



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

Form 10-K

(Mark One)



**ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**  
**For the fiscal year ended December 31, 2005**

or



**TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**  
**For the transition period from            to**

Commission File Number 0-21229

**Stericycle, Inc.**

(Exact name of Registrant as Specified in its Charter)

**Delaware**

(State or Other Jurisdiction of  
Incorporation or Organization)

**36-3640402**

(I.R.S. 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)

**Securities registered pursuant to Section 12(b) of the Act: None**

**Securities registered pursuant to Section 12(g) of the Act:**  
**Common Stock, \$0.01 par value**  
**(title of class)**

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ☒ No ☐

If this report is an annual or transition report, indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934. Yes ☐ No ☒

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 such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of Registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K, or any amendment to this Form 10-K. ☒

Indicate by check mark whether the Registrant is an accelerated filer (as defined in Exchange Act Rule 12b-2). Yes ☒ No ☐

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

The aggregate market value of voting and non-voting common equity held by non-affiliates computed by reference to the price at which common equity was last sold as of the last business day of the registrant's most recently completed second fiscal quarter (June 30, 2005) was: \$2,147,249,555.

On February 27, 2006, there were 44,002,862 shares of the Registrant's Common Stock outstanding.

**DOCUMENTS INCORPORATED BY REFERENCE**

Information required by Items 10, 11, 12 and 13 of Part III of this Report is incorporated by reference from the Registrant's definitive Proxy Statement for the 2006 Annual Meeting of Stockholders to be held on May 3, 2006.



Stericycle, Inc.

2005 ANNUAL REPORT ON FORM 10-K

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## PART I

### Item 1. Business

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

#### Company Overview

Our business is the management of medical waste, infection control and pharmaceutical returns and the provision of related compliance services. Our product and service offerings include:

- our industry-leading *Stericycle* medical waste management services;
- our *Bio Systems*® sharps management services that reduce the risk of needle sticks in hospitals;
- our *Steri-Safe*® OSHA and HIPPA compliance programs;
- an assortment of products for infection control; and
- our Direct Return® pharmaceutical returns and product recall management services under the *Stericycle Pharmaceutical Services* unit.

We are the largest regulated medical waste management company in North America, serving approximately 333,000 customers throughout the United States, Puerto Rico, Canada, Mexico and the United Kingdom. In North America we have a fully integrated, national medical waste management network. Our network includes 45 treatment/collection centers and 105 additional transfer/collection sites. We use this network to provide a broad range of services to our customers. Our medical waste treatment technologies include our proprietary electro-thermal-deactivation system, or ETD, as well as traditional methods such as autoclaving and incineration. In the United Kingdom we have a fully integrated waste management network, which includes 12 treatment/collection centers and two additional transfer/collection sites.

We also serve pharmacies, distributors and manufacturers of pharmaceutical products by managing the return and disposal of expired or surplus pharmaceutical products and by managing the recall of pharmaceutical products being recalled by the manufacturer.

In addition, we offer consulting and regulatory compliance services in areas that are related to our medical waste and pharmaceutical returns services.

We benefit from significant customer diversification, with no single customer accounting for more than 2% of total revenues, and our top 10 customers accounting for approximately 8% of total revenues. Our two principal groups of customers include approximately 325,000 small medical waste generators such as outpatient clinics, medical and dental offices and long-term and sub-acute care facilities and approximately 7,700 large medical waste generators such as hospitals, blood banks and pharmaceutical manufacturers.

#### Industry Overview

Since the 1980s, government regulation has increasingly required the proper handling and disposal of the medical waste generated by the health care industry. Regulated medical waste is generally considered any medical waste that can cause an infectious disease, including single-use disposable items, such as needles, syringes, gloves and other medical supplies; cultures and stocks of infectious agents; and blood products.

We believe that the United States market for our regulated medical waste services is approximately \$3.0 billion and in excess of \$10.0 billion globally. Industry growth is driven by a number of factors. These factors include:

*Pressure To Reduce Healthcare Costs.* The health care industry is under pressure to reduce costs and improve efficiency. We believe that our services can help health care providers reduce costs by reducing their handling and compliance costs, reducing their potential liability related to employee exposure to blood borne

pathogens and other infectious material, and reducing the amount of time and money invested in infection control and compliance.

*Shift to Off-Site Treatment.* We believe that managed care and other health care cost-containment pressures are causing patient care to continue to shift from institutional higher-cost acute-care settings to less expensive, smaller, off-site treatment alternatives. Many common diseases and conditions are now being treated in smaller non-institutional settings. We believe that these non-institutional off-site health care expenditures will continue to grow as cost-cutting pressures increase.

*Aging of U.S. Population.* The average age of the U.S. population is increasing. As people age, they typically require more medical attention and a wider variety of tests and procedures. In addition, as technology improves more tests and procedures become available. All of these factors lead to increased medical waste.

*Environmental and Safety Regulation.* We believe that many businesses that are not currently using outsourced medical waste services are unaware either of the need for proper training of employees or the U.S. Occupational Safety and Health Administration, or OSHA, requirements regarding the handling of medical waste. These businesses include manufacturing facilities, schools, restaurants, casinos, hotels and generally all businesses where employees may come into contact with blood borne pathogens. In addition, home health care is currently unregulated and may become subject to similar blood borne pathogen regulations in the future.

The medical waste management industry is subject to extensive regulation beyond the Medical Waste Tracking Act or MMTA. For example, the stringent Clean Air Act regulations adopted in 1997 limit the discharge into the atmosphere of pollutants released by medical waste incineration. These regulations have increased the costs of operating medical waste incinerators and have resulted in significant closures of on-site treatment facilities, thereby increasing the demand for off-site treatment services. In addition, OSHA has issued regulations concerning employee exposure to blood borne pathogens and other potentially infectious materials that require, among other things, special procedures for the handling and disposal of medical waste and annual training of all personnel who may be exposed to blood and other body fluids. These regulations underlie the expansion of our service offerings to include OSHA compliance services for health care providers.

The pharmaceutical returns (or reverse distribution) industry arose in response to the need to facilitate the return of unused, expired or recalled drugs to the manufacturer for credit and proper destruction. *Stericycle Pharmaceutical Services* provides pharmaceutical returns management, recall services and pharmaceutical product disposal services to pharmacies, distributors and manufacturers of pharmaceutical products.

We operate our pharmaceutical services business from five centers located in Florida, Georgia, Illinois, Indiana and New Jersey.

## **Competitive Strengths**

We believe that we benefit from the following competitive strengths, among others:

*Broad Range of Services.* We offer our customers a broad range of services to help them develop internal systems and processes, which allow them to manage their medical waste efficiently and safely. For example, we have developed programs to help train our customers' employees on the proper methods of handling medical waste in order to reduce potential employee exposure. Other services include those designed to help clients ensure and maintain compliance with OSHA regulations, sharps management services (*Bio Systems*), infection control tracking and pharmaceutical returns. We also supply specially designed containers for use by most of our large account customers, including our Steri-Tub® container, a reusable leak and puncture-resistant container, made from recycled plastic, which we developed and patented.

*Established National Network.* In North America our 45 medical waste treatment/collection centers and five pharmacy returns centers in 28 states, Puerto Rico, Canada and Mexico give us a national network in the regulated medical waste and significant scale in the pharmaceutical services industry. The extensive federal, state and local laws and regulations governing the regulated medical waste industry and the pharmaceutical

services industry typically require some type of governmental approval for new facilities. We have significant experience in obtaining and maintaining these permits, authorizations and other types of governmental approvals. We believe that a network similar in scale and scope to ours would be extremely expensive and time-consuming for a national competitor to develop.

*Low-Cost Operations.* We are often the low-cost provider of medical waste management within the areas we serve. Our low costs result from our vertically integrated network and broad geographic presence.

*Diverse Customer Base and Revenue Stability.* We have developed strong contracts and service agreements with a diverse network of established customers. Our top 10 medical waste customers account for approximately 8% of our medical waste revenues, and no single customer accounts for more than 2% of revenues. We are also generally protected from regulatory changes and other factors, which affect our costs, because our medical waste contracts typically contain provisions that allow us to adjust our prices to reflect any additional costs caused by changes in regulations or any other increases in our operating costs.

*Strong Sales Network and Proprietary Database.* We use both telemarketing and direct sales efforts to obtain new medical waste customers. In addition, we have a large database of potential new small account customers, which we believe gives us a competitive advantage in identifying and reaching this higher-margin sector.

*Experienced Senior Management Team.* Our five most senior executives collectively have over 100 years of management experience in the health care, consumer and waste management industries.

## **Business Strategy**

Our goals are to strengthen our position as a leading provider of integrated medical waste, pharmaceutical services and compliance services and to continue to improve our profitability. Components of our strategy to achieve these goals include:

*Improve Margins.* We intend to continue actively to work to improve our margins by increasing our base of small account customers and focusing on service strategies that more efficiently meet the needs of our large account customers. We have successfully raised the percentage of our revenues from small account customers from 33% of domestic revenues in the fourth quarter of 1996 to 63% in the fourth quarter of 2005, which has contributed to an increase in our operating income margins. Small account customers typically do not produce a sufficient volume of regulated medical waste on an individual basis to justify capital expenditures on their own waste treatment facilities or the expense of hiring regulatory compliance personnel. We believe that the number of small account customers and the opportunities for the sale of ancillary services and products to both large and small account customers will continue to grow.

*Expand Range of Services and Products.* We believe that we have the opportunity to expand our business by increasing the range of products and services that we offer to our existing medical waste customers. For example, through our Steri-Safe<sup>SM</sup> program, we now offer OSHA compliance services to health care providers, and our mercury mail-back program enables customers to manage waste that should be handled separately. Our acquisition of Scherer Healthcare, Inc. in January 2003 provided the opportunity to market its *Bio Systems* sharps management program in new geographic service areas, and we continually research and test new products and service offerings for our customers. After establishing our first center in Lake Forest, Illinois in 2003, we have expanded our pharmaceutical returns and recall business through our acquisitions in 2005 of Automated Health Technologies, Universal Solutions, Inc., L.L. Horizons, Inc. and NNC Group, LLC.

*Seek Complementary Acquisitions.* As described below, we actively seek strategic opportunities to acquire businesses that expand our national and international network of treatment centers and increase our customer and product base. We also consider acquisitions that can leverage the skills and infrastructure that we have in place, for example, our acquisition of the *Bio Systems* sharps management program. We believe that strategic acquisitions can enable us to gain operating efficiencies through increased utilization of our service infrastructure as well as to expand our services offered to our customers and to expand the product offerings and geographic service areas in which we operate.

## Acquisitions

*Evaluation and Integration.* Our management team has substantial experience in evaluating potential acquisition candidates and determining whether a particular medical waste management or related service business can be successfully integrated into our business.

We have established an efficient procedure for integrating newly acquired companies into our business while minimizing disruption of our operations. Once a business is acquired, we implement programs designed to improve customer service, sales, marketing, routing, equipment utilization, employee productivity, operating efficiencies and overall profitability.

*Acquisitions History.* We completed a total of 100 acquisitions from 1993 through 2005, including nine domestic medical waste management businesses in 2005. The most significant of these was our acquisition in November 1999 of the medical waste business of Browning Ferris Industries, Inc. (“BFI”) in the United States, Canada and Puerto Rico. At the time, BFI was the largest provider of regulated medical waste services in the United States.

In 2005, our majority owned subsidiary in Mexico completed the acquisition of seven medical waste management companies in Mexico, and our United Kingdom subsidiary completed two acquisitions in the United Kingdom.

In addition, in 2005 we acquired four pharmaceutical returns and product recall businesses: Automated Health Technologies, Inc., Universal Solutions, Inc., L.L. Horizons, Inc and NNC Group, LLC.

*Collection and Transportation.* We consider efficiency of collection and transportation to be a critical element of our medical waste operations because it represents the largest component of our operating costs.

The use of transfer stations is an important component of our collection and transportation operations. We utilize transfer stations in a “hub and spoke” configuration, which allows us to expand our geographic service area and increase the volume of medical waste that can be treated at a particular facility.

As part of our collection operations, we supply specially designed containers for use by most of our large account customers and many of our larger small account customers. We have developed a comprehensive line of reusable leak and puncture-resistant plastic containers. The containers enable our customers to reduce costs by reducing the number of times that materials and supplies are handled, eliminate the cost of corrugated boxes and potentially reduce liability resulting from human contact with medical waste. In order to maximize regulatory compliance and minimize potential liability, we will not accept medical waste unless it is properly packaged by customers in containers that we have either supplied or approved.

*Treatment and Disposal.* Upon arrival at a treatment facility, containers or boxes of medical waste are typically scanned to verify that they do not contain any unacceptable substances like radioactive material. Any container or box that is discovered to contain unacceptable waste is returned to the customer and the appropriate regulatory authorities are informed. After inspection, the waste is treated using one of our various treatment technologies. Upon completion of the particular process, the resulting waste or incinerator ash is transported for resource recovery, recycling or disposal in a landfill operated by third parties unaffiliated with us. We do not own any landfills. After the plastic containers such as our Steri-Tub® or Bio Systems containers have been emptied, they are washed, sanitized and returned to customers for re-use.

*Consulting Services.* Before our trucks pick up medical waste, our integrated waste management approach attempts to “build in” efficiencies that will yield logistical advantages. For example, our consulting services can assist our customers in reducing the volume of medical waste that they generate. In addition, we provide customers with the documentation necessary for compliance with applicable regulations, which, if they complete the documentation properly, will reduce regulatory interruptions to their businesses to verify compliance.

*Documentation.* We provide complete documentation to our customers for all medical waste that we collect, including the name of the generator, date of pick-up and date of delivery to a treatment facility. We believe that our documentation system meets all applicable federal, state and local regulations including those mandated by the U.S. Department of Transportation, or DOT.

## **Marketing and Sales**

*Marketing Strategy.* We use both telemarketing and direct sales efforts to obtain new customers.

Our more than 1,300 drivers also may participate in our marketing and sales efforts by actively soliciting small account customers while they service their routes.

*Small Account Customers.* We have targeted small account customers as a growth area of our medical waste business. We believe that these customers offer a higher relative profit potential on small revenue per customer compared to other potential customers. We believe that these customers view the potential risks of non-compliance with applicable state and federal medical waste regulations as disproportionate to the cost of the services that we provide. We believe that this factor has been the basis for the significantly higher gross margins that we have achieved with our small account customers relative to our large account customers.

