

STERICYCLE INC  
Form 10-Q  
November 09, 2011  
Table of Contents

**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

**FORM 10-Q**

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

For the quarterly period ended September 30, 2011

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)*

Edgar Filing: STERICYCLE INC - Form 10-Q

**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 October 31, 2011 there were 85,113,990 shares of the registrant's Common Stock outstanding.

---

**Table of Contents**

**Stericycle, Inc.**

**Table of Contents**

	<b>Page No.</b>
<b><u>PART I. Financial Information</u></b>	
Item 1. <u>Financial Statements</u>	
<u>Condensed Consolidated Balance Sheets as of September 30, 2011 (Unaudited) and December 31, 2010 (Audited)</u>	1
<u>Condensed Consolidated Statements of Income for the three and nine months ended September 30, 2011 and 2010 (Unaudited)</u>	2
<u>Condensed Consolidated Statements of Cash Flows for the nine months ended September 30, 2011 and 2010 (Unaudited)</u>	3
<u>Condensed Consolidated Statements of Changes in Equity for the nine months ended September 30, 2011 (Unaudited) and year ended December 31, 2010 (Audited)</u>	4
<u>Notes to Condensed Consolidated Financial Statements (Unaudited)</u>	5
Item 2. <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	21
Item 3. <u>Qualitative and Quantitative Disclosures about Market Risk</u>	29
Item 4. <u>Controls and Procedures</u>	29
<b><u>PART II. Other Information</u></b>	
Item 1. <u>Legal Proceedings</u>	31
Item 2. <u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	31
Item 6. <u>Exhibits</u>	33
<u>Signatures</u>	33
<u>Certifications</u>	34

**Table of Contents****PART I. FINANCIAL INFORMATION****ITEM 1. FINANCIAL STATEMENTS****STERICYCLE, INC. AND SUBSIDIARIES****CONDENSED CONSOLIDATED BALANCE SHEETS**

In thousands, except share and per share data

	September 30, 2011 (Unaudited)	December 31, 2010 (Audited)
<b>ASSETS</b>		
<b>Current Assets:</b>		
Cash and cash equivalents	\$ 23,395	\$ 79,276
Short-term investments	416	16,248
Accounts receivable, less allowance for doubtful accounts of \$18,546 in 2011 and \$10,845 in 2010	283,710	215,420
Deferred income taxes	15,696	16,824
Prepaid expenses	22,160	16,038
Other current assets	39,465	24,882
<b>Total Current Assets</b>	<b>384,842</b>	<b>368,688</b>
<b>Property, Plant and Equipment, net</b>	<b>290,721</b>	<b>267,971</b>
<b>Other Assets:</b>		
Goodwill	1,924,989	1,595,764
Intangible assets, less accumulated amortization of \$38,881 in 2011 and \$28,394 in 2010	524,227	375,174
Other	30,729	31,426
<b>Total Other Assets</b>	<b>2,479,945</b>	<b>2,002,364</b>
<b>Total Assets</b>	<b>\$ 3,155,508</b>	<b>\$ 2,639,023</b>
<b>LIABILITIES AND EQUITY</b>		
<b>Current liabilities:</b>		
Current portion of long-term debt	\$ 95,149	\$ 91,406
Accounts payable	70,285	54,777
Accrued liabilities	140,975	134,355
Deferred revenues	13,662	14,455
Other current liabilities	9,842	13,496
<b>Total Current Liabilities</b>	<b>329,913</b>	<b>308,489</b>
Long-term debt, net of current portion	1,304,628	1,014,222
Deferred income taxes	301,115	222,647
Other liabilities	8,127	13,315
<b>Equity:</b>		
Common stock (par value \$.01 per share, 120,000,000 shares authorized, 85,196,102 issued and outstanding in 2011 and 85,242,387 issued and outstanding in 2010)	852	852
Additional paid-in capital	26,721	46,945
Accumulated other comprehensive loss	(32,870)	(16,869)
Retained earnings	1,187,960	1,017,497
<b>Total Stericycle, Inc. s Equity</b>	<b>1,182,663</b>	<b>1,048,425</b>
Noncontrolling interest	29,062	31,925

Edgar Filing: STERICYCLE INC - Form 10-Q

<b>Total Equity</b>	<b>1,211,725</b>	1,080,350
<b>Total Liabilities and Equity</b>	<b>\$ 3,155,508</b>	\$ 2,639,023

The accompanying notes are an integral part of these 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 September 30,		Nine Months Ended September 30,	
	2011	2010	2011	2010
<b>Revenues</b>	\$ 420,924	\$ 362,988	\$ 1,229,491	\$ 1,045,899
<b>Costs and Expenses:</b>				
Cost of revenues	220,419	185,515	639,773	532,625
Selling, general and administrative expenses	72,582	65,033	214,815	191,067
Depreciation and amortization	16,933	13,504	47,987	38,510
Acquisition expenses	3,195	1,891	12,254	3,247
Integration expenses	1,813	790	3,866	3,253
Restructuring costs and plant closure expense	633	216	1,086	2,446
Litigation settlement	460	0	460	937
Loss/ (gain) on sale of assets	323	0	323	(2,955)
<b>Total Costs and Expenses</b>	<b>316,358</b>	<b>266,949</b>	<b>920,564</b>	<b>769,130</b>
<b>Income from Operations</b>	<b>104,566</b>	<b>96,039</b>	<b>308,927</b>	<b>276,769</b>
<b>Other Income (Expense):</b>				
Interest income	237	82	484	194
Interest expense	(12,034)	(8,509)	(36,413)	(26,342)
Other expense, net	(577)	333	(1,659)	(1,562)
<b>Total Other Expense</b>	<b>(12,374)</b>	<b>(8,094)</b>	<b>(37,588)</b>	<b>(27,710)</b>
<b>Income Before Income Taxes</b>	<b>92,192</b>	<b>87,945</b>	<b>271,339</b>	<b>249,059</b>
<b>Income Tax Expense</b>	<b>32,448</b>	<b>30,645</b>	<b>99,119</b>	<b>89,359</b>
<b>Net Income</b>	<b>\$ 59,744</b>	<b>\$ 57,300</b>	<b>\$ 172,220</b>	<b>\$ 159,700</b>
<b>Less: Net Income Attributable to Noncontrolling Interests</b>	<b>497</b>	<b>614</b>	<b>1,757</b>	<b>1,801</b>
<b>Net Income Attributable to Stericycle, Inc.</b>	<b>\$ 59,247</b>	<b>\$ 56,686</b>	<b>\$ 170,463</b>	<b>\$ 157,899</b>
<b>Earnings Per Common Share Attributable to Stericycle, Inc.</b>				
<b>Common Shareholders:</b>				
Basic	\$ 0.69	\$ 0.66	\$ 1.99	\$ 1.86
Diluted	\$ 0.68	\$ 0.65	\$ 1.95	\$ 1.82
<b>Weighted Average Number of Common Shares Outstanding:</b>				
Basic	85,564,682	85,295,740	85,654,097	84,986,187
Diluted	87,385,121	87,179,057	87,620,867	86,830,761

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



**Table of Contents****STERICYCLE, INC. AND SUBSIDIARIES****CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS****(Unaudited)**

In thousands

	Nine Months Ended September 30,	
	2011	2010
<b>OPERATING ACTIVITIES:</b>		
Net income	\$ 172,220	\$ 159,700
Adjustments to reconcile net income to net cash provided by operating activities:		
Loss/ (gain) on sale of assets	323	(2,955)
Change in fair value of contingent consideration	(2,140)	0
Accelerated amortization of term loan financing fees	1,241	0
Stock compensation expense	11,563	11,441
Excess tax benefit of stock options exercised	(16,614)	(17,951)
Depreciation	36,885	31,858
Amortization	11,102	6,652
Deferred income taxes	27,685	20,307
Changes in operating assets and liabilities, net of effect of acquisitions and divestitures:		
Accounts receivable	(20,288)	(26,366)
Accounts payable	(11,239)	(3,477)
Accrued liabilities	16,694	19,214
Deferred revenues	(1,241)	1,942
Other assets and liabilities	(11,015)	5,061
Net cash provided by operating activities	215,176	205,426
<b>INVESTING ACTIVITIES:</b>		
Payments for acquisitions and international investments, net of cash acquired	(467,430)	(95,615)
Proceeds from/ (purchases of) short-term investments	15,941	(17,172)
Proceeds from sale of assets	2,371	8,000
Capital expenditures	(36,981)	(35,937)
Net cash used in investing activities	(486,099)	(140,724)
<b>FINANCING ACTIVITIES:</b>		
Repayment of long-term debt	(17,294)	(45,292)
Borrowings on senior credit facility	1,433,405	665,932
Repayments on senior credit facility	(1,163,613)	(679,004)
Payments of deferred financing costs	(3,740)	(5,757)
Payments on capital lease obligations	(2,703)	(2,172)
Purchase and cancellation of treasury stock	(81,201)	(43,589)
Proceeds from other issuance of common stock	30,487	38,224
Excess tax benefit of stock options exercised	16,614	17,951
Net cash provided by/ (used in) financing activities	211,955	(53,707)
Effect of exchange rate changes on cash	3,087	(6,135)
Net (decrease)/ increase in cash and cash equivalents	(55,881)	4,860
Cash and cash equivalents at beginning of period	79,276	15,767
Cash and cash equivalents at end of period	\$ 23,395	\$ 20,627



