

STERICYCLE INC  
Form 10-Q  
May 09, 2013  
Table of Contents

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended March 31, 2013 or

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from \_\_\_\_\_ to \_\_\_\_\_  
Commission File Number 0-21229

Stericycle, Inc.  
(Exact name of registrant as specified in its charter)

Delaware  
(State or other jurisdiction of incorporation or organization)

36-3640402  
(IRS Employer Identification Number)

28161 North Keith Drive  
Lake Forest, Illinois 60045  
(Address of principal executive offices, including zip code)  
(847) 367-5910  
(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15 (d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file reports), and (2) has been subject to such filing requirements for the past 90 days. YES  NO

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

YES  NO

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definition of "large accelerated filer", "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer  Accelerated filer   
Non-accelerated filer  Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). YES  NO

As of May 6, 2013 there were 86,281,407 shares of the registrant's Common Stock outstanding.

Table of Contents

Stericycle, Inc.  
Table of Contents

	Page No.
<u>PART I. Financial Information</u>	
<u>Item 1. Financial Statements (Unaudited)</u>	
<u>Condensed Consolidated Balance Sheets as of March 31, 2013 and December 31, 2012</u>	<u>1</u>
<u>Condensed Consolidated Statements of Income for the three months ended March 31, 2013 and 2012</u>	<u>2</u>
<u>Condensed Consolidated Statements of Comprehensive Income for the three months ended March 31, 2013 and 2012</u>	<u>2</u>
<u>Condensed Consolidated Statements of Cash Flows for the three months ended March 31, 2013 and 2012</u>	<u>4</u>
<u>Condensed Consolidated Statements of Changes in Equity for the three months ended March 31, 2013 and year ended December 31, 2012</u>	<u>5</u>
<u>Notes to Condensed Consolidated Financial Statements</u>	<u>6</u>
<u>Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	<u>18</u>
<u>Item 3. Quantitative and Qualitative Disclosures about Market Risk</u>	<u>23</u>
<u>Item 4. Controls and Procedures</u>	<u>23</u>
<u>PART II. Other Information</u>	
<u>Item 1. Legal Proceedings</u>	<u>25</u>
<u>Item 2. Unregistered Sales of Equity Securities and Use of Proceeds</u>	<u>25</u>
<u>Item 6. Exhibits</u>	<u>26</u>
<u>Signatures</u>	<u>27</u>

---

Table of Contents

PART I. – FINANCIAL INFORMATION  
 ITEM 1. FINANCIAL STATEMENTS  
 STERICYCLE, INC. AND SUBSIDIARIES  
 CONDENSED CONSOLIDATED BALANCE SHEETS  
 (Unaudited)

In thousands, except share and per share data

	March 31, 2013	December 31, 2012
<b>ASSETS</b>		
Current Assets:		
Cash and cash equivalents	\$12,722	\$31,324
Short-term investments	479	503
Accounts receivable, less allowance for doubtful accounts of \$20,204 in 2013 and \$19,443 in 2012	342,434	322,246
Deferred income taxes	17,801	22,995
Prepaid expenses	27,033	27,042
Other current assets	37,486	37,176
Total Current Assets	437,955	441,286
Property, plant and equipment, net	336,687	335,870
Goodwill	2,065,845	2,065,103
Intangible assets, less accumulated amortization of \$68,932 in 2013 and \$64,215 in 2012	664,682	667,471
Other assets	37,042	37,008
Total Assets	\$3,542,211	\$3,546,738
<b>LIABILITIES AND EQUITY</b>		
Current liabilities:		
Current portion of long-term debt	\$79,589	\$87,781
Accounts payable	75,894	74,225
Accrued liabilities	137,511	135,321
Deferred revenues	16,754	18,095
Other current liabilities	10,550	15,638
Total Current Liabilities	320,298	331,060
Long-term debt, net of current portion	1,193,111	1,268,303
Deferred income taxes	365,228	359,780
Other liabilities	38,106	30,272
Equity:		
Common stock (par value \$.01 per share, 120,000,000 shares authorized, 86,218,005 issued and outstanding in 2013 and 85,987,883 issued and outstanding in 2012)	862	860
Additional paid-in capital	139,676	116,720
Accumulated other comprehensive loss	(62,069	) (39,064 )
Retained earnings	1,530,735	1,463,277
Total Stericycle, Inc.'s Equity	1,609,204	1,541,793
Noncontrolling interest	16,264	15,530
Total Equity	1,625,468	1,557,323
Total Liabilities and Equity	\$3,542,211	\$3,546,738

The accompanying notes are an integral part of these condensed consolidated financial statements.