*Steri-Safe<sup>SM</sup>.* Our Steri-Safe<sup>SM</sup> OSHA compliance program provides an integrated medical waste management and compliance-assistance service for small account customers and other healthcare providers who typically lack the internal personnel and systems to comply with OSHA blood borne regulations. Customers for our Steri-Safe<sup>SM</sup> service pay a predetermined subscription fee in advance for medical waste collection and treatment services and can also choose from available packages of training and education services and products designed to help them to comply with OSHA regulations. Approximately 95,000 small account customers are enrolled in this program. We believe that the implementation of our Steri-Safe<sup>SM</sup> service will provide us with new and enhanced opportunities to leverage our existing customer base through the program's prepayment structure and diversified product and service offerings.

We also operate several "mail-back" programs through which we can reach small account customers located in outlying areas that would be inefficient to serve using our regular route structure. Mail-back programs are also used in home care patient settings where there is a focus on reducing the potential injuries to workers at recycling centers or other solid waste handling locations.

*Large Account Customers.* We believe that we have been successful in serving large account customers and plan to continue to serve those customers as long as satisfactory levels of profitability can be maintained. Our marketing and sales efforts to large account customers are conducted by full-time account executives whose responsibilities include identifying and attracting new customers and serving our existing account base of approximately 7,700 large account customers. In addition to securing new contracts, our marketing and sales personnel provide consulting services to our health care customers, assisting them in reducing the amount of medical waste that they generate, training their employees on safety issues and implementing programs to audit, classify and segregate medical waste in a proper manner.

Our *Bio Systems* sharps management offering can enhance our revenue and margin potential per account. The *Bio Systems* service offering can help our customers eliminate plastic and cardboard from their waste stream while providing a safe and cost effective way for them to deal with the disposal of their sharp objects (such as needles, syringes, etc.).

Our *Stericycle Pharmaceutical Services* unit can streamline manufacturer return credits, recalls, enhance inventory management capabilities and deliver online business information related to expired medications.

We believe that the implementation of more stringent Clean Air Act and other federal regulations directly and indirectly affecting medical waste will continue to enable us to improve our marketing efforts to large account customers because the additional costs that they will incur to comply with these regulations will make the costs of our services more attractive, particularly in the event they use their own incinerators.



*National Accounts.* As a result of our extensive geographic coverage, we are capable of servicing national account customers (i.e., customers requiring medical waste disposal services at various geographically dispersed locations). We will continue to selectively focus on national accounts.

*Contract and Service Agreements.* We have long-term contracts with substantially all of our customers. We negotiate individual service agreements with each large account and small account customer. Although we have a standard form of agreement, particularly for small account customers, terms may vary depending upon the customer's service requirements and the volume of medical waste generated and, in some jurisdictions, requirements imposed by statute or regulation. Service agreements typically include provisions relating to the types of containers, frequency of collection, pricing, treatment of waste and documentation for tracking purposes. Each agreement also specifies the customer's obligation to pack its medical waste in approved containers. Substantially all of our agreements with small account customers contain automatic renewal provisions.

## **International**

In 1998, we formed Medam S.A. de C.V., or Medam, a Mexican joint venture company, in which we now have a 64.5% interest, to utilize our ETD technology to treat medical waste primarily in the Mexico City market. From 2001 through 2004, Medam completed the acquisition of five medical waste businesses in Mexico and, as noted, in 2005, it completed seven acquisitions.

In 1999, we established a joint venture in Argentina, Medam, B.A. Srl, in which we have a 37.5% interest, to utilize our ETD technology to treat medical waste primarily in the Buenos Aires market.

In 2000, we entered into agreements with Aso Cement Co., Ltd and Aso Mining Co., Ltd, to establish an ETD treatment facility in Japan. In 2002, we entered into agreements with Medical Safety Systems of Hokkaido, Japan to establish a second ETD treatment facility in Japan, and in 2003, we entered into agreements with Shiraishi-Sogyo Co. Ltd. of Tochigi, Japan to establish a third ETD treatment facility. Under these agreements, we supplied ETD treatment equipment and provide ongoing consulting assistance in the operation of the equipment.

In 2001, we concluded an agreement with SteriCorp Limited, an Australian company, under which we provided financing to SteriCorp through the purchase of convertible notes, licensed our ETD technology to it for use in Australia and certain other countries, and agreed to sell to it an ETD processing line and assist in its installation.

In 2004, we completed our first acquisition in Europe with the purchase of White Rose Environmental, Ltd in Leeds, England. In 2005, our United Kingdom subsidiary completed the acquisitions of Healthcare Waste Limited, which operated a medical waste business in England, and Indigo Equity Holdings Limited (formerly known as Waste Solutions, Inc.), which operated a medical waste business in England and Wales.

## **Treatment Technologies**

We currently use both non-incineration technologies (our proprietary ETD technology and autoclaving) and incineration technologies for treating regulated medical waste.

Stericycle was founded on the belief that there was a need for safe, secure, and environmentally responsible management of regulated medical waste. From our beginning we have championed the use of non-incineration, alternate treatment technologies such as our patented ETD process. While we recognize that some state regulations as currently in force mandate that some types of medical waste must be incinerated, we also know from years of experience working with our customers that there are ways to reduce the amount of waste that is ultimately incinerated. The most effective strategy that we have seen involves comprehensive education of our customers in waste minimization and segregation. Working in cooperation with our customers, we have made tremendous strides in shifting away from incineration and moving towards alternate treatment technologies. At the end of 2005, incineration constituted less than 9% of our treatment capacity in North America.

*Autoclaving.* Autoclaving treats medical waste with steam at high temperature and pressure to kill pathogens. Autoclaving alone does not change the appearance of waste, and some landfill operators may not accept recognizable medical waste, but autoclaving may be combined with a shredding or grinding process to render the medical waste unrecognizable.

*ETD Treatment Process.* ETD includes a system for grinding medical waste. After grinding, ETD uses an oscillating field of low-frequency radio waves to heat medical waste to temperatures that destroy pathogens such as viruses, bacteria, fungi and yeast, without melting the plastic content of the waste.

We believe that ETD offers advantages over many other methods of treating medical waste. We believe that it is easier to get permits for ETD facilities than for incineration facilities because ETD does not produce regulated air or water emissions. ETD facilities also can be more cost-effective to construct than incinerators or autoclaves with shredding capability. ETD also renders medical waste unrecognizable and thus more acceptable for landfills and reduces the volume of waste as well.

*Incineration.* Incineration burns medical waste at elevated temperatures and reduces it to ash. Incineration reduces the volume of waste, and it is the recommended treatment and disposal option for some types of medical waste such as anatomical waste or residues from chemotherapy procedures. Air emissions from incinerators can contain certain byproducts, which are subject to federal, state and, in some cases, local regulation. In some circumstances the ash byproduct of incineration may be regulated.

## **Competition**

The medical waste services industry is highly competitive, and barriers to entry into the collection and disposal business are very low. The industry consists of many different types of service providers, including a large number of regional and local companies. Another major source of competition is the on-site treatment of medical waste by some large-quantity generators, particularly hospitals.

In addition, we face potential competition from businesses that are attempting to commercialize alternate treatment technologies or products designed to reduce or eliminate the generation of medical waste, such as reusable or degradable medical products.

We compete for service agreements primarily on the basis of cost-effectiveness, quality of service and geographic location. We also compete by trying to demonstrate to customers that we can do a better job in reducing their potential liability. Our ability to obtain new service agreements may be limited by the fact that a potential customer's current vendor may have an excellent service history or a long-term service contract or may offer prices to the potential customer that are lower than ours.

## **Governmental Regulation**

The medical waste management industry is subject to extensive and frequently changing federal, state and local laws and regulations. This statutory and regulatory framework imposes compliance burdens and risks on us, including requirements to obtain and maintain government permits. These permits grant us the authority, among other things:

- to construct and operate treatment and transfer facilities;
- to transport medical waste within and between relevant jurisdictions; and
- to handle particular regulated substances.

Our permits must be periodically renewed and are subject to modification or revocation by the regulatory authority. We are also subject to regulations that govern the definition, generation, segregation, handling, packaging, transportation, treatment, storage and disposal of medical waste. We are also subject to extensive regulations designed to minimize employee exposure to medical waste. In addition, we are subject to foreign laws and regulations.

*Federal Regulation.* Four federal agencies have authority over medical waste. These agencies are the U.S. Environmental Protection Agency or EPA, Occupational Safety and Health Administration or OSHA,

Department of Transportation or DOT and the U.S. Postal Service. These agencies regulate medical waste under a variety of statutes and regulations.

*Medical Waste Tracking Act of 1988.* In the late 1980s, the EPA outlined a two-year demonstration program pursuant to MMTA, which was added to the Resource Conservation and Recovery Act of 1976.

In regulations implementing the MMTA, the EPA defined medical waste and established guidelines for its segregation, handling, containment, labeling and transport. The MMTA demonstration program expired in 1991, but the MMTA established a model followed by many states in developing their specific medical waste regulatory frameworks.

*Clean Air Act Regulations.* In August 1997, the EPA adopted regulations under the Clean Air Act Amendments of 1990 that limit the discharge into the atmosphere of pollutants released by medical waste incineration. These regulations required every state to submit to the EPA for approval a plan to meet minimum emission standards for these pollutants. See “— State and Local Regulation.” We currently operate six incinerators in the United States. We believe these incinerators are in compliance with applicable state requirements.

*Occupational Safety and Health Act of 1970.* The Occupational Safety and Health Act of 1970 authorizes OSHA to issue occupational safety and health standards. Various standards apply to certain aspects of our operations, and govern such matters as exposure to blood borne pathogens and other potentially infectious materials.

*Resource Conservation and Recovery Act of 1976.* The Resource Conservation and Recovery Act of 1976, or RCRA created standards for the generation, transportation, treatment, storage and disposal of solid and hazardous wastes. Medical wastes are currently considered non-hazardous solid wastes under RCRA. However, some substances collected by us from some of our customers, including photographic fixer developer solutions, lead foils and dental amalgam, are considered hazardous wastes.

We use landfills operated by parties unrelated to us for the disposal of treated medical waste from our ETD facilities and for the disposal of incinerator ash and autoclaved waste. We do not own or operate any landfills.

Following treatment, waste from our ETD and autoclave facilities is disposed of as nonhazardous waste. At our incineration facilities, we test ash from the incineration process to determine whether it must be disposed of as hazardous waste.

We employ quality control measures to check incoming medical waste for specific types of hazardous substances. Our customer agreements also require our customers to exclude different kinds of hazardous substances or radioactive materials from the medical waste they provide us. We use a different type of contract for the relatively small number of customers from whom we pick up hazardous wastes.

*DOT Regulations.* The U.S. DOT has put regulations into effect under the Hazardous Materials Transportation Authorization Act of 1994 which require us to package and label medical waste in compliance with designated standards, and which incorporate blood borne pathogens standards issued by OSHA. Under these standards, we must, among other things, identify our packaging with a “biohazard” marking on the outer packaging, and our medical waste container must be sufficiently rigid and strong to prevent tearing or bursting and must be puncture-resistant, leak-resistant, properly sealed and impervious to moisture.

*Comprehensive Environmental Response, Compensation and Liability Act of 1980.* The Comprehensive Environmental Response, Compensation and Liability Act of 1980, or CERCLA, established a regulatory and remedial program to provide for the investigation and cleanup of facilities that have released or threaten to release hazardous substances into the environment. CERCLA and state laws similar to it may impose strict, joint and several liability on the current and former owners and operators of facilities from which releases of hazardous substances have occurred and on the generators and transporters of the hazardous substances that come to be located at these facilities. Responsible parties may be liable for substantial site investigation and cleanup costs and natural resource damages, regardless of whether they exercised due care and complied with applicable laws and regulations. If we were found to be a responsible party for a particular site, we could be

required to pay the entire cost of the site investigation and cleanup, even though other parties also may be liable. This result would be the case if we were unable to identify other responsible parties, or if those parties were financially unable to contribute money to the cleanup.

*United States Postal Service.* We have obtained permits from the U.S. Postal Service to conduct our “mail-back” programs, pursuant to which customers mail approved “sharps” (needles, knives, broken glass and the like) containers directly to our treatment facilities.

*State and Local Regulation.* We conduct business in 47 states. Each state has its own regulations related to the handling, treatment and storage of medical waste. Although there are many differences among the various state laws and regulations, many states have followed the medical waste model under the MWTa and have implemented programs under RCRA. In each of the states where we operate a treatment facility or a transfer station, we are required to comply with numerous state and local laws and regulations as well as our operating plan for each site. In addition, many local governments have ordinances, local laws and regulations, such as zoning and health regulations, which affect our operations.

States usually regulate medical waste as a solid or “special” waste and not as a hazardous waste under RCRA. State definitions of medical waste include:

- microbiological waste (cultures and stocks of infectious agents);
- pathology waste (human body parts from surgical procedures and autopsies);
- blood and blood products; and
- sharps.

Most states require segregation of different types of medical waste at the hospital or other location where they were created. A majority of states require that the universal biohazard symbol or a label appear on medical waste containers. Storage regulations may apply to the party generating the waste, the treatment facility, the transport vehicle, or all three. Storage rules seek to identify and secure the storage area for public safety as well as set standards for the manner and length of storage. Many states require employee training for safe environmental cleanup through emergency spill and decontamination plans. Many states also require that transporters carry spill equipment in their vehicles. Those states whose regulatory framework relies on the MWTa model have tracking document systems in place. One state (Washington) regulates the prices that we may charge. We maintain numerous governmental permits and licenses to conduct our business. Our permits vary from state to state based upon our activities within that state and on the applicable state and local laws and regulations.

We believe that we are currently in compliance in all material respects with our permits and applicable laws and regulations, including state requirements regarding air emissions from incinerators.

*Foreign Territorial Regulation.* We are subject to substantial regulation by the governments of the foreign jurisdictions in which we do business. We believe that we have obtained all permits required by the relevant regulatory authorities.

If we expand our operations into other foreign jurisdictions, we will be required to comply with the laws and regulations of each of those jurisdictions.

*Permitting Process.* Each state in which we currently operate, and each state in which we may operate in the future, has a specific permitting process.