**NON-CASH ACTIVITIES:**

Net issuance of obligations for certain acquisitions	\$	37,464	\$	32,353
--	----	--------	----	--------

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

Table of Contents

## STERICYCLE, INC. AND SUBSIDIARIES

## CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

Nine Months Ended September 30, 2011 (Unaudited) and

Year Ended December 31, 2010 (Audited)

In thousands

	Stericycle, Inc. Equity						
	Issued and Outstanding Shares	Common Stock	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Noncontrolling Interest	Total Equity
<b>Balance at December 31, 2009</b>	84,715	\$ 847	\$ 47,522	\$ 809,618	\$ (12,292)	\$ 11,478	\$ 857,173
Net income				207,879		2,578	210,457
Currency translation adjustment					(2,544)	2,938	394
Change in fair value of cash flow hedge, net of tax of \$1,353					(2,033)		(2,033)
<b>Comprehensive income</b>							<b>208,818</b>
Issuance of common stock for exercise of options and employee stock purchases	1,988	20	50,491				50,511
Purchase/ cancellation of treasury stock	(1,461)	(15)	(94,320)				(94,335)
Stock compensation expense			18,565				18,565
Excess tax benefit of stock options exercised			24,687				24,687
Change in noncontrolling interest						14,931	14,931
<b>Balance at December 31, 2010</b>	85,242	\$ 852	\$ 46,945	\$ 1,017,497	\$ (16,869)	\$ 31,925	\$ 1,080,350
Net income				170,463		1,757	172,220
Currency translation adjustment					(16,257)	(1,584)	(17,841)
Amounts reclassified into income, net of tax of \$162					256		256
<b>Comprehensive income</b>							<b>154,635</b>
Issuance of common stock for exercise of options and employee stock purchases	967	10	33,811				33,821
Purchase/ cancellation of treasury stock	(1,013)	(10)	(81,191)				(81,201)
Stock compensation expense			11,563				11,563
Excess tax benefit of stock options exercised			16,614				16,614
Change in noncontrolling interest			(1,021)			(3,036)	(4,057)
<b>Balance at September 30, 2011</b>	85,196	\$ 852	\$ 26,721	\$ 1,187,960	\$ (32,870)	\$ 29,062	\$ 1,211,725

The accompanying notes are an integral part of these 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, 2010, as filed with our Annual Report on Form 10-K for the year ended December 31, 2010. The results of operations for the nine months ended September 30, 2011 are not necessarily indicative of the results that may be achieved for the entire year ending December 31, 2011.

There were no material changes in the Company's critical accounting policies since the filing of its 2010 Form 10-K. As discussed in the 2010 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.

Certain amounts in previously issued financial statements have been reclassified to conform to the current period presentation.

**NOTE 2 ACQUISITIONS AND DIVESTITURES**

The following table summarizes the locations of our acquisitions for the nine months ended September 30, 2011:

<b>Acquisition Locations</b>	<b>2011</b>
United States	16
Argentina	1
Brazil	4
Canada	2
Chile	1
Ireland	1
Japan	2
Portugal	1
Romania	5
Spain	1
United Kingdom	3
Total	37

**Table of Contents**

During the quarter ended March 31, 2011, we completed nine acquisitions. Domestically, we acquired selected assets of three regulated waste businesses. Internationally, we acquired 100% of the stock of two regulated waste businesses in the UK and two regulated waste businesses in Romania, selected assets of a regulated waste business in Ireland, and 80% of the stock of a regulated waste business in Chile.

During the quarter ended June 30, 2011, we completed 11 acquisitions. Domestically, we completed our stock acquisition of Healthcare Waste Solutions, Inc., a Delaware corporation ( HWS ). We also acquired selected assets of five regulated waste businesses and all of the assets of a compliance business. Internationally, we acquired 100% of the stock of regulated waste businesses in Argentina and Canada, 70% of the stock of a regulated waste business in Brazil, and selected assets of a regulated waste business in Romania. We also increased our majority share in a previous acquisition in Brazil from 70% to 82.5%.

During the quarter ended September 30, 2011, we completed 17 acquisitions. Domestically, we acquired selected assets of two regulated waste businesses, three compliance businesses, and one returns management business. Internationally, we acquired 100% of the stock of a regulated waste business in Canada, UK, and Spain. Our Spanish company includes a 51% ownership in a small subsidiary. In Brazil we acquired 82.5% of the stock of three regulated waste businesses. In Romania we acquired 100% of the stock of one regulated waste business and selected assets of another. In Japan we acquired 100% of the stock of one regulated waste business and selected assets of another. In Portugal we acquired selected assets of one regulated waste business. In Mexico we sold our 55% majority ownership of a regulated waste business for approximately \$3.3 million which resulted in a loss of \$0.3 million.

The following table summarizes the aggregate purchase price paid for acquisitions and other adjustments of consideration to be paid on acquisitions during the nine months ended September 30, 2011:

<b>In thousands</b>	
Cash	\$ 467,430
Promissory notes	24,733
Deferred consideration	12,731
Contingent consideration	4,383
<b>Total purchase price</b>	<b>\$ 509,277</b>

During the nine months ended September 30, 2011, we recognized a net increase to goodwill of \$345.8 million of which \$229.2 million was assigned to our United States reporting segment and \$116.6 million to our Foreign Countries reporting segment. Approximately \$29.7 million of the goodwill recognized during the nine months ended September 30, 2011 will be deductible for income taxes.

**Table of Contents**

During the nine months ended September 30, 2011, we recognized \$169.4 million in intangible assets of which \$160.7 million represents the estimated fair value of acquired customer relationships with amortizable lives of 15-40 years, and \$6.9 in permits with indefinite lives. The allocation of the acquisition price paid is 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 nine months ended September 30, 2011:

<b>In thousands</b>	
Fixed assets	\$ 27,548
Intangibles	169,412
Goodwill	345,780
Net other assets/ (liabilities)	22,226
Debt	(1,168)
Net deferred tax liabilities	(53,913)
Noncontrolling interests	(608)

Total purchase price allocation **\$ 509,277**

For financial reporting purposes, our 2011 and 2010 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 nine months ended September 30, 2011 and 2010, the Company incurred \$12.3 million and \$3.2 million, respectively, of acquisition related expenses. These expenses are identified on our Condensed Consolidated Statements of Income as acquisition expenses. The purchase prices in excess of acquired tangible assets for these acquisitions have been primarily allocated to goodwill and other intangibles and are preliminary pending completion of certain intangible asset valuations.

**NOTE 3 NEW ACCOUNTING STANDARDS****Accounting Standards Recently Adopted****Revenue Recognition**

On January 1, 2011, Stericycle adopted changes issued by the Financial Accounting Standards Board ( FASB ) to guidance on revenue recognition for arrangements with multiple deliverables. This update allows companies to allocate consideration received for qualified separate deliverables using estimated selling price for both delivered and undelivered items when vendor-specific objective evidence or third-party evidence is unavailable. Additional disclosures discussing the nature of multiple element arrangements, the types of deliverables under the arrangements, the general timing of their delivery, and significant factors and estimates used to determine estimated selling prices are required. This new guidance did not have a material impact to our financial statements.

## **Table of Contents**

### **Accounting Standards Issued But Not Yet Adopted**

#### **Other Comprehensive Income**

In June 2011, the FASB issued changes to the presentation of comprehensive income. These changes give an entity the option to present the total of comprehensive income, the components of net income, and the components of other comprehensive income either in a single continuous statement of comprehensive income or in two separate but consecutive statements; the option to present components of other comprehensive income as part of the statement of changes in stockholders' equity was eliminated. The items that must be reported in other comprehensive income or when an item of other comprehensive income must be reclassified to net income were not changed. Additionally, no changes were made to the calculation and presentation of earnings per share. These changes become effective for Stericycle on January 1, 2012. Other than the change in presentation, these changes will not have an impact on our financial statements.

