

---

## Section 1: 10-Q (10-Q)

---

# 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, 2016 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 1-37556

---

# 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

On April 29, 2016 there were 84,912,603 shares of the Registrant's Common Stock outstanding.

---





**Stericycle, Inc.**  
**Table of Contents**

|  | <u>Page No.</u> |
|--|-----------------|
| <b><u>PART I. Financial Information</u></b>  |                 |
| <u>Item 1. Financial Statements (Unaudited)</u>  |                 |
| <u>Condensed Consolidated Balance Sheets as of March 31, 2016 and December 31, 2015</u>  | 1               |
| <u>Condensed Consolidated Statements of Income for the three months ended March 31, 2016 and 2015</u>                                    | 2               |
| <u>Condensed Consolidated Statements of Comprehensive Income for the three months ended March 31, 2016 and 2015</u>                      | 3               |
| <u>Condensed Consolidated Statements of Cash Flows for the three months ended March 31, 2016 and 2015</u>                                | 4               |
| <u>Condensed Consolidated Statements of Changes in Equity for the three months ended March 31, 2016 and year ended December 31, 2015</u> | 5               |
| <u>Notes to Condensed Consolidated Financial Statements</u>  | 6               |
| <u>Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations</u>                                     | 18              |
| <u>Item 3. Quantitative and Qualitative Disclosures about Market Risk</u>  | 23              |
| <u>Item 4. Controls and Procedures</u>   | 23              |
| <b><u>PART II. Other Information</u></b>   |                 |
| <u>Item 1. Legal Proceedings</u>   | 25              |
| <u>Item 2. Unregistered Sales of Equity Securities and Use of Proceeds</u>   | 25              |
| <u>Item 6. Exhibits</u>  | 26              |
| <u>Signatures</u>  | 27              |

**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, 2016      | December 31,<br>2015 |
|---|---------------------|----------------------|
| <b>ASSETS</b>   |                     |                      |
| <b>Current Assets:</b>  |                     |                      |
| Cash and cash equivalents   | \$ 45,655           | \$ 55,634            |
| Short-term investments  | 64                  | 69                   |
| Accounts receivable, less allowance for doubtful accounts of \$22,964 in 2016 and \$22,329 in 2015  | 622,709             | 614,494              |
| Prepaid expenses  | 46,198              | 46,740               |
| Other current assets  | 42,732              | 44,891               |
| <b>Total Current Assets</b>   | <b>757,358</b>      | <b>761,828</b>       |
| Property, plant and equipment, less accumulated depreciation of \$453,753 in 2016 and \$426,019 in 2015   | 677,525             | 665,602              |
| Goodwill  | 3,790,016           | 3,758,177            |
| Intangible assets, less accumulated amortization of \$170,507 in 2016 and \$151,025 in 2015   | 1,840,844           | 1,842,561            |
| Other assets  | 46,801              | 49,282               |
| <b>Total Assets</b>   | <b>\$ 7,112,544</b> | <b>\$ 7,077,450</b>  |
| <b>LIABILITIES AND EQUITY</b>   |                     |                      |
| <b>Current Liabilities:</b>   |                     |                      |
| Current portion of long-term debt   | \$ 114,066          | \$ 161,409           |
| Accounts payable  | 133,779             | 149,202              |
| Accrued liabilities   | 218,933             | 197,329              |
| Deferred revenues   | 17,543              | 16,989               |
| Other current liabilities   | 68,192              | 62,420               |
| <b>Total Current Liabilities</b>  | <b>552,513</b>      | <b>587,349</b>       |
| Long-term debt, net of current portion  | 3,038,083           | 3,052,639            |
| Deferred income taxes   | 617,011             | 608,272              |
| Other liabilities   | 86,448              | 81,352               |
| <b>Equity:</b>  |                     |                      |
| Preferred stock (par value \$0.01 per share, 1,000,000 shares authorized), Mandatory Convertible Preferred Stock, Series A, 770,000 issued and outstanding in 2016 and 2015 | 8                   | 8                    |
| Common stock (par value \$0.01 per share, 120,000,000 shares authorized, 84,829,822 issued and outstanding in 2016 and 84,852,584 issued and outstanding in 2015)           | 848                 | 849                  |
| Additional paid-in capital  | 1,172,962           | 1,143,020            |
| Accumulated other comprehensive loss  | (265,018)           | (282,631)            |
| Retained earnings   | 1,897,636           | 1,868,645            |
| <b>Total Stericycle, Inc.'s Equity</b>  | <b>2,806,436</b>    | <b>2,729,891</b>     |
| Noncontrolling interest   | 12,053              | 17,947               |
| <b>Total Equity</b>   | <b>2,818,489</b>    | <b>2,747,838</b>     |
| <b>Total Liabilities and Equity</b>   | <b>\$ 7,112,544</b> | <b>\$ 7,077,450</b>  |

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

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

In thousands, except share and per share data

|   | Three Months Ended March 31, |                  |
|---|------------------------------|------------------|
|   | 2016                         | 2015             |
| <b>Revenues</b>   | \$ 874,181                   | \$ 663,319       |
| <b>Costs and Expenses:</b>  |                              |                  |
| Cost of revenues (exclusive of depreciation shown below)  | 482,356                      | 367,340          |
| Depreciation - cost of revenues   | 22,641                       | 14,648           |
| Selling, general and administrative expenses (exclusive of depreciation and amortization shown below) | 202,488                      | 141,363          |
| Depreciation – selling, general and administrative expenses   | 7,499                        | 4,118            |
| Amortization  | 18,274                       | 8,797            |
| <b>Total Costs and Expenses</b>   | <b>733,258</b>               | <b>536,266</b>   |
| <b>Income from Operations</b>   | <b>140,923</b>               | <b>127,053</b>   |
| <b>Other Income (Expense):</b>  |                              |                  |
| Interest income   | 21                           | 35               |
| Interest expense  | (24,062)                     | (18,633)         |
| Other expense, net  | (1,251)                      | (598)            |
| <b>Total Other Expense</b>  | <b>(25,292)</b>              | <b>(19,196)</b>  |
| <b>Income Before Income Taxes</b>   | <b>115,631</b>               | <b>107,857</b>   |
| Income tax expense  | 38,036                       | 32,047           |
| <b>Net Income</b>   | <b>77,595</b>                | <b>75,810</b>    |
| Less: net income attributable to noncontrolling interests   | 809                          | 352              |
| <b>Net Income Attributable to Stericycle, Inc.</b>  | <b>76,786</b>                | <b>75,458</b>    |
| Less: mandatory convertible preferred stock dividend  | 10,106                       | —                |
| <b>Net Income Attributable to Stericycle, Inc. Common Shareholders</b>                                | <b>\$ 66,680</b>             | <b>\$ 75,458</b> |
| <b>Earnings Per Common Share Attributable to Stericycle, Inc. Common Shareholders:</b>                |                              |                  |
| Basic   | \$ 0.79                      | \$ 0.89          |
| Diluted   | \$ 0.78                      | \$ 0.87          |
| <b>Weighted Average Number of Common Shares Outstanding:</b>  |                              |                  |
| Basic   | 84,705,000                   | 85,037,823       |
| Diluted   | 85,845,501                   | 86,357,006       |

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

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

In thousands

|  | Three Months Ended March 31, |                  |
|--|------------------------------|------------------|
|  | 2016                         | 2015             |
| <b>Net Income</b>  | <b>\$ 77,595</b>             | <b>\$ 75,810</b> |
| <b>Other Comprehensive Income/ (Loss):</b>   |                              |                  |
| Foreign currency translation adjustments   | 17,164                       | (64,501)         |
| Amortization of cash flow hedge into income, net of tax ((\$172) and (\$54), for the three months ended March 31, 2016 and 2015, respectively) | 269                          | 90               |
| Change in fair value of cash flow hedge, net of tax ((\$89) and \$2,381 for the three months ended March 31, 2016 and 2015, respectively)      | 242                          | (4,424)          |
| <b>Total Other Comprehensive Loss</b>  | <b>17,675</b>                | <b>(68,835)</b>  |
| <b>Comprehensive Income</b>  | <b>95,270</b>                | <b>6,975</b>     |
| Less: comprehensive income/ (loss) attributable to noncontrolling interests  | 871                          | (468)            |
| <b>Comprehensive Income Attributable to Stericycle, Inc. Common Shareholders</b>   | <b>\$ 94,399</b>             | <b>\$ 7,443</b>  |