We have been successful in obtaining permits for our current medical waste transfer, treatment and processing facilities and for our transportation operations. Several of our past attempts to construct and operate medical waste treatment facilities, however, have met with significant community opposition. In some of these cases, we have withdrawn our permit application.

The pharmaceutical returns business is highly regulated, both on the federal and state level.

Once out-dated or recalled pharmaceutical products have been sorted at our returns center, pharmaceutical products that will be disposed of instead of being returned to their manufacturer may be considered hazardous waste and require handling in compliance with U.S. Food and Drug Administration or FDA, EPA, RCRA and DOT regulations.

Most states have licensing requirements for reverse distributors of pharmaceutical products. We believe we are in compliance with all federal and state licensing requirements applicable to our pharmaceutical services business.

#### **Patents and Proprietary Rights**

We consider the protection of our technology to be important to our business. Our policy is to protect our technology by a variety of means, including applying for patents in the United States and in some foreign countries.

We hold 14 United States patents relating to the ETD treatment process and other aspects of processing medical waste. We have filed or have been assigned patent applications in several foreign countries and we have received patents in Australia, Canada, France, Mexico and the United Kingdom.

The term of the first-to-end of our existing United States patents relating to our ETD treatment process will currently end in May 2009 and the term of the last-to-end will currently end in January 2019.

We own federal registrations of the trademarks “Steri-Fuel®,” “Steri-Plastic®,” “Steri-Tub®,” “Direct Return®,” the service mark Stericycle® and a service mark consisting of a nine-circle design.

#### **Potential Liability and Insurance**

The medical waste industry involves potentially significant risks of statutory, contractual, tort and common law liability claims. Potential liability claims could involve, for example:

- cleanup costs;
- personal injury;
- damage to the environment;
- employee matters;
- property damage; or
- alleged negligence or professional errors or omissions in the planning or performance of work.

We could also be subject to fines or penalties in connection with violations of regulatory requirements.

We carry \$35 million of liability insurance (including umbrella coverage), and under a separate policy, \$10 million of aggregate pollution and legal liability insurance (\$5 million per incident), which we consider sufficient to meet regulatory and customer requirements and to protect our employees, assets and operations. Our pollution liability insurance excludes liabilities under CERCLA. There can be no assurance that we will not face claims under CERCLA or similar state laws resulting in substantial liability for which we are uninsured and which could have a material adverse effect on our business.

Our insurance programs utilize large deductible plans offered by a commercial insurance company. Large deductible plans allow us the benefits of cost-effective risk financing while protecting us from catastrophic risk with specific stop loss insurance limiting the amount of self-funded exposure for any one loss and aggregate stop loss insurance limiting the self-funding exposure for any one year.

#### **Employees**

As of December 31, 2005, we had 4,320 full-time and 111 part-time employees (including employees of our subsidiaries). Approximately 347 of our drivers, transportation helpers and plant workers are covered by a total of eight collective bargaining agreements with local unions of the International Brotherhood of Teamsters.

These agreements expire at various dates from October 2006 to June 2010. We consider our employee relations to be satisfactory.

#### **Website Access**

We maintain an Internet website, <http://www.stericycle.com>, providing a variety of information about us. Our annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and amendments to those reports, that we file with the Securities and Exchange Commission are available, as soon as reasonably practicable after filing, at the investors' page on our website, <http://www.stericycle.com/investor.htm>, or by a direct link to our filings on the SEC's free website, <http://www.sec.gov>.

#### **Item 1A. Risk Factors**

***We are subject to extensive governmental regulation which it is frequently difficult, expensive and time-consuming to comply with.***

The medical waste management industry is subject to extensive federal, state and local laws and regulations relating to the collection, transportation, packaging, labeling, handling, documentation, reporting, treatment and disposal of regulated medical waste. Our business requires us to obtain many permits, authorizations, approvals, certificates or other types of governmental permission from every jurisdiction where we operate. We believe that we currently comply in all material respects with all applicable permitting requirements. State and local regulations change often, however, and new regulations are frequently adopted. Changes in the regulations could require us to obtain new permits or to change the way in which we operate under existing permits. We might be unable to obtain the new permits that we require, and the cost of compliance with new or changed regulations could be significant.

Many of the permits that we require, especially those to build and operate treatment plants and transfer facilities, are difficult and time-consuming to obtain. They may also contain conditions or restrictions that limit our ability to operate efficiently, and they may not be issued as quickly as we need them (or at all). If we cannot obtain the permits that we need when we need them, or if they contain unfavorable conditions, it could substantially impair our operations and reduce our revenues.

***The handling and treatment of hazardous medical waste carries with it the risk of personal injury to employees and others.***

Our business requires us to handle materials that may be infectious or hazardous to life and property in other ways. While we try to handle such materials with care and in accordance with accepted and safe methods, the possibility of accidents, leaks, spills, and acts of God always exists. Examples of possible exposure to such materials include:

- truck accidents;
- damaged or leaking containers;
- improper storage of medical waste by customers;
- improper placement by customers of materials into the waste stream that we are not authorized or able to process, such as certain body parts and tissues; or
- malfunctioning treatment plant equipment.

Human beings, animals or property could be injured, sickened or damaged by exposure to medical waste. This in turn could result in lawsuits in which we are found liable for such injuries, and substantial damages could be awarded against us.

While we carry liability insurance intended to cover these contingencies, particular instances may occur that are not insured against or that are inadequately insured against. An uninsured or underinsured loss could be substantial and could impair our profitability and reduce our liquidity.

***The handling of medical waste exposes us to the risk of environmental liabilities, which may not be covered by insurance.***

As a company engaged in medical waste management, we face risks of liability for environmental contamination. The federal Comprehensive Environmental Response, Compensation and Liability Act of 1980, or CERCLA, and similar state laws impose strict liability on current or former owners and operators of facilities that release hazardous substances into the environment as well as on the businesses that generate those substances and the businesses that transport them to the facilities. Responsible parties may be liable for substantial investigation and clean-up costs even if they operated their businesses properly and complied with applicable federal and state laws and regulations. Liability under CERCLA may be joint and several, which means that if we were found to be a business with responsibility for a particular CERCLA site, we could be required to pay the entire cost of the investigation and clean-up even though we were not the party responsible for the release of the hazardous substance and even though other companies might also be liable.

Our pollution liability insurance excludes liabilities under CERCLA. Thus, if we were to incur liability under CERCLA and if we could not identify other parties responsible under the law whom we are able to compel to contribute to our expenses, the cost to us could be substantial and could impair our profitability and reduce our liquidity. Our customer service agreements make clear that the customer is responsible for making sure that only appropriate materials are disposed of. If there were a claim against us that a customer might be legally liable for, we might not be successful in recovering our damages from the customer.

***The level of governmental enforcement of environmental regulations has an uncertain effect on our business and could reduce the demand for our services.***

We believe that the government's strict enforcement of laws and regulations relating to medical waste collection and treatment has been good for our business. These laws and regulations increase the demand for our services. A relaxation of standards or other changes in governmental regulation of medical waste could increase the number of competitors or reduce the need for our services.

***If we are unable to acquire other medical waste businesses, our revenue and profit growth may be slowed.***

Historically our growth strategy has been based in substantial part on our ability to acquire other medical waste businesses. We do not know whether in the future we will be able to:

- identify suitable businesses to buy;
- complete the purchase of those businesses on terms acceptable to us;
- improve the operations of the businesses that we do buy and successfully integrate their operations into our own; or
- avoid or overcome any concerns expressed by regulators.

We compete with other potential buyers for the acquisition of other medical waste companies. This competition may result in fewer opportunities to purchase companies that are for sale. It may also result in higher purchase prices for the businesses that we want to purchase.

We also do not know whether our growth strategy will continue to be effective. Our business is significantly larger than before, and new acquisitions may not have the desired benefits that we have obtained in the past.

***The implementation of our acquisition strategy could be affected in certain instances by the concerns of state regulators, which could result in our not being able to realize the full synergies or profitability of particular acquisitions.***

We may become subject to inquiries and investigations by state antitrust regulators from time to time in the course of completing acquisitions of other medical waste businesses. In order to obtain regulatory

clearance for a particular acquisition, we could be required to modify certain operating practices of the acquired business or to divest ourselves of one or more assets of the acquired business. Changes in the terms of our acquisitions required by regulators or agreed to by us in order to settle regulatory investigations could impede our acquisition strategy or reduce the anticipated synergies or profitability of our acquisitions. The likelihood and outcome of inquiries and investigations from state regulators in the course of completing acquisitions cannot be predicted.

***Aggressive pricing by existing competitors and the entrance of new competitors could drive down our profits and slow our growth.***

The medical waste industry is very competitive because of low barriers to entry, among other reasons. This competition has required us in the past to reduce our prices, especially to large account customers, and may require us to reduce our prices in the future. Substantial price reductions could significantly reduce our earnings.

We face direct competition from a large number of small, local competitors. Because it requires very little money or technical know-how to compete with us in the collection and transportation of medical waste, there are many regional and local companies in the industry. We face competition from these businesses, and competition from them is likely to exist in the new locations to which we may expand in the future. In addition, large national companies with substantial resources may decide to enter the medical waste industry. For example, Waste Management, Inc., a major solid waste treatment company, announced in February 2005 that it intended to begin offering medical waste management services to hospitals and possibly other large quantity generators of medical waste.

Our competitors could take actions that would hurt our growth strategy, including the support of regulations that could delay or prevent us from obtaining or keeping permits. They might also give financial support to citizens' groups that oppose our plans to locate a treatment or transfer facility at a particular location.

***Restrictions in our senior unsecured credit facility may limit our ability to pay dividends, incur additional debt, make acquisitions and make other investments.***

Our senior unsecured credit facility contains covenants that restrict our ability to make distributions to stockholders or other payments unless we satisfy certain financial tests and comply with various financial ratios.

It also contains covenants that limit our ability to incur additional indebtedness, acquire other businesses and make capital expenditures, and imposes various other restrictions. These covenants could affect our ability to operate our business and may limit our ability to take advantage of potential business opportunities as they arise.

***The loss of our senior executives could affect our ability to manage our business profitably.***

We depend on a small number of senior executives. Our future success will depend upon, among other things, our ability to keep these executives and to hire other highly qualified employees at all levels. We compete with other potential employers for employees, and we may not be successful in hiring and keeping the executives and other employees that we need. We do not have written employment agreements with any of our executive officers, and officers and other key employees could leave us with little or no prior notice, either individually or as part of a group. Our loss of or inability to hire key employees could impair our ability to manage our business and direct its growth.

***Our expansion into foreign countries exposes us to unfamiliar regulations and may expose us to new obstacles to growth.***

We plan to grow both in the United States and in foreign countries. We have established substantial operations in Canada, Mexico and the United Kingdom. Foreign operations carry special risks. Although our



business in foreign countries has not yet been affected, our business in the countries in which we currently operate and those in which we may operate in the future could be limited or disrupted by:

- government controls;
- import and export license requirements;
- political or economic insecurity;
- trade restrictions;
- changes in tariffs and taxes;
- exchange rate fluctuations;
- our unfamiliarity with local laws, regulations, practices and customs;
- restrictions on repatriating foreign profits back to the United States;
- difficulties in staffing and managing international operations.

Foreign governments and agencies often establish permit and regulatory standards different from those in the United States. If we cannot obtain foreign regulatory approvals, or if we cannot obtain them when we expect, our growth and profitability from international operations could be limited. Fluctuations in currency exchange could have similar effects.

***Litigation is always unpredictable and adverse judgments against us could require us to pay substantial amounts.***

We are parties to private antitrust litigation described elsewhere in this report (see Part I, Item 3 — Legal Proceedings). We do not believe that any of the lawsuits against us has merit, and we are vigorously defending the litigation. Litigation, however, is by its nature unpredictable, and the outcome of these lawsuits cannot be assessed with any degree of certainty. Our insurance may or may not cover some or any of the claims in these lawsuits, and to the extent that it does not, we, and not an insurance company, would have to bear the financial burden of any adverse judgment. The potential thus exists for unanticipated adverse judgments against us which may be substantial in amount and which could materially impair our cash reserves and financial condition.

***Our earnings could decline if we write-off intangible assets, such as goodwill.***

As a result of purchase accounting for our various acquisitions, our balance sheet at December 31, 2005 contains goodwill, net of accumulated amortization, of \$685.2 million and other intangible assets, net of accumulated amortization, of \$63.1 million (including indefinite lived intangibles of \$18.5 million). In accordance with FAS 142, we evaluate on an ongoing basis, using the fair value of reporting units, whether facts and circumstances indicate any impairment of the value of indefinite-lived intangible assets such as goodwill. As circumstances after an acquisition can change, the value of these intangible assets may not be realized by us. If we were to determine that a significant impairment has occurred, we would be required to incur non-cash write-offs of the impaired portion of goodwill and other unamortized intangible assets, which could have a material adverse effect on our results of operations in the period in which the write-off occurs.

**Item 1B.      *Unresolved Staff Comments***

None.

**Item 2.      *Properties***

We lease office space for our corporate offices in Lake Forest, Illinois. In North America we own or lease three ETD treatment facilities, nine incineration facilities, 31 autoclave facilities and two facilities that use a combination of these methods or other methods. All of our treatment facilities also serve as collection sites. We own or lease 105 additional transfer and collection sites, eight additional sales/administrative sites, four pharmaceutical services processing sites and three facilities for storage of supplies. These totals include eight sites owned or leased by our majority-owned subsidiary, 3CI Complete Compliance Corporation (“3CI”). In the United Kingdom we lease nine incineration facilities and three autoclave facilities. We also lease two

additional transfer and collection sites and one administrative site. We consider that these treatment facilities are adequate for our present and anticipated needs.

We do not own or operate any landfills or any other type of disposal site. After treatment, all remaining waste materials are transported to unaffiliated third parties for permanent disposal.

**Item 3. Legal Proceedings**

We operate in a highly regulated industry and 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.

*3CI Litigation.* In November 2005, we entered into a preliminary settlement to resolve class action litigation by the minority shareholders of our majority-owned subsidiary, 3CI Complete Compliance Corporation ("3CI"), in which 3CI joined with the class as a plaintiff. This litigation is pending in state court in Louisiana (*Robb, et al. v. Stericycle, Inc., et al.*, First Judicial District Court, Caddo Parish, Louisiana (No. 467704-A)) (the "Louisiana Litigation"). We have described this litigation on a number of occasions, including our report on Form 10-K for 2004.