#### **Goodwill Impairment Testing**

In September 2011, the FASB issued changes to the testing for impairment of goodwill. Previous guidance under Topic 350 required an entity to test goodwill for impairment, on at least an annual basis, by comparing the fair value of a reporting unit with its carrying amount, including goodwill (step one). If the fair value of a reporting unit is less than its carrying amount, then the second step of the test must be performed to measure the amount of the impairment loss, if any. Under the amendments, an entity is not required to calculate the fair value of a reporting unit unless the entity determines, using qualitative assessment, that it is more likely than not (greater than 50%) that its fair value is less than its carrying amount. These changes become effective for Stericycle on January 1, 2012, although early adoption is permitted. As these changes should not affect the outcome of the impairment analysis of a reporting unit, management has determined these changes will not have an impact on our financial statements.

### **NOTE 4 FAIR VALUE MEASUREMENTS**

Fair value is the price that would be received from selling an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value is estimated by applying the following hierarchy, which prioritizes the inputs used to measure fair value into three levels and bases the categorization within the hierarchy upon the lowest level of input that is available and significant to the fair value measurement:

*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.

**Table of Contents**

In thousands

	Total as of September 30, 2011	Fair Value Measurements Using		
		Level 1 Inputs	Level 2 Inputs	Level 3 Inputs
<b>Assets:</b>				
Cash and cash equivalents	\$ 23,395	\$ 23,395	\$ 0	\$ 0
Short-term investments	416	416	0	0
<b>Total assets</b>	<b>\$ 23,811</b>	<b>\$ 23,811</b>	<b>\$ 0</b>	<b>\$ 0</b>
<b>Liabilities:</b>				
Contingent consideration	\$ 7,644	\$ 0	\$ 0	\$ 7,644
<b>Total liabilities</b>	<b>\$ 7,644</b>	<b>\$ 0</b>	<b>\$ 0</b>	<b>\$ 7,644</b>

In thousands

	Total as of December 31, 2010	Fair Value Measurements Using		
		Level 1 Inputs	Level 2 Inputs	Level 3 Inputs
<b>Assets:</b>				
Cash and cash equivalents	\$ 79,276	\$ 79,276	\$ 0	\$ 0
Short-term investments	16,248	16,248	0	0
<b>Total assets</b>	<b>\$ 95,524</b>	<b>\$ 95,524</b>	<b>\$ 0</b>	<b>\$ 0</b>
<b>Liabilities:</b>				
Contingent consideration	\$ 16,450	\$ 0	\$ 0	\$ 16,450
<b>Total liabilities</b>	<b>\$ 16,450</b>	<b>\$ 0</b>	<b>\$ 0</b>	<b>\$ 16,450</b>

Level 1: At September 30, 2011, we have \$23.4 million in cash and cash equivalents, and \$0.4 million in money market accounts, that we recorded at fair value using Level 1 inputs. At December 31, 2010, we had \$79.3 million in cash and cash equivalents, \$15.8 million in certificates of deposit, and \$0.4 million in money market accounts. In 2010, we financed a portion of our Japan acquisition through local borrowings of ¥1.2 billion which required us to deposit the equivalent USD amount of \$15.8 million in one year certificates of deposit with an affiliated bank located in the United States that was redeemed in September 2011.

Level 2: We had no assets or liabilities measured at fair value using Level 2 inputs at September 30, 2011 or December 31, 2010.

Level 3: We had contingent consideration liabilities recorded in the amounts of \$7.6 million at September 30, 2011, and \$16.5 million at December 31, 2010. Contingent considerations are 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. These potential outcomes are dependent on both past financial performance and management assumptions about future performance. Contingent consideration liabilities are reassessed each quarter and are reflected in the balance sheet as part of other short-term or long-term liabilities. Changes to contingent consideration are reflected in the table below:



**Table of Contents****In thousands**

Contingent consideration at December 31, 2010	\$ 16,450
Increases due to acquisitions	4,383
Decreases due to payments	(10,172)
Changes due to currency fluctuations	(877)
Changes in fair value reflected in income statement	(2,140)
 Contingent consideration at September 30, 2011	 \$ 7,644

**Fair Value of Debt:** At September 30, 2011, the fair value of the Company's debt obligations was estimated at \$1.410 billion compared to a carrying amount of \$1.400 billion. At December 31, 2010, the fair value of the Company's debt obligations was estimated at \$1.108 billion, compared to a carrying amount of \$1.106 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.

**NOTE 5 DERIVATIVE INSTRUMENTS**

At September 30, 2011, we had no derivative instruments.

**NOTE 6 INCOME TAXES**

We and our subsidiaries file U.S. federal income tax returns and income tax returns in various states and foreign jurisdictions. With a few exceptions, we are no longer subject to U.S. federal, state, local, or non-U.S. income tax examinations by tax authorities for years before 2005.

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.

The total amount of unrecognized tax positions as of September 30, 2011 is \$9.8 million, which includes interest and penalties and is reflected as a liability on the balance sheet. The amount of unrecognized tax positions that, if recognized, would affect the effective tax rate is approximately \$9.8 million. We recognize interest and penalties accrued related to income tax reserves in income tax expense. This method of accounting is consistent with prior years.

The following table summarizes the changes in unrecognized tax positions during the nine months ended September 30, 2011:

**Table of Contents****In thousands**

Unrecognized tax positions, January 1, 2011	\$ 9,132
Gross increases- prior period tax positions	61
Gross increases- current period tax positions	1,972
Settlement	(108)
Expiration of the Statute of Limitations	(1,209)
Unrecognized tax positions, September 30, 2011	\$ 9,848

**NOTE 7 STOCK BASED COMPENSATION**

At September 30, 2011 we had stock options outstanding under the following plans:

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 Directors Stock Option Plan, which expired in May 2006;

the 1995 Incentive Compensation Plan, which expired in July 2005;

our 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 and the ESPP included in the condensed consolidated statements of income:

**In thousands**

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2011	2010	2011	2010
Cost of revenues stock option plan	\$ 33	\$ 55	\$ 89	\$ 170
Selling, general and administrative stock option plan	3,336	3,341	10,122	10,464
Selling, general and administrative restricted stock units	219	87	593	173
Selling, general and administrative ESPP	257	217	759	634
<b>Total pre-tax expense</b>	<b>\$ 3,845</b>	<b>\$ 3,700</b>	<b>\$ 11,563</b>	<b>\$ 11,441</b>

As of September 30, 2011, there was \$29.0 million of total unrecognized compensation expense, related to non-vested stock options, which is expected to be recognized over a weighted-average period of 1.70 years.

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

Edgar Filing: STERICYCLE INC - Form 10-Q

In thousands

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2011	2010	2011	2010
Tax benefit recognized in income statement	\$ 291	\$ 1,486	\$ 2,468	\$ 4,547
Excess tax benefit realized	2,065	4,521	16,614	17,951

**Table of Contents**

The Black-Scholes option-pricing model is used in determining the fair value of each option grant using the assumptions noted in the table below. The expected term of options granted is based on historical experience and represents the period of time that awards granted are expected to be outstanding. Expected volatility is based upon historical volatility of the Company's stock. The expected dividend yield is zero. The risk-free interest rate is based upon the U.S. Treasury yield rates of a comparable period.

The assumptions that we used in the Black-Scholes model are as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2011	2010	2011	2010
Expected term (in years)	5.75	5.75	5.75	5.75
Expected volatility	27.70%	27.62%	27.41%	28.39%
Expected dividend yield	0%	0%	0%	0%
Risk free interest rate	1.38%	1.71%	2.23%	2.38%

The weighted average grant date fair value of the stock options granted during the three and nine months ended September 30, 2011 and 2010 was as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2011	2010	2011	2010
Weighted average fair value at grant date	\$ 19.94	\$ 15.36	\$ 21.09	\$ 13.43

Stock option activity for the nine months ended September 30, 2011, 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, 2010	6,508,833	\$ 41.86		
Granted	1,036,276	85.33		
Exercised	(940,323)	32.35		
Cancelled or expired	(204,373)	52.10		
Outstanding at September 30, 2011	6,400,413	\$ 49.97	6.71	\$ 201,525,724
Exercisable at September 30, 2011	3,370,240	\$ 40.05	5.51	\$ 137,510,507
Vested and expected to vest in the future at September 30, 2011	5,867,818	\$ 48.61	6.55	\$ 192,179,037

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 September 30, and the exercise price associated with the respective option).