Table of Contents

STERICYCLE, INC. AND SUBSIDIARIES  
 CONDENSED CONSOLIDATED STATEMENTS OF INCOME  
 (Unaudited)

In thousands, except share and per share data

	Three Months Ended March 31,	
	2013	2012
Revenues	\$513,804	\$460,077
Costs and Expenses:		
Cost of revenues (exclusive of depreciation shown below)	269,673	244,182
Depreciation - cost of revenues	12,037	10,588
Selling, general and administrative expenses (exclusive of depreciation and amortization shown below)	91,046	81,915
Depreciation – selling, general and administrative expenses	2,809	2,151
Amortization	6,642	4,979
Total Costs and Expenses	382,207	343,815
Income from Operations	131,597	116,262
Other Income (Expense):		
Interest income	167	92
Interest expense	(13,546)	(12,766)
Other expense, net	(1,013)	(558)
Total Other Expense	(14,392)	(13,232)
Income Before Income Taxes	117,205	103,030
Income Tax Expense	41,983	37,715
Net Income	75,222	65,315
Less: Net Income Attributable to Noncontrolling Interests	605	458
Net Income Attributable to Stericycle, Inc.	\$74,617	\$64,857
Earnings Per Common Share Attributable to Stericycle, Inc. Common Shareholders:		
Basic	\$0.87	\$0.76
Diluted	\$0.85	\$0.75
Weighted Average Number of Common Shares Outstanding:		
Basic	86,093,301	84,828,280
Diluted	87,459,497	86,587,944

The accompanying notes are an integral part of these condensed consolidated financial statements.

Table of Contents

STERICYCLE, INC. AND SUBSIDIARIES  
 CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME  
 (Unaudited)

In thousands

	Three Months Ended March 31,	
	2013	2012
Net Income	\$ 75,222	\$ 65,315
Other Comprehensive (Loss)/ Income:		
Foreign currency translation adjustments	(22,955	) 17,427
Amortization of cash flow hedge into income, net of tax (\$50 and \$54)	79	85
Total Other Comprehensive (Loss)/ Income	(22,876	) 17,512
Comprehensive Income	52,346	82,827
Less: Comprehensive Income Attributable to Noncontrolling Interests	734	1,524
Comprehensive Income Attributable to Stericycle, Inc.	\$ 51,612	\$ 81,303

The accompanying notes are an integral part of these condensed consolidated financial statements.

Table of Contents

STERICYCLE, INC. AND SUBSIDIARIES  
 CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS  
 (Unaudited)

In thousands

	Three Months Ended March 31,	
	2013	2012
<b>OPERATING ACTIVITIES:</b>		
Net income	\$75,222	\$65,315
Adjustments to reconcile net income to net cash provided by operating activities:		
Change in fair value of contingent consideration	—	1,204
Stock compensation expense	4,047	4,085
Excess tax benefit of stock options exercised	(4,203)	(5,061)
Depreciation	14,846	12,739
Amortization	6,642	4,979
Deferred income taxes	10,407	11,921
Changes in operating assets and liabilities, net of effect of acquisitions and divestitures:		
Accounts receivable	(19,769)	(14,493)
Accounts payable	1,012	2,101
Accrued liabilities	6,618	12,623
Deferred revenues	(1,345)	1,029
Other assets and liabilities	4,693	3,119
Net cash provided by operating activities	98,170	99,561
<b>INVESTING ACTIVITIES:</b>		
Payments for acquisitions, net of cash acquired	(18,899)	(28,182)
Proceeds from/ (purchase of) short-term investments	20	(2)
Capital expenditures	(16,480)	(17,049)
Net cash used in investing activities	(35,359)	(45,233)
<b>FINANCING ACTIVITIES:</b>		
Repayment of long-term debt and other obligations	(9,996)	(8,275)
Borrowings on foreign bank debt	27,651	4,641
Repayments on foreign bank debt	(62,027)	(4,937)
Borrowings on senior credit facility	291,132	185,434
Repayments on senior credit facility	(337,683)	(238,290)
Payments on capital lease obligations	(837)	(640)
Purchase and cancellation of treasury stock	(7,160)	(2,945)
Proceeds from other issuance of common stock	13,915	12,494
Excess tax benefit of stock options exercised	4,203	5,061
Net cash used in financing activities	(80,802)	(47,457)
Effect of exchange rate changes on cash and cash equivalents	(611)	880
Net (decrease)/ increase in cash and cash equivalents	(18,602)	7,751
Cash and cash equivalents at beginning of period	31,324	22,511
Cash and cash equivalents at end of period	\$12,722	\$30,262
<b>NON-CASH ACTIVITIES:</b>		
Net issuance of obligations for acquisitions	\$10,454	\$14,883

The accompanying notes are an integral part of these condensed consolidated financial statements.