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

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

In thousands

|   | Three Months Ended March 31, |                  |
|---|------------------------------|------------------|
|   | 2016                         | 2015             |
| <b>OPERATING ACTIVITIES:</b>  |                              |                  |
| Net income  | \$ 77,595                    | \$ 75,810        |
| Adjustments to reconcile net income to net cash provided by operating activities: |                              |                  |
| Stock compensation expense  | 6,105                        | 5,487            |
| Excess tax benefit of stock options exercised                                     | —                            | (8,222)          |
| Depreciation  | 30,140                       | 18,766           |
| Amortization  | 18,274                       | 8,797            |
| Deferred income taxes   | 6,932                        | (2,957)          |
| Other, net  | (2,644)                      | 5,313            |
| Changes in operating assets and liabilities, net of effect of acquisitions:       |                              |                  |
| Accounts receivable   | (3,918)                      | (14,491)         |
| Accounts payable  | (15,203)                     | 5,443            |
| Accrued liabilities   | 21,151                       | 35,924           |
| Deferred revenues   | 487                          | (628)            |
| Other assets and liabilities  | 18,030                       | 3,312            |
| <b>Net cash provided by operating activities</b>                                  | <b>156,949</b>               | <b>132,554</b>   |
| <b>INVESTING ACTIVITIES:</b>  |                              |                  |
| Payments for acquisitions, net of cash acquired                                   | (24,884)                     | (34,210)         |
| Proceeds from investments   | 7                            | 257              |
| Proceeds from sale of property and equipment                                      | 766                          | —                |
| Capital expenditures  | (34,185)                     | (21,356)         |
| Net cash used in investing activities   | (58,296)                     | (55,309)         |
| <b>FINANCING ACTIVITIES:</b>  |                              |                  |
| Repayments of long-term debt and other obligations                                | (6,879)                      | (9,780)          |
| Proceeds from foreign bank debt   | 15,607                       | 4,851            |
| Repayments of foreign bank debt   | (18,721)                     | (38,252)         |
| Proceeds from term loan   | —                            | 250,000          |
| Repayment of term loan  | (171,000)                    | —                |
| Proceeds from senior credit facility  | 457,959                      | 394,097          |
| Repayments of senior credit facility  | (353,520)                    | (670,254)        |
| Payments of capital lease obligations   | (1,381)                      | (988)            |
| Payment of cash flow hedge  | —                            | (8,833)          |
| Purchases and cancellations of treasury stock                                     | (37,693)                     | (11,516)         |
| Proceeds from issuance of common stock  | 22,310                       | 27,452           |
| Dividends paid on mandatory convertible preferred stock                           | (10,106)                     | —                |
| Excess tax benefit of stock options exercised                                     | —                            | 8,222            |
| Payments to noncontrolling interests  | (4,997)                      | (2,603)          |
| <b>Net cash used in financing activities</b>                                      | <b>(108,421)</b>             | <b>(57,604)</b>  |
| Effect of exchange rate changes on cash and cash equivalents                      | (211)                        | (3,594)          |
| <b>Net (decrease)/ increase in cash and cash equivalents</b>                      | <b>(9,979)</b>               | <b>16,047</b>    |
| Cash and cash equivalents at beginning of period                                  | 55,634                       | 22,236           |
| <b>Cash and cash equivalents at end of period</b>                                 | <b>\$ 45,655</b>             | <b>\$ 38,283</b> |
| <b>NON-CASH INVESTING ACTIVITIES:</b>   |                              |                  |
| Issuances of obligations for acquisitions   | \$ 13,013                    | \$ 21,543        |

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

**STERICYCLE, INC. AND SUBSIDIARIES**  
**CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY**  
**Three Months Ended March 31, 2016 and Year Ended December 31, 2015**  
**(Unaudited)**

In thousands

|   | Stericycle, Inc. Equity |             |               |               |                                  |                      |  |                            |                     |
|---|-------------------------|-------------|---------------|---------------|----------------------------------|----------------------|--|----------------------------|---------------------|
|   | Preferred Stock         |             | Common Stock  |               | Additional<br>Paid-In<br>Capital | Retained<br>Earnings | Accumulated<br>Other<br>Comprehensive<br>Income (Loss) | Noncontrolling<br>Interest | Total<br>Equity     |
|   | Shares                  | Amount      | Shares        | Amount        |                                  |                      |  |                            |                     |
| <b>Balance at January 1, 2015</b>   | —                       | \$ —        | 84,884        | \$ 849        | \$ 289,211                       | \$ 1,743,371         | \$ (138,419)   | \$ 22,173                  | \$ 1,917,185        |
| Net income  |                         |             |               |               |                                  | 267,046              |  | 967                        | 268,013             |
| Currency translation adjustment   |                         |             |               |               |                                  |                      | (140,809)  | 161                        | (140,648)           |
| Change in qualifying cash flow<br>hedge, net of tax   |                         |             |               |               |                                  |                      | (3,403)  |                            | (3,403)             |
| Issuance of common stock for<br>exercise of options, restricted stock<br>units and employee stock purchases |                         |             | 973           | 10            | 68,630                           |                      |  |                            | 68,640              |
| Issuance of mandatory convertible<br>preferred stock  | 770                     | 8           |               |               | 746,892                          |                      |  |                            | 746,900             |
| Purchase and cancellation of treasury<br>stock  |                         |             | (1,004)       | (10)          |                                  | (131,666)            |  |                            | (131,676)           |
| Preferred stock dividend  |                         |             |               |               |                                  | (10,106)             |  |                            | (10,106)            |
| Stock compensation expense  |                         |             |               |               | 21,750                           |                      |  |                            | 21,750              |
| Excess tax benefit of stock options<br>exercised  |                         |             |               |               | 16,897                           |                      |  |                            | 16,897              |
| Reduction to noncontrolling interests<br>due to additional ownership  |                         |             |               |               | (360)                            |                      |  | (5,354)                    | (5,714)             |
| <b>Balance at December 31, 2015</b>   | 770                     | 8           | 84,853        | 849           | 1,143,020                        | 1,868,645            | (282,631)  | 17,947                     | 2,747,838           |
| Net income  |                         |             |               |               |                                  | 76,786               |  | 809                        | 77,595              |
| Currency translation adjustment   |                         |             |               |               |                                  |                      | 17,102   | 62                         | 17,164              |
| Change in qualifying cash flow<br>hedge, net of tax   |                         |             |               |               |                                  |                      | 511  |                            | 511                 |
| Issuance of common stock for<br>exercise of options, restricted stock<br>units and employee stock purchases |                         |             | 305           | 3             | 22,870                           |                      |  |                            | 22,873              |
| Purchase and cancellation of treasury<br>stock  |                         |             | (328)         | (4)           |                                  | (37,689)             |  |                            | (37,693)            |
| Preferred stock dividend  |                         |             |               |               |                                  | (10,106)             |  |                            | (10,106)            |
| Stock compensation expense  |                         |             |               |               | 6,105                            |                      |  |                            | 6,105               |
| Reduction to noncontrolling interests<br>due to additional ownership  |                         |             |               |               | 967                              |                      |  | (6,765)                    | (5,798)             |
| <b>Balance at March 31, 2016</b>  | <u>770</u>              | <u>\$ 8</u> | <u>84,830</u> | <u>\$ 848</u> | <u>\$ 1,172,962</u>              | <u>\$ 1,897,636</u>  | <u>\$ (265,018)</u>                                    | <u>\$ 12,053</u>           | <u>\$ 2,818,489</u> |

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



**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, 2015, as filed with our Annual Report on Form 10-K for the year ended December 31, 2015. The results of operations for the three months ended March 31, 2016 are not necessarily indicative of the results that may be achieved for the entire year ending December 31, 2016.

There were no material changes in the Company's significant accounting policies since the filing of its 2015 Form 10-K. As discussed in the 2015 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 condensed consolidated financial statements.

**NOTE 2 – ACQUISITIONS**

The following table summarizes the locations of our acquisitions for the three months ended March 31, 2016

| <b>Acquisition Locations</b> | <b>2016</b> |
|------------------------------|-------------|
| United States                | 5           |
| Romania                      | 1           |
| Spain                        | 1           |
| Total                        | <u>7</u>    |

During the quarter ended March 31, 2016, we completed seven acquisitions. Domestically, we acquired 100% of the stock of one regulated waste business and selected assets of four secure information destruction businesses. Internationally, we acquired selected assets of one regulated waste business in Romania and one in Spain.

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**

|                          | <b>Three Months Ended March 31,</b> |                  |
|--------------------------|-------------------------------------|------------------|
|                          | <b>2016</b>                         | <b>2015</b>      |
| Cash                     | \$ 24,884                           | \$ 34,210        |
| Promissory notes         | 11,595                              | 7,618            |
| Deferred consideration   | 1,361                               | 624              |
| Contingent consideration | 57                                  | 13,301           |
| Total purchase price     | <u>\$ 37,897</u>                    | <u>\$ 55,753</u> |

For financial reporting purposes, our acquisitions were accounted for using the acquisition method of accounting. These acquisitions resulted in the 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 growth strategy. During the three months ended March 31, 2016, we recognized a net increase in goodwill of \$25.5 million, excluding the effect of foreign currency translation (see Note 9 – Goodwill and Other Intangible Assets). A net increase of \$23.7 million was assigned to our United States reportable segment, and a net increase of \$1.8 million was assigned to our International reportable segment. Approximately \$20.7 million of the goodwill recognized during the three months ended March 31, 2016 will be deductible for income taxes.

During the three months ended March 31, 2016, we recognized a net increase in intangible assets from acquisitions of \$8.4 million, excluding the effect of foreign currency translation. The changes include \$7.7 million in the estimated fair value of acquired customer relationships with amortizable lives of 10 to 40 years and \$0.7 million in covenant not-to-compete with an amortizable life of 5 years.

The purchase prices for these acquisitions in excess of acquired tangible and identifiable intangible assets have been primarily allocated to goodwill, and are preliminary, pending completion of certain intangible asset valuations and finalization of the opening balance sheet. 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:

**In thousands**

|                                 | <b>Three Months Ended March 31,</b> |                  |
|---------------------------------|-------------------------------------|------------------|
|                                 | <b>2016</b>                         | <b>2015</b>      |
| Fixed assets                    | \$ 3,345                            | \$ (1,477)       |
| Intangibles                     | 8,436                               | 19,791           |
| Goodwill                        | 25,519                              | 41,190           |
| Accounts receivable             | 1,715                               | 4,217            |
| Net other assets/ (liabilities) | 133                                 | 59               |
| Current liabilities             | (201)                               | (4,650)          |
| Net deferred tax liabilities    | (1,050)                             | (3,377)          |
| Total purchase price allocation | <u>\$ 37,897</u>                    | <u>\$ 55,753</u> |

During the three months ended March 31, 2016 and 2015, the Company incurred \$3.0 million and \$3.3 million, respectively, of acquisition related expenses. These expenses are included with "Selling, general and administrative expenses" ("SG&A") on our Condensed Consolidated Statements of Income. The results of operations of these acquired businesses have been included in the Condensed Consolidated Statements of Income from the date of the acquisition.