Under the terms of the preliminary settlement, we agreed to pay \$32.5 million in cash to a trust fund to be established by a claims administrator approved by the court for the purpose of (i) settling all claims in the Louisiana Litigation and in related litigation in state court in Texas (*3CI Complete Compliance Corporation v. Waste Systems, Inc., et al.*, 269th Judicial District, Harris County, Texas (No. 2003-46899)), (ii) canceling or otherwise acquiring all of the shares of 3CI common stock held by members of the plaintiff class and (iii) paying court-approved administrative expenses and legal fees. In accordance with the terms of the preliminary settlement, we made the required \$32.5 million deposit with the claims administrator following the court's preliminary approval of the settlement in December 2005.

The preliminary settlement remains subject to the court's final approval. A hearing on final approval was held on February 21, 2006. The court has not yet rendered its decision.

The parties to the preliminary settlement intend that, through the settlement, we will acquire sufficient shares of 3CI common stock so that, with the shares that we and one of our subsidiaries already own, we will own 90% or more of 3CI's outstanding common stock. This level of ownership would enable us to acquire the balance of the outstanding 3CI common stock through a "short-form" merger under Delaware law. If we do acquire 90% or more of 3CI's common stock as contemplated, we intend to conduct such a short-form merger as soon as practicable as we determine.

*Private Antitrust Litigation.* In January 2003, we were sued in federal court in Arizona by a private plaintiff claiming anticompetitive conduct in Arizona, Colorado and Utah from November 1997 to the present and seeking certification of the lawsuit as a class action on behalf of all customers of ours in the three-state area during this period. Over the next several months, four similar suits were filed in federal court in Utah, Arizona, Colorado and New Mexico. These five lawsuits have been consolidated for multidistrict proceedings in federal court in Utah, and the plaintiffs have filed a consolidated class action complaint, superseding their prior, separate complaints, alleging various anticompetitive conduct, including monopolization of the market for medical waste services. In December 2004 the plaintiffs filed a motion for class certification, and in October 2005 the court heard arguments on the plaintiffs' motion. The court has not yet issued a ruling. Discovery in these proceedings is at an early stage.

In December 2003, a sixth suit was filed in federal court in Utah alleging monopolistic and other anticompetitive conduct in California from 1999 through the present and seeking certification of the lawsuit as a class action on behalf of all California customers of ours during this period. In December 2004 the plaintiffs filed a motion for class certification, and in October 2005 the court heard arguments on the plaintiffs' motion. The court has not yet issued a ruling. Discovery in this lawsuit, which is coordinated with discovery in the multidistrict proceedings, is at an early stage.

In February 2003, we were sued in federal court in Utah by a third-party hauler of medical waste alleging various anticompetitive conduct, including an alleged denial of access to one of our incinerators. Discovery in this lawsuit, which is consolidated with discovery in the multidistrict proceedings, is at an early stage.

We do not believe that any of these lawsuits has merit and are vigorously defending them.

*Other Litigation.* In Australia, we are in arbitration with SteriCorp Limited over the ETD equipment that we sold to them. Discovery is pending in these proceedings. We currently expect that the arbitration hearing will be held during the second quarter of 2006.

During 2005, we were in arbitration regarding various disputes under an exclusive marketing and distribution license agreement with a licensor of software. The licensor claimed, among other things, that our license had ceased to be exclusive because of our failure to pay minimum royalties under the license agreement, and we claimed, among other things, that the licensor's actions entitled us to rescind the license agreement and to be repaid the \$1.8 million license fee we had paid. On March 1, 2006, the arbitrator awarded the licensor \$0.4 million in damages for breach of the license agreement and denied all of the parties' other claims, including our claim for rescission, and the license agreement was effectively terminated. As a result of the arbitrator's decision we wrote-off the remaining \$1.4 million unamortized portion of our license intangible asset.

**Item 4. Submission of Matters to a Vote of Security Holders**

No matter was submitted to a vote of our stockholders during the fourth quarter of 2005.

**Supplemental Information**

**Executive Officers of the Registrant**

The following table contains certain information regarding our five current executive officers:

<u>Name</u>	<u>Position</u>	<u>Age</u>
Mark C. Miller	President, Chief Executive Officer and a Director	50
Richard T. Kogler	Executive Vice President and Chief Operating Officer	46
Frank J.M. ten Brink	Executive Vice President and Chief Financial Officer	49
Richard L. Foss	Executive Vice President, Corporate Development	51
Shan S. Sacranie	Executive Vice President, International	53

Mark C. Miller has served as our President and Chief Executive Officer and a director since joining us in May 1992. From May 1989 until he joined us, Mr. Miller served as vice president for the Pacific, Asia and Africa in the International Division of Abbott Laboratories, which he joined in 1976 and where he held a number of management and marketing positions. He is a director of Ventana Medical Systems, Inc. Mr. Miller received a B.S. degree in computer science from Purdue University, where he graduated Phi Beta Kappa.

Richard T. Kogler joined us as Chief Operating Officer in December 1998. From May 1995 through October 1998, Mr. Kogler was vice president and chief operating officer of American Disposal Services, Inc., a solid waste management company. From October 1984 through May 1995, Mr. Kogler served in a variety of management positions with Waste Management, Inc. Mr. Kogler received a B.A. degree in chemistry from St. Louis University.

Frank J.M. ten Brink has served as our Executive Vice President, Finance and Chief Financial Officer since June 1997. From 1991 until 1996 he served as chief financial officer of Hexacomb Corporation, and from 1996 until joining us, he served as chief financial officer of Telular Corporation. Prior to 1991, he held various financial management positions with Interlake Corporation and Continental Bank of Illinois. Mr. ten Brink received a B.B.A. degree in international business and a M.B.A. degree in finance from the University of Oregon.

Richard L. Foss has served as our Executive Vice President for Corporate Development since February 2003. From 1999 to 2002, Mr. Foss was a vice president and director of worldwide product marketing in the personal communication sector at Motorola Inc., and from 1977 until 1999, he held a number of management and marketing positions at The Proctor & Gamble Company, including serving as a vice president and general manager in the health care segment. Mr. Foss received a B.S. degree in chemistry and an M.B.A degree from Rensselaer Polytechnic Institute.

Shan S. Sacranie joined us in May 2003 and became our Executive Vice President, International in November 2003. From 2001 to 2002 he was chief executive for Appliance Controls Group, Inc. and from 1995 to 2001, he was president of Oak Industries Inc. From 1978 to 1995 he held a number of management positions for Honeywell. Mr. Sacranie holds a BA degree (Hons) in economics from the University of Bombay, an M.B.A. degree from Minnesota State University and a J.D. in from the William Mitchell College of Law.

## PART II

### Item 5. *Market for the Registrant's Common Equity and Related Stockholder Matters*

As of February 27, 2006, we had approximately 196 stockholders of record.

The following table provides the high and low sales prices of our Common Stock for each calendar quarter during our two most recent fiscal years:

<u>Quarter</u>	<u>High</u>	<u>Low</u>
First quarter 2004	49.23	43.12
Second quarter 2004	51.74	45.43
Third quarter 2004	53.06	44.36
Fourth quarter 2004	47.35	41.79
First quarter 2005	51.60	44.20
Second quarter 2005	53.82	43.92
Third quarter 2005	59.47	50.58
Fourth quarter 2005	63.52	54.36

We did not pay any cash dividends during 2005 and have never paid any dividends on our capital stock. We currently expect that we will retain future earnings for use in the operation and expansion of our business and do not anticipate paying any cash dividends in the foreseeable future. See Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations."

In May 2002 our Board of Directors authorized the Company to repurchase up to 3,000,000 shares of our common stock, in the open market or through privately negotiated transactions, at times and in amounts in the Company's discretion. In February 2005, at a time when we had purchased a cumulative total of 1,478,430 shares, the Board authorized the Company to purchase up to an additional 1,478,430 shares, thereby giving the Company the authority to purchase up to a total of 3,000,000 additional shares. The following table provides information about our purchases during the year ended December 31, 2005 of shares of our common stock.

#### Issuer Purchases of Equity Securities

Period	Total Number of Shares (or Units) Purchased	Average Price Paid per Share (or Unit)	Total Number of Shares (or Units) Purchased as Part of Publicly Announced Plans or Programs	Maximum Number (or Approximate Dollar Value) of Shares (or Units) that May Yet Be Purchased Under the Plans or Programs
January 1-January 31, 2005	—	—	—	1,868,570
February 1-February 28, 2005	544,000	45.88	544,000	2,803,000
March 1-March 31, 2005	204,600	44.56	204,600	2,598,400
April 1-April 30, 2005	117,600	43.92	117,600	2,480,800
May 1-May 31, 2005	—	—	—	2,480,800
June 1-June 30, 2005	—	—	—	2,480,800
July 1-July 31, 2005	—	—	—	2,480,800
August 1-August 31, 2005	—	—	—	2,480,800
September 1-September 30, 2005	146,600	55.33	146,600	2,334,200
October 1-October 31, 2005	187,700	55.59	187,700	2,146,500
November 1-November 30, 2005	—	—	—	2,146,500
December 1-December 31, 2005	50,000	57.38	50,000	2,096,500

#### Item 6. Selected Consolidated Financial Data

	Year Ended December 31,				
	2005	2004	2003	2002	2001
	(Dollars in thousands, except per share amounts)				
<b>Statements of Income Data(1)</b>					
Revenues	\$ 609,457	\$ 516,228	\$ 453,225	\$ 401,519	\$ 359,024
Income from operations	168,355	145,655	126,397	100,832	73,294
Net income	67,154	78,178	65,781	45,724	14,710
Net income applicable to Common Stock	67,154	78,178	65,781	45,037	12,167
Diluted net income per share of Common Stock(2)	1.48	1.69	1.43	1.01	0.35
Depreciation and amortization	21,431	21,803	17,255	14,981	25,234
<b>Other Data</b>					
Cash provided by operating activities	\$ 94,327	\$ 114,611	\$ 123,887	\$ 98,731	\$ 64,550
Cash used in investing activities	(156,001)	(105,093)	(57,635)	(49,470)	(36,673)
Cash (used in) provided by financing activities	59,500	(6,941)	(66,820)	(53,705)	(17,806)

	Year Ended December 31,				
	2005	2004	2003	2002	2001
	(Dollars in thousands, except per share amounts)				
<b>Balance Sheet Data (at December 31)(1)</b>					
Cash, cash equivalents and short-term investments	\$ 8,545	\$ 7,949	\$ 7,881	\$ 8,887	\$ 13,017
Total assets	1,047,660	834,141	707,462	667,095	614,530
Long-term debt, net of current maturities	348,841	190,431	163,016	224,124	267,365
Convertible redeemable preferred stock	—	—	20,944	28,049	44,872
Shareholders' equity	\$ 521,634	\$ 495,372	\$ 407,820	\$ 326,729	\$ 232,510

- (1) See Note 4 to the Consolidated Financial Statements for information concerning our acquisitions during the three years ended December 31, 2005.
- (2) See Note 10 to the Consolidated Financial Statements for information concerning the computation of net income per common share. In 2005, net income includes costs related to the 3CI preliminary settlement of class action litigation of \$23.4 million net of tax, South Africa note receivable write-down of \$1.5 million net of tax, fixed asset impairments of \$0.5 million net of tax, acquisition-related costs of \$0.5 million net of tax, settlement of licensing litigation of \$1.1 million net of tax, and items related to debt restructuring of \$0.3 million net of tax which negatively impacted EPS by \$0.60 per share. Of the total of \$27.3 million of such items, \$3.4 million were non-cash items. In 2004, net income includes acquisition-related costs of \$0.5 million net of tax, fixed asset write-offs of \$0.7 million net of tax, and items related to debt restructuring and redemption of senior subordinated debt of \$2.8 million net of tax that negatively impacted EPS by \$0.09 per share. Of the total of \$4.0 million of such items, \$1.4 million were non-cash items. In 2003, net income includes acquisition-related costs of \$0.4 million net of tax and items related to debt restructuring and subordinated debt repurchase of \$2.0 million net of tax, which negatively impacted EPS by \$0.04 per share. Of the total of \$2.4 million of such items, \$0.5 million were non-cash items. In 2002, net income includes acquisition-related costs of \$0.2 million net of tax, fixed asset write-offs of \$1.8 million net of tax and items related to debt restructuring and subordinated debt repurchases of \$1.4 million net of tax, which negatively impacted EPS by \$0.08 per share. Of the total of \$3.4 million of such items, \$2.0 million were non-cash items. In 2001, net income includes acquisition-related costs of \$0.2 million net of tax, fixed asset write offs of \$2.0 million net of tax and items related to debt restructuring and subordinated debt repurchases, of \$7.3 million net of tax, which negatively impacted EPS by \$0.12 per share. Of the total of \$9.5 million of such items, \$5.5 million were non-cash items.

## Item 7. *Management's Discussion and Analysis of Financial Condition and Results of Operation*

The following discussion of our financial condition and results of operations should be read in conjunction with our consolidated financial statements and related notes in Item 8 of this Report.

### Introduction

We are the largest provider of regulated medical waste services in North America. In addition we offer OSHA compliance services to health care providers and other monitoring services. During 2004, we acquired White Rose Environmental Ltd., which is a leading provider of regulated medical waste services in the United Kingdom.

We derive our revenues from services to two principal types of customers: (i) outpatient clinics, medical and dental offices, biomedical companies, pharmacies municipal entities, long-term and sub-acute care facilities and other smaller-quantity generators of regulated medical waste ("small account" customers) and (ii) hospitals, blood banks, pharmaceutical manufacturers and other larger-quantity generators of regulated medical waste ("large account" customers).

Substantially all of our services are provided pursuant to customer contracts specifying either scheduled or on-call services, or both. Contracts with small account customers generally provide for annual price increases and have an automatic renewal provision unless the customer notifies us to the contrary prior to the expiration of the current term of the contract. Contracts with hospitals and other large account customers, which may run for more than one year, typically include price escalator provisions, which allow for price increases generally tied to an inflation index or set at a fixed percentage.

We also serve pharmacies, distributors and manufacturers of pharmaceutical products by managing the return and disposal of expired or surplus pharmaceutical products and by managing the recall of pharmaceutical products being recalled by the manufacturer. In 2005, we completed four acquisitions of companies that provide these services.