Table of Contents

STERICYCLE, INC. AND SUBSIDIARIES  
 CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY  
 Three Months Ended March 31, 2013 and  
 Year Ended December 31, 2012  
 (Unaudited)

In thousands

	Stericycle, Inc. Equity				Accumulated Other Comprehensive Income (Loss)	Noncontrolling Interest	Total Equity
	Issued and Outstanding Shares	Common Stock	Additional Paid-In Capital	Retained Earnings			
Balance at January 1, 2012	84,696	\$847	\$—	\$1,243,303	\$ (45,984 )	\$ 29,085	\$1,227,251
Net income				267,996		1,945	269,941
Currency translation adjustment					6,292	509	6,801
Change in qualifying cash flow hedge, net of tax					628		628
Issuance of common stock for exercise of options and employee stock purchases	1,855	19	68,444				68,463
Purchase/ cancellation of treasury stock	(563 )	(6 )	—	(48,022 )			(48,028 )
Stock compensation expense			16,339				16,339
Excess tax benefit of stock options exercised			30,161				30,161
Noncontrolling interests attributable to acquisitions						4,386	4,386
Reduction to noncontrolling interests due to additional ownership			1,958			(19,997 )	(18,039 )
Payments to noncontrolling interests			(182 )			(398 )	(580 )
Balance at December 31, 2012	85,988	\$860	\$116,720	\$1,463,277	\$ (39,064 )	\$ 15,530	\$1,557,323
Net income				74,617		605	75,222
Currency translation adjustment					(23,084 )	129	(22,955 )
Change in qualifying cash flow hedge, net of tax					79		79
Issuance of common stock for exercise of options, restricted stock units and employee stock purchases	305	3	14,706				14,709
Purchase/ cancellation of treasury stock	(75 )	(1 )	—	(7,159 )			(7,160 )

Edgar Filing: STERICYCLE INC - Form 10-Q

Stock compensation expense		4,047					4,047
Excess tax benefit of stock options exercised		4,203					4,203
Balance at March 31, 2013	86,218	\$862	\$139,676	\$1,530,735	\$ (62,069 )	\$ 16,264	\$1,625,468

The accompanying notes are an integral part of these condensed consolidated financial statements.

Table of Contents

## STERICYCLE, INC. AND SUBSIDIARIES

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

Unless the context requires otherwise, “we”, “us” or “our” refers to Stericycle, Inc. and its subsidiaries on a consolidated basis.

## NOTE 1 – BASIS OF PRESENTATION

The accompanying condensed consolidated financial statements have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission. Certain information and footnote disclosures normally included in annual consolidated financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted pursuant to such rules and regulations. However, the Company believes the disclosures included in the accompanying condensed consolidated financial statements are adequate to make the information presented not misleading. In our opinion, all adjustments necessary for a fair presentation for the periods presented have been reflected and are of a normal recurring nature. These condensed consolidated financial statements should be read in conjunction with the Stericycle, Inc. and Subsidiaries Consolidated Financial Statements and notes thereto for the year ended December 31, 2012, as filed with our Annual Report on Form 10-K for the year ended December 31, 2012. The results of operations for the three months ended March 31, 2013 are not necessarily indicative of the results that may be achieved for the entire year ending December 31, 2013.

There were no material changes in the Company’s critical accounting policies since the filing of its 2012 Form 10-K. As discussed in the 2012 Form 10-K, the preparation of the consolidated financial statements in conformity with accounting principles generally accepted in the United States requires management to make certain estimates and assumptions that affect the amount of reported assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and revenues and expenses during the periods reported. Actual results may differ from those estimates.

We have evaluated subsequent events through the date of filing this quarterly report on Form 10-Q. No events have occurred that would require adjustment to or disclosure in the consolidated financial statements.

## NOTE 2 – ACQUISITIONS AND DIVESTITURES

The following table summarizes the locations of our acquisitions for the three months ended March 31, 2013:

Acquisition Locations	2013
United States	1
Canada	1
Chile	1
Japan	2
Portugal	1
Romania	1
Spain	1
United Kingdom	4
Total	12

Table of Contents

During the quarter ended March 31, 2013, we completed twelve regulated waste acquisitions. Domestically, we acquired selected assets of one business. Internationally, we acquired 100% of the stock of one business in each of Canada, Chile, Portugal, and Romania and of three businesses in the United Kingdom. In addition, we acquired selected assets of two businesses in Japan, one in Spain, and one in the United Kingdom.