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2011	2010	2011	2010
Total exercise intrinsic value of options exercised	\$ 6,387	\$ 14,485	\$ 51,876	\$ 56,318

**Table of Contents**

Restricted stock units (RSUs) activity for the nine months ended September 30, 2011, was as follows:

	Number of Units	Weighted Average Remaining Contractual Life (in years)	Aggregate Intrinsic Value
Outstanding at December 31, 2010	20,000		
Granted	18,488		
Forfeited	(3,250)		
Outstanding at September 30, 2011	<b>35,238</b>	<b>1.89</b>	<b>\$ 2,844,411</b>
Exercisable at September 30, 2011	<b>0</b>	<b>0.00</b>	<b>\$ 0</b>
Vested and expected to vest in the future at September 30, 2011	<b>28,115</b>	<b>1.86</b>	<b>\$ 2,269,406</b>

**NOTE 8 COMMON STOCK**

The following table provides information about our repurchase of shares of our common stock during the nine months ended September 30, 2011 and September 30, 2010:

	Number of Shares Repurchased and Cancelled	Amount Paid for Repurchases (000 s)	Average Price Paid per Share
Three months ended March 31, 2011	<b>0</b>	<b>\$ 0</b>	<b>\$ 0</b>
Three months ended June 30, 2011	<b>50,675</b>	<b>4,302</b>	<b>84.90</b>
Three months ended September 30, 2011	<b>962,181</b>	<b>76,899</b>	<b>79.92</b>
Nine months ended September 30, 2011	<b>1,012,856</b>	<b>\$ 81,201</b>	<b>\$ 80.17</b>
Three months ended March 31, 2010	207,114	\$ 11,260	\$ 54.36
Three months ended June 30, 2011	235,436	13,000	55.22
Three months ended September 30, 2010	308,588	19,329	62.64
Nine months ended September 30, 2010	751,138	\$ 43,589	\$ 58.03

**NOTE 9 NET INCOME PER COMMON SHARE**

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

In thousands, except share and per share data

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2011	2010	2011	2010
Numerator:				
Numerator for basic earnings per share				
Net income attributable to Stericycle, Inc.	<b>\$ 59,247</b>	<b>\$ 56,686</b>	<b>\$ 170,463</b>	<b>\$ 157,899</b>

Edgar Filing: STERICYCLE INC - Form 10-Q

Denominator:

Denominator for basic earnings per share weighted average shares	<b>85,564,682</b>	85,295,740	<b>85,654,097</b>	84,986,187
Effect of diluted securities:				
Employee stock options	<b>1,820,439</b>	1,883,317	<b>1,966,770</b>	1,844,574
Denominator for diluted earnings per share-adjusted weighted average shares and after assumed conversions	<b>87,385,121</b>	87,179,057	<b>87,620,867</b>	86,830,761
Earnings per share Basic	<b>\$ 0.69</b>	\$ 0.66	<b>\$ 1.99</b>	\$ 1.86
Earnings per share Diluted	<b>\$ 0.68</b>	\$ 0.65	<b>\$ 1.95</b>	\$ 1.82

**Table of Contents****NOTE 10 COMPREHENSIVE INCOME**

The components of total comprehensive income are net income, net income attributable to noncontrolling interests, the change in cumulative currency translation adjustments, and gains and losses on derivative instruments qualifying as cash flow hedges. The following table sets forth the components of total comprehensive income for the three and nine months ended September 30, 2011 and 2010:

In thousands	Three Months Ended September 30,		Nine Months Ended September 30,	
	2011	2010	2011	2010
Net income	\$ 59,744	\$ 57,300	\$ 172,220	\$ 159,700
Other comprehensive income/ (loss):				
Currency translation adjustments	(35,634)	17,253	(17,841)	(632)
Amounts reclassified into income, net of tax	85	2,312	256	675
Other comprehensive income/ (loss)	(35,549)	19,565	(17,585)	43
Comprehensive income	24,195	76,865	154,635	159,743
Less: net income attributable to noncontrolling interests	497	614	1,757	1,801
Comprehensive income attributable to Stericycle, Inc.	\$ 23,698	\$ 76,251	\$ 152,878	\$ 157,942

**NOTE 11 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 15 to 40 years based upon the type of customer, with a weighted average remaining useful life of 39.1 years. We have covenants not-to-compete intangibles with useful lives from two to ten years, with a weighted average remaining useful life of 5.7 years. We have tradename intangibles with useful lives from 20 to 40 years, with a weighted average remaining useful life of 19.6 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 Foreign Countries, both of which have goodwill. The changes in the carrying amount of goodwill since December 31, 2010 were as follows by reporting segment:

**Table of Contents****In thousands**

	<b>United States</b>	<b>Foreign Countries</b>	<b>Total</b>
Balance as of December 31, 2009	\$ 1,153,149	\$ 240,942	\$ 1,394,091
Goodwill acquired during year	128,954	74,049	203,003
Sale of assets	(2,345)	0	(2,345)
Changes due to currency fluctuation	0	1,015	1,015
<b>Balance as of December 31, 2010</b>	<b>\$ 1,279,758</b>	<b>\$ 316,006</b>	<b>\$ 1,595,764</b>
Goodwill on 2011 acquisitions	<b>229,994</b>	<b>124,361</b>	<b>354,355</b>
Changes in goodwill on 2010 acquisitions	<b>(803)</b>	<b>(7,772)</b>	<b>(8,575)</b>
Sale of assets	<b>0</b>	<b>(2,887)</b>	<b>(2,887)</b>
Changes due to currency fluctuation	<b>0</b>	<b>(13,668)</b>	<b>(13,668)</b>
<b>Balance as of September 30, 2011</b>	<b>\$ 1,508,949</b>	<b>\$ 416,040</b>	<b>\$ 1,924,989</b>

The changes to goodwill for 2010 acquisitions are primarily due to the finalization of intangible valuations and allocation of goodwill to the business in Mexico sold during the third quarter.

As of September 30, 2011 and December 31, 2010, the values of the intangible assets were as follows:

**In thousands**

	September 30, 2011			December 31, 2010		
	Gross		Net Value	Gross		Net Value
	Carrying Amount	Accumulated Amortization		Carrying Amount	Accumulated Amortization	
Amortizable intangibles:						
Covenants not-to-compete	\$ 10,770	\$ 3,988	\$ 6,782	\$ 10,402	\$ 2,952	\$ 7,450
Customer relationships	455,750	32,546	423,204	304,175	23,177	280,998
Tradenames	2,556	360	2,196	1,200	253	947
License agreements	720	288	432	766	211	555
Other	1,699	1,699	0	1,801	1,801	0
Indefinite lived intangibles:						
Operating permits	91,613		91,613	85,224		85,224
<b>Total</b>	<b>\$ 563,108</b>	<b>\$ 38,881</b>	<b>\$ 524,227</b>	<b>\$ 403,568</b>	<b>\$ 28,394</b>	<b>\$ 375,174</b>

During the quarters ended September 30, 2011 and 2010, the aggregate amortization expense was \$4.2 million and \$2.5 million, respectively. For the nine months ended September 30, 2011 and 2010, the aggregate amortization expense was \$11.1 million and \$6.7 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**

2011	\$ 15,386
2012	18,205
2013	17,993
2014	17,817
2015	17,525





**Table of Contents**

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 September 30, 2011.

During the quarter ended June 30, 2011, we performed our annual goodwill impairment evaluation for our three reporting units, Domestic Regulated Waste, Domestic Regulated Returns and Recall Management Services, and Foreign Countries. We performed two impairment tests, one using a market approach and the other using an income approach. Both the market and income approaches indicated no impairment to goodwill to any of our three reporting units.

**Market Approach:** Our market approach begins by calculating the market capitalization of the Company using the average stock price for the prior 30 days and the outstanding share count at June 30, 2011. We then look at the Company's Earnings Before Interest, Tax, Depreciation, and Amortization ( EBITDA ), adjusted for stock compensation expense and other items, such as a gain on sale of divested assets, for the prior twelve months. The calculated market capitalization is divided by the modified EBITDA to arrive at a valuation multiple. The fair value of each reporting unit is then calculated by taking the product of the valuation multiple and the trailing twelve month modified EBITDA of that reporting unit. The fair value was then compared to the reporting units' book value and determined to be in excess of the book value. We believe that starting with the fair value of the company as a whole is a reasonable measure as that fair value is then allocated to each reporting unit based on that reporting unit's individual earnings. A sustained drop in our stock price would have a negative impact to our fair value calculations. A temporary drop in earnings of a reporting unit would have a negative impact to our fair value calculations.

The results of our goodwill impairment test using the market approach indicated the fair value of our reporting units exceeded book value by a substantial amount, in excess of 100% of book value.

**Income Approach:** The income approach uses expected future cash flows of each reporting unit and discounts those cash flows to a present values. Expected future cash flows are calculated using management assumptions of internal growth, capital expenditures, and cost efficiencies. Future acquisitions are not included in the expected future cash flows. We use a discount rate based on our Company calculated Weighted Average Cost of Capital which is adjusted for each of our reporting units based on risk size premium and foreign country premium. Significant assumptions used in the income approach include realization of future cash flows and the discount rate used to present value those cash flows.

The results of our goodwill impairment test using the income approach indicated the fair value of our reporting units exceeded book value by a substantial amount; in excess of 100%.

We complete our annual impairment analysis of our indefinite lived intangibles (facility permits) during the quarter ended December 31 of each year.