As of December 31, 2005, we served approximately 333,000 customers, of which approximately 325,000 were small account customers and approximately 7,700 were large account customers.

#### **Critical Accounting Policies and Procedures**

Our discussion and analysis of our financial condition and results of operations are based upon our consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States. The preparation of these financial statements requires that we make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses, and the related disclosure of contingent assets and liabilities. We believe that of our significant accounting policies (see Note 2 to our consolidated financial statements), the following ones may involve a higher degree of judgment on our part and greater complexity of reporting.

*Revenue Recognition.* We recognize revenue for our medical waste services at the time of medical waste collection. Revenue and costs on contracts to supply our proprietary ETD treatment equipment are recognized based on shipment of equipment and services provided for in the individual contract. We routinely review total estimated costs and shipments to complete each contract and revise the revenues and estimated gross margin on the contract as necessary. Payments received in advance are deferred and recognized as services are provided. Royalty revenues are calculated based on measurements specified in each contract or license and revenues are recognized at the end of each reporting period when the activity being measured has been completed. Revenues from product sales are recognized at the time the goods are shipped to the ordering customer. Software licensing revenues are recognized on a prorated basis over the term of the license agreement. Revenues from pharmaceutical services are recorded at the time services are performed. We do not have any contracts in a loss position. Losses would be recorded when known and estimable for any contracts that should go into a loss position. Payments received in advance are deferred and recognized as services are provided.

*Goodwill and Other Identifiable Intangible Assets.* Goodwill associated with the excess purchase price over the fair value of assets acquired is not amortized. We have determined that our permits have indefinite lives and, accordingly are not amortized. This position is in accordance with Statements of Financial Accounting Standards ("FAS") No. 142, which became effective for fiscal years beginning after December 15, 2001.

Our balance sheet at December 31, 2005 contains goodwill, net of accumulated amortization, of \$685.2 million. In accordance with FAS 142, we evaluate on at least an annual basis, using the fair value of reporting units, whether goodwill is impaired. If we were to determine that a significant impairment has occurred, we would be required to incur non-cash write-offs of the impaired portion of goodwill that could have a material adverse effect on our results of operations in the period in which the write-off occurs. We use the market value of our stock as the current measurement of total fair value of our reporting units and any unforeseen material drop in our stock price maybe an indicator of a potential impairment of goodwill. The results of the 2005 impairment test conducted in June 2005 did not show any impairment of goodwill, and there have not occurred any events since that time that indicate that an impairment situation exists.

Our permits are currently tested for impairment annually at December 31 or more frequently if circumstances indicate that they may be impaired. We use a discounted cash flow model as the current measurement of the fair value of the permits. The estimate of cash flow is based upon, among other things, certain assumptions about expected future operating performance and an appropriate discount rate determined by management. Our estimates of discounted cash flow may differ from actual cash flow due to, among other things; inaccuracies in economic estimates and actual cash flow could materially affect the future financial value of the permits. The results of the 2005 impairment test did not show any impairment of our permits and no events have occurred since that time that would indicate an impairment situation exists.

Other identifiable intangible assets, such as customer lists, tradenames and covenants not-to-compete, are currently amortized using the straight-line method over their estimated useful lives. We have determined that our medical waste business customer lists have 40-year lives and our pharmaceutical services business customer lists have 20-year lives. These assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may be less than the undiscounted cash flows. There have been no indicators of impairment of these intangibles (see Note 8 to our consolidated financial statements).

During 2005 we were in arbitration proceedings regarding various disputes under an exclusive marketing and distribution license agreement with a licensor of software. On March 1, 2006, subsequent to year-end, the arbitrator awarded damages to the licensor and the license agreement was effectively terminated. Although this event occurred after the end of the year, we are required to write-off the unamortized portion of the license fee that we had previously paid. The effect is a reduction in the carrying amount of this intangible by \$1.8 million and a reduction in the accumulated amortization of \$0.4 million.

*Income Taxes.* Deferred income tax liabilities and assets are determined based on the differences between the financial statement and income tax basis of assets and liabilities using enacted tax rates in effect for the year in which the differences are expected to reverse.

*Accounts Receivable.* Accounts receivable consist primarily of amounts due to us from our normal business activities. Accounts receivable balances are determined to be delinquent when the amount is past due based on the contractual terms with the customer. We maintain an allowance for doubtful accounts to reflect the expected uncollectibility of accounts receivable based on past collection history and specific risks identified among uncollected accounts. Accounts receivable are charged to the allowance for doubtful accounts when we have determined that the receivable will not be collected and/or when the account has been referred to a third party collection agency. No single customer accounts for more than 2% of our revenues.

*Insurance.* Our insurance for worker's compensation, vehicle liability and physical damage, and employee-related health care benefits is obtained using high deductible insurance policies. A third-party administrator is used to process all such claims. We require all workers' compensation, vehicle liability and physical damage claims to be reported within 24 hours. As a result, we accrue our worker's compensation, vehicle and physical damage liability based upon the claim reserves established by the third-party administrator at the end of each reporting period. Our employee health insurance benefit liability is based on our historical claims experience rate. Our earnings would be impacted to the extent that actual claims vary from historical experience. We review our accruals associated with the exposure to these liabilities for adequacy at the end of each reporting period.

*Litigation.* We operate in a highly regulated industry and 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. Settlements from litigation would be recorded when known, probable and estimable.

*Stock Option Plans.* We have issued stock options to employees and directors as an integral part of our compensation programs. Accounting principles generally accepted in the United States allow alternative methods of accounting for these plans. We have chosen to account for our stock option plans under Accounting Principles Board Opinion No. 25, Accounting for Stock Issued to Employees ("APB 25"). As required by FAS 148, Accounting for Stock-Based Compensation-Transition and Disclosure, calculations of



pro forma net income and earnings per share, computed in accordance with the method prescribed by FAS No. 123, Accounting for Stock-Based Compensation, are set forth in Note 11 to our consolidated financial statements.

We will adopt the provisions of FAS 123 (revised 2004), Share-Based Payments, ("FAS 123R") on January 1, 2006. Among other things, FAS 123R requires all share-based payments to employees, including grants of employee stock options, to be recognized in the financial statements based on their fair values beginning with the first interim or annual period after January 1, 2006. See Note 2-New Accounting Pronouncements in Item 8, Financial Statements and Supplemental Data for further information.

*Year Ended December 31, 2005 Compared to Year Ended December 31, 2004*

The following summarizes (in thousands) our operations:

	Year Ended December 31,			
	2005		2004	
Revenues	\$	609,457	100.0%	\$ 516,228 100.0%
Cost of revenues		324,988	53.3%	271,189 52.5%
Depreciation		16,432	2.7%	16,833 3.3%
Total cost of revenues		341,420	56.0%	288,022 55.8%
Gross profit		268,037	44.0%	228,206 44.2%
Selling, general and administrative		93,033	15.3%	75,653 14.7%
Depreciation		3,403	0.6%	2,540 0.5%
Amortization		1,596	0.3%	2,430 0.5%
Acquisition related costs		778	0.1%	773 0.1%
Total selling, general and administrative expenses		98,810	16.2%	81,396 15.8%
Write off fixed as sets		872	0.1%	1,155 0.2%
Income from operations		168,355	27.6%	145,655 28.2%
Write-down of note receivable with former joint venture		2,495	0.4%	— —
Licensing legal settlement		1,823	0.3%	— —
3CI legal settlement		36,481	6.0%	— —
Net income		67,154	11.0%	78,178 15.1%
Earnings per share — diluted	\$	1.48		\$ 1.69

**Revenues.** Our revenues increased \$93.2 million, or 18.1%, to \$609.5 million in 2005 from \$516.2 million in 2004. Revenues generated from the sale of ETD equipment and licensing of technology internationally were \$1.0 million during 2005, compared to \$8.2 million during 2004. This decrease is a result of the delivery of a large portion of an order of ETD equipment to a customer in Japan in 2004. During 2005, acquisitions less than one year old contributed approximately \$63.6 million to the increase in our revenues from 2004. For the year, internal growth for small account customers increased approximately 9% while revenues from large quantity customers increased by approximately 5%.

During 2005, the size of the regulated medical waste market in the United States remained relatively stable. Through our acquisition of White Rose Environmental Ltd. in June 2004 and subsequent United Kingdom acquisitions in 2005, we were able to expand our geographic presence outside of North America.

**Cost of Revenues.** Our cost of revenues increased \$53.4 million or 18.5%, to \$341.4 million during 2005, from \$288.0 million during 2004. The increase was primarily related to the increase in revenues during 2005 compared to 2004. Our gross margin percentage decreased to 44.0% during 2005 from 44.2% during 2004 as we experienced higher energy related costs. Domestic energy costs increased in 2005, which were partially offset by higher revenues related to fuel surcharges. Employee benefit costs as a percentage of

compensation costs decreased by 2.0% in 2005. This was a result of the changes to our employee healthcare programs including changes to our providers and program formats.

*Selling, General and Administrative Expenses.* Our selling, general and administrative expenses increased to \$98.8 million during 2005, from \$81.4 million during 2004. This increase was primarily the result of increased spending on marketing our Steri-Safe<sup>SM</sup> program and *Bio Systems* sharps management program and the expansion into the pharmaceutical services programs. Bad debt expense increased during 2005 to \$2.7 million from \$0.8 million in 2004 due to higher sales and increased write-offs in 2005. In addition, as noted in the cost of revenues discussion above, employee benefit costs as a percentage of compensation costs decreased in 2005. Amortization decreased to \$1.6 million during 2005, from \$2.4 million during 2004 as a result of intangibles becoming fully amortized at the end of 2004. Selling, general and administrative expenses as a percentage of revenue increased to 16.2% during 2005 compared to 15.8% in 2004.

*Income from Operations.* Income from operations increased to \$168.4 million during 2005 from \$145.7 million during 2004. The increase was due to higher revenues partially offset by higher costs of revenues and selling, general and administrative expenses. During the year ended December 31, 2005 3CI Complete Compliance Corporation, of which we own a majority of the common stock, recorded a non-cash impairment charge of \$0.9 million on its Springhill, Louisiana building and property. During the year ended December 31, 2004 we recorded a non-cash write-down of idled Stericycle incinerator equipment at our Baltimore, Maryland and Terrell, Texas facility of \$1.2 million. Income from operations as a percentage of revenue decreased to 27.6% during 2005 from 28.2% during 2004 as a result of the factors described above.

*Interest Expense and Interest Income.* Interest expense increased to \$13.0 million during 2005, from \$11.2 million during 2004, primarily due to higher debt levels during the year. Interest income was \$0.8 million during 2005 and \$0.6 million during 2004.

*Write-down of note receivable.* During 2005 we wrote-down a \$2.5 million note receivable that we had recorded from the sale of interest in our former South African joint venture when we had determined that the amount was uncollectible.

*Legal Settlements.* During November 2005 we incurred \$36.5 million in expenses related to the preliminary settlement of the 3CI class action litigation and related legal expenses. In December 2005, we recorded a cash charge of \$0.4 million for damages and a non-cash charge of \$1.4 million, representing the write-off of the unamortized portion of a license fee that we previously paid, as a result of an arbitrator's award in March 2006 and the license agreement being effectively terminated.

*Debt Extinguishments and Refinancing Expenses.* During 2005 we incurred \$0.5 million in refinancing expense for non-cash accelerated amortization of financing fees related to amendments to our bank credit facility agreements. During 2004 we repurchased the remaining \$50.9 million of our senior subordinated notes. As a result, in 2004 we incurred \$3.1 million in redemption premium expenses and \$1.1 million in non-cash accelerated amortization of financing fees associated with the repurchase of the notes.

*Income Tax Expense.* Income tax expense for the years 2005 and 2004 reflects an effective tax rate of approximately 40.0% and 39.2%, respectively, for federal and state income taxes. Excluding the effect of the legal settlement expense, the effective tax rate for 2005 was 39%.

Year Ended December 31, 2004 Compared to Year Ended December 31, 2003

The following summarizes (in thousands) our operations:

	Year Ended December 31,			
	2004		2003	
Revenues	\$ 516,228	100.0%	\$ 453,225	100.0%
Cost of revenues	271,189	52.5%	243,170	53.7%
Depreciation	16,833	3.3%	13,430	3.0%
Total cost of revenues	288,022	55.8%	256,600	56.6%
Gross profit	228,206	44.2%	196,625	43.4%
Selling, general and administrative	75,653	14.7%	65,733	14.5%
Depreciation	2,540	0.5%	1,975	0.4%
Amortization	2,430	0.5%	1,850	0.4%
Acquisition related costs	773	0.1%	670	0.1%
Total selling, general and administrative expenses	81,396	15.8%	70,228	15.5%
Write off fixed assets	1,155	0.2%	—	—
Income from operations	145,655	28.2%	126,397	27.9%
Net income	78,178	15.1%	65,781	14.5%
Earnings per share — diluted	\$ 1.69		\$ 1.43	

**Revenues.** Our revenues increased \$63.0 million, or 13.9%, to \$516.2 million in 2004 from \$453.2 million in 2003. Revenues generated from the sale of ETD equipment and licensing of technology internationally were \$8.2 million during 2004, compared to \$2.8 million during 2003. This increase is a result of the delivery of a large portion of an order of ETD equipment to a customer in Japan in 2004. During 2004, acquisitions less than one year old contributed approximately \$47.6 million to the increase in our revenues from 2003. For the year, internal growth for small account customers increased approximately 9% while revenues from large quantity customers decreased by approximately 4% because of our program of improving lower-margin accounts. This margin improvement program identifies large quantity customers with margins below internally acceptable thresholds and we make adjustments to pricing or service in an effort to improve the margin. These adjustments may result in our not renewing the customer contract and therefore may result in a reduction of revenues.

During 2004, the size of the regulated medical waste market in the United States remained relatively stable. Through our acquisition in June of White Rose Environmental Ltd., we were able to expand our geographic presence outside of North America.

**Cost of Revenues.** Our cost of revenues increased \$31.4 million or 12.2%, to \$288.0 million during 2004, from \$256.6 million during 2003. The increase was primarily related to the increase in revenues during 2004 compared to 2003. Our gross margin percentage increased to 44.2% during 2004 from 43.4% during 2003 as we realized improvements from our continuous programs to improve margins on our large quantity business, increased our number of small quantity customers electing our Steri-Safe<sup>SM</sup> program from 70,000 to 87,000 and improved our transportation productivity by increasing route density. During the year fuel prices as a percent of revenue increased by 20%. Employee benefit costs as a percentage of compensation costs decreased by 3.3% in 2004. This was a result of the changes implemented in late 2003 to our employee healthcare programs including changes to our third-party administrators and providers. The lower gross margins of White Rose, which started consolidating into our financials in June 2004, reduced the gross margin percentage for the consolidated business by 134 basis points in 2004.