The following table summarizes the aggregate purchase price paid for acquisitions and other adjustments of consideration to be paid for acquisitions during the three months ended March 31:

In thousands

	Three Months Ended March 31,	
	2013	2012
Cash	\$18,899	\$28,182
Promissory notes	7,310	8,070
Deferred consideration	2,189	6,053
Contingent consideration	955	760
Total purchase price	\$29,353	\$43,065

For financial reporting purposes, our 2013 and 2012 acquisitions were accounted for using the acquisition method of accounting. These acquisitions resulted in recognition of goodwill in our financial statements reflecting the premium paid to acquire businesses that we believe are complementary to our existing operations and fit our strategy. During the three months ended March 31, 2013, we recognized a net increase in goodwill of \$18.4 million excluding the effect of foreign currency translation (see Note 9 – Goodwill and Other Intangible Assets, in the Notes to the Condensed Consolidated Financial Statements). A net increase of \$1.2 million was assigned to our United States reporting segment, and \$17.2 million was assigned to our International reporting segment. Approximately \$5.3 million of the goodwill recognized during the three months ended March 31, 2013 will be deductible for income taxes. During the three months ended March 31, 2013, we recognized a net increase in intangible assets of \$11.1 million excluding the effect of foreign currency translation. The changes include \$10.3 million in the estimated fair value of acquired customer relationships with amortizable lives of 15 to 40 years and \$0.8 million in permits with indefinite lives.

The purchase prices for these acquisitions in excess of acquired tangible assets have been primarily allocated to goodwill and other intangibles and are preliminary, pending completion of certain intangible asset valuations and completion accounts. The following table summarizes the preliminary purchase price allocation for current period acquisitions and other adjustments to purchase price allocations during the three months ended March 31, 2013:

In thousands

Fixed assets	\$2,182	
Intangibles	11,117	
Goodwill	18,434	
Net other assets/ (liabilities)	77	
Debt	(448	)
Net deferred tax liabilities	(2,009	)
Total purchase price allocation	\$29,353	

Table of Contents

During the three months ended March 31, 2013 and 2012, the Company incurred \$1.8 million and \$1.5 million, respectively, of acquisition related expenses. These expenses are included with SG&A on our Condensed Consolidated Statements of Income.

NOTE 3 – NEW ACCOUNTING STANDARDS

Accounting Standards Recently Adopted  
Testing Indefinite-Lived Intangible Assets for Impairment

On January 1, 2013 we adopted guidance allowing a company to perform a qualitative assessment in determining whether an indefinite lived intangible asset is impaired. This new guidance is similar to the previously issued guidance allowing a qualitative assessment when performing annual goodwill impairment testing. The guidance also changes when a company should perform an interim period test for impairment, allowing for positive evidence to offset negative evidence when determining whether an interim impairment test is required. The new guidance does not affect the ultimate outcome of an impairment test; therefore there is no impact on our financial statements. We perform our annual test for impairment for indefinite lived intangibles in the fourth quarter.

NOTE 4 – FAIR VALUE MEASUREMENTS

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value hierarchy distinguishes between (1) market participant assumptions developed based on market data obtained from independent sources (observable inputs) and (2) an entity's own assumptions about market participant assumptions developed based on the best information available in the circumstances (unobservable inputs). The fair value hierarchy consists of three broad levels, which gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). The three levels of the fair value hierarchy are described below:

Level 1 – Quoted prices in active markets for identical assets or liabilities.

Level 2 – Observable inputs other than quoted prices in active markets for identical assets and liabilities, quoted prices for identical or similar assets or liabilities in inactive markets, or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.

Level 3 – Inputs that are generally unobservable and typically reflect management's estimate of assumptions that market participants would use in pricing the asset or liability.

Financial assets and liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurement. Our assessment of the significance of a particular input to the fair value measurement requires judgment, and may affect the valuation of assets and liabilities and their placement within the fair value hierarchy levels. The impact of our creditworthiness has been considered in the fair value measurements noted below. In addition, the fair value measurement of a liability must reflect the nonperformance risk of an entity.

Table of Contents

In thousands

	Total as of March 31, 2013	Fair Value Measurements Using		
		Level 1 Inputs	Level 2 Inputs	Level 3 Inputs
Assets:				
Cash and cash equivalents	\$12,722	\$12,722	\$—	\$—
Short-term investments	479	479	—	—
Total assets	\$13,201	\$13,201	\$—	\$—
Liabilities:				
Contingent consideration	\$15,807	\$—	\$—	\$15,807
Total liabilities	\$15,807	\$—	\$—	\$15,807

In thousands

	Total as of December 31, 2012	Fair Value Measurements Using		
		Level 1 Inputs	Level 2 Inputs	Level 3 Inputs
Assets:				
Cash and cash equivalents	\$31,324	\$31,324	\$—	\$—
Short-term investments	503	503	—	—
Total assets	\$31,827	\$31,827	\$—	\$—
Liabilities:				
Contingent consideration	\$18,511	\$—	\$—	\$18,511
Total liabilities	\$18,511	\$—	\$—	\$18,511