**Table of Contents****NOTE 12 DEBT**

Long-term debt consisted of the following:

In thousands	September 30, 2011	December 31, 2010
Obligations under capital leases	\$ 5,040	\$ 6,330
\$1 billion revolver weighted average rate 1.8%, due in 2016, variable rate debt at Libor +1.025 bps and base rate + 0.025%	527,790	175,407
\$215 million term loan	0	80,969
\$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
\$225 million Private Placement notes 4.47%, due in 2020	225,000	225,000
Acquisition notes weighted average rate of 3.0% and weighted average maturity of 4.8 years	249,683	251,489
Foreign bank debt weighted average rate 6.1% and weighted average maturity of 2.2 years	117,264	91,433
	<b>1,399,777</b>	<b>1,105,628</b>
Less: current portion	<b>95,149</b>	<b>91,406</b>
<b>Total</b>	<b>\$ 1,304,628</b>	<b>\$ 1,014,222</b>

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, and our \$225.0 million private placement notes maturing in October 2020, 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, the term loan credit agreement and the private placement notes. At September 30, 2011, we were in compliance with all of our financial debt covenants.

During the quarter ended June 30, 2011, we repaid the outstanding principal of \$76.9 million on our term loan debt. This debt had an original maturity date of June 2012 and was repaid early to take advantage of lower interest rates offered through our senior revolving facility. As a result of the early retirement, we incurred \$1.2 million in unamortized term loan fees that was recognized as interest expense in the quarter ended June 30, 2011.

On September 21, 2011, we and certain of our subsidiaries entered into an amended and restated credit agreement (the "new credit agreement") with Bank of America, N.A., as administrative agent, swingline lender, a lender and a letter of credit issuer, other lenders party to the new credit agreement, JPMorgan Chase Bank, N.A., as syndication agent, and HSBC Bank USA, National Association, Lloyds Securities, Inc. and Union Bank, N.A., as co-documentation agents. The new credit agreement amended and restated our prior credit agreement dated as of August 24, 2007, as amended. The new credit agreement increases our unsecured revolving credit facility from \$850.0 million to \$1.0 billion and extends the maturity date of our borrowings from August 24, 2012 to September 21, 2016. We paid \$3.7 million in financing fees which will be amortized to interest expense over the life of the loan agreement.

**Table of Contents**

As of September 30, 2011 and December 31, 2010, we had \$159.3 million and \$184.0 million, respectively, committed to outstanding letters of credit under our senior credit facility. The unused portion of the revolving credit facility as of September 30, 2011 and December 31, 2010 was \$312.9 million and \$490.6 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 one year loan with a current balance of \$6.4 million with JPMorganChase Bank N.A. that matures on May 2012. We also have extended notes receivable to Shiraishi for approximately \$15.2 million in support of its medical waste business. These amounts are collateralized with the assets of Shiraishi and related companies.

**NOTE 13 GEOGRAPHIC INFORMATION**

Management has determined that we have two reportable segments, United States (which includes Puerto Rico) and Foreign Countries. Revenues are attributed to countries based on the location of customers. Inter-company revenues recorded by the United States for work performed in Canada, which are immaterial, are eliminated prior to reporting United States revenues. The same accounting principles and critical accounting policies are used in the preparation of the financial statements for both reporting segments.

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

In thousands	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2011	2010	2011	2010
Regulated waste management services	\$ 278,748	\$ 241,724	\$ 807,383	\$ 707,389
Regulated returns and recall management services	25,106	31,895	87,814	83,598
<b>Total revenue</b>	<b>303,854</b>	<b>273,619</b>	<b>895,197</b>	<b>790,987</b>
Net interest expense	9,333	7,033	29,866	22,053
Income before income taxes	78,761	73,229	224,049	207,590
Income taxes	27,820	26,494	83,913	76,243
<b>Net income attributable to Stericycle, Inc.</b>	<b>\$ 50,941</b>	<b>\$ 46,735</b>	<b>\$ 140,136</b>	<b>\$ 131,347</b>
Depreciation and amortization	\$ 10,375	\$ 9,009	\$ 30,007	\$ 26,395

*Detailed information for our Foreign Countries reporting segment is as follows:*

In thousands	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2011	2010	2011	2010
Regulated waste management services	\$ 117,070	\$ 89,369	\$ 334,294	\$ 254,912
Net interest expense	2,464	1,394	6,063	4,095
Income before income taxes	13,431	14,716	47,290	41,469
Income taxes	4,628	4,151	15,206	13,116
Net income	8,803	10,565	32,084	28,353
Less: net income attributable to noncontrolling interests	497	614	1,757	1,801
<b>Net income attributable to Stericycle, Inc.</b>	<b>\$ 8,306</b>	<b>\$ 9,951</b>	<b>\$ 30,327</b>	<b>\$ 26,552</b>

Edgar Filing: STERICYCLE INC - Form 10-Q

Depreciation and amortization	\$ <b>6,558</b>	\$ 4,495	\$ <b>17,980</b>	\$ 12,115
-------------------------------	-----------------	----------	------------------	-----------

**Table of Contents****NOTE 14 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.

**NOTE 15 RESTRUCTURING CHARGES**

In December of 2009, we announced the consolidation of operations within our returns and recall management services ( RMS ) business which has been completed and resulted in incremental expense of \$0.1 million in 2011.

In December 2010, we reorganized the structure of our international management group in order to leverage strong local management, resulting in employee severance and other charges. During the third quarter of 2011 we expanded this program to include consolidation of administrative facilities in the United Kingdom and reorganization of our international legal structure. We recognized \$0.3 million in expense during the first two quarters of 2011 and an additional \$0.6 million in the third quarter of 2011. We had an accrual balance of \$0.9 million at the end of third quarter of 2011 and expect approximately an additional \$1.2 to \$1.5 million in expense to be recognized primarily in the fourth quarter of 2011 and first quarter of 2012. We expect the accrual balance to be paid primarily during the fourth quarter of 2011 and first quarter 2012.

The following tables below highlight the pre-tax charges and changes in the reserves for the nine months ended September 30, 2011 and for the year ended December 31, 2010. All charges related to these costs are reflected on our Consolidated Statements of Income within Restructuring costs for both costs of revenue and selling, general, and administrative expenses.

In thousands

	Beginning Reserve at 01/01/11	Charges for the Nine Months Ended 9/30/11	Cash Paid	Ending Reserve at 9/30/11
Employee severance	\$ 1,835	\$ 397	\$ (1,902)	\$ 330
Other costs	217	689	(366)	540
<b>Total</b>	<b>\$ 2,052</b>	<b>\$ 1,086</b>	<b>\$ (2,268)</b>	<b>\$ 870</b>

**Table of Contents**

In thousands

	Beginning Reserve at 01/01/10	Charges for the Year Ended 12/31/10	Cash Paid	Ending Reserve at 12/31/10
Employee severance	\$ 666	\$ 3,100	\$ (1,931)	\$ 1,835
Other costs	6	1,080	(869)	217
<b>Non-cash items</b>				
Employee severance	0	3,266	0	0
Other costs	0	925	0	0
Total	\$ 672	\$ 8,371	\$ (2,800)	\$ 2,052

---

**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 517,000 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 return and recall management services. Regulated waste management services include regulated waste removal services, sharps management services, products and services for infection control, and safety and compliance programs. Regulated return and recall management services are physical services provided to companies and individual businesses that assist with the handling of products that are being removed from the supply chain due to recalls and expiration. These services also include advanced notification technology that is used to communicate specific instructions to the users of the product. Our waste treatment technologies include autoclaving, incineration, chemical treatment, and our proprietary electro-thermal-deactivation system. In addition, we have technology licensing agreements with companies located in Japan, Brazil, and South Africa.

There were no material changes in the Company's critical accounting policies since the filing of its 2010 Form 10-K. As discussed in the 2010 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 September 30, 2011:

revenues grew to \$420.9 million, a 16.0% increase over \$363.0 million for the third quarter 2010;

third quarter gross margins decreased to 45.2% in 2011 from 46.3% in 2010;

operating income was \$104.6 million, a 8.9% increase over \$96.0 million for the third quarter 2010;

we incurred a net \$3.8 million in expenses related to acquisitions and restructuring; and

cash flow from operations was \$95.5 million.

Highlights of the nine months September 30, 2011:

revenues grew to \$1.23 billion, a 17.6% increase over \$1.05 billion for 2010;

gross margins decreased to 45.5% from 46.4% in 2010;

operating income was \$308.9 million, a 11.6% increase over \$276.8 million for 2010;

we incurred a net \$13.3 million in expenses related to acquisitions and restructuring; and

cash flow from operations was \$215.2 million.



## Edgar Filing: STERICYCLE INC - Form 10-Q

During the quarter ending September 30, 2011, we completed our annual goodwill impairment test. The results of that test did not indicate any impairment to our goodwill (see Note 11 Goodwill and Other Intangible Assets, in the Notes to the Condensed Consolidated Financial Statements (Item 1 of Part I)).