**Selling, General and Administrative Expenses.** Our selling, general and administrative expenses increased to \$81.4 million during 2004, from \$70.2 million during 2003. This increase was primarily the result of increased spending as a result on marketing our Steri-Safe<sup>SM</sup> program and the national rollout of the *Bio*

Systems sharps management program and the acquisition of White Rose in June 2004. Amortization increased to \$2.4 million during 2004, from \$1.9 million during 2003. Acquisition related costs increased to \$0.8 million in 2004 from \$0.7 million in 2003. Bad debt expense decreased during 2004 to \$0.8 million from \$2.0 million in 2003. This decrease was the result of improved collections and decreased write-offs during 2004. Legal expenses increased to \$5.4 million in 2004 from \$3.4 million in 2003 as a result of litigation expense of which, \$1.5 million was incurred by our majority-owned subsidiary 3CI under the direction of the special committee of its board of directors. In addition, as noted in the cost of revenues discussion above, employee benefit costs as a percentage of compensation costs decreased in 2004. Selling, general and administrative expenses as a percentage of revenue increased to 15.8% during 2004 compared to 15.5% in 2003.

*Income from Operations.* Income from operations increased to \$145.7 million during 2004 from \$126.4 million during 2003. The increase was due to higher revenues, offset by higher costs of revenues and selling, general and administrative expenses. During the year ended December 31, 2004 we had a non-cash write down of idled incinerator equipment and related spare parts in the amount of \$1.2 million. Income from operations as a percentage of revenue increased to 28.2% during 2004 from 27.9% during 2003 as a result of the factors described above.

*Interest Expense and Interest Income.* Interest expense decreased to \$11.2 million during 2004, from \$12.8 million during 2003, primarily due to lower debt levels and lower interest rates during the year. Interest income was \$0.6 million during 2004 and 2003.

*Debt Extinguishments and Refinancing Expenses.* During 2004 we repurchased the remaining \$50.9 million of our senior subordinated notes compared to a repurchase of \$17.8 million of notes in 2003. As a result, in 2004 we incurred \$3.1 million in redemption premium expenses and \$1.1 million in non-cash accelerated amortization of financing fees associated with the repurchase of the notes compared to \$2.8 million and \$0.5 million, respectively, in 2003. In addition, we amended our bank credit facility agreement in 2004 and paid \$0.3 million in financing fees.

*Income Tax Expense.* Income tax expense for the years 2004 and 2003 reflects an effective tax rate of approximately 39.2% and 39.5%, respectively, for federal and state income taxes.

## **Liquidity and Capital Resources**

In June 2005, we obtained a new \$400.0 million senior unsecured revolving credit facility maturing in June 2010 in place of our existing senior secured credit facility. The new credit facility reduced the interest rates that we are charged by reducing the applicable margin that is added to the relevant interest rate. The new credit facility also allowed us to borrow in pre-approved currencies other than United States dollars. Our borrowings bear interest at fluctuating interest rates determined, at our election in advance for any quarterly or other applicable interest period, by reference to (i) a “base rate” (the higher of the prime rate at Bank of America, N.A. or 0.5% above the rate on overnight federal funds transactions) or (ii) the London Interbank Offered Rate, or LIBOR, plus, in either case, the applicable margin within the relevant range of margins provided in our credit agreement. The applicable margin is based upon our consolidated leverage ratio. As of December 31, 2005, the margin for interest rates on borrowings under our new credit facility was 0.0% on base rate loans and 0.75% on LIBOR loans.

In December 2005, we amended our \$400.0 million senior unsecured revolving credit facility. The facility was increased to \$550.0 million, with additional capacity available up to \$650.0 million upon request. We also increased the letter of credit sub-limit from \$125.0 million to \$150.0 million.

Our amended credit facility requires us to comply with various financial, reporting and other covenants and restrictions, including a restriction on dividend payments. At December 31, 2005, our material financial covenants were as follows:

- The permitted maximum leverage ratio is 3.00:1.00. As of December 31, 2005, our actual leverage ratio was 1.80:1.00.

- The permitted minimum interest coverage ratio is 3.00:1.00. As of December 31, 2005, our actual interest coverage ratio was 16.45:1.00.

As of December 31, 2005, we had \$291.7 million of borrowings outstanding under our senior unsecured credit facility, which includes foreign currency borrowings of \$5.2 million. In addition, we had \$65.9 million committed to outstanding letters of credit.

*Working Capital.* At December 31, 2005, our working capital was \$45.3 million compared to working capital of \$32.3 million at December 31, 2004. As noted, we have available a \$550.0 million revolving line of credit under our senior unsecured credit facility and at December 31, 2005 had borrowed \$291.7 million under this line and had an additional \$65.9 million committed in letters of credit.

*Net Cash Provided or Used.* Net cash provided by operating activities was \$94.3 million during the year ended December 31, 2005 compared to \$114.6 million for 2004. This decrease primarily reflects higher accounts receivable, accrued liability balances and lower net income. The decrease in net income was primarily the result of the \$23.4 million, net of tax, recorded for the preliminary settlement of the 3CI class action litigation. Net cash provided by operating activities in 2005 included a \$7.4 million tax benefit from disqualifying dispositions of stock options.

Net cash used in investing activities for 2005 was \$156.0 million compared to \$105.1 million for 2004. This increase is primarily attributable to the increase in payments for acquisitions. Cash investments in acquisitions and international joint ventures for 2005 were \$139.7 million compared to \$72.4 million in 2004. The increase was primarily the result of our acquisition of pharmaceutical return businesses. In addition, in 2005 we sold the Consumer Products Division of Universal Solutions, Inc., which we had acquired as part of the Universal Solutions, Inc. acquisition, and received \$10.3 million of net proceeds. Capital expenditures were \$26.3 million for 2005, for investments in capital equipment to support a nationwide rollout of the *Bio Systems* sharps management program and other improvements in our infrastructure, compared to \$33.3 million in 2004. As of December 31, 2005 we had less than 9% of our treatment capacity in North America in incineration and approximately 91% in non-incineration technologies such as our proprietary ETD technology and autoclaving. The implementation of our commitment to move away from incineration in North America may result in a write-down of the incineration equipment as and when we close incinerators that we are currently operating. Our commitment to move away from incineration in North America is in the nature of a goal to be accomplished over an undetermined number of years. Because of uncertainties relating, among other things, to customer education and acceptance and legal requirements to incinerate portions of the medical waste, we do not have a timetable for this transition or specific plans to close any of our existing incinerators.

Net cash provided by financing activities was \$59.5 million during 2005 compared to \$6.9 million net cash used in financing activities in 2004. During 2005 we borrowed money to fund acquisitions, stock repurchases and the 3CI legal settlement. In addition, we made debt repayments of \$198.9 million when we terminated our 2001 senior credit facility, \$60.7 million in common stock repurchases, \$12.8 million repayments on promissory notes and \$0.8 million for capital leases. In 2005, we also amended our \$400.0 million senior unsecured revolving credit facility. The facility was increased to \$550.0 million, in which we borrowed \$371.5 million and made debt repayments of \$79.8 million.

In addition, at December 31, 2005 we had \$68.0 million outstanding primarily related to promissory notes issued in connection with acquisitions made during 2002 through 2005.

*Contractual Cash Commitments.* The following table displays our future contractual cash commitments.

<u>Payments Due by Period (In Thousands)</u>	<u>Total</u>	<u>Less than 1 Year</u>	<u>1-3 Years</u>	<u>4-5 Years</u>	<u>After 5 Years</u>
Long term debt*	\$ 441,224	\$ 30,504	\$ 98,832	\$ 309,151	\$ 2,737
Capital lease obligations*	1,298	1,068	230	—	—
Purchasing obligations	1,650	864	786	—	—
Operating leases	97,742	24,747	47,364	15,550	10,081
Other long-term liabilities*	3,187	839	1,634	417	297
Total contractual cash obligations	<u>\$ 545,101</u>	<u>\$ 58,022</u>	<u>\$ 148,846</u>	<u>\$ 325,118</u>	<u>\$ 13,115</u>

\* The long-term debt, capital lease and other long-term liabilities items include both the future principal payment amount as well as an amount calculated for expected future interest payments. For long-term debt with variable rates of interest, management used judgment to estimate the future rate of interest.

At December 31, 2005 we had \$65.9 million in stand-by letters of credit issued.

We anticipate that our operating cash flow, together with borrowings under our senior secured credit facility, will be sufficient to meet our anticipated future operating expenses, capital expenditures and debt service obligations as they become due during the next 12 months and the foreseeable future.

*Guarantees.* We have guaranteed a loan to the Azoroa Bank in Japan on behalf of Shiraishi-Sogyo Co. Ltd ("Shiraishi"). Shiraishi is a customer in Japan that is expanding their medical waste management business and has a five-year loan with a current balance of \$6.5 million with the Azoroa Bank that expires in June 2009. Management currently believes no amount will be paid under the guarantee.

#### **Item 7A. Quantitative and Qualitative Disclosures about Market Risk**

We are subject to market risks arising from changes in interest rates on our senior unsecured credit facility. Our interest rate exposure results from changes in LIBOR or the base rate, which are used to determine the applicable interest rates under our revolving credit facility. Our potential loss 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 \$2.9 million.

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

#### **Item 8. Consolidated Financial Statements and Supplemental Data**

##### **Management's Report on Internal Control Over Financial Reporting**

The management of the Company is responsible for establishing and maintaining adequate internal control over financial reporting. Internal control over financial reporting is defined in Rules 13a-15(f) under the Securities Exchange Act of 1934 as a process designed by, or under the supervision of, a company's principal executive and principal financial officers and effected by the company's board of directors, management and other personnel, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. The Company's internal control over financial reporting includes those policies and procedures that:

- (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the Company;
- (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the Company are being made only in accordance with authorizations of management and directors of the Company; and

(iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the Company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

The Company's management assessed the effectiveness of the Company's internal control over financial reporting as of December 31, 2005. In making this assessment, management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in *Internal Control — Integrated Framework*.

Based on this assessment and those criteria, management concludes that the Company maintained effective internal control over financial reporting as of December 31, 2005.

The Company's independent auditors have issued an attestation report on management's assessment of the Company's internal control over financial reporting. That report appears on page 30.

Stericycle, Inc.

Lake Forest, IL  
March 1, 2006

**Report of Independent Registered Public Accounting Firm  
on Internal Control over Financial Reporting**

**The Board of Directors and Shareholders of Stericycle, Inc.**

We have audited management's assessment, included in the accompanying Management's Report on Internal Control Over Financial Reporting, that Stericycle, Inc. maintained effective internal control over financial reporting as of December 31, 2005, based on criteria established in Internal Control — Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (the COSO criteria). Stericycle, Inc.'s management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting. Our responsibility is to express an opinion on management's assessment and an opinion on the effectiveness of the company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, evaluating management's assessment, testing and evaluating the design and operating effectiveness of internal control, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed 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. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, management's assessment that Stericycle, Inc. maintained effective internal control over financial reporting as of December 31, 2005 is fairly stated, in all material respects, based on the COSO criteria. Also, in our opinion, Stericycle, Inc. maintained, in all material respects, effective internal control over financial reporting as of December 31, 2005 based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of Stericycle, Inc. and Subsidiaries as of December 31, 2005 and 2004, and the related consolidated statements of income, cash flows and changes in shareholders' equity for each of the three years in the period ended December 31, 2005 and our report dated March 1, 2006 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

Chicago, Illinois  
March 1, 2006,



**Report of Independent Registered Public Accounting Firm**

The Board of Directors and Shareholders of  
Stericycle, Inc.

We have audited the accompanying consolidated balance sheets of Stericycle, Inc. and Subsidiaries as of December 31, 2005 and 2004, and the related consolidated statements of income, cash flows and changes in shareholders' equity for each of the three years in the period ended December 31, 2005. Our audits also included the financial statement schedule listed in the Index at Item 15(a). These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and schedule based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Stericycle, Inc. and Subsidiaries at December 31, 2005 and 2004, and the consolidated results of their operations and their cash flows for each of the three years in the period ended December 31, 2005, in conformity with U.S. generally accepted accounting principles. Also, in our opinion, the related financial statement schedule, when considered in relation to the basic financial statements taken as a whole, presents fairly in all material respects the information set forth therein.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the effectiveness of Stericycle, Inc.'s internal control over financial reporting as of December 31, 2005, based on criteria established in Internal Control — Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated March 1, 2006 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

Chicago, Illinois  
March 1, 2006,

**STERICYCLE, INC. AND SUBSIDIARIES**
**CONSOLIDATED BALANCE SHEETS**

	December 31,	
	2005	2004
	(In thousands, except for share and per share data)	
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 7,825	\$ 7,850
Short-term investments	720	99
Accounts receivable, less allowance for doubtful accounts of \$4,810 in 2005 and \$4,188 in 2004	103,703	74,888
Parts and supplies	5,263	4,259
Prepaid expenses	6,523	6,716
Notes receivable	3,164	3,423
Deferred tax asset	13,452	13,296
Other	3,392	4,961
Total current assets	144,042	115,492
Property, plant and equipment:		
Land	8,190	8,352
Buildings and improvements	48,149	44,951
Machinery and equipment	144,795	126,689
Office equipment and furniture	21,581	18,940
Internally developed software	1,101	—
Construction in progress	11,220	12,527
	235,036	211,459
Less accumulated depreciation	(98,816)	(75,947)
Property, plant and equipment, net	136,220	135,512
Other assets:		
Goodwill	685,169	516,808
Intangible assets, less accumulated amortization of \$8,965 in 2005 and \$7,951 in 2004	61,641	50,800
Notes receivable	10,672	9,517
Other	9,916	6,012
Total other assets	767,398	583,137
Total assets	\$ 1,047,660	\$ 834,141
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Current portion of long term debt	\$ 12,044	\$ 13,218
Accounts payable	27,872	17,998
Accrued liabilities	48,450	44,411
Deferred revenue	10,394	7,611
Total current liabilities	98,760	83,238
Long-term debt, net of current portion	348,841	190,431
Deferred income taxes	71,549	57,477
Other liabilities	6,876	7,623
Common shareholders' equity:		
Common stock (par value \$.01 per share, 80,000,000 shares authorized, 44,149,722 issued and outstanding in 2005, 44,732,070 issued and outstanding in 2004)	442	448
Additional paid-in capital	259,075	298,046
Accumulated other comprehensive income	546	2,461
Retained earnings	261,571	194,417
Total shareholders' equity	521,634	495,372
Total liabilities and shareholders' equity	\$ 1,047,660	\$ 834,141