We had contingent consideration liabilities recorded using Level 3 inputs in the amount of \$15.8 million, of which \$9.9 million is classified as current liabilities at March 31, 2013, and \$18.5 million at December 31, 2012. Contingent consideration represents amounts to be paid as part of acquisition consideration only if certain future events occur. These events are usually acquisition targets for revenues or earnings. We arrive at the fair value of contingent consideration by applying a weighted probability of potential outcomes to the maximum possible payout. The calculation of these potential outcomes is dependent on both past financial performance and management assumptions about future performance. If the financial performance measures were all fully met, our maximum liability would be \$18.0 million at March 31, 2013. Contingent consideration liabilities are reassessed each quarter and are reflected in the condensed consolidated balance sheets as part of "Other current liabilities" or "Other liabilities". Changes to contingent consideration are reflected in the table below:

In thousands

Contingent consideration at December 31, 2012	\$18,511
Increases due to acquisitions	955
Decrease due to payments	(3,415)
Changes due to currency fluctuations	(244)
Contingent consideration at March 31, 2013	\$15,807

Fair Value of Debt: At March 31, 2013, the fair value of the Company's debt obligations was estimated, using Level 2 inputs, at \$1.31 billion compared to a carrying amount of \$1.27 billion. At December 31, 2012, the fair value of the Company's debt obligations was estimated, using Level 2 inputs, at \$1.39 billion compared to a carrying amount of \$1.36 billion. The fair values were estimated using market interest rates for comparable instruments. The Company has no current plans to retire a significant amount of its debt prior to maturity.

There were no movements of items between fair value hierarchies.

Table of Contents

## NOTE 5 – INCOME TAXES

We file U.S. federal income tax returns and income tax returns in various states and foreign jurisdictions. The Company has recorded accruals to cover uncertain tax positions taken on previously filed tax returns. Such liabilities relate to additional taxes, interest and penalties the Company may be required to pay in various tax jurisdictions. During the course of examinations by various taxing authorities, proposed adjustments may be asserted. The Company evaluates such items on a case-by-case basis and adjusts the accrual for uncertain tax positions. During the quarter ended March 31, 2013 we had immaterial net decreases to our accruals related to a reassessment of previous and current uncertain tax positions.

## NOTE 6 – STOCK BASED COMPENSATION

At March 31, 2013 we had the following stock option and stock purchase plans:

- the 2011 Incentive Stock Plan, which our stockholders approved in May 2011;
- the 2008 Incentive Stock Plan, which our stockholders approved in May 2008;
- the 2005 Incentive Stock Plan, which our stockholders approved in April 2005;
- the 2000 Nonstatutory Stock Option Plan, which expired in February 2010;
- the 1997 Stock Option Plan, which expired in January 2007;
- the 1996 Directors Stock Option Plan, which expired in May 2006; and
- Employee Stock Purchase Plan (“ESPP”), which our stockholders approved in May 2001.

The following table presents the total stock-based compensation expense resulting from stock option awards, restricted stock units (“RSUs”), and the ESPP included in the Condensed Consolidated Statements of Income:

In thousands

	Three Months Ended March 31,	
	2013	2012
Cost of revenues – stock option plan	\$40	\$38
Selling, general and administrative – stock option plan	3,530	3,480
Selling, general and administrative – RSUs	195	303
Selling, general and administrative – ESPP	282	264
Total pre-tax expense	\$4,047	\$4,085

As of March 31, 2013, there was \$45.8 million of total unrecognized compensation expense, related to non-vested option awards and RSUs, which is expected to be recognized over a weighted-average period of 2.29 years.

The following table sets forth the tax benefits related to stock compensation:

In thousands

	Three Months Ended March 31,	
	2013	2012
Tax benefit recognized in Statement of Income	\$1,130	\$1,119
Excess tax benefit realized	4,203	5,061

Table of Contents

The Black-Scholes option-pricing model is used in determining the fair value of each option grant. The expected term of options granted is based on historical experience. Expected volatility is based upon historical volatility. The expected dividend yield is zero. The risk-free interest rate is based upon the U.S. Treasury yield rates for a comparable period. The assumptions that we used in the Black-Scholes model are as follows:

	Three Months Ended March 31,			
	2013	2012		
Weighted average fair value at grant date	\$21.57	\$19.90		
Expected term (in years)	6.00	6.00		
Expected volatility	27.10	% 27.87		%
Expected dividend yield	—	% —		%
Risk free interest rate	0.99	% 1.08		%

Stock option activity for the three months ended March 31, 2013, was as follows:

	Number of Options	Weighted Average Exercise Price per Share	Weighted Average Remaining Contractual Life (in years)	Aggregate Intrinsic Value
Outstanding at December 31, 2012	5,543,664	\$61.69		
Granted	977,090	95.89		
Exercised	(296,974 )	48.98		
Canceled or expired	(48,286 )	74.18		
Outstanding at March 31, 2013	6,175,494	\$67.61	7.08	\$238,175,533
Exercisable at March 31, 2013	3,224,428	\$54.82	5.75	\$165,599,626
Vested and expected to vest in the future at March 31, 2013	5,200,557	\$64.28	6.75	\$217,924,044

The total exercise intrinsic value represents the total pre-tax value (the difference between the sales price on that trading day in the quarter ended March 31, and the exercise price associated with the respective option).

