

Sharps Compliance

2008 Annual Report



Where You'll Find Us...

Everywhere

you live, work and play



Company Profile

Headquartered in Houston, Texas, Sharps Compliance is a leading provider of cost-effective disposal solutions for small quantity generators of medical waste and unused pharmaceuticals. The Company's flagship product, the Sharps Disposal by Mail System[®], is a cost-effective and easy-to-use solution to dispose of medical waste such as hypodermic needles, lancets and any other medical device or objects used to puncture or lacerate the skin (referred to as "sharps"). The Company also offers a number of products specifically designed for the home healthcare market and products for the safe disposal of unused pharmaceuticals, RxTakeAway[™]. Sharps Compliance focuses on targeted growth markets such as the pharmaceutical, retail, commercial, and hospitality, as well as serving a variety of additional markets. Sharps is a leading proponent and participant in the development of public awareness and solutions for the safe disposal of needles, syringes and other sharps in the community setting.

As a fully integrated manufacturer providing customer solutions and services, Sharps Compliance's solid business model, with strong margins and significant operating leverage, and early penetration into emerging markets, uniquely positions the company for strong future growth.

More information on Sharps Compliance can be found on its website at: www.sharpsinc.com.



Financial Highlights

(dollars in thousands, except earnings per share)

	2008	2007	2006
Revenues	\$12,841	\$11,956	\$10,563
Net Income	82	785	382
Diluted EPS	0.01	0.06	0.03
Total Assets	5,676	4,690	2,190
Debt	–	–	–
Stockholders' Equity	\$ 2,885	\$ 2,169	\$ 252

Dear Fellow Stockholders

We ended fiscal year 2008 with record annual customer billings of \$13.2 million, an increase of 8% over the prior year level of \$12.2 million. Growth in year-over-year billings was led by the pharmaceutical manufacturing, hospitality, and professional markets. Although, the revenue and earnings generated for fiscal year 2008 were below our goals, I believe our success in fiscal 2008 should be measured by the many contracts we were awarded which have already begun to positively impact our fiscal 2009 performance. Additionally, fiscal year 2008 was a year of investment in sales and infrastructure that we believe to be very important to the future success of the Company.

We were very pleased with the recently announced renewal of the Company's first Patient Support Program with a top-ten pharmaceutical manufacturer. The Patient Support Program combines services to support the pharmaceutical manufacturers' product delivery system, patient tracking and compliance. Sharps provides direct patient fulfillment of the Sharps Disposal by Mail System[®], product timing and consumption tracking with its proprietary SharpsTracer[™] system and data feedback to the manufacturer. The Company recently renewed this program through June 2009 and expects the total value of this contract to exceed \$1.7 million, with billings of approximately \$800 thousand in the first quarter of fiscal 2009 and \$900 thousand in the second half of fiscal 2009.

The Company also recently announced two additional pharmaceutical manufacturer Patient Support Programs using the Sharps Disposal By Mail System[®]. One of the programs involves the implementation of the Sharps Disposal By Mail System[®] in conjunction with the launching of a self-injected drug recently approved for a new indication. The programs are expected to be launched by December 31, 2008 and generate initial program billings of approximately \$100,000 for the quarter ended September 30, 2008 and approximately \$300,000 for the quarter ended December 31, 2008.

Below, I have provided a further description of the sales activities in a few of our key markets.

Key Market Activity

Healthcare Market

The Company generated \$7.3 million in billings during fiscal year 2008 from our core healthcare market. We are the primary vendor of multiple products to the leading home healthcare companies and medical supply-related distributors in the nation. The products marketed include our Sharps Disposal by Mail System[™], Pitch-It[™] IV Poles, Trip LesSystem[™], Sharps Pump Return Box, Sharps Enteral Pump Return Box and Sharps SureTemp Tote[®].



During fiscal year 2008, we entered into an exclusive contract with one of the leading national pharmacy chains with over 6,000 locations, for its Sharps Disposal By Mail Systems®, Biohazard Spill Clean-Up Kits, Asset Return System and Pitch-it™ IV poles. The products are expected to be utilized not only by the customer's in-store immunizing pharmacists, but also its home healthcare, specialty and mail order pharmacy divisions. We have begun to receive orders from the new customer and expect this contract to boost fiscal year 2009 customer billings in the healthcare market.

We remain focused on the healthcare market including the continued servicing of our existing customer base as well as marketing our proven products to potential customers in this market.