**NOTE 3 – NEW ACCOUNTING STANDARDS**

**Accounting Standards Recently Adopted**

Compensation - Stock Compensation

On January 1, 2016, the Company adopted the guidance in Accounting Standards Update ("ASU") No. 2016-09, "Compensation - Stock Compensation (Topic 718) - Improvements to Employee Share-Based Payment Accounting." Under this ASU, entities are permitted to make an accounting policy election to either estimate forfeitures on share-based payment awards, as previously required, or to recognize forfeitures as they occur. The Company has elected to recognize forfeitures as they occur and the impact of that change in accounting policy has been evaluated and determined to be insignificant and resulted in no cumulative-effect change to the Company's retained earnings. Additionally, ASU 2016-09 requires that all income tax effects related to settlements of share-based payment awards be reported in earnings as an increase or decrease to income tax expense (benefit), net. Previously, income tax benefits at settlement of an award were reported as an increase (or decrease) to additional paid-in capital to the extent that those benefits were greater than (or less than) the income tax benefits reported in earnings during the award's vesting period. The requirement to report those income tax effects in earnings has been applied on a prospective basis to settlements occurring on or after January 1, 2016 and the impact of applying that guidance was \$2.9 million to the condensed consolidated financial statements for the period ended March 31, 2016. ASU 2016-09 also requires that all income tax-related cash flows resulting from share-based payments be reported as operating activities in the statement of cash flows. Previously, income tax benefits at

settlement of an award were reported as a reduction to operating cash flows and an increase to financing cash flows to the extent that those benefits exceeded the income tax benefits reported in earnings during the award's vesting period. The Company has elected to apply that change in cash flow classification on a prospective basis, leaving previously reported net cash provided by operating activities and net cash used in financing activities in the accompanying Condensed Consolidated Statement of Cash Flows for the period ended March 31, 2015 unchanged. The remaining provisions of ASU 2016-09 did not have a material impact on the accompanying condensed consolidated financial statements.

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

### Revenue From Contracts With Customers

In May 2014, the FASB issued ASU No. 2014-09, "Revenue from Contracts with Customers" (Topic 606), guidance to provide a single and comprehensive revenue recognition model for all contracts with customers. The revenue guidance contains principles that an entity will apply to determine the measurement of revenue and timing of when it is recognized. The underlying principle is that an entity will recognize revenue to depict the transfer of goods or services to customers at an amount that the entity expects to be entitled to in exchange for those goods or services. The amended authoritative guidance associated with revenue recognition is effective for the Company on January 1, 2018. The amended guidance may be applied retrospectively for all periods presented or retrospectively with the cumulative effect of initially applying the amended guidance recognized at the date of initial application. We are in the process of assessing the provisions of the new revenue recognition standard and have not determined whether the adoption will have a material impact on our consolidated financial statements.

### Leases

In February 2016, the FASB issued ASU No. 2016-02, "Leases" (Topic 842). This ASU will require lessees to record a right-of-use asset and lease liability on the balance sheet for all leases with terms of more than 12 months. Recognition, measurement and presentation of expenses will depend on classification as a finance or operating lease. This ASU also requires certain quantitative and qualitative disclosures. Accounting guidance for lessors is largely unchanged. The amendments should be applied on a modified retrospective basis. ASU 2016-02 is effective for us beginning January 1, 2019. We are beginning to evaluate the impact that the adoption of ASU 2016-02 will have on our consolidated financial statements and related disclosures.

## **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 judgment about the 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. There were no movements of items between fair value hierarchies.

**In thousands**

|                                  | Total as of<br>March 31, 2016 | Fair Value Measurements Using |                   |                   |
|----------------------------------|-------------------------------|-------------------------------|-------------------|-------------------|
|                                  |                               | Level 1<br>Inputs             | Level 2<br>Inputs | Level 3<br>Inputs |
| <b>Assets:</b>                   |                               |                               |                   |                   |
| Cash and cash equivalents        | \$ 45,655                     | \$ 45,655                     | \$ —              | \$ —              |
| Short-term investments           | 64                            | 64                            | —                 | —                 |
| Derivative financial instruments | 954                           | —                             | 954               | —                 |
| <b>Total assets</b>              | <b>\$ 46,673</b>              | <b>\$ 45,719</b>              | <b>\$ 954</b>     | <b>\$ —</b>       |
| <b>Liabilities:</b>              |                               |                               |                   |                   |
| Contingent consideration         | \$ 22,967                     | \$ —                          | \$ —              | \$ 22,967         |
| <b>Total liabilities</b>         | <b>\$ 22,967</b>              | <b>\$ —</b>                   | <b>\$ —</b>       | <b>\$ 22,967</b>  |

**In thousands**

|                                  | Total as of<br>December 31, 2015 | Fair Value Measurements Using |                   |                   |
|----------------------------------|----------------------------------|-------------------------------|-------------------|-------------------|
|                                  |                                  | Level 1<br>Inputs             | Level 2<br>Inputs | Level 3<br>Inputs |
| <b>Assets:</b>                   |                                  |                               |                   |                   |
| Cash and cash equivalents        | \$ 55,634                        | \$ 55,634                     | \$ —              | \$ —              |
| Short-term investments           | 69                               | 69                            | —                 | —                 |
| Derivative financial instruments | 1,207                            | —                             | 1,207             | —                 |
| <b>Total assets</b>              | <b>\$ 56,910</b>                 | <b>\$ 55,703</b>              | <b>\$ 1,207</b>   | <b>\$ —</b>       |
| <b>Liabilities:</b>              |                                  |                               |                   |                   |
| Contingent consideration         | \$ 25,390                        | \$ —                          | \$ —              | \$ 25,390         |
| <b>Total liabilities</b>         | <b>\$ 25,390</b>                 | <b>\$ —</b>                   | <b>\$ —</b>       | <b>\$ 25,390</b>  |

For our derivative financial instruments we use a market approach valuation technique based on observable market transactions of spot and forward rates.

We recorded a \$1.0 million asset related to the fair value of the U.S. dollar-Canadian dollar foreign currency swap which was classified as other assets at March 31, 2016. The objective of the swap is to offset the foreign exchange risk to the U.S. dollar equivalent cash outflows for our Canadian subsidiary.

We had contingent consideration liabilities recorded using Level 3 inputs in the amount of \$23.0 million, of which \$6.9 million was classified as current liabilities at March 31, 2016. Contingent consideration liabilities were \$25.4 million at December 31, 2015. Contingent consideration represents amounts expected to be paid as part of acquisition consideration only if certain future events occur. These events are usually targets for revenues or earnings related to the business acquired. 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 \$40.2 million at March 31, 2016. Contingent consideration liabilities are reassessed each quarter and are reflected in the Condensed Consolidated Balance Sheets as part of "Other current liabilities" and "Other liabilities". Changes to contingent consideration are reflected in the table below:

**In thousands**

|  |                  |
|--|------------------|
| Contingent consideration at January 1, 2016                                      | \$ 25,390        |
| Increases due to acquisitions  | 57               |
| Decrease due to payments   | (1,000)          |
| Changes due to foreign currency fluctuations                                     | 1,164            |
| Changes in fair value reflected in Selling, general, and administrative expenses | (2,644)          |
| Contingent consideration at March 31, 2016                                       | <u>\$ 22,967</u> |

**Fair Value of Debt.** At March 31, 2016, the fair value of the Company's debt obligations was estimated, using Level 2 inputs, at \$3.13 billion compare to a carrying amount of \$3.15 billion. At December 31, 2015, the fair value of the Company's debt obligations was estimated, using Level 2 inputs, at \$3.22 billion compared to a carrying amount of \$3.21 billion. The fair values were estimated using an income approach by applying market interest rates for comparable instruments. The Company has no current plans to retire a significant amount of its debt prior to maturity.

**NOTE 5 – INCOME TAXES**

We file income tax returns in the U.S, in various states and in certain foreign jurisdictions.

The Company has recorded accruals to cover certain unrecognized tax positions. Such unrecognized tax positions relate to additional taxes that 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 unrecognized tax positions as deemed necessary. During the quarter ended March 31, 2016, we had no material changes to our accruals related to previous or current uncertain tax positions. The effective tax rates for the quarters ended March 31, 2016 and 2015 were approximately 32.9% and 29.7%, respectively. The increase in the current quarter tax rate is primarily related to the recognition of tax benefits in 2015.

**NOTE 6 – STOCK BASED COMPENSATION**

At March 31, 2016, we had the following active stock option and stock purchase plans:

- the 2014 Incentive Stock Plan, which our stockholders approved in May 2014;
- 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 Non-statutory Stock Option Plan, which expired in February 2010;
- the Employee Stock Purchase Plan ("ESPP"), which our stockholders approved in May 2001.