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

**STERICYCLE, INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF INCOME**

	Year Ended December 31,		
	2005	2004	2003
	(In thousands, except per share data)		
Revenues	\$ 609,457	\$ 516,228	\$ 453,225
Costs and expenses:			
Cost of revenues	341,420	288,022	256,600
Selling, general and administrative expenses	98,032	80,623	69,558
Write off of fixed assets	872	1,155	—
Acquisition related expenses	778	773	670
Total costs and expenses	441,102	370,573	326,828
Income from operations	168,355	145,655	126,397
Other income (expense):			
Interest income	764	558	550
Interest expense	(13,011)	(11,186)	(12,848)
Debt extinguishments and refinancing	(447)	(4,574)	(3,268)
Write-down of note receivable with former joint venture	(2,495)	—	—
Licensing legal settlement	(1,823)	—	—
3CI legal settlement	(36,481)	—	—
Other expense, net	(2,882)	(1,889)	(2,102)
Total other expense	(56,375)	(17,091)	(17,668)
Income before income taxes	111,980	128,564	108,729
Income tax expense	44,826	50,386	42,948
Net income	\$ 67,154	\$ 78,178	\$ 65,781
Earnings per share — Basic	\$ 1.52	\$ 1.77	\$ 1.59
Earnings per share — Diluted	\$ 1.48	\$ 1.69	\$ 1.43
Weighted average number of common shares outstanding — Basic	44,284,580	44,250,913	41,439,020
Weighted average number of common shares outstanding — Diluted	45,310,509	46,195,897	46,097,802

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

**STERICYCLE, INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**

	Year Ended December 31,		
	2005	2004	2003
	(In thousands)		
<b>OPERATING ACTIVITIES:</b>			
Net income	\$ 67,154	\$ 78,178	\$ 65,781
Adjustments to reconcile net income to net cash provided by operating activities:			
Stock compensation expense	27	21	76
Write-off of deferred financing costs	447	1,094	484
Write-down of note receivable with former joint venture	2,495	—	—
Fees paid for extinguishment of senior subordinated debt	—	3,147	2,784
Write-off of licensing intangible	1,431	—	—
Loss on sale and impairment of fixed assets	872	1,515	295
Tax benefit of disqualifying dispositions of stock options and exercise of non-qualified stock options	7,432	7,719	10,044
Depreciation	19,835	19,373	15,405
Amortization	1,596	2,430	1,850
Deferred income taxes	13,514	13,849	9,576
Change in operating assets and liabilities, net of effects of acquisitions:			
Accounts receivable	(19,679)	(4,986)	5,983
Parts and supplies	(962)	(494)	1,720
Prepaid expenses and other assets	(1,909)	6,301	(1,710)
Accounts payable	7,393	(5,123)	(515)
Accrued liabilities	(8,056)	(5,926)	11,363
Deferred revenue	2,737	(2,487)	751
Net cash provided by operating activities	<u>94,327</u>	<u>114,611</u>	<u>123,887</u>
<b>INVESTING ACTIVITIES:</b>			
Payments for acquisitions and international investments, net of cash acquired	(139,696)	(72,408)	(37,222)
Proceeds from maturity/(purchases) of short-term investments	(621)	542	(129)
Net proceeds from sale of assets from acquisition	10,328	—	—
Proceeds from sale of property and equipment	302	85	688
Capital expenditures	(26,314)	(33,312)	(20,972)
Net cash used in investing activities	<u>(156,001)</u>	<u>(105,093)</u>	<u>(57,635)</u>
<b>FINANCING ACTIVITIES:</b>			
Proceeds from issuance of notes payable	735	12,435	1,132
Repayments of senior subordinated debt	—	(54,012)	(20,559)
Repayment of long term debt	(12,845)	(4,402)	(6,023)
Net borrowings (repayments) from 2001 senior credit facility	27,500	61,695	(37,187)
Repayment of 2001 senior credit facility	(198,853)	—	—
Borrowings on 2005 senior credit facility	371,522	—	—
Repayments on 2005 senior credit facility	(79,853)	—	—
Payments of deferred financing costs	(1,484)	—	(395)
Principal payments on capital lease obligations	(795)	(996)	(1,117)
Purchase/cancellation of treasury stock	(60,657)	(34,847)	(13,204)
Proceeds from other issuances of common stock	14,230	13,186	10,533
Net cash provided by (used in) financing activities	<u>59,500</u>	<u>(6,941)</u>	<u>(66,820)</u>
Effect of exchange rate changes on cash	2,149	(1,967)	(567)
Net increase (decrease) in cash and cash equivalents	(25)	610	(1,135)
Cash and cash equivalents at beginning of year	7,850	7,240	8,375
Cash and cash equivalents at end of year	<u>\$ 7,825</u>	<u>\$ 7,850</u>	<u>\$ 7,240</u>
<b>Non-cash activities:</b>			
Net issuances of notes payable for certain acquisitions	\$ 49,736	\$ 17,795	\$ —
Net issuances of common stock and warrants for certain acquisitions	<u>\$ —</u>	<u>\$ 441</u>	<u>\$ 204</u>

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

**STERICYCLE, INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY**  
**Years Ended December 31, 2005, 2004 and 2003**

	Issued and Outstanding Shares	Amount	Additional Paid-In Capital	Retained Earnings (In thousands)	Treasury Stock	Accumulated Other Comprehensive Income (Loss)	Total Shareholders' Equity
Balances at December 31, 2002	40,437	\$ 404	\$ 277,531	\$ 50,458	\$ (1,435)	\$ (229)	\$ 326,729
Issuance of common stock for exercise of options and warrants and employee stock purchases	960	10	10,390	—	—	—	10,400
Conversion of Preferred Stock	812	8	7,097	—	—	—	7,105
Purchase/Cancellation of treasury stock	(343)	(3)	(14,636)	—	1,435	—	(13,204)
Common stock and warrants issued for acquisitions	2	1	205	—	—	—	206
Tax benefit of disqualifying dispositions of stock options and exercise of non-qualified stock options	—	—	10,044	—	—	—	10,044
Currency translation adjustment	—	—	—	—	—	527	527
Change in fair value of cashflow hedge	—	—	—	—	—	232	232
Net income	—	—	—	65,781	—	—	65,781
Comprehensive income	—	—	—	—	—	—	66,540
Balances at December 31, 2003	41,868	\$ 420	\$ 290,631	\$ 116,239	\$ —	\$ 530	\$ 407,820
Issuance of common stock for exercise of options and warrants and employee stock purchases	808	8	13,178	—	—	—	13,186
Conversion of Preferred Stock	2,836	28	20,916	—	—	—	20,944
Purchase/Cancellation of treasury stock	(789)	(8)	(34,839)	—	—	—	(34,847)
Common stock and warrants issued for acquisitions	9	—	441	—	—	—	441
Tax benefit of disqualifying dispositions of stock options and exercise of non-qualified stock options	—	—	7,719	—	—	—	7,719
Currency translation adjustment	—	—	—	—	—	1,934	1,934
Change in fair value of cashflow hedge	—	—	—	—	—	(3)	(3)
Net income	—	—	—	78,178	—	—	78,178
Comprehensive income	—	—	—	—	—	—	80,109
Balances at December 31, 2004	44,732	\$ 448	\$ 298,046	\$ 194,417	\$ —	\$ 2,461	\$ 495,372
Issuance of common stock for exercise of options and warrants and employee stock purchases	668	7	14,241	—	—	—	14,248
Purchase/Cancellation of treasury stock	(1,250)	(13)	(60,644)	—	—	—	(60,657)
Tax benefit of disqualifying dispositions of stock options and exercise of non-qualified stock options	—	—	7,432	—	—	—	7,432
Currency translation adjustment	—	—	—	—	—	(1,817)	(1,817)
Change in fair value of cashflow hedge	—	—	—	—	—	(98)	(98)
Net income	—	—	—	67,154	—	—	67,154
Comprehensive income	—	—	—	—	—	—	65,239
Balances at December 31, 2005	44,150	\$ 442	\$ 259,075	\$ 261,571	\$ —	\$ 546	\$ 521,634

The accompanying notes are an integral part of these financial statements

**STERICYCLE, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**December 31, 2005**

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

**Note 1 — Description of Business**

We were incorporated in 1989 and presently serve approximately 333,000 customers throughout the United States, Puerto Rico, Canada, Mexico and the United Kingdom. In North America we have a fully integrated, national medical waste management network. Our network includes 45 treatment/collection centers and 105 additional transfer and collection sites. We use this network to provide a broad range of services to our customers. Our medical waste treatment technologies include our proprietary electro-thermal-deactivation system, or ETD, as well as traditional methods such as autoclaving and incineration. In the United Kingdom we have a fully integrated waste management network, which includes 12 treatment/collection centers and two additional transfer/collection sites.

We also serve pharmacies, distributors and manufacturers of pharmaceutical products, from five processing centers within the United States, by managing the return and disposal of expired or surplus pharmaceutical products and by managing the recall of pharmaceutical products being recalled by the manufacturer.

**Note 2 — Summary of Significant Accounting Policies**

***Principles of Consolidation:***

The consolidated financial statements include the accounts of Stericycle, Inc. and its wholly owned subsidiaries as well as our 64.5% ownership in Medam S.A. de C.V. (“Medam”) (a Mexican company) and 67.5% common stock ownership in 3CI Complete Compliance Corporation (“3CI”). All significant intercompany accounts and transactions have been eliminated. In addition, we have a 37.5% ownership in Medam B.A. Srl (an Argentine company), which is accounted for using the equity method. Minority interest expense related to our majority owned subsidiaries and our equity interest in the income or loss of unconsolidated subsidiaries are included in the other income (expense).

***Revenue Recognition:***

We recognize revenue for our medical waste services at the time of medical waste collection. Revenue and costs on contracts to supply our proprietary ETD treatment equipment are recognized based on shipment of equipment and services provided for in the individual contract. We routinely review total estimated costs and shipments to complete each contract and revise the revenues and estimated gross margin on the contract as necessary. Payments received in advance are deferred and recognized as services are provided. Royalty revenues are calculated based on measurements specified in each technology contract and revenues are recognized at the end of each reporting period when the activity being measured has been completed. Revenues from product sales are recognized at the time the goods are shipped to the ordering customer. Software licensing revenues are recognized on a prorata basis over the term of the license agreement. Revenues from pharmaceutical services are recorded at the time services are performed. We do not have any contracts in a loss position. Losses would be recorded when known and estimable for any contracts that should go into a loss position. Payments received in advance are deferred and recognized as services are provided.

***Cash Equivalents and Short-Term Investments:***

We consider all highly liquid investments with a maturity of less than three months when purchased to be cash equivalents. Short-term investments consist of certificates of deposit, which mature in less than one year.

**STERICYCLE, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)**  
**December 31, 2005**

***Property, Plant and Equipment:***

Property, plant and equipment are stated at cost. Depreciation and amortization, which include the depreciation of assets recorded under capital leases, are computed using the straight-line method over the estimated useful lives of the assets as follows:

Buildings and Improvement	3 to 30 years
Machinery and Equipment	3 to 20 years
Containers	2 to 20 years
Transportation Equipment	4 to 10 years
Office Equipment and Furniture	3 to 10 years
Software	3 to 7 years

During the year ended December 31, 2005, 3CI of which we own a majority of the common stock, recorded a non-cash impairment charge of \$0.9 million on its Springhill, Louisiana building and property. During the year ended December 31, 2004 we recorded a non-cash write-down of idled Stericycle incinerator equipment at our Baltimore, Maryland and Terrell, Texas facility of \$1.2 million.

During 2004 we evaluated the estimated useful life of our reusable Bio Systems containers by performing durability studies. Based on these studies we determined that the useful life of the containers was actually longer than our current life used to calculate depreciation. During 2004 we adjusted the total useful lives from 3 years to 17 years for containers that had been purchased during 2003 and 2004. In addition we adjusted the useful lives on the containers originally acquired with the Scherer Healthcare acquisition in January 2003 to a total of 10 years from the date of the original purchase. The impact of the change in the estimated useful life was immaterial to our results in 2004.

***Goodwill and Intangibles:***

Goodwill and other indefinite lived intangibles are not amortized but are subject to an annual impairment test. According to Statements of Financial Accounting Standards ("FAS") No. 142, other intangible assets will continue to be amortized over their useful lives. We have determined that our customer relationships have useful lives from 20 to 40 years based upon the type of customer. We have non-compete intangibles with useful lives from one to five years. We have tradename intangibles with useful lives from 20 to 40 years. We have a software technology intangible with a useful life of five years. We have determined that our permits have indefinite lives and thus they are not amortized.

***Income Taxes:***

Deferred income tax liabilities and assets are determined based on the differences between the financial statement and income tax basis of assets and liabilities using enacted tax rates in effect for the year in which the differences are expected to reverse.

***Accounts Receivable:***

Accounts receivable consist primarily of amounts due to us from our normal business activities. Accounts receivable balances are determined to be past due when the amount is overdue based on the contractual terms with the customer. We maintain an allowance for doubtful accounts to reflect the expected uncollectibility of accounts receivable based on past collection history and specific risks identified among uncollected accounts. Accounts receivable are written off against the allowance for doubtful accounts when we have determined that the receivable will not be collected and/or when the account has been referred to a third party collection agency.

STERICYCLE, INC. AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)  
December 31, 2005

***Financial Instruments:***

Our financial instruments consist of cash and cash equivalents, short-term investments, derivatives, accounts receivable and payable and long-term debt. The fair values of these financial instruments were not materially different from their carrying values. Financial instruments, which potentially subject us to concentrations of credit risk, consist principally of accounts receivable. Credit risk on trade receivables is minimized as a result of the large size of our customer base. No single customer represents greater than 2% of total accounts receivable. We perform ongoing credit evaluation of our customers and maintain allowances for potential credit losses. For any contracts in loss positions, losses are recorded when known and estimable. These losses, when incurred, have been within the range of our expectations.