Hospitality Market

The Company generated billings of \$1.2 million in the Hospitality market during the year ended June 30, 2008. This level of billings represents an increase of approximately 37% as compared to the prior year period. This growth was driven by increased demand for our products by existing and new customers. During fiscal year 2008 we received two orders for its Biohazard Spill Clean-Up Kits that will be used by a national fast food chain, with over 13,000 locations in the country, as well as a major auto parts chain. The combined value of the initial orders is approximately \$250,000 with shipments completed beginning in the quarter ending June 30, 2008 and continuing throughout fiscal year 2009. The Company believes that re-order of the Biohazard Spill Clean-Up Kits for the national fast food chain could generate over \$500,000 in annual billings.

The Company's Sharps Secure® Needle Disposal System is being sold successfully in the Hospitality market where the product is mounted on the wall inside of public restrooms to provide a visible collection point for self-injectors to safely and privately dispose of used needles, which are often discarded in the public waste. The Sharps Secure® is the first commercially available wall-mounted syringe collection and disposal by mail system product specifically designed for the commercial, industrial and hospitality markets. The system consists of a Sharps Disposal by Mail System® needle collection container, housed in the specially designed (patent pending) Sharps Secure® metal collection cabinet. The wall-mounted cabinet, which is manufactured from heavy gauge metal, has been designed with numerous safety features to ensure that needles properly disposed of will not present a hazard.

Pharmaceutical Market

Billings in the Pharmaceutical market for the fiscal year ended June 30, 2008 were about \$900,000, an increase of 61% over the prior year period. Sharps currently has three

active Patient Support Programs with major pharmaceutical manufacturers that combines services to support the pharmaceutical manufacturers' product delivery system, patient tracking and compliance. Sharps provides direct patient fulfillment of the Sharps Disposal by Mail System®, product timing and consumption tracking with its proprietary SharpsTracer™ system and data feedback to the manufacturer. The Company recently renewed its first Patient Support Program through June 2009 and expects the total value of this contract to exceed \$1.7 million, with billings of approximately \$800 thousand in the first quarter of fiscal 2009 and \$900 thousand in the second half of fiscal 2009.


One of the newer Patient Support Programs involves the implementation of the Sharps Disposal By Mail System® in conjunction with the launching of a self-injected drug recently approved for a new indication. We believe our success fulfilling products and services for our first contract with a top-ten pharmaceutical manufacturer, as well as its fully-integrated capabilities, were differentiating factors leading to the contracting of the second and third Patient Support Programs.

Retail Market

The Company generated billings of over \$1.1 million in the Retail market during the year ended June 30, 2008. These billings were driven by sales of the Company's Sharps Disposal By Mail System® products to retail and grocery store pharmacies to support the proper disposal of syringes used to administer flu shots and other inoculations. Although the billings in this market were flat over the prior fiscal year we believe this market will generate significant growth in fiscal year 2009 consistent with the growing trend of flu and other shots administered outside the physician office environment as well as the significant growth in non-emergency clinics in the retail setting. This expected growth for fiscal year 2009 is further supported by the billings expected in the Retail market for the first quarter of fiscal year 2009 (ending September 30, 2008) of approximately \$0.8 million, which is about 75% of the billings generated for the entire fiscal year 2008.

Update on California Senate Bill 1305

Effective September 1, 2008, California Senate Bill 1305 requires the proper disposal of home-generated sharps waste (syringes, needles, lancets, etc.) to protect the general public and workers from potential exposure to contagious diseases as well as health and safety risks when improperly disposed biohazard waste enters the public waste stream. The Bill specifically acknowledges mail-back programs, such as the Sharps Disposal by Mail System®, as one of the most convenient alternatives for the collection and destruction



“3 Billion Used Syringes Disposed of Annually in the United States in the Non-Healthcare Sector”

“Leading Provider of Convenient, Cost-Effective and Value Added Products and Services”

“Less Than 1% Penetration in a Billion Dollar Market Opportunity”

“Infrastructure in Place to Handle Significantly Larger Orders”

“Recently Launched Unused Medication Disposal Product Line”

“Leading Provider of Support Programs for Patients of Pharmaceutical Manufacturers”

of home-generated sharps. We believe this legislation, in addition to similar legislation pending in other states, will continue to increase awareness of the need for proper disposal of used syringes.

New Product Line Innovation

Medical Professional Sharps Disposal by Mail System®

In June of 2008, we launched a larger version of our flagship product, the Sharps Disposal By Mail System®, specifically designed to meet the needs of medical professionals, such as physician and dental offices, and provide a safe and efficient alternative to traditional, more costly medical waste pick-up services.