**Table of Contents****THREE MONTHS ENDED SEPTEMBER 30, 2011 COMPARED TO THREE MONTHS ENDED SEPTEMBER 30, 2010**

The following summarizes the Company's operations:

In thousands, except per share data

	Three Months Ended September 30,			
	2011		2010	
	\$	%	\$	%
Revenues	\$ 420,924	100.0	\$ 362,988	100.0
Cost of revenues	220,419	52.4	185,515	51.1
Depreciation	10,450	2.5	9,190	2.5
Restructuring costs	0	0.0	185	0.1
Total cost of revenues	230,869	54.8	194,890	53.7
Gross profit	190,055	45.2	168,098	46.3
Selling, general and administrative expenses	72,582	17.2	65,033	17.9
Depreciation	2,274	0.5	1,796	0.5
Amortization	4,209	1.0	2,518	0.7
Total selling, general and administrative expenses	79,065	18.8	69,347	19.1
Acquisition expenses	3,195	0.8	1,891	0.5
Integration expenses	1,813	0.4	790	0.2
Restructuring costs and plant closure expense	633	0.2	31	0.0
Litigation settlement	460	0.1	0	0.0
Loss/ (gain) on sale of assets	323	0.1	0	0.0
Income from operations	104,566	24.8	96,039	26.5
Net interest expense	11,797	2.8	8,427	2.3
Income tax expense	32,448	7.7	30,645	8.4
Net income	59,744	14.2	57,300	15.8
Less: net income attributable to noncontrolling interests	497	0.1	614	0.2
Net income attributable to Stericycle, Inc.	\$ 59,247	14.1	\$ 56,686	15.6
Earnings per share-diluted	\$ 0.68		\$ 0.65	

**Revenues:** Our revenues increased \$57.9 million, or 16.0%, in the third quarter of 2011 to \$420.9 million from \$363.0 million in the same period in 2010. Domestic revenues increased \$30.2 million, or 11.0%, to \$303.9 million from \$273.6 million in the same period in 2010. Internal revenue growth for domestic small account customers increased by \$11.5 million, or approximately 8%, and internal revenue growth for large quantity customers increased by \$5.0 million, or approximately 6%. Internal revenues for returns and recall management services decreased by \$11.0 million in 2011. Internal revenues excludes acquisitions less than one year old. Total regulated waste and returns management domestic acquisitions less than one year old contributed approximately \$24.7 million to the increase in domestic revenues.

---

**Table of Contents**

International revenues increased \$27.7 million, or 31.0%, to \$117.1 million from \$89.4 million in the same period in 2010. Internal growth in the international segment contributed \$4.4 million, or approximately 5% in increased revenues. Internal growth excludes the effect of foreign exchange and acquisitions and divestitures less than one year old. The effect of exchange rate fluctuations favorably impacted international revenues approximately \$4.1 million while acquisitions net of divestitures less than one year old contributed an additional \$19.2 million in international revenues.

**Cost of Revenues:** Our cost of revenues increased \$36.0 million, or 18.5%, in the third quarter of 2011 to \$230.9 million from \$194.9 million in the same period in 2010. Our domestic cost of revenues increased \$15.9 million, or 11.5%, in the third quarter of 2011 to \$153.7 million from \$137.8 million in the same period in 2010 as a result of costs related to a proportional increase in revenues from acquisitions and internal growth.

Our international cost of revenues increased \$20.1 million, or 35.2%, in the third quarter of 2011 to \$77.2 million from \$57.1 million in the same period in 2010 primarily driven by the impact of exchange rates and impact from integration of acquisitions.

Our Company wide gross margin percentage decreased to 45.2% during the third quarter of 2011 from 46.3% during the same period in 2010 primarily due to lower margin newly acquired revenues offset partially by improvements in the base business margins.

**Selling, General and Administrative Expenses:** Selling, general and administrative ( SG&A ) expenses increased approximately \$9.7 million, or 14.0%, in the third quarter of 2011 to \$79.1 million from \$69.4 million in the same period in 2010 primarily as investment spending supported the increase in revenues and acquired SG&A expenses. As a percentage of revenue, these costs decreased by 0.3% for the third quarter 2011 compared to the same period in 2010.

Domestically, third quarter SG&A expenses increased \$4.5 million, or 8.4%, to \$58.1 million from \$53.6 million in the same period in 2010. As percentage of revenues, SG&A was lower at 19.1% in the third quarter of 2011 compared to 19.6% in 2010. As a percentage of revenues, amortization expense of acquired intangible assets increased by 0.2% while other expenses decreased by 0.7%.

Internationally, third quarter SG&A expenses increased \$5.2 million or 32.9% to \$21.0 million from \$15.8 million in the same period in 2010. As a percentage of revenues, SG&A was 17.9% in 2011 compared to 17.7% in 2010. The increase in SG&A was due the increased number of international acquisitions partially offset by restructuring of the international management structure and the continued integration of acquisitions. The percent to revenue was up due to a higher ratio of amortization expense to revenues; factoring out amortization expense, SG&A was lower by approximately 50 basis points to revenue.

**Income from Operations:** Income from operations increased \$8.5 million, or 8.9%, in the third quarter of 2011 to \$104.6 million from \$96.0 million in same period in 2010. During the quarter ended September 2011, we recognized \$3.2 million in acquisition expenses, \$1.8 million related to the integration of new acquisitions, \$0.6 million of restructuring costs, \$0.5 million in litigation settlement, and \$0.3 million loss on sale of assets related to the Mexico divestiture.

**Table of Contents**

During the quarter ended September 2010, we recognized \$1.9 million in expenses related to acquisitions, \$0.8 million related to the integration of new acquisitions, and \$0.2 million of restructuring costs of our regulated returns management service business.

**Net Interest Expense:** Net interest expense increased to \$11.8 million during the third quarter in 2011 from \$8.4 million during the same period in 2010. Our interest expense was higher in 2011 due primarily to increased borrowings and interest expense related to the new private placement completed in the fourth quarter of 2010.

**Income Tax Expense:** Income tax expense increased to \$32.4 million in the third quarter of 2011 from \$30.6 million in the same period in 2010. In September 2011 and 2010, we recognized \$1.3 million and \$1.2 million, respectively; of tax benefits related to prior years unrecognized tax positions. The effective tax rates for the quarters ended September 30, 2011 and 2010 were 35.2% and 34.8%, respectively.

**NINE MONTHS ENDED SEPTEMBER 30, 2011 COMPARED TO NINE MONTHS ENDED SEPTEMBER 30, 2010**

The following summarizes the Company's operations:

In thousands, except per share data

	Nine Months Ended September 30,			
	2011		2010	
	\$	%	\$	%
Revenues	\$ 1,229,491	100.0	\$ 1,045,899	100.0
Cost of revenues	639,773	52.0	532,625	50.9
Depreciation	30,438	2.5	26,983	2.6
Restructuring costs	54	0.0	1,339	0.1
Total cost of revenues	670,265	54.5	560,947	53.6
Gross profit	559,226	45.5	484,952	46.4
Selling, general and administrative expenses	214,815	17.5	191,067	18.3
Depreciation	6,447	0.5	4,875	0.5
Amortization	11,102	0.9	6,652	0.6
Total selling, general and administrative expenses	232,364	18.9	202,594	19.4
Acquisition expenses	12,254	1.0	3,247	0.3
Integration expenses	3,866	0.3	3,253	0.3
Restructuring costs and plant closure expense	1,032	0.1	1,107	0.1
Litigation settlement	460	0.0	937	0.1
Loss/ (gain) on sale of assets	323	0.0	(2,955)	-0.3
Income from operations	308,927	25.1	276,769	26.5
Net interest expense	35,929	2.9	26,148	2.5
Income tax expense	99,119	8.1	89,359	8.5
Net income	172,220	14.0	159,700	15.3
Less: net income attributable to noncontrolling interests	1,757	0.1	1,801	0.2
Net income attributable to Stericycle, Inc.	\$ 170,463	13.9	\$ 157,899	15.1
Earnings per share-diluted	\$ 1.95		\$ 1.82	

---

**Table of Contents**

**Revenues:** Our revenues increased \$183.6 million, or 17.6%, for the nine months ended September 31, 2011 to \$1.23 billion from \$1.05 billion in same period in 2010. Domestic revenues increased \$104.2 million, or 13.2%, to \$895.2 million from \$791.0 million in 2010 as internal revenue growth for domestic small account customers increased by \$35.4 million, or approximately 8%, and internal revenue growth for large quantity customers increased by \$14.1 million, or approximately 5%. Internal revenues for returns and recall management services decreased by \$3.0 million resulting from fewer large recalls in the quarter. Internal revenues exclude acquisitions less than one year old. Total domestic regulated waste and returns management acquisitions less than one year old contributed approximately \$57.7 million to the increase in domestic revenues.