### Stock-Based Compensation Expense:

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, |          |
|---|------------------------------|----------|
|   | 2016                         | 2015     |
| Cost of revenues – stock option plan                    | \$ 15                        | \$ 23    |
| Selling, general and administrative – stock option plan | 4,752                        | 4,729    |
| Selling, general and administrative – RSUs              | 559                          | 346      |
| Selling, general and administrative – ESPP              | 779                          | 389      |
| Total pre-tax expense                                   | \$ 6,105                     | \$ 5,487 |

### Stock Options:

Stock option activity for the three months ended March 31, 2016, is summarized as follows:

|                                  | Number of Options | Weighted Average Exercise Price per Share | Weighted Average Remaining Contractual Life (in years) | Total Aggregate Intrinsic Value (in thousands) |
|----------------------------------|-------------------|---|--|--|
| Outstanding at beginning of year | 5,334,803         | \$ 92.02                                  |  |  |
| Granted                          | 1,008,569         | 111.29                                    |  |  |
| Exercised                        | (306,088)         | 73.22                                     |  |  |
| Forfeited                        | (28,412)          | 118.19                                    |  |  |
| Canceled or expired              | (1,939)           | 86.92                                     |  |  |
| Outstanding at March 31, 2016    | 6,006,933         | 96.10                                     | 5.92   | \$ 185,247                                     |
| Exercisable at March 31, 2016    | 3,225,121         | 80.59                                     | 4.93   | \$ 147,947                                     |

As of March 31, 2016, there was \$38.7 million of total unrecognized compensation expense related to non-vested option awards, which is expected to be recognized over a weighted average period of 3.58 years.

The following table sets forth the total intrinsic value of options exercised:

|  | Three Months Ended March 31, |           |
|--|------------------------------|-----------|
|  | 2016                         | 2015      |
| Total intrinsic value of options exercised | \$ 13,229                    | \$ 29,525 |

The total intrinsic value of options exercised represents the total pre-tax value (the difference between the sales price on that trading day the option was exercised and the exercise price associated with the respective option).

The Company uses historical data to estimate expected life and volatility. The estimated fair value of stock options at the time of the grant using the Black-Scholes option pricing model was as follows:

|   | Three Months Ended March 31, |          |
|---|------------------------------|----------|
|   | 2016                         | 2015     |
| Stock options granted (shares)                        | 1,008,569                    | 860,534  |
| Weighted average fair value at grant date (per share) | \$ 20.19                     | \$ 22.84 |
| Assumptions:  |                              |          |
| Expected term (in years)                              | 4.76                         | 4.79     |
| Expected volatility                                   | 18.02%                       | 16.62%   |
| Expected dividend yield                               | —%                           | —%       |
| Risk free interest rate                               | 1.26%                        | 1.48%    |

**Restricted Stock Units:**

Restricted stock units (“RSUs”) vest annually, or at the end of three and five years. Our 2008, 2011 and 2014 Plans include a share reserve related to RSUs granted at a 2 -1 ratio. A summary of the status of our non-vested RSUs and changes during the three months ended March 31, 2016, are as follows:

|                                 | <u>Number of<br/>Options</u> | <u>Weighted<br/>Average<br/>Grant Date<br/>Fair Value</u> | <u>Weighted<br/>Average<br/>Remaining<br/>Contractual Life</u><br>(in years) | <u>Total Aggregate<br/>Intrinsic Value</u><br>(in thousands) |
|---------------------------------|------------------------------|---|--|--|
| Non-vested at beginning of year | 71,451                       | \$ 101.29   |  |  |
| Granted                         | 53,267                       | 111.12  |  |  |
| Non-vested at March 31, 2016    | <u>124,718</u>               | 105.57  | 2.34   | \$ 15,738  |

As of March 31, 2016, there was \$8.9 million of total unrecognized compensation expense related to RSUs, which is expected to be recognized over a weighted average period of 3.15 years.

**NOTE 7 – PREFERRED STOCK**

At March 31, 2016, we had 1,000,000 authorized shares of preferred stock and 770,000 shares issued and outstanding of Mandatory Convertible Preferred Stock.

**Series A Mandatory Convertible Preferred Stock Offering:** On September 15, 2015, we completed a registered public offering of 7,700,000 depository shares, each representing a 1/10th interest in a share of our 5.25% Series A Mandatory Convertible Preferred Stock, par value \$0.01 per share (the “Series A Preferred Stock”), at a public offering price of \$100.00 per depository share for total gross proceeds of \$770.0 million.

Unless earlier converted or redeemed, each share of the Series A Preferred Stock will automatically convert into between 5.8716 and 7.3394 shares of our common stock, subject to anti-dilution and other adjustments, on the mandatory conversion date, which is expected to be September 15, 2018. The number of shares of our common stock issuable on conversion will be determined based on the volume-weighted average price of our common stock over the 20 trading day period commencing on and including the 23rd scheduled trading day prior to September 15, 2018. Subject to certain restrictions, at any time prior to September 15, 2018, holders of the Series A Preferred Stock may elect to convert all or a portion of their shares into common stock at the minimum conversion rate of 5.8716 shares of common stock per share of Series A Preferred Stock, subject to adjustment.

Dividends on shares of the Series A Preferred Stock are payable on a cumulative basis when, as and if declared by our board of directors, or an authorized committee thereof, at an annual rate of 5.25% on the liquidation preference of \$1,000 per share (and, correspondingly, \$100.00 per share with respect to the depository shares). The dividends may be payable in cash, or subject to certain limitations, in shares of our common stock or any combination of cash and shares of our common stock on March 15, June 15, September 15 and December 15 of each year, commencing on December 15, 2015, and to, and including, September 15, 2018.

**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, RSUs, and the assumed conversion of mandatory convertible preferred stock. The effect of potentially dilutive securities is reflected in diluted earnings per share by application of the “treasury stock method” for outstanding restricted stock awards and stock options. 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. For the issue of the mandatory convertible preferred stock,

we use the “if-converted method”. Under the if-converted method, the preferred dividend applicable to convertible preferred stock is added back to net income attributable to Stericycle, the numerator. The Mandatory Convertible Preferred shares are assumed to be converted to common shares at the beginning of the period or, if later, at the time of issuance, and the resulting common shares are included in the denominator. In applying the if-converted method, conversion shall not be assumed for purposes of computing diluted EPS if the effect would be anti-dilutive.

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

**In thousands, except share and per share data**

|   | <b>Three Months Ended March 31,</b> |             |
|---|-------------------------------------|-------------|
|   | <b>2016</b>                         | <b>2015</b> |
| <b>Numerator:</b>   |                                     |             |
| Net income attributable to Stericycle, Inc.   | \$ 76,786                           | \$ 75,458   |
| Less: mandatory convertible preferred stock dividend  | 10,106                              | —           |
| Numerator for basic earnings per share attributable to Stericycle, Inc. common shareholders             | \$ 66,680                           | \$ 75,458   |
| <b>Denominator:</b>   |                                     |             |
| Denominator for basic earnings per share-weighted average shares  | 84,705,000                          | 85,037,823  |
| <b>Effect of diluted securities:</b>  |                                     |             |
| Employee stock based awards   | 1,140,501                           | 1,319,183   |
| Mandatory convertible preferred stock (1)   | —                                   | —           |
| Denominator for diluted earnings per share-adjusted weighted average shares and after assumed exercises | 85,845,501                          | 86,357,006  |
| Earnings per share – Basic  | \$ 0.79                             | \$ 0.89     |
| Earnings per share – Diluted  | \$ 0.78                             | \$ 0.87     |

- (1) In 2016, the weighted average common shares issuable upon the assumed conversion of the mandatory convertible preferred stock totaling 5,651,376 shares were excluded from the computation of diluted earnings per share as such conversion would have been antidilutive.

For additional information regarding outstanding employee stock options, see Note 6 - Stock Based Compensation.

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

Goodwill and other identifiable indefinite lived intangibles are not amortized, but are subject to an annual impairment test, or more frequent testing if circumstances indicate that they may be impaired.

**Goodwill:**

We have two geographical reportable segments, “United States” and “International”, both of which have goodwill. The changes in the carrying amount of goodwill since January 1, 2015, by reportable segment, were as follows:

**In thousands**

|  | <b>United States</b> | <b>International</b> | <b>Total</b>        |
|--|----------------------|----------------------|---------------------|
| <b>Balance as of January 1, 2015</b>         | \$ 1,838,739         | \$ 580,093           | \$ 2,418,832        |
| Goodwill acquired during the year, net       | 1,177,431            | 273,519              | 1,450,950           |
| Purchase accounting allocation adjustments   | (43,895)             | 15,618               | (28,277)            |
| Goodwill other changes                       | —                    | (440)                | (440)               |
| Changes due to foreign currency fluctuations | —                    | (82,888)             | (82,888)            |
| <b>Balance as of December 31, 2015</b>       | 2,972,275            | 785,902              | 3,758,177           |
| Goodwill acquired during the year, net       | 17,390               | 450                  | 17,840              |
| Purchase accounting allocation adjustments   | 6,305                | 1,374                | 7,679               |
| Changes due to foreign currency fluctuations | —                    | 6,320                | 6,320               |
| <b>Balance at March 31, 2016</b>             | <b>\$ 2,995,970</b>  | <b>\$ 794,046</b>    | <b>\$ 3,790,016</b> |



Current year adjustments to goodwill for certain 2015 acquisitions are primarily due to the finalization of intangible asset valuations.

We complete our annual impairment analysis of our goodwill during the quarter ended June 30 of each year, or more frequently, if circumstances indicate that it may be impaired.