In thousands

	Three Months Ended March 31,	
	2013	2012
Total exercise intrinsic value of options exercised	\$14,562	\$16,582



Table of Contents

RSUs activity for the three months ended March 31, 2013 is summarized below. RSUs vest at the end of three or five years. Our 2008 and 2011 Plans include a share reserve related to RSUs granted at a 2-1 ratio.

	Number of Units	Weighted Average Remaining Contractual Life (in years)	Aggregate Intrinsic Value
Outstanding at December 31, 2012	68,202		
Granted	17,300		
Released	(12,750)	)	
Forfeited	(500)	)	
Outstanding at March 31, 2013	72,252	3.40	\$7,671,717
Exercisable at March 31, 2013	—	0.00	\$—

## NOTE 7 – COMMON STOCK

The following table provides information about our repurchase of shares of our common stock during the three months ended March 31.

	Number of Shares Repurchased and Canceled	Amount Paid for Repurchases (000's)	Average Price Paid per Share
Three months ended March 31, 2013	74,820	\$7,160	\$95.70
Three months ended March 31, 2012	38,552	\$2,945	\$76.38

## NOTE 8 – EARNINGS PER COMMON SHARE

Basic earnings per share is computed by dividing income available to common shareholders by the weighted-average number of shares of common stock outstanding during the period. Diluted earnings per share is computed by dividing income available to common shareholders by the weighted-average number of shares of common stock outstanding during the period increased to include the number of additional shares of common stock that would have been outstanding if the potentially dilutive securities had been issued. Potentially dilutive securities include outstanding stock options, shares to be purchased under the Company's employee stock purchase plan and RSUs. The dilutive effect of potentially dilutive securities is reflected in diluted earnings per share by application of the treasury stock method. Under the treasury stock method, an increase in the fair market value of the Company's common stock can result in a greater dilutive effect from potentially dilutive securities.

Table of Contents

The following table sets forth the computation of basic and diluted earnings per share:

In thousands, except share and per share data

	Three Months Ended March 31,	
	2013	2012
Numerator:		
Numerator for basic earnings per share Net income attributable to Stericycle, Inc.	\$74,617	\$64,857
Denominator:		
Denominator for basic earnings per share weighted average shares	86,093,301	84,828,280
Effect of diluted securities:		
Employee stock options	1,366,196	1,759,664
Denominator for diluted earnings per share-adjusted weighted average shares and after assumed conversions	87,459,497	86,587,944
Earnings per share – Basic	\$0.87	\$0.76
Earnings per share – Diluted	\$0.85	\$0.75

**NOTE 9 – GOODWILL AND OTHER INTANGIBLE ASSETS**

Goodwill and identifiable indefinite lived intangible assets are not amortized, but are subject to an annual impairment test. Other intangible assets are amortized over their useful lives. We have determined that our customer relationships have useful lives from 14 to 40 years based upon the type of customer, with a weighted average remaining useful life of 26.2 years. We have covenants not-to-compete intangibles with useful lives from 4 to 14 years, with a weighted average remaining useful life of 4.5 years. We have tradename intangibles with useful lives from 10 to 40 years, with a weighted average remaining useful life of 16.4 years. We have determined that our permits have indefinite lives due to our ability to renew these permits with minimal additional cost, and therefore they are not amortized.

We have two geographical reporting segments, “United States” and “International”, both of which have goodwill. The changes in the carrying amount of goodwill since December 31, 2011, by reportable segment, were as follows:

In thousands

	United States	International	Total
Balance as of December 31, 2011	\$1,506,416	\$407,287	\$1,913,703
Goodwill acquired during year	114,931	62,145	177,076
Goodwill allocation adjustments	(5,061	) (24,859	) (29,920
Sale of business	—	(1,178	) (1,178
Changes due to currency fluctuation	—	5,422	5,422
Balance as of December 31, 2012	1,616,286	448,817	2,065,103
Goodwill acquired during year	—	16,514	16,514
Goodwill allocation adjustments	1,202	719	1,921
Changes due to currency fluctuation	—	(17,693	) (17,693
Balance as of March 31, 2013	\$1,617,488	\$448,357	\$2,065,845

Current year adjustments to goodwill for certain 2012 acquisitions are primarily due to the finalization of intangible asset valuations.