International revenues increased \$79.4 million, or 31.1%, to \$334.3 million in 2011 from \$254.9 million in 2010. Internal growth in the international segment contributed \$14.0 million, or approximately 6% in increased revenues. Internal growth excludes the effect of foreign exchange and acquisitions and divestitures less than one year old. The effect of exchange rate fluctuations favorably impacted international revenues approximately \$13.7 million and acquisitions and divestitures less than one year old contributed an additional \$51.7 million in international revenues.

**Cost of Revenues:** Our cost of revenues increased \$109.3 million, or 19.5%, for the nine months ended September 30, 2011 to \$670.2 million from \$560.9 million during the same period in 2010. Our domestic cost of revenues increased \$53.5 million, or 13.4%, to \$452.5 million from \$399.0 million in the same period in 2010 as a result of costs related to a proportional increase in revenues from acquisitions and internal growth.

Our international cost of revenues increased \$55.8 million, or 34.5% to \$217.7 million from \$161.9 million in same period in 2010 as a result of costs related to a proportional increase in revenues, partially driven by the impact of exchange rates.

Our Company wide gross margin percentage decreased to 45.5% during 2011 from 46.4% during 2010 due to the inclusion of lower margin acquired revenues.

**Selling, General and Administrative Expenses:** SG&A expenses increased \$29.8 million, or 14.7%, in the nine months ended September 30, 2011 to \$232.4 million from \$202.6 million in the same period in 2010. As a percentage of revenue, these costs decreased by 0.5% for the nine months ended September 30, 2011 compared to the same period in 2010.

Domestically, SG&A increased \$16.8 million in 2011, or 10.7%, to \$173.5 million from \$156.7 million in the same period in 2010. The increase was primarily due to SG&A expenses related to the acquired revenues and higher amortization expense.

Internationally, SG&A increased \$13.0 million in 2011, or 28.3%, to \$58.9 million from \$45.9 million in the same period in 2010. As a percentage of revenues, SG&A was 17.6% in 2011 and 18.0% in 2010. Increased in SG&A was due the increased number of international acquisitions partially offset by restructuring of the international management structure and the continued integration of acquisitions. Higher amortization expense related to recognized intangible assets from acquisitions and investment for our Clinical Services program also contributed to the increase in SG&A.

---

**Table of Contents**

**Income from Operations:** Income from operations increased \$32.2 million, or 11.6%, in the nine months ended September 30, 2011 to \$308.9 million from \$276.8 million in the same period in 2010. During the nine months ended September 30, 2011, we recognized \$12.3 million in acquisition expenses, \$3.9 million related to the integration of new acquisitions, \$1.1 million of restructuring costs, \$0.5 million in litigation settlement, and \$0.3 million loss on sale of assets related to the Mexico divestiture.

During the nine months ended September 30, 2010, we recognized \$3.2 million in acquisition expenses, \$3.3 million related to the integration of new acquisitions, \$2.4 million of restructuring and plant closure expenses, and litigation settlement of \$0.9 million, partially offset by a \$3.0 million gain on sale of assets related to the MedServe divestiture.

**Net Interest Expense:** Net interest expense increased to \$35.9 million in the nine months ended September 30, 2011 from \$26.1 million during the same period in 2010 due to increased borrowings. An additional interest expense of \$1.2 million in the second quarter of 2011 was due to the acceleration of amortization of finance fees related to our term loan that was repaid prior to scheduled maturity of June 2012.

**Income Tax Expense:** Income tax expense increased to \$99.1 million for the nine months ended September 30, 2011 from \$89.4 million for the same period in 2010. The increase was due to higher taxable income. In September 2011 and 2010, we recognized \$1.3 million and \$1.2 million, respectively; of tax benefits related to prior years unrecognized tax positions which positively impacted our diluted earnings per share by \$0.01 in both 2011 and 2010. The effective tax rates for the nine months ended September 30, 2011 and 2010 were 36.5% and 35.9%, respectively.

**LIQUIDITY AND CAPITAL RESOURCES**

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, and our \$225.0 million private placement notes maturing in October 2020, 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, the term loan credit agreement and the private placement notes. At September 30, 2011, we were in compliance with all of our financial debt covenants.

On September 21, 2011, we and certain of our subsidiaries entered into an amended and restated credit agreement (the new credit agreement ) with Bank of America, N.A., as administrative agent, swingline lender, a lender and a letter of credit issuer, other lenders party to the new credit agreement, JPMorgan Chase Bank, N.A., as syndication agent, and HSBC Bank USA, National Association, Lloyds Securities, Inc. and Union Bank, N.A., as co-documentation agents. The new credit agreement amended and restated our prior credit agreement dated as of August 24, 2007, as amended. The new credit agreement increases our unsecured revolving credit facility from \$850.0 million to \$1.0 billion and extends the maturity date of our borrowings from August 24, 2012 to September 21, 2016. We paid \$3.7 million in financing fees which will be amortized to interest expense over the life of the loan agreement.

**Table of Contents**

As of September 30, 2011, we had \$527.8 million of borrowings outstanding under our \$1.0 billion senior unsecured credit facility, which includes foreign currency borrowings of \$63.8 million. We also had \$159.3 million committed to outstanding letters of credit under this facility. The unused portion of the revolving credit facility as of September 30, 2011 was \$312.9 million. At September 30, 2011, our interest rates on borrowings under our revolving credit facility were as follows:

For short-term borrowing (overnight): Federal funds rate plus 0.5% , the Eurocurrency rate plus 1.0% or prime rate plus 0.025%, whichever is higher; and

For borrowing greater than one month: LIBOR plus 1.25%.

The weighted average rate of interest on the unsecured revolving credit facility was 1.8% per annum.

As of September 30, 2011, we repaid the outstanding principal of \$76.9 million on our term loan debt. This debt had an original maturity date of June 2012 and was repaid early to take advantage of lower interest rates offered through our senior revolving facility. There were no prepayment penalties.

As of September 30, 2011, we had outstanding \$100.0 million of seven-year 5.64% unsecured senior notes issued to nine institutional purchasers in a private placement completed in April 2008. Interest is payable in arrears semi-annually on April 15 and October 15 beginning on October 15, 2009, and principal is payable at the maturity of the notes on April 15, 2015.

As of September 30, 2011, we had outstanding \$175.0 million of seven-year 3.89% unsecured senior notes and \$225.0 million of 10-year 4.47% unsecured senior notes issued to 39 institutional purchasers in a private placement completed in October 2010. Interest is payable in arrears on April 15 and October 15 beginning on April 15 2011, and principal is payable at the maturity of the notes, October 15, 2017 in the case of the seven-year notes and October 15, 2020 in the case of the 10-year notes.

As of September 30, 2011, we had \$372.0 million in other debt outstanding, which includes promissory notes issued in connection with acquisitions during 2004 through 2011, other foreign subsidiary bank debt, and capital lease obligations.

**Working Capital:** At September 30, 2011, our working capital decreased \$5.3 million to \$54.9 million compared to \$60.2 million at December 31, 2010.

Our current assets increased by \$16.2 million primarily due to acquired assets of \$64.1 million of which \$54.2 million was accounts receivables. Cash and cash equivalents at December 31, 2010 included \$23.0 million, offset by an equivalent amount in accrued liabilities, that was used for recalled product reimbursement during nine months ended September 30, 2011. Cash was also used to pay debt offset by collections.

---

**Table of Contents**

Our current liabilities increased by \$21.4 million. We acquired \$44.3 million in current liabilities of which \$26.8 million was accounts payable. Offsetting these acquired liabilities was the decrease in the recalled product reimbursement of \$23.0 million. We repaid the outstanding principal on our term loan debt of which \$20.2 million was current (see Note 12 Debt), and also \$3.2 million of the short-term portion of our acquisition notes. Offsetting short-term debt decreases was an increase in our short-term amounts on our senior credit facility of \$16.4 million due to borrowings for acquisitions. The remaining increase to our current liabilities is primarily an increase to accrued taxes, and an increase to accrued interest related to higher debt.

**Net Cash Provided or Used:** Net cash provided by operating activities increased \$9.8 million, or 4.7%, to \$215.2 million during the nine months ended September 30, 2011 compared to \$205.4 million for the comparable period in 2010, primarily due to an increase in revenues. Cash provided by operations as a ratio to net income is 125% and 129% for the nine months ended 2011 and 2010, respectively, with days sales outstanding the same at 53 days when excluding acquired receivables and 58 days when including acquired receivables.