In addition to the convenient and safe disposal of used syringes, the new 18 gallon Medical Professional Sharps Disposal By Mail System® (Model number 11800) can be used to collect all of the medical waste including red bag (biohazard) waste as well as existing sharps containers located in each examination room. The product is permitted by the United States Postal System for transport to Sharps' owned medical waste disposal facility. The mail back solution is a more cost effective and flexible solution as compared to the traditional pick-up service typically used today.

With approximately 850,000 practicing physicians, dentists and veterinarians located across the country, we believe the market opportunity for the Medical Professional Sharps Disposal By Mail System® could exceed \$350 million annually. We developed the new product offering based on feedback from the medical community as a comprehensive solution to reduce the cost of medical waste disposal outside of the hospital setting. We are marketing the new product through our direct sales force and via our website (internet marketing). The product has been very well received to date and we believe its sales will make a contribution to Company revenue in fiscal year 2009 and beyond.

RxTakeAway™

In September 2008, the Company launched its new RxTakeAway™ product line specifically designed to facilitate the cost-effective and easy-to-use disposal of unused pharmaceuticals in the consumer/community market. With as many as 35% of the dispensed medications associated with the approximate 4 billion prescriptions written every year in the United States going unused, the Company estimates over 200 million pounds of pharmaceuticals could be adversely affecting our rivers, streams, municipal water systems and also placing our children at risk for accidental overdose.

We believe our new line of products address a very serious disposal issue in the country that is currently harming our environment and placing our children at risk for

accidental overdose. Our existing infrastructure is uniquely positioned to facilitate the proper and cost-effective disposal of unused medications in the consumer/community markets. Additionally, we are authorized by the USPS to transport unused medications, other than controlled substances.

Markets targeted for the new line of products include consumer, community, assisted living, long-term care, hospice and corrections. Additionally, the products are being marketed to pharmacy chains as a part of "take back" programs.

Outlook

During fiscal 2008, we developed an infrastructure that, we believe, will handle significantly larger orders which we are now realizing as a result of our efforts to diversify the markets we address. We see the pharmaceutical manufacturers, government and retail markets expanding rapidly as the push to properly dispose of syringes and other medical waste created by small quantity generators driven by efforts to maintain a safe, healthy and clean environment continues to gain greater support. Fiscal 2008 was a year of major transition and development, and we are starting fiscal 2009 already boasting record billing levels in the first quarter.

The catalysts that we have needed to drive the recognition of the value of our products have begun to ignite. We have unprecedented numbers of inquiries regarding our products, and our sales force is being readily received by the city and county governments as well as major corporations that realize they must offer solutions to the individuals in their jurisdictions for the disposal of used syringes.

Thank you for your continued support. We look forward to a successful fiscal year 2009.



Sincerely,
Dr. Burton J. Kunik
Chairman of the Board, Chief Executive
Officer and President

Markets

Pharmaceutical



The Company markets its Sharps Disposal By Mail System® products to the Patient Support Programs of major pharmaceutical manufacturers. The Sharps product and service package includes the direct fulfillment of the Sharps Disposal By Mail System® to the pharmaceutical manufacturers' patients, who use the product as a convenient means of used syringe disposal for their self-injecting patients. Sharp's proprietary SharpsTracer™ system is used to track the return of the Sharps Disposal By Mail System® by the patient to the treatment facility, where the package is scanned and weighed prior to destruction. This data, managed in Sharps' proprietary SharpsTracer™ system, is electronically transmitted to the pharmaceutical manufacturer which assists them in monitoring drug usage and provides a touch point for individual patient follow-up.

We believe we have established the leadership position in this market. Through our direct sales force and industry expertise, we are very focused on the pharmaceutical manufacturing industry because of the magnitude of the opportunities in this market as well as our ability to serve the growing need for the proper and safe disposal of used syringes administered by the self-injecting patients of pharmaceutical manufacturers.



Healthcare

The Company markets its Sharps Disposal by Mail System®, Pitch-It™ IV Poles, Sharps Pump Return Box, Sharps Enteral Pump Return Box, Trip LesSystem® and Sharps SureTemp Tote® products to the Healthcare segment. This market consists primarily of home healthcare companies and generated 55% of the Company's billings for the year ended June 30, 2008.