Table of Contents

As of March 31, 2013 and December 31, 2012, the values of the intangible assets were as follows:

In thousands

	March 31, 2013			December 31, 2012		
	Gross Carrying Amount	Accumulated Amortization	Net Value	Gross Carrying Amount	Accumulated Amortization	Net Value
Amortizable intangibles:						
Covenants not-to-compete	\$9,962	\$5,157	\$4,805	\$10,993	\$5,843	\$5,150
Customer relationships	606,925	62,655	544,270	602,095	57,236	544,859
Tradenames	4,855	776	4,079	4,922	712	4,210
License agreements	611	338	273	720	420	300
Other	83	6	77	89	4	85
Indefinite lived intangibles:						
Operating permits	111,178	—	111,178	112,867	—	112,867
Total	\$733,614	\$68,932	\$664,682	\$731,686	\$64,215	\$667,471

During the quarters ended March 31, 2013 and 2012, the aggregate amortization expense was \$6.6 million and \$5.0 million, respectively.

The estimated amortization expense for each of the next five years, assuming no additional amortizable intangible assets, is as follows for the years ended December 31:

In thousands

2013	\$26,141
2014	25,992
2015	25,751
2016	25,547
2017	25,386

Future amortization expense may fluctuate depending on changes in foreign currency rates, future acquisitions, or changes to the estimated amortizable life of the intangibles. The estimates for amortization expense noted above are based upon foreign exchange rates as of March 31, 2013.

Table of Contents

## NOTE 10 – DEBT

Long-term debt consisted of the following:

In thousands

	March 31, 2013	December 31, 2012
Obligations under capital leases	\$4,299	\$5,234
\$1 billion revolver weighted average rate 1.53%, due in 2016	175,977	225,931
\$100 million Private Placement notes 5.64%, due in 2015	100,000	100,000
\$175 million Private Placement notes 3.89%, due in 2017	175,000	175,000
\$125 million Private Placement notes 2.68%, due in 2019	125,000	125,000
\$225 million Private Placement notes 4.47%, due in 2020	225,000	225,000
\$125 million Private Placement notes 3.26%, due in 2022	125,000	125,000
Acquisition notes weighted average rate of 2.58% and weighted average maturity of 3.6 years	239,396	235,856
Foreign bank debt weighted average rate 4.93% and weighted average maturity of 1.7 years	103,028	139,063
Total debt	1,272,700	1,356,084
Less: current portion of total debt	79,589	87,781
Long-term portion of total debt	\$1,193,111	\$1,268,303

Our \$1.0 billion senior credit facility maturing in September 2016, our \$100.0 million private placement notes maturing April 2015, our \$175.0 million private placement notes maturing in October 2017, our \$125.0 million private placement notes maturing in December 2019, our \$225.0 million private placement notes maturing in October 2020, and our \$125.0 million private placement notes maturing in December 2022, all require us to comply with various financial, reporting and other covenants and restrictions, including a restriction on dividend payments. The financial debt covenants are the same for the senior credit facility and the private placement notes. At March 31, 2013, we were in compliance with all of our financial debt covenants.

As of March 31, 2013 and December 31, 2012, we had \$149.0 million and \$157.6 million, respectively, committed to outstanding letters of credit under our senior credit facility. The unused portion of the revolving credit facility as of March 31, 2013 and December 31, 2012 was \$675.0 million and \$616.5 million, respectively.

## Guarantees

We have guaranteed a loan to JPMorganChase Bank N.A. on behalf of Shiraishi-Sogyo Co. Ltd (“Shiraishi”). Shiraishi is a customer in Japan that is expanding its medical waste management business and has a loan with a current balance of \$5.2 million with JPMorganChase Bank N.A. that matures in May 31, 2014. We also have extended loans to Shiraishi for approximately \$15.5 million, reflected in the Consolidated Balance Sheet as part of long term "Other assets", in support of its medical waste business. There is a collateral agreement in place on the assets of Shiraishi and related companies in support of amounts owed.

## NOTE 11 – GEOGRAPHIC INFORMATION

Management has determined that we have two reportable segments, United States (which includes Puerto Rico) and International. Revenues are attributed to countries based on the location of customers. The same accounting principles and critical accounting policies are used in the preparation of the financial statements for both reporting segments.