Net cash used in investing activities for the nine months ended September 30, 2011 was \$486.1 million compared to \$140.7 million in the comparable period in 2010. The increase is due to acquisitions, of which the largest was our acquisition of HWS which resulted in \$234.4 million cash used. We redeemed \$15.8 million of certificates of deposit the quarter ended September 30, 2011. Capital expenditures for the nine months ended September 30, 2011 decreased, as a percentage of revenue, to 3.0% from 3.4% for the comparable period 2010.

We had net cash provided by financing activities of \$212.0 million during the nine months ended September 30, 2011 compared to \$53.7 million net cash used by financing activities for the comparable period in 2010, a change of \$265.7 million related to increased borrowings to finance certain acquisitions and offset by share repurchases of \$81.2 million compared to \$43.6 million in 2010, an increase of \$37.6 million.

**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 their medical waste management business and has a one year loan with a current balance of \$6.4 million with JPMorganChase Bank N.A. that expires in May 2012. We also have extended notes receivable to Shiraishi for approximately \$15.2 million in support of their medical waste business. These amounts are collateralized with the assets of Shiraishi and related companies.

**Annual Impairment Test:** We completed our annual goodwill impairment test during the second quarter of 2011. We used both a market approach and an income approach to determine the fair value of our reporting units. The market approach compares the market capitalization of the company as a whole, which is the fair value, and allocates a portion of that fair value to each reporting unit based on that reporting unit's historic cash flows, as measured by a modified Earnings Before Interest, Taxes, Depreciation, and Amortization. The income approach uses estimates of future cash flows discounted to a present value to arrive at a fair value. Both the market and income approaches indicated no impairment to any of our three reporting units.



**Table of Contents**

**ITEM 3. QUALITATIVE AND QUANTITATIVE DISCLOSURES ABOUT MARKET RISK**

We are subject to market risks arising from changes in interest rates. Our potential additional interest expense over one year that would result from a hypothetical, instantaneous and unfavorable change of 100 basis points in the interest rate on all of our variable rate obligations would be approximately \$6.2 million on a pre-tax basis.

We have exposure to foreign currency fluctuations. We have subsidiaries in nine foreign countries whose functional currency is the local currency. Changes in foreign currency exchange rates could unfavorably impact our consolidated results of operations.

We have exposure to commodity pricing for gas and diesel fuel for our trucks and for the purchase of containers and boxes. We do not hedge these items to manage the exposure.

**ITEM 4. CONTROLS AND PROCEDURES**

***Disclosure Controls and Procedures***

Our management, with the participation of our Chairman and Chief Executive Officer and our Chief Financial Officer, conducted an evaluation of the effectiveness of our disclosure controls and procedures as of the end of the fiscal quarter covered by this Report. On the basis of this evaluation, our Chairman and Chief Executive Officer and our Chief Financial Officer each concluded that our disclosure controls and procedures were effective.

The term disclosure controls and procedures is defined in Rule 13a-14(e) of the Securities Exchange Act of 1934 as controls and other procedures designed to ensure that information required to be disclosed by the issuer in the reports, files or submits under the Act is recorded, processed, summarized and reported, within the time periods specified in the Securities and Exchange Commission's rules and forms. Our disclosure controls and procedures are designed to ensure that material information relating to us and our consolidated subsidiaries is accumulated and communicated to our management, including our Chairman and Chief Executive Officer and our Chief Financial Officer, as appropriate to allow timely decisions regarding our required disclosures.

***Internal Control Over Financial Reporting***

The term internal control over financial reporting is defined as a process designed by, or under the supervision of, the issuer's principal executive and principal financial officers, and effected by the issuer's Board of Directors, management, and other personnel, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles (added this). During the quarter ended September 30, 2011, there were no changes in our internal controls over financial reporting that have materially affected, or are reasonably likely to materially affect, our internal controls over financial reporting.

**Table of Contents**

***FROM TIME TO TIME WE ISSUE FORWARD-LOOKING STATEMENTS RELATING TO SUCH THINGS AS ANTICIPATED FINANCIAL PERFORMANCE, BUSINESS PROSPECTS, ACQUISITION ACTIVITIES AND SIMILAR MATTERS.***

***THESE FORWARD-LOOKING STATEMENTS MAY INVOLVE RISKS AND UNCERTAINTIES, SOME OF WHICH ARE BEYOND OUR CONTROL (FOR EXAMPLE, GENERAL ECONOMIC CONDITIONS). OUR ACTUAL RESULTS COULD DIFFER SIGNIFICANTLY FROM THE RESULTS DESCRIBED IN THE FORWARD-LOOKING STATEMENTS. FACTORS THAT COULD CAUSE SUCH DIFFERENCES INCLUDE DIFFICULTIES IN COMPLETING THE INTEGRATION OF ACQUIRED BUSINESSES, CHANGES IN GOVERNMENTAL REGULATION OF MEDICAL WASTE COLLECTION AND TREATMENT, AND INCREASES IN TRANSPORTATION AND OTHER OPERATING COSTS, AS WELL AS VARIOUS OTHER FACTORS.***

**Table of Contents**

**PART II. OTHER INFORMATION**

**ITEM 1. LEGAL PROCEEDINGS**

See Note 14 Legal Proceedings, in the Notes to the Condensed Consolidated Financial Statements (Item 1 of Part I).

**ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS**

In May 2002 our Board of Directors authorized the Company to repurchase up to 6,000,000 shares of our common stock, in the open market or through privately negotiated transactions, at times and in amounts in the Company's discretion.

In February 2005, at a time when we had purchased a total of 2,956,860 shares, the Board authorized us to purchase an additional 2,956,860 shares.

In February 2007, at a time when we had purchased an additional 3,142,080 shares since the prior increase in authorization, the Board authorized us to purchase up to an additional 3,142,080 shares.

In May 2007, at a time when we had purchased an additional 1,187,142 shares since the prior increase in authorization, the Board authorized us to purchase up to an additional 1,187,142 shares.

In May 2008, at a time when we had purchased an additional 2,938,496 shares since the prior increase in authorization, the Board authorized us to purchase up to an additional 2,938,496 shares.

In November 2010, at a time when we had purchased an additional 4,312,820 shares since the prior increase in authorization, our Board of Directors authorized us to purchase up to an additional 4,312,820 shares, thereby again giving the Company the authority to purchase up to a total of 6,000,000 additional shares.

Under resolutions that our Board of Directors adopted in May 2002, February 2005, February 2007, May 2007, May 2008 and November 2010, we have been authorized to purchase a cumulative total of 20,537,398 shares of our common stock on the open market. As of September 30, 2011, we had purchased a cumulative total of 15,659,978 shares.

**Table of Contents**

The following table provides information about our purchases during the nine months ended September 30, 2011 of shares of our common stock:

**Issuer Purchase of Equity Securities**

<b>Period</b>	<b>Total Number of Share (or Units) Purchased</b>	<b>Average Price Paid per Share (or Unit)</b>	<b>Number of Shares (or Units) Purchased as Part of Publicly Announced Plans or Programs</b>	<b>Maximum Number (or Approximate Dollar Value) of Shares (or Units) that May Yet Be Purchased Under the Plans or Programs</b>
January 1 - January 31, 2011	0	\$ 0	0	5,890,276
February 1 - February 28, 2011	0	0	0	5,890,276
March 1 - March 31, 2011	0	0	0	5,890,276
April 1 - April 30, 2011	0	0	0	5,890,276
May 1 - May 31, 2011	0	0	0	5,890,276
June 1 - June 30, 2011	50,675	84.90	50,675	5,839,601
July 1 - July 31, 2011	164,000	83.67	164,000	5,675,601
August 1 - August 31, 2011	701,344	79.11	701,344	4,974,257
September 1 - September 30, 2011	96,837	\$ 79.41	96,837	4,877,420

**Table of Contents**

**ITEM 6. EXHIBITS**

31.1 Rules 13a-14(a)/15d-14(a) Certification of Mark C. Miller, Chairman and Chief Executive Officer

31.2 Rule 13a-14(a)/15d-14(a) Certification of Frank J.M. ten Brink, Executive Vice President and Chief Financial Officer

32 Section 1350 Certification of Mark C. Miller, Chairman and Chief Executive Officer, and Frank J.M. ten Brink, Executive Vice President and Chief Financial Officer

101.INS XBRL	Instance Document
101.SCH XBRL	Taxonomy Extension Schema Document
101.CAL XBRL	Taxonomy Extension Calculation Linkbase Document
101.DEF XBRL	Taxonomy Definition Linkbase Document
101.LAB XBRL	Taxonomy Extension Label Linkbase Document
101.PRE XBRL	Taxonomy Extension Presentation Linkbase Document

**SIGNATURES**

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Dated: November 9, 2011

STERICYCLE, INC.  
*(Registrant)*  
By: /s/ Frank J.M. ten Brink

Frank J.M. ten Brink  
*Executive Vice President and Chief Financial Officer*  
*(Principal Financial and Accounting Officer)*