The Company's flagship Sharps Disposal by Mail System® is a comprehensive solution for the containment, transportation, destruction and tracking of medical waste. The Sharps Disposal by Mail System® contains a securely sealed, leak and puncture resistant sharps container in several sizes; U.S. Postal Service approved shipping carton with priority mail postage; absorbent material inside the container that can safely hold up to 150 milliliters of fluids; a red bag for additional containment and complete documentation and tracking manifest. Upon destruction, Sharps provides the customer with proof of destruction.

The Sharps Pitch-It™ pole is designed for the home healthcare industry to improve logistical efficiencies by eliminating the costs and inconvenience of retrieving, cleaning, bagging, tagging and storing of traditional IV poles. The Pitch-It™ poles are available in three models: (i) tabletop; (ii) floor; and (iii) full-size with wheels. The innovative poles are not only dispos-



Hospitality



able, but also cost-effective, portable, adjustable, lightweight, sturdy and easy to use.

The Company's Asset Return System ensures timely return of infusion pumps or other expensive equipment from the home back to the home healthcare provider. The prepaid boxes save time, eliminate expensive pick-up, optimize asset utilization and reduce loss of equipment. Sharps' asset return boxes (i.e., the Sharps Pump Return Box and Sharps Enteral Pump Return Box) are marketed to home healthcare providers, primarily for use with home infusion patients. The Sharps Asset Return System complies with all applicable federal, state and municipal regulations.

The Trip LesSystem® is a solution for the home healthcare industry that eliminates costly trips by healthcare providers to the patient's home after therapy has been completed. The Trip LesSystem® combines two complete programs for return and disposal. All systems contain the Sharps Disposal by Mail System® along with either, (i) a prepaid pump return box or (ii), a Pitch-It™ IV Pole, depending on the patient's therapy. The system eliminates expensive pick-up of the IV poles and infusion therapy equipment, facilitating cost effective management of home healthcare patients. The Sharps Trip LesSystem™ complies with all applicable federal, state and municipal regulations.

The Sharps SureTemp Tote® is a disposable cooler that maintains a safe range for temperature-sensitive materials. Sharps' primarily markets the product to home healthcare providers to protect IV medications used in home infusion. Its disposable nature relieves the home healthcare provider of tracking, cleaning and maintaining reusable coolers.

The Company markets its Sharps Disposal by Mail System®, Biohazard Spill Clean-Up Kit and Disposal System and IsoWash® Linen Recovery System products to the Hospitality segment. This market includes hotel, retirement and assisted living and contract food service provider companies. The Hospitality segment generated 9% of the Company's billings for the year ended June 30, 2008, which represented an approximate 37% increase over the prior fiscal year billings for this segment.

The Biohazard Spill Clean-Up Kit and Disposal System is a complete solution for both cleanup and disposal by mail of bio-hazardous spill waste and materials. This convenient system comes complete with everything necessary for cleanup of potentially bio-hazardous materials such as blood and bodily fluids. The Sharps system provides a means to safely, easily and legally remove these materials from a customer's location and transport them to a destruction facility via the U.S. Postal Service.

The IsoWash® Linen Recovery System is designed to address the safe handling of linens contaminated with blood, bodily fluids and other biohazards in the hospitality market. Contaminated linens are isolated from human contact by being placed into the IsoWash® water-soluble bag, which is clear to reveal the bag's contents and is marked with a biohazard warning. The isolated linens are then placed in industrial laundry equipment for recovery. Once the wash cycle begins, the bag dissolves within two minutes allowing chemicals in the wash to safely clean the contaminated laundry with minimal handling.

Professional

The Company markets its Sharps Disposal by Mail System® products to the Professional segment including physician, dental, veterinarian and other service-related practices. The Professional segment generated 6% of the Company's billings for the year ended June 30, 2008, which represented a 22% increase over the prior fiscal year billings for this segment. The Sharps Disposal by Mail System® is an excellent fit for many physician, dental and veterinarian offices which generate used syringes and small quantities of medical waste. The Company's recently launched Medical Professional Sharps Disposal By Mail System® is an excellent fit for this market as physicians and dentists look for ways to reduce their medical waste disposal costs as well as alternatives to the traditional pick-up service.



Retail

The Company markets its Sharps Disposal by Mail System® products to the Retail segment which consists primarily of organizations that purchase the products to properly dispose of syringes utilized to administer flu shots and other inoculations in the retail setting (grocery and drug stores). Additionally, the Sharps Disposal by Mail System® products are utilized by the growing retail-based non-emergency clinic sector. The Retail market generated 9% of the Company's billings for the year ended June 30, 2008. The Company anticipates continued growth in the Retail market as grocery and drug stores increase their focus on in-store convenient clinics designed to facilitate healthcare treatment and inoculations. Currently, there are over 1,000 non-emergency clinics across the country located in the retail setting, such as pharmacies, grocery store chains and mass merchandisers. The Company estimates that its Sharps Disposal By Mail System® products are used by approximately 70% of these clinics. According to news and trends in the convenient care business, the total number of retail clinics could increase to as many as 10,000 by 2010.