**Other Intangible Assets:**

At March 31, 2016 and December 31, 2015, the values of other intangible assets were as follows:

**In thousands**

|                                      | March 31, 2016        |                          |                     | December 31, 2015     |                          |                     |
|--------------------------------------|-----------------------|--------------------------|---------------------|-----------------------|--------------------------|---------------------|
|                                      | Gross Carrying Amount | Accumulated Amortization | Net Value           | Gross Carrying Amount | Accumulated Amortization | Net Value           |
| <b>Amortizable intangibles:</b>      |                       |                          |                     |                       |                          |                     |
| Customer relationships               | \$ 1,319,782          | \$ 162,831               | \$ 1,156,951        | \$ 1,304,388          | \$ 144,020               | \$ 1,160,368        |
| Covenants not-to-compete             | 7,630                 | 5,340                    | 2,290               | 6,878                 | 5,141                    | 1,737               |
| Tradenames                           | 3,935                 | 1,022                    | 2,913               | 3,819                 | 948                      | 2,871               |
| Other                                | 16,834                | 1,314                    | 15,520              | 18,902                | 916                      | 17,986              |
| <b>Indefinite lived intangibles:</b> |                       |                          |                     |                       |                          |                     |
| Operating permits                    | 234,888               | —                        | 234,888             | 233,101               | —                        | 233,101             |
| Tradenames                           | 428,282               | —                        | 428,282             | 426,498               | —                        | 426,498             |
| <b>Total</b>                         | <b>\$ 2,011,351</b>   | <b>\$ 170,507</b>        | <b>\$ 1,840,844</b> | <b>\$ 1,993,586</b>   | <b>\$ 151,025</b>        | <b>\$ 1,842,561</b> |

The changes in the carrying amount of intangible assets since January 1, 2015 were as follows:

**In thousands**

|   | Total               |
|---|---------------------|
| <b>Balance as of January 1, 2015</b>            | \$ 909,645          |
| Intangible assets acquired during the year, net | 1,052,016           |
| Impairments during the year                     | (4,177)             |
| Amortization during the year                    | (45,498)            |
| Changes due to foreign currency fluctuations    | (69,425)            |
| <b>Balance as of December 31, 2015</b>          | 1,842,561           |
| Intangible assets acquired during the year, net | 8,436               |
| Amortization during the year                    | (18,274)            |
| Changes due to foreign currency fluctuations    | 8,121               |
| <b>Balance at March 31, 2016</b>                | <b>\$ 1,840,844</b> |

Under generally accepted accounting principles, a fair value must be assigned to all acquired assets based on a theoretical "market participant" regardless of the acquirer's intended use for those assets. This accounting treatment can lead to the recognition of losses when a company disposes of acquired assets. We complete our annual impairment analysis of our indefinite lived intangibles during the quarter ended December 31 of each year, or more frequently, if circumstances indicate that they may be impaired.

Our finite-lived intangible assets are amortized over their useful lives. We have determined that our customer relationships have useful lives from 10 to 40 years based upon the type of customer, with a weighted average remaining useful life of 19.1 years. We have covenants not-to-compete intangibles with useful lives from 5 to 14 years, with a weighted average remaining useful life of 4.4 years. We have tradename intangibles with useful lives from 15 to 40 years, with a weighted average remaining useful life of 16.9 years. Other intangibles mainly consist of landfill air rights with a weighted average remaining useful life of 18.5 years. We have determined that our permits have indefinite lives due to our ability to renew these permits with minimal additional cost, and therefore these are not amortized. We also have a trade name that we have determined has an indefinite life.

During the quarters ended March 31, 2016 and 2015, the aggregate amortization expense was \$18.3 million and \$8.8 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**

|      |    |        |
|------|----|--------|
| 2016 | \$ | 72,287 |
| 2017 |    | 72,300 |
| 2018 |    | 72,252 |
| 2019 |    | 72,095 |
| 2020 |    | 71,805 |

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, 2016.

**NOTE 10 – ENVIRONMENTAL REMEDIATION LIABILITIES**

We record a liability for environmental remediation when such liability becomes probable and the costs or damages can be reasonably estimated. We accrue environmental remediation costs, on an undiscounted basis, associated with identified sites where an assessment has indicated that cleanup costs are probable and can be reasonably estimated, but the timing of such payments is not fixed and determinable. Such accruals are based on currently available information, estimated timing of remedial actions, existing technology, and enacted laws and regulations. The liability for environmental remediation is included in the Condensed Consolidated Balance Sheets in current liabilities within "Accrued liabilities" and in non-current liabilities within "Other liabilities."

At March 31, 2016, the total environmental remediation liabilities recorded were \$30.4 million, of which \$1.5 million was classified as accrued liabilities and \$28.9 million was classified as other liabilities.

**NOTE 11 – DEBT**

Long-term debt consisted of the following:

**In thousands**

|   | March 31, 2016 | December 31, 2015 |
|---|----------------|-------------------|
| Obligations under capital leases  | \$ 14,308      | \$ 15,024         |
| \$1.20 billion senior credit facility weighted average rate 1.87%, due in 2019  | 455,911        | 353,763           |
| \$1.08 billion term loan weighted average rate 1.81%, due in 2020   | 1,079,000      | 1,250,000         |
| \$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           |
| \$150 million private placement notes 2.89%, due in 2021  | 150,000        | 150,000           |
| \$125 million private placement notes 3.26%, due in 2022  | 125,000        | 125,000           |
| \$200 million private placement notes 2.72%, due in 2022  | 200,000        | 200,000           |
| \$100 million private placement notes 2.79%, due in 2023  | 100,000        | 100,000           |
| \$150 million private placement notes 3.18%, due in 2023  | 150,000        | 150,000           |
| Promissory notes and deferred consideration weighted average rate of 2.35% and weighted average maturity of 3.1 years | 246,442        | 239,731           |
| Foreign bank debt weighted average rate 7.40% and weighted average maturity of 2.0 years                              | 106,488        | 105,530           |
| Total debt  | 3,152,149      | 3,214,048         |
| Less: current portion of total debt   | 114,066        | 161,409           |
| Long-term portion of total debt   | \$ 3,038,083   | \$ 3,052,639      |

Our \$1.20 billion senior credit facility maturing in June 2019, our \$1.08 billion term loan maturing in August 2020, 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, our \$150.0 million private placement notes maturing in October 2021, our \$125.0 million private placement notes maturing in December 2022, our \$200.0 million private placement notes maturing in July 2022, our \$100.0 million private placement notes maturing in July 2023, and our \$150.0 million private placement notes maturing in October 2023 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, term loan, and the private placement notes. At March 31, 2016, we were in compliance with all of our financial debt covenants. Our senior credit facility, term loan, and the private placement notes rank pari passu to each other and all other unsecured debt obligations,

As of March 31, 2016 and December 31, 2015, we had \$159.8 million and \$160.4 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, 2016 and December 31, 2015 was \$584.3 million and \$685.8 million, respectively.

## NOTE 12 – GEOGRAPHIC INFORMATION

The FASB Accounting Standards Codification *Topic 280, Segment Reporting*, requires segment information to be reported based on information utilized by executive management to internally assess performance and make operating decisions. We have determined that we have two operating and reportable segments based on the organizational structure of our Company and information reviewed by our Chief Operating Decision Maker. These operating and reportable segments are Domestic Regulated and Compliance Services ("Domestic") and International Regulated and Compliance Services ("International"). We are in the process of determining the integration of the Shred-it organization within Stericycle. Currently the operations of Shred-it are part of our Domestic Regulated and Compliance Services and International operating segments, based on the location of the revenue producing customer.

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

**In thousands**

|   | Three Months Ended March 31, |            |
|---|------------------------------|------------|
|   | 2016                         | 2015       |
| Regulated and compliance solutions revenues | \$ 624,878                   | \$ 452,269 |
| Recall and returns solutions revenues       | 24,790                       | 19,979     |
| Total revenues                              | \$ 649,668                   | \$ 472,248 |
| Net interest expense                        | 19,883                       | 10,845     |
| Income before income taxes                  | 108,313                      | 102,890    |
| Income taxes                                | 38,814                       | 37,880     |
| Net income attributable to Stericycle, Inc. | \$ 69,499                    | \$ 65,010  |
| Depreciation and amortization               | \$ 31,570                    | \$ 16,140  |

***Detailed information for our International reportable segment is as follows:***

**In thousands**

|   | Three Months Ended March 31, |            |
|---|------------------------------|------------|
|   | 2016                         | 2015       |
| Regulated and compliance solutions revenues               | \$ 224,513                   | \$ 191,071 |
| Net interest expense                                      | 4,158                        | 7,753      |
| Income before income taxes                                | 7,318                        | 4,967      |
| Income taxes  | (778)                        | (5,833)    |
| Net income  | 8,096                        | 10,800     |
| Less: net income attributable to noncontrolling interests | 809                          | 352        |
| Net income attributable to Stericycle, Inc.               | \$ 7,287                     | \$ 10,448  |
| Depreciation and amortization                             | \$ 16,844                    | \$ 11,423  |

## NOTE 13 – 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.

We review all of our outstanding legal proceedings with counsel quarterly, and we will disclose an estimate of any reasonably possible loss or range of reasonably possible losses if and when we are able to make such an estimate and the reasonably possible loss or range of reasonably possible losses is material to our financial statements.

**Class Action Lawsuits.** As we have previously disclosed, 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 sought 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 a settlement with the State of New York of an investigation under the New York False Claims Act which arose out of the qui tam (or “whistle blower”) action captioned United States of America ex rel. Jennifer D. Perez v. Stericycle, Inc., Case No. 1:08-cv-2390 which was settled in the fourth quarter of 2015 as previously disclosed.

Following the filing of the Pennsylvania class action complaint, we were served with class action complaints filed in federal and state courts in several jurisdictions. These complaints asserted 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. On August 9, 2013, the Judicial Panel on Multidistrict Litigation granted our Motion to Transfer these related actions to the United States District Court for the Northern District of Illinois for centralized pretrial proceedings (the “MDL Action”). On December 10, 2013, we filed our answer to the Amended Consolidated Class Action Complaint in the MDL Action, generally denying the allegations therein.

