put our heads down, and we work hard at growing this business and try to come up with creative and innovated ways to accelerate its growth in our key markets.

George Walsh: Okay. Good. Relative to the gross margins as you resolve some of the issues of capacity in relevance to the loss of the government contract, but with a new ramp-ups of some other revenue and the pharmaceutical alliances you talk about, it seems that gross margins would be steadily improving or seeing some good improvement in the fourth quarter?

David Tusa: It depends on two things, the level of revenue, because we all know there's a fixed component in that cost of sales, and our ability to reduce or minimize the drag from the government related lease cancellation.

George Walsh: Right. Okay. Sounds good. Thank you, David.

David Tusa: Thank you.

Operator: Again, if you would like to ask a question, press star, one on your telephone key pad; star, one, if you would like to ask a question.

Our next question comes from Craig Hoagland of Anderson Hoagland & Co. Please proceed with your question.

Craig Hoagland: Hi. I have a question on the retail segment and on the Complete Needle™. If I understood your prepared comments correctly, you're in two national pharmacy chains and one national food and drug chain. My question is, for the volumes for the third quarter, were there significant volumes that were initial stocking volumes for those chains, or are those customers really up and running and in re-order mode now?

David Tusa: Well, on the Complete Needle™, you know that we're in the Walgreens' program. And we mentioned that we have the opportunity to launch into some other retailers. They haven't officially been announced. We have shipped to another retailer, but for the most part, the numbers that you see there are related to that initial Walgreens program and its stocking orders on those roughly 130-140,000 units that we've sold to them, as well as some level of revenue related to the return transportation and treatment.

Craig Hoagland: So you're really only shipping to Walgreens at this point?

David Tusa: For the most part. We do have one other one that we're shipping into and, hopefully by next quarter, we'll be able to talk about that. You'll have more info then.

Craig Hoagland: Okay. Thanks.

Operator: There are no more questions at this time. I'd like to hand the floor back over to Mr. Tusa for closing comments.

David Tusa: Thank you, Luis. These are exciting times here at Sharps Compliance. Clearly, our marketing efforts are beginning to be realized through growth in sales from our core markets. The opportunities in each of our key markets keep coming and now, with the alliance with Daniels, we've created a very powerful means for serving the entire medical waste market.

We hope you're as encouraged as we are with our progress and future. Thank you again for participating in the call. We appreciate your continued support.

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