Commercial/Industrial



The Company markets its Sharps Disposal by Mail System®, Sharps Secure®, and Biohazard Spill Clean-Up Kit products to the Commercial/Industrial segment. This segment includes a wide variety of customers including restaurant, industrial, retail and other facilities. The Commercial/Industrial segment generated 5% of the Company's billings for the year ended June 30, 2008, which represented a 17% increase over the prior fiscal year billings for this segment.

The Sharps Secure® Needle Disposal System is the first commercially available wall-mounted syringe collection combined with a disposal by mail system product specifically designed for the commercial and industrial markets. The system is mounted on the wall inside of public restrooms to provide a visible collection point for self-injectors to safely and privately dispose of used needles, which are often discarded in the public waste at commercial and office buildings. The system consists of a Sharps Disposal by Mail System® needle collection container, housed in the newly designed (patent pending) Sharps Secure® metal collection cabinet. The wall-mounted cabinet, which is manufactured from heavy-gauge metal, has been designed with numerous safety features to ensure that needles properly disposed of will not present a hazard.

Agriculture

The Company markets its Sharps Disposal by Mail System® products to the Agriculture segment. This market consists of companies that purchase the products to properly dispose of syringes used to inject farm animals. This segment generated 4% of the Company's billings for the year ended June 30, 2008. The Sharps Disposal By Mail Systems® products are currently an integral component to the proper and cost-effective disposal of syringes utilized by a global provider of technology-based solutions and agricultural products that improve dairy farm productivity. The Company is focused on additional sales opportunities in this segment as it intensifies its marketing efforts to the Agriculture industry.



Corporate and Management Information

Executive Officers

Dr. Burton J. Kunik
Chairman of the Board,
Chief Executive Officer
& President

David P. Tusa
Executive Vice President,
Chief Financial Officer
& Business Development

Claude A. Dance
Senior Vice President,
Sales & Marketing

Khairan "Al" Aladwani
Senior Vice President,
Operations

Corporate Management

Gregory C. Davis
Director of Information Tech-
nology

Thomas J. Gentempo
Operations Manager

Elizabeth "Liz" Martin
Corporate Controller

Board of Directors

Dr. Burton J. Kunik
Chairman of the Board,
Chief Executive Officer & President,
Sharps Compliance Corp.
Houston, Texas

Ramsay H. Gillman ^{(1) (3)}
Chief Executive Officer & President,
Gillman Companies
Houston, Texas

John R. Grow ^{(1) (2) (4)}
Private Investor
Memphis, Tennessee

Parris H. Holmes ^{(1) (2) (3)}
Private Investor
San Antonio, Texas

F. Gardner Parker ^{(2) (3) (4)}
Parker Investments
Houston, Texas

Philip C. Zerrillo, Ph.D. ^{(4) (5)}
Lecturer
Goizietta Business School,
Emory University
Atlanta, Georgia

⁽¹⁾ Member of the Compensation Committee

⁽²⁾ Member of the Acquisition Committee

⁽³⁾ Member of Nominating/Corporate
Governance Committee

⁽⁴⁾ Member of the Audit Committee

⁽⁵⁾ Lead Independent Director

Company Financial Information

Several periodic publications that contain information of interest to shareholders and potential investors are available. These publications include Forms 10-K, 10-Q and 8-K, which may be obtained at the Company's website (www.sharpsinc.com) or at the website of the Securities and Exchange Commission (www.sec.gov). Additionally, these materials may be obtained, without charge, by writing to the Company at:

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Houston, Texas 77054

Website

www.sharpsinc.com

Ticker Symbol

SCOM (OTCBB)

Transfer Agent

Registrar and Transfer Company
10 Commerce Drive
Cranford, New Jersey 07016-3572

Independent Public Accountants

UHY L.L.P.
Houston, Texas

Annual Shareholder Meeting

November 21, 2008, at 10:00 am
Hilton Houston Post Oak Hotel,
Aesops Room
2001 Post Oak Blvd.
Houston, Texas 77056

Investor Relations

Investors, stockbrokers, security analysts and others seeking information about the Company should contact:

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