On January 29, 2016, the plaintiffs’ attorneys filed a Second Amended Consolidated Complaint and a Motion for Class Certification in the MDL Action. The Motion requests that the court certify a class of plaintiffs consisting of certain of our small quantity customers who received rate increases. We intend to strongly contest the Motion.

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

We have not accrued any amounts in respect of these class action lawsuits, and we cannot estimate the reasonably possible loss or the range of reasonably possible losses that we may incur. We are unable to make such an estimate because (i) litigation is by its nature uncertain and unpredictable, (ii) we do not know whether the court will certify any class of plaintiffs or, if any class is certified, how the class would be defined, and (iii) in our judgment, there are no comparable proceedings against other defendants that might provide guidance in making estimates.

**Environmental Matters.** Our Environmental Solutions business is regulated by federal, state and local laws enacted to regulate the discharge of materials into the environment, remediate contaminated soil and groundwater or otherwise protect the environment. As a result of this continuing regulation, we frequently become a party to legal or administrative proceedings involving various governmental authorities and other interested parties. The issues involved in these proceedings generally relate to alleged violations of existing permits and licenses or alleged responsibility under federal or state Superfund laws to remediate contamination at properties owned either by us or by other parties to which either we or the prior owners of certain of its facilities shipped wastes. From time to time, we may be subject to fines or penalties in regulatory proceedings relating primarily to waste treatment, storage or disposal facilities. We believe that the fines or other penalties that we may pay in connection with any pending regulatory proceedings of this nature will not, individually or in the aggregate, be material to our financial statements.

On February 29, 2016, we entered into a statute of limitations tolling agreement with the United States Attorney’s Office for the District of Utah relating to that Office’s investigation of the same facts underlying the notice of violation (the “NOV”) issued by the State of Utah Division of Air Quality (the “DAQ”) that resulted in our December 2014 settlement with the DAQ that we have previously disclosed. The U.S. Attorney’s Office is investigating whether the matters forming the

basis of the NOV constitute violations of the Clean Air Act and other federal statutes. Under the tolling agreement, the period from March 1, 2016 through July 31, 2016 will be excluded from any calculation of time for the purpose of determining the statute of limitations concerning any charges that we violated federal statutes. The agreement does not constitute an admission of guilt or wrongdoing on our part and cannot be construed as a waiver of any other rights or defenses that we may have in any resulting action or proceeding. We will continue to cooperate with the investigation.

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

We are a business-to-business services provider with a focus on regulated and compliance solutions for healthcare, retail, and commercial businesses. This includes the collection and processing of regulated and specialized waste for disposal and the collection of personal and confidential information for secure destruction, plus a variety of training, consulting, recall/return, communication, and compliance services. We were incorporated in 1989 and presently serve a diverse customer base of more than 1,000,000 customers throughout the United States, Argentina, Austria, Australia, Belgium, Brazil, Canada, Chile, France, Germany, Ireland, Japan, Luxembourg, Mexico, the Netherlands, Portugal, Romania, Republic of Korea, Singapore, South Africa, Spain, and the United Kingdom.

Our solutions for regulated or specialty waste streams include: medical waste disposal, pharmaceutical waste disposal, hazardous waste management, sustainability solutions for expired or unused inventory, and secure information destruction of documents or e-media. Our compliance solutions include: training and consulting through our Steri-Safe® and Clinical Services programs as well as inbound/outbound communications, data reporting, and other regulatory compliance services. Our regulated recall and returns management solutions consist of communication, logistics, and data management services to support the recall, withdrawal, or return of expired or recalled products.

There were no material changes in the Company's critical accounting policies since the filing of its 2015 Form 10-K. As discussed in the 2015 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, 2016:

- revenues grew to \$874.2 million, a 31.8% increase over \$663.3 million in the first quarter last year;
- gross margins decreased to 42.2% from 42.4% in the first quarter last year;
- operating income increased 10.9% to \$140.9 million from \$127.1 million in the first quarter last year;
- we incurred \$21.2 million in pre-tax expenses related to acquisitions, integration expense related to acquisitions, litigation expenses, plant conversion expenses, and a favorable change in the fair value of contingent consideration;
- amortization expense increased to \$18.3 million from \$8.8 million in the first quarter last year;
- cash flow from operations was \$156.9 million;
- dividends of \$10.1 million were paid on March 15, 2016 to holders of our Series A Preferred Stock.

**THREE MONTHS ENDED MARCH 31, 2016 COMPARED TO  
THREE MONTHS ENDED MARCH 31, 2015**

The following summarizes the Company's operations:

**In thousands, except per share data**

|  | Three Months Ended March 31, |              |                |              |
|--|------------------------------|--------------|----------------|--------------|
|  | 2016                         |              | 2015           |              |
|  | \$                           | %            | \$             | %            |
| Revenues   | \$ 874,181                   | 100.0%       | \$ 663,319     | 100.0%       |
| Cost of revenues   | 482,120                      | 55.2%        | 367,340        | 55.4%        |
| Depreciation - cost of revenues  | 22,641                       | 2.6%         | 14,648         | 2.2%         |
| Plant conversion expenses  | 236                          | 0.0%         | —              | 0.0%         |
| <b>Total cost of revenues</b>  | <b>504,997</b>               | <b>57.8%</b> | <b>381,988</b> | <b>57.6%</b> |
| Gross profit   | 369,184                      | 42.2%        | 281,331        | 42.4%        |
| Selling, general and administrative expenses (exclusive of adjusting items, depreciation and amortization shown below) | 181,569                      | 20.8%        | 115,431        | 17.4%        |
| Acquisition expenses   | 2,990                        | 0.3%         | 3,296          | 0.5%         |
| Integration expenses   | 19,268                       | 2.2%         | 8,886          | 1.3%         |
| Change in fair value of contingent consideration   | (2,644)                      | -0.3%        | (675)          | -0.1%        |
| Restructuring and plant conversion expenses  | 5                            | 0.0%         | 12,302         | 1.9%         |
| Litigation expenses  | 1,300                        | 0.1%         | 2,123          | 0.3%         |
| <b>Total SG&amp;A expenses (exclusive of depreciation and amortization shown below)</b>                                | <b>202,488</b>               | <b>23.2%</b> | <b>141,363</b> | <b>21.3%</b> |
| Depreciation   | 7,499                        | 0.9%         | 4,118          | 0.6%         |
| Amortization   | 18,274                       | 2.1%         | 8,797          | 1.3%         |
| Income from operations   | 140,923                      | 16.1%        | 127,053        | 19.2%        |
| Net interest expense   | 24,041                       | 2.8%         | 18,598         | 2.8%         |
| Other expense, net   | 1,251                        | 0.1%         | 598            | 0.1%         |
| Income tax expense   | 38,036                       | 4.4%         | 32,047         | 4.8%         |
| Net income   | 77,595                       | 8.9%         | 75,810         | 11.4%        |
| Less: net income attributable to noncontrolling interests  | 809                          | 0.1%         | 352            | 0.1%         |
| Net income attributable to Stericycle, Inc.  | 76,786                       | 8.8%         | 75,458         | 11.4%        |
| Less: mandatory convertible preferred stock dividend   | 10,106                       | 1.2%         | —              | 0.0%         |
| Net income attributable to Stericycle, Inc. common shareholders  | \$ 66,680                    | 7.6%         | \$ 75,458      | 11.4%        |
| Earnings per share- diluted  | \$ 0.78                      |              | \$ 0.87        |              |

**Revenues:** Our revenues increased \$210.9 million, or 31.8%, in the first quarter of 2016 to \$874.2 million from \$663.3 million in the same period in 2015.

Domestic revenues increased \$177.5 million, or 37.6%, to \$649.7 million from \$472.2 million in the same period in 2015. Organic revenue growth for domestic small account customers increased by \$17.0 million, or approximately 6%, driven by an increase in Steri-Safe® revenues and regulated waste services for retailers. Organic revenue from domestic large account customers increased by \$6.3 million, or approximately 4%, as we increased the total number of accounts and expanded our reusable sharps services and pharmaceutical waste disposal programs. Organic revenues for both small account customers and large account customers were negatively impacted by lower fuel surcharges as well as lower hazardous waste volume from our industrial customers. Organic revenues for recall and returns management services increased by \$4.8 million in 2016. Organic revenues exclude revenue growth attributed to businesses acquired within the preceding twelve months. Revenues from domestic acquisitions closed within the preceding twelve months contributed \$149.4 million to the increase in revenues in the first quarter of 2016.

International revenues increased \$33.4 million, or 17.5%, in the first quarter of 2016, to \$224.5 million from \$191.1 million in the same period in 2015. Organic growth, currency rate fluctuations and acquisitions impact the comparison of 2016 and 2015. Organic growth in the international segment contributed \$12.1 million in revenues, or approximately 7%. Organic growth excludes the effect of foreign exchange and acquisitions and divestitures less than one year old. The effect of foreign exchange rates unfavorably impacted international revenues in 2016 by \$23.8 million as foreign

currencies declined against the U.S. dollar. Revenue from international acquisitions closed within the preceding twelve months contributed \$45.1 million to the increase in revenues in the first quarter of 2016.

**Cost of Revenues:** Our cost of revenues increased \$123.0 million, or 32.2%, in the first quarter of 2016 to \$505.0 million from \$382.0 million in the same period in 2015. As a percent of revenues, our costs of revenues increased 0.2% which resulted in consolidated gross profit of 42.2% during the first quarter of 2016 as compared to 42.4% during the same period in 2015. We incurred \$0.2 million in plant conversion expenses during the first quarter of 2016.