Table of Contents

Detailed information for our United States reporting segment is as follows:

In thousands

	Three Months Ended March 31,	
	2013	2012
Regulated waste management services	\$341,101	\$293,425
Regulated recall and returns management services	22,534	35,764
Total revenue	363,635	329,189
Net interest expense	10,731	10,334
Income before income taxes	95,956	87,057
Income taxes	36,450	34,447
Net income attributable to Stericycle, Inc.	\$59,506	\$52,610
Depreciation and amortization	\$12,575	\$10,556

Detailed information for our International reporting segment is as follows:

In thousands

	Three Months Ended March 31,	
	2013	2012
Regulated waste management services	\$150,169	\$130,888
Net interest expense	2,648	2,340
Income before income taxes	21,249	15,973
Income taxes	5,533	3,268
Net income	15,716	12,705
Less: net income attributable to noncontrolling interests	605	458
Net income attributable to Stericycle, Inc.	\$15,111	\$12,247
Depreciation and amortization	\$8,913	\$7,162

#### NOTE 12 – LEGAL PROCEEDINGS

We operate in a highly regulated industry and must deal with regulatory inquiries or investigations from time to time that may be instituted for a variety of reasons. We are also involved in a variety of civil litigation from time to time. As we previously disclosed, in a current report on Form 8-K filed on March 18, 2013, we were served on March 12, 2013 with a class action complaint filed in the U.S. District Court for the Western District of Pennsylvania by an individual plaintiff for itself and on behalf of all other “similarly situated” customers of ours. The complaint alleges, among other things, that we imposed unauthorized or excessive price increases and other charges on our customers in breach of our contracts and in violation of the Illinois Consumer Fraud and Deceptive Business Practices Act. The complaint seeks certification of the lawsuit as a class action and the award to class members of appropriate damages and injunctive relief.

The Pennsylvania class action complaint was filed in the wake of our recent settlement with the State of New York of an investigation under the New York False Claims Act (which the class action complaint describes at some length). The New York investigation arose out of a qui tam (or “whistle blower”) complaint under the federal False Claims Act and comparable state statutes which was filed under seal in the U.S. District Court for the Northern District of Illinois in April 2008 by a former employee of ours. The complaint was filed on behalf of the United States and 14 states and the District of Columbia. Tennessee, Massachusetts

Table of Contents

and Virginia have issued civil investigative demands to explore the allegations made on their behalf in the qui tam complaint but have not yet decided whether to join the Illinois action.

Following the filing of the Pennsylvania class action complaint, we were served with class action complaints filed in federal court in Florida and Illinois and in state court in California. These complaints assert claims and allegations substantially similar to those made in the Pennsylvania class action complaint. All of these cases appear to be follow-on litigation to our settlement with the State of New York that we expect to be consolidated into a single action.

We believe that we have operated in accordance with the terms of our customer contracts and that these complaints are without merit. We intend to vigorously defend ourselves against each of these lawsuits.

Table of Contents

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

We were incorporated in 1989 and presently serve a diverse customer base of over 544,000 customers throughout the United States, Argentina, Brazil, Canada, Chile, Ireland, Japan, Mexico, Portugal, Romania, Spain, and the United Kingdom. We have fully integrated networks including processing centers, and transfer and collection sites. We use these networks to provide a broad range of services to our customers including regulated waste management services and regulated recall and returns management services. The regulated waste services we provide include medical waste disposal, our Steri-Safe® medical waste and compliance program, our Clinical Services program, our Bio Systems® reusable sharps disposal management services, pharmaceutical waste disposal, and hazardous waste disposal. In addition to our regulated waste services, we offer regulated recall and returns management services, patient communication services, and medical safety products. Our regulated recall and returns management services encompass a number of solutions for a variety of businesses but consist primarily of managing the recall, withdrawal or return of expired or recalled products and pharmaceuticals. We also provide communication services to healthcare providers to improve office productivity and communications with patients.

There were no material changes in the Company's critical accounting policies since the filing of its 2012 Form 10-K. As discussed in the 2012 Form 10-K, the preparation of the consolidated financial statements in conformity with accounting principles generally accepted in the United States requires management to make certain estimates and assumptions that affect the amount of reported assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and revenues and expenses during the periods reported. Actual results may differ from those estimates.

Highlights of the three months ended March 31, 2013:

- revenues grew to \$513.8 million, a 11.7% increase from \$460.1 million from the first quarter last year;
- first quarter gross margins increased to 45.2% from 44.6% in 2012;
- we incurred \$2.8 million in pre-tax expenses related to acquisitions, integration expenses related to acquisitions, and litigation settlement;
- operating income was \$131.6 million, a 13.2% increase from \$116.3 million in the first quarter last year;
- cash flow from operations was \$98.2 million.

Table of Contents

THREE MONTHS ENDED MARCH 31, 2013 COMPARED TO  
THREE MONTHS ENDED MARCH 31, 2012

The following summarizes the Company's operations:

In thousands, except per share data

	Three Months Ended March 31,	
	2013	2012
\$		