In general, international gross profit is lower than domestic gross profit because international operations have fewer small account customers, which tend to provide higher gross profits. Historically, the international operations have had most of their revenues from large account customers, such as hospitals. As the international revenues increase, consolidated gross profit receive downward pressure due to this "business mix" shift, which may be offset by additional international small account market penetration, integration savings, and domestic business expansion.

Our domestic cost of revenues increased \$101.3 million, or 40.2%, in the first quarter of 2016 to \$353.6 million from \$252.3 million in the same period in 2015. Domestic gross profit as a percent of revenues decreased to 45.6% during the first quarter of 2016 from 46.6% in the same period in 2015 primarily due to less than anticipated revenues from our industrial customers, which have a higher fixed cost structure. Additionally, higher disposal costs for some of our industrial waste project work in the quarter further unfavorably impacted domestic gross profit.

Our international cost of revenues increased \$21.7 million, or 16.7%, in the first quarter of 2016 to \$151.4 million from \$129.7 million in the same period in 2015. International gross profit as a percent of revenues increased to 32.6% during the first quarter of 2016 from 32.1% during the same period in 2015 primarily due to the inclusion of the 2015 Shred-it acquisition, offset by a negative impact from higher costs related to the servicing of certain government contracts in our patient transportation business in the United Kingdom.

**Selling, General and Administrative Expenses Exclusive of Adjusting Items, Depreciation and Amortization ("SG&A"):** Our SG&A expenses increased \$66.1 million, or 57.3%, in the first quarter of 2016 to \$181.6 million from \$115.4 million in the same period in 2015 to support our increase in revenues and the inclusion of the 2015 Shred-it acquisition. As a percent of revenues, these costs increased to 20.8% in the first quarter of 2016 from 17.4% in the same period in 2015.

Domestically, first quarter SG&A expenses increased \$48.2 million, or 61.5%, to \$126.8 million from \$78.5 million in the same period in 2015 primarily related to increased healthcare benefit costs, compensation and marketing expenses, increased investment for growth, and the inclusion of the 2015 Shred-it acquisition. As a percent of revenues, SG&A increased to 19.5% in the first quarter of 2016 from 16.6% in the same period in 2015. As a percent of revenues, amortization expense of acquired intangible assets increased to 1.9% in the first quarter of 2016 as compared to 1.1% in the same period in 2015.

Internationally, first quarter SG&A expenses increased \$17.9 million, or 48.5%, to \$54.8 million from \$36.9 million in the same period in 2015. As a percent of revenues, SG&A increased to 24.4% in the first quarter of 2016 from 19.3% in the same period in 2015. The following factors negatively impacted our first quarter international SG&A: higher costs related to the management of certain government contracts in our patient transportation business in the United Kingdom, compensation expenses in support of new business growth opportunities, and the inclusion of the 2015 Shred-it acquisition. As a percent of revenues, amortization expense of acquired intangible assets increased to 2.6% in the first quarter of 2016 as compared to 2.0% in the same period in 2015.

**Income from Operations:** Income from operations increased \$13.9 million, or 10.9%, in the first quarter of 2016 to \$140.9 million from \$127.1 million in same period in 2015. Comparison of income from operations between the first quarter of 2016 and the same period of 2015 was affected by Adjusting Items as described below.

During the quarter ended March 31, 2016, we recognized \$3.0 million in acquisition expenses, \$19.3 million of expenses related to the integration of our acquisitions, mainly Shred-it, \$1.3 million in litigation expenses, \$0.2 million in plant conversion expenses, and a \$2.6 million favorable change in the fair value of contingent consideration.

During the quarter ended March 31, 2015, we recognized \$3.3 million in acquisition expenses, \$8.9 million of expenses related to the integration of our acquisitions, \$12.3 million in restructuring expenses, \$2.1 million in litigation expenses, and a \$0.7 million favorable change in the fair value of contingent consideration.

Domestically, our income from operations increased \$17.9 million, or 15.6%, to \$133.0 million in the first quarter of 2016 from \$115.1 million in the same period in 2015.

Internationally, our income from operations decreased \$4.1 million, or 34.2%, to \$7.9 million in the first quarter of 2016 from \$12.0 million in the same period in 2015.

**Net Interest Expense:** Net interest expense was at \$24.0 million during the first quarter of 2016 and \$18.6 million during the same period in 2015 due to increased borrowings to fund the acquisition of Shred-it in the fourth quarter of 2015.

**Income Tax Expense:** Income tax expense increased to \$38.0 million in the first quarter of 2016 from \$32.0 million in the same period in 2015. The reported tax rates for the quarters ended March 31, 2016 and 2015 were 32.9% and 29.7%, respectively. The increase in the current quarter tax rate is primarily related to the recognition of tax benefits in 2015.

#### **Liquidity and Capital Resource:**

The following senior credit facility, term loan, and the private placement notes require us to comply with various financial, reporting and other covenants and restrictions, including a restriction on dividend payments:

\$1.20 billion senior credit facility weighted average rate 1.87%, due in 2019

\$1.08 billion term loan weighted average rate 1.81%, due in 2020

\$175 million private placement notes 3.89%, due in 2017

\$125 million private placement notes 2.68%, due in 2019

\$225 million private placement notes 4.47%, due in 2020

\$150 million private placement notes 2.89%, due in 2021

\$125 million private placement notes 3.26%, due in 2022

\$200 million private placement notes 2.72%, due in 2022

\$100 million private placement notes 2.79%, due in 2023

\$150 million private placement notes 3.18%, due in 2023

The financial debt covenants are the same for the senior credit facility, term loan, and the private placement notes. At March 31, 2016, we were in compliance with all of our financial debt covenants. Our senior credit facility, term loan, and the private placement notes rank pari passu to each other and all other unsecured debt obligations.

As of March 31, 2016, we had \$455.9 million of borrowings outstanding under our \$1.20 billion senior unsecured credit facility, which includes foreign currency borrowings of \$146.9 million. We also had \$159.8 million committed to outstanding letters of credit under this facility. The unused portion of the revolving credit facility as of March 31, 2016 was \$584.3 million. At March 31, 2016, our interest rates on borrowings under our revolving credit facility were as follows:

- A fee of 0.2% on our revolving credit facility
- For borrowings less than one month, the higher of the following
  - Federal funds rate plus 0.5%
  - Euro currency rate plus 0.9% or the prime rate plus 0.3%
- For borrowings greater than one month: LIBOR plus 1.3%

The weighted average rate of interest on the unsecured revolving credit facility was 1.87% per annum, which includes the 0.2% facility fee at March 31, 2016.

As of March 31, 2016, we had \$1.08 billion outstanding under our \$1.50 billion term loan credit facility, weighted average rate of interest on the unsecured term loan facility was 1.81% per annum.



As of March 31, 2016, 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 semiannually 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 March 31, 2016, we had outstanding \$125.0 million of seven-year 2.68% unsecured senior notes and \$125.0 million of 10-year 3.26% unsecured senior notes issued to 46 institutional purchasers in a private placement completed in December 2012. Interest is payable in arrears semi-annually on June 12 and December 12 beginning on June 12, 2013, and principal is payable at the maturity of the notes, December 12, 2019 in the case of the seven-year notes and December 12, 2022 in the case of the 10-year notes.

As March 31, 2016, we had outstanding \$200.0 million of seven-year 2.72% unsecured senior notes and \$100.0 million of eight-year 2.79% unsecured senior notes issued to several institutional purchasers in a private placement completed in July 2015. Interest is payable in arrears semi-annually on January 1 and July 1 beginning on January 1, 2016, and principal is payable at the maturity of the notes, July 1, 2022 in the case of the seven-year notes and July 1, 2023 in the case of the eight-year notes.

As March 31, 2016, we had outstanding \$150.0 million of six-year 2.89% unsecured senior notes and \$150.0 million of eight-year 3.18% unsecured senior notes issued to several institutional purchasers in a private placement completed in October 2015. Interest is payable in arrears semiannually on April 1 and October 1 beginning on April 1, 2016, and principal is payable at the maturity of the notes, October 1, 2021 in the case of the six-year notes and October 1, 2023 in the case of the eight-year notes.

As of March 31, 2016, we had \$246.4 million in promissory notes issued in connection with acquisitions during 2008 through 2016, \$106.5 million in foreign subsidiary bank debt outstanding, and \$14.3 million in capital lease obligations.

**Working Capital:** At March 31, 2016, our working capital increased \$30.4 million to \$204.8 million, as compared to \$174.5 million at December 31, 2015.

Current assets decreased by \$4.5 million, mainly driven by \$10.0 million decrease in cash and cash equivalents balance at the end of the quarter, offset by \$8.2 million increase in accounts receivable balance. Days sales outstanding ("DSO") was calculated at 63 days at March 31, 2016 and 64 days at December 31, 2015.

Current liabilities decreased by \$34.8 million, primarily related to a \$50 million repayment of current portion of the term loan facility, decrease in accounts payable, partially offset by an increase in accrued income tax liabilities.

**Net Cash Provided or Used:** Net cash provided by operating activities increased \$24.4 million, or 18.4%, to \$156.9 million during three months ended March 31, 2016 from \$132.6 million for the same period in 2015. Cash provided by operations as a ratio to net income was 202% and 175% for three months ended March 31, 2016 and 2015, respectively. On January 1, 2016, the Company adopted the guidance in Accounting Standards Update ("ASU") No. 2016-09, "Compensation - Stock Compensation (Topic 718) - Improvements to Employee Share-Based Payment Accounting." ASU 2016-09 requires that all income tax-related cash flows resulting from share-based payments be reported as operating activities in the statement of cash flows. Previously, income tax benefits at settlement of an award were reported as a reduction to operating cash flows and an increase to financing cash flows to the extent that those benefits exceeded the income tax benefits reported in earnings during the award's vesting period. The Company has elected to apply that change in cash flow classification on a prospective basis, leaving previously reported net cash provided by operating activities and net cash used in financing activities in the accompanying Condensed Consolidated statement of Cash Flows for the period ended March 31, 2015 unchanged.

Net cash used in investing activities for three months ended March 31, 2016 was \$58.3 million compared to \$55.3 million in the same period in 2015. We used \$9.3 million less in funds to acquire new businesses in 2016, offset by \$12.8 million increase in capital expenditures. Our capital expenditures, as a percent of revenues, were at 3.9% in 2016 compare to 3.2% in 2015.

Net cash used in financing activities for three months ended March 31, 2016 was \$108.4 million compared to \$57.6 million for the same period in 2015. In 2016, we had \$66.6 million net repayments on our senior credit facility and term loan facility, as compared to \$26.6 million in 2015. We had share repurchases of \$37.7 million in 2016 compared to \$11.5 million in 2015, a decrease of \$26.2 million. Dividends of \$10.1 million were paid on March 15, 2016 to holders of our Series A Preferred Stock.

### **ITEM 3. QUANTITATIVE AND QUALITATIVE 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 \$16.6 million on a pre-tax basis.

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.

We have exposure to foreign currency fluctuations. We have subsidiaries in twelve foreign countries whose functional currency is the local currency. Our international subsidiaries use local currency denominated lines of credit for their funding needs which has no exposure to currency fluctuations. We translate results of operations of our international operations using an average exchange rate. Changes in foreign currency exchange rates could unfavorably impact our consolidated results of operations.

### **ITEM 4. CONTROLS AND PROCEDURES**

#### ***Disclosure Controls and Procedures***

The term "disclosure controls and procedures" is defined in Rule 13a-15(e) of the Securities Exchange Act of 1934 as "controls and other procedures of an issuer that are designed to ensure that information required to be disclosed by the issuer in the reports that it 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 President and Chief Executive Officer and our Chief Financial Officer as appropriate, to allow timely decisions regarding our required disclosures.

Our management, with the participation of our President 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. Based upon that evaluation, our President and Chief Executive Officer and Chief Financial Officer have concluded that our disclosure controls and procedures were not effective as of the end of the period covered by this quarterly report, because of material weaknesses in internal control over financial reporting described below and also identified in Management's Report on Internal Control Over Financial Reporting included in our Annual Report on Form 10-K for the year ended December 31, 2015. References to "COSO" or "COSO Framework" below refer to the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) in Internal Control-Integrated Framework.

#### ***Internal Control Over Financial Reporting***

The Company's management assessed the effectiveness of the Company's internal control over financial reporting as of December 31, 2015. In making this assessment, management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) in Internal Control-Integrated Framework (the "COSO Framework"). Based upon that evaluation, our Chief Executive Officer and Chief Financial Officer have concluded that there were material weaknesses in internal controls over financial reporting described below. During the quarter ended March 31, 2016, there were no changes in our internal controls over financial reporting.

#### **COSO Component - Risk Assessment**

The Company's risk assessment process did not operate effectively, resulting in a material weakness pertaining to this component of the COSO Framework. Specifically, the Company did not sufficiently identify risks associated with certain routine processes and related information systems, including revenue, and certain non-routine transactions. In addition, the Company did not properly design and implement appropriate process-level internal controls at the Environmental Solutions component of the Domestic Regulated and Compliance Services segment. The Environmental Solutions component primarily consists of the PSC Environmental Services, LLC component acquired on April 22, 2014,

which was excluded from management assessment of internal controls over financial reporting as of December 31, 2014. The material weakness relating to the risk assessment component of the internal control framework contributed to the other material weaknesses described below.

#### **COSO Component - Control Activities**

*Revenue* - The design and operating effectiveness of revenue control activities were inadequate to ensure that revenue transactions were properly measured and recorded in the appropriate period.

*Environmental Solutions* - The design and operating effectiveness of control activities at the Environmental Solutions component of the Domestic Regulated and Compliance Services segment of the business were inadequate to ensure the component's financial statements were appropriately stated.

#### **Planned Remediation of Material Weaknesses**

We are committed to remediating the control deficiencies that gave rise to the material weaknesses described above by implementing changes to strengthen our risk assessment process and accountability for our internal control over financial reporting. Management is responsible for implementing changes and improvements in our internal control over financial reporting and for remediating the control deficiencies that gave rise to these material weaknesses.

To remediate the material weaknesses in our internal control over financial reporting described above, we will review, analyze, and properly document our processes related to internal controls over financial reporting, starting with our revenue processes. We will create standard policies and procedures related to internal control over financial reporting to be implemented throughout the organization. These measures will also include the implementation of financial reporting risk assessment and review processes to ensure the related significant accounting policies are implemented and applied properly under U.S. generally accepted accounting principles on a consistent basis throughout the Company.

The Company has engaged an external service provider to assist management with performing a comprehensive risk assessment, further documenting and updating the Company's internal control over financial reporting at both the entity and transaction levels, and correcting the identified deficiencies including the material weaknesses. The material weaknesses will not be considered remediated until the applicable remedial controls operate for a sufficient period of time and management has concluded, through testing, that these controls are operating effectively.

#### **Changes in Internal Controls**

Although we have taken steps toward our planned remediation of material weaknesses as described above, there were no changes implemented in our internal control over financial reporting during the quarter ended March 31, 2016 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

**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.**

## PART II. – OTHER INFORMATION

### ITEM 1. LEGAL PROCEEDINGS

See Note 13 - 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

Under resolutions that our Board of Directors has adopted, we have been authorized to purchase a cumulative total of 24,621,640 shares of our common stock on the open market. As of March 31, 2016, we had purchased a cumulative total of 21,218,771 shares.

The following table provides information about our purchases of shares of our common stock during the three months ended March 31, 2016:

#### Issuer Purchase of Equity Securities

| <b>Period</b>                  | <b>Total Number of Shares (or Units) Purchased *</b> | <b>Average Price Paid per Share (or Unit)</b> | <b>Total Number of Shares (or Units) Purchased as Part of Publicly Announced Plans or Programs</b> | <b>Maximum Number of Shares (or Units) that May Yet Be Purchased Under the Plans or Programs</b> |
|--------------------------------|--|---|--|--|
| January 1 – January 31, 2016   | 277,952  | \$ 116.24                                     | 277,952  | 3,452,869  |
| February 1 – February 29, 2016 | 50,000   | 107.69  | 50,000   | 3,402,869  |
| March 1 – March 31, 2016       | —  | —   | —  | 3,402,869  |
| Total                          | 327,952  | \$ 114.93                                     | 327,952  | 3,402,869  |

## ITEM 6. EXHIBITS

|              |  |
|--------------|--|
| 31.1         | Rules 13a-14(a)/15d-14(a) Certification of Charles A. Alutto, President and Chief Executive Officer  |
| 31.2         | Rule 13a-14(a)/15d-14(a) Certification of Daniel V. Ginnetti, Executive Vice President and Chief Financial Officer   |
| 32           | Section 1350 Certification of Charles A. Alutto, President and Chief Executive Officer, and Daniel V. Ginnetti, 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: May 9, 2016

STERICYCLE, INC.

*(Registrant)*

By: /s/ DANIEL V. GINNETTI

Daniel V. Ginnetti

*Executive Vice President and Chief Financial Officer*

*(Principal Financial and Accounting Officer)*

27

[\(Back To Top\)](#)

## Section 2: EX-31.1 (EX-31.1)

**Exhibit 31.1**

### Rule 13a-14(a)/15d-14(a) Certification

Charles A. Alutto

President and Chief Executive Officer

I, Charles A. Alutto, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Stericycle, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, 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;
  - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

- (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 9, 2016

/s/ CHARLES A. ALUTTO

Charles A. Alutto  
President and Chief  
Executive Officer  
Stericycle, Inc.

[\(Back To Top\)](#)

## Section 3: EX-31.2 (EX-31.2)

Exhibit 31.2

### Rule 13a-14(a)/15d-14(a) Certification

Daniel V. Ginnetti  
Executive Vice President and Chief Financial Officer

I, Daniel V. Ginnetti, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Stericycle, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, 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;
  - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 9, 2016

/s/ DANIEL V. GINNETTI

Daniel V. Ginnetti  
Executive Vice President and

[\(Back To Top\)](#)

## Section 4: EX-32 (EX-32)

Exhibit 32

### SECTION 1350 CERTIFICATION

In reference to this quarterly report on Form 10-Q of Stericycle, Inc. we, Charles A. Alutto, President and Chief Executive Officer of the registrant, and Daniel V. Ginnetti, an Executive Vice President and the Chief Financial Officer of the registrant, certify as follows, pursuant to 18 U.S.C. §1350 (as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002):

- (a) the report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934 (15 U.S.C. 78m or 78o(d)); and
- (b) the information contained in the report fairly presents, in all material respects, the financial condition and results of operations of the registrant.

Date: May 9, 2016

/s/ CHARLES A. ALUTTO

Charles A. Alutto  
President and Chief  
Executive Officer  
Stericycle, Inc.

/s/ DANIEL V. GINNETTI

Daniel V. Ginnetti  
Executive Vice President and  
Chief Financial Officer  
Stericycle, Inc.

[\(Back To Top\)](#)