***Use of Estimates:***

The preparation of financial statements in conformity with generally accepted accounting principles requires us to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Some areas where we make estimates include allowance for doubtful accounts, credit memo reserve, accrued employee health and welfare benefits, income tax liabilities and accrued auto and workers' compensation insurance claims. Such estimates are based on historical trends and on various other assumptions that are believed to be reasonable under the circumstances. Actual results could differ from our estimates.

***Derivative Instruments:***

We have three forward contracts for the purchase of Sterling (GBP) as hedging instruments for an intercompany loan from the parent company to our subsidiary in the United Kingdom, Stericycle International Ltd, which are described more fully in Note 7. The subsidiary borrowed the funds for the purchase of White Rose. The forward contracts align with the anticipated repayment schedule of the loan and the last contract expires in July 2009. On October 1, 2005, we prospectively designated our existing foreign currency forward contracts as cash flow hedges to receive hedge accounting treatment.

***Stock-Based Compensation:***

At December 31, 2005, we have stock-based compensation plans, which are described more fully in Note 11. We have elected to follow Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees" ("APB 25") and related interpretations in accounting for employee stock options using the intrinsic value method because the alternative fair value accounting method provided for under Statement of Financial Accounting Standards No. 123, "Accounting for Stock-Based Compensation" ("FAS 123"), requires use of option valuation models that were not developed for use in valuing employee stock options. Under APB 25, because the exercise price of our employee stock options equals the market price of the underlying stock on the measurement date (date of grant), no compensation expense is recognized.



**STERICYCLE, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)**  
**December 31, 2005**

The following table illustrates the effect on net income and earnings per share if we had applied the fair value recognition of FAS 123 to stock-based employee compensation (in thousands except per share information).

	2005	2004	2003
Stock options expense included in net income	\$ 16	\$ 13	\$ 46
As reported net income	\$ 67,154	\$ 78,178	\$ 65,781
Pro forma impact of stock options, net of tax	(5,940)	(5,540)	(6,172)
Pro forma impact of employee stock plan, net of tax	(127)	(111)	(149)
Pro forma net income	\$ 61,087	\$ 72,527	\$ 59,460
Earnings per share Basic — as reported	\$ 1.52	\$ 1.77	\$ 1.59
Basic — pro forma	\$ 1.38	\$ 1.64	\$ 1.43
Diluted — as reported	\$ 1.48	\$ 1.69	\$ 1.43
Diluted — pro forma	\$ 1.36	\$ 1.58	\$ 1.30

**Foreign Currency Translation:**

Assets and liabilities of foreign affiliates that use the local currency as their functional currency are translated at current exchange rates, and income statement accounts are translated at the average rates during the period. Related translation adjustments are reported as a component of comprehensive income (loss) directly in equity.

**Environmental Matters:**

We record a liability for environmental remediation or damages when a cleanup program becomes probable and the costs or damages can be reasonably estimated. We do not have environmental liabilities recorded at December 31, 2005 nor are we aware of any issues at our facilities that could initiate the need for environmental remediation.

**Reclassifications:**

Certain amounts in the 2003 and 2004 financial statements have been reclassified to conform to the 2005 presentation.

**New Accounting Standards:**

In December 2004, the Financial Accounting Standards Board ("FASB") issued FAS 123R, which replaces FAS 123 and supersedes APB 25. FAS 123R requires all share-based payments to employees, including grants of employee stock options, to be recognized in the financial statements based on their fair values beginning with the first interim or annual period after January 1, 2006. The pro forma disclosures previously permitted under FAS 123 no longer will be an alternative to financial statement recognition. We will begin expensing stock options in the first quarter of 2006 and will use the modified prospective transition method. The modified prospective method requires that compensation expense be recorded for both new awards and awards previously granted but not fully vested as of the adoption date. We anticipate that we will continue to use the Black-Scholes option-pricing model to determine the fair value of options granted to employees. We expect the adoption of FAS 123R will have a material impact on our consolidated statements.

**STERICYCLE, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)**  
**December 31, 2005**

of income and earnings per share. We have no reason to believe that the amounts reported as a result of the adoption will be materially different from our currently disclosed pro forma amounts.

**Note 3 — Income Taxes**

Significant components of our income tax expense for the years ended December 31, are as follows (in thousands):

	<u>2005</u>	<u>2004</u>	<u>2003</u>
Deferred			
Federal	\$ 11,186	\$ 12,308	\$ 8,945
State	2,730	1,941	2,162
	<u>13,916</u>	<u>14,249</u>	<u>11,107</u>
Current			
Federal	26,349	29,714	26,992
State	4,561	6,423	4,849
	<u>30,910</u>	<u>36,137</u>	<u>31,841</u>
Total Provision	<u>\$ 44,826</u>	<u>\$ 50,386</u>	<u>\$ 42,948</u>

A reconciliation of the income tax provision computed at the federal statutory rate to the effective tax rate for the years ended December 31, is as follows:

	<u>2005</u>	<u>2004</u>	<u>2003</u>
Federal statutory income tax rate	35.0%	35.0%	35.0%
Effect of:			
State taxes , net of federal tax effect	4.1%	4.2%	4.2%
Other	0.9%	—%	0.3%
Effective tax rate	<u>40.0%</u>	<u>39.2%</u>	<u>39.5%</u>

Cash payments for income taxes were \$28.1 million, \$25.9 million and \$16.7 million for the years ended December 31, 2005, 2004 and 2003, respectively.

**STERICYCLE, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)**  
**December 31, 2005**

Our deferred tax liabilities and assets as of December 31 are as follows (in thousands):

	2005	2004
Deferred tax liabilities:		
Property, plant, and equipment	\$ (12,732)	\$ (11,073)
Goodwill and other intangibles	(58,817)	(46,404)
Total deferred tax liabilities	(71,549)	(57,477)
Deferred tax assets:		
Accrued liabilities	8,389	6,146
Other	1,394	3,456
Net operating tax loss carryforward	3,669	4,616
Valuation allowance	—	(922)
Total deferred tax assets	13,452	13,296
Net deferred tax liabilities	\$ (58,097)	\$ (44,181)

At December 31, 2005, net operating loss carry forwards for U.S. federal income tax purposes have been fully utilized, excluding net operating loss carry forwards related to 3CI. We have a foreign tax credit of approximately \$0.5 million, which will begin to expire beginning in 2010. Undistributed earnings of foreign subsidiaries are considered to be permanently invested, and therefore, no U.S. deferred taxes are recorded thereon. The cumulative amounts of such earnings are \$22.3 million at December 31, 2005, and it was not practicable to estimate the U.S. and withholding tax thereon assuming repatriation. 3CI, our majority owned subsidiary, has net operating loss carry forwards for federal and state purposes of \$10.0 million beginning to expire in 2006. Stericycle has net operating loss carry forwards for state purposes of \$4.4 million, which expire through 2018.

**Note 4 — Acquisitions and Divestiture**

During the year ended December 31, 2005 we completed the acquisition of nine domestic medical waste businesses and four pharmaceutical returns (reverse distribution) businesses, our Mexican subsidiary completed the acquisition of seven medical waste businesses and our United Kingdom subsidiary completed the acquisition of two medical waste businesses. No individual acquisition or the acquisitions in aggregate were significant to our operations.

During the quarter ended March 31, 2005 our Mexican subsidiary, Medam S.A. de C.V. (“Medam”) acquired selected assets of Servicios Ecologicos PEGE y Asociados S. De R.L. de C.V.

During the quarter ended June 30, 2005 we completed six acquisitions of medical waste businesses, consisting of selected assets of Envirotech of America, Inc. which operated in central New York, Medical Systems, Inc., which operated in Missouri, BioClean, Inc., which operated in western New York, all of the stock of Sanford Motors, Inc. and two affiliated companies, which operated in eastern Pennsylvania and New Jersey, selected assets of Five Star Waste, Inc., which operated in Florida, and selected assets of Bio-Med Tec Inc. and an affiliated company, which operated in West Virginia and southern Ohio. We also acquired all of the stock of Automated Health Technologies, Inc., a pharmaceutical returns company based in Florida. Our United Kingdom subsidiary, Stericycle International Ltd., acquired all of the stock of Healthcare Waste Limited (formerly known as Select Environmental Limited) and Medam completed the acquisition of all of the stock of Planta Incineradora de Residuos Biologicos Infecciosos, S.A. de C.V., Soluciones Ecologicas Integrales, S.A. de C.V. and L.A.E. Gabriela Hernandez Romo.

## STERICYCLE, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)  
December 31, 2005

During the quarter ended September 30, 2005 we completed two acquisitions of medical waste businesses, consisting of all of the stock of Nicklin Associates Inc., which operated in New York, Maryland and Washington D.C. and selected assets of Med-Trac Inc., which operated in Pennsylvania. Medam completed the acquisition of selected assets of Impulso Mexicano, S.A. de C.V. and selected assets of Biol. Donaji de la Caridad Gutierrez Garcia.

During the quarter ended December 31, 2005 we acquired all of the stock of Iowa Medical Waste Reduction Center, Inc., which operated in Iowa. In addition, we completed the acquisition of three pharmaceutical returns businesses, consisting of selected assets of L.L. Horizons, Inc. (also known as Certified Returns) which operated in Florida, all of the stock of Universal Solutions International Inc., which operated in North Carolina, Georgia and New Jersey and all of the stock of NNC Group, LLC, which operated in Indiana. In conjunction with the acquisition of Universal Solutions International Inc., we sold selected assets of their consumer products division to Carolina Supply Chain Services LLC for \$12.3 million, of which \$10.3 million was the net amount received in cash with \$2.0 million being held in escrow. Medam completed the acquisition of selected assets of Servicios Integrales En Manejo de Residuos S.A. de C.V., (formerly known as Simar) and our United Kingdom subsidiary, Stericycle International, Ltd., acquired all of the stock of Indigo Equity Holdings Limited, (formerly known as Waste Solution Inc.).

The aggregate net purchase price of these acquisitions during 2005 was approximately \$189.4 million, of which approximately \$139.7 million was paid in cash and \$49.7 million was paid by the issuance of notes payable.

As of December 31, 2005 the valuation of certain goodwill and intangibles assets associated with the acquisitions have not been finalized.

During the year ended December 31, 2004 we completed the acquisition of two domestic medical waste businesses, Medam completed the acquisition of three medical waste businesses and Stericycle International, LLC completed one acquisition. No individual acquisition or the acquisitions in aggregate were significant to our operations.

During the quarter ended March 31, 2004 we completed the acquisition of two medical waste businesses, consisting of selected assets of American Waste Industries, Inc., which operated in Virginia, Maryland and North Carolina.

During the quarter ended June 30, 2004 we completed the acquisition of selected assets of Texas Environmental Services, Inc., which operated in Texas and Stericycle International Ltd., completed the acquisition of all the common stock of White Rose Environmental Ltd ("White Rose"), which operated in the United Kingdom.

During the quarter ended September 30, 2004 Medam completed the acquisition of all of the common stock of Sterimed S.A. de C.V., all of the remaining stock of Proterm de Mexico JV. S.A. de C.V. and selected assets of Bio-Inflex Servicios Y Tecnologia SA De CV.

The aggregate net purchase price of these acquisitions during 2004 was approximately \$90.6 million, of which approximately \$72.4 million was paid in cash, \$17.8 million was paid by the issuance of notes payable and \$0.4 million was paid by the issuance of unregistered shares of our common stock.

During the year ended December 31, 2003 we completed the acquisition of four medical waste businesses, our Canadian subsidiary completed one acquisition, and our majority owned subsidiary, 3CI Complete Compliance Corporation ("3CI"), completed one acquisition. In addition, we completed the acquisition of a pharmaceutical returns software company. No individual acquisition or the acquisitions in aggregate were significant to our operations.

**STERICYCLE, INC. AND SUBSIDIARIES**

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During the quarter ended March 31, 2003 we completed the acquisition of two medical waste businesses, consisting of all of the common and preferred stock of Scherer Healthcare, Inc. which operated in 10 northeastern and Mid-Atlantic states and selected assets of Kuglen Services, Ltd., LLP, which operated in Texas.

During the quarter ended June 30, 2003 we completed the acquisition of selected assets of Environmental Management Group, Inc., which operated a medical waste business in Ohio and Kentucky. Our majority owned subsidiary, 3CI, acquired selected assets of PMT USA, Inc., dba Air & Sea Environmental, which operated a medical waste business in southeast Texas.

During the quarter ended September 30, 2003 we completed the acquisition of selected assets of NAWA Medical Disposal, L.L.C., which operated a medical waste business in western Texas. In addition, we acquired substantially all of the assets of Pharmacy Software Solutions, Inc. ("PSSI"), a pharmaceutical returns software company based in Illinois. Our wholly owned Canadian subsidiary completed the acquisition of selected assets of Enviro-Med Canada, Inc., which operated a medical waste business in northern Ontario.

The aggregate net purchase price of these acquisitions during 2003 was approximately \$37.4 million, of which approximately \$37.2 million was paid in cash; \$0.2 million was paid by the issuance of unregistered shares of our common stock.

For financial reporting purposes these acquisition transactions were accounted for using the purchase method of accounting. The total purchase price for 2005, 2004 and 2003 of \$189.4 million, \$90.6 million and \$37.4 million, respectively, net of cash acquired, was allocated to the assets acquired and liabilities assumed based on the estimated fair market value at the date of acquisition. The total purchase price for acquisitions completed in 2004 and 2003 includes the value of 8,323 and 1,906 shares respectively, of our common stock issued to the sellers. In certain cases, the purchase price is or was subject to downwards adjustment if revenues from customer contracts acquired failed to reach certain specified levels. The excess of the purchase price over the fair market value of the net assets acquired is reflected in the accompanying consolidated balance sheets as goodwill. Goodwill was recorded in the amounts of \$170.0 million and \$49.6 million during the years of 2005 and 2004, respectively. The results of operations of these acquired businesses have been included in the consolidated statements of income from the date of the acquisition.

**Note 5 — Long Term Debt**

Long-term debt consists of the following at December 31:

	2005	2004
	(In thousands)	
Obligations under capital leases	\$ 1,209	\$ 1,500
Senior Credit Facility	291,669	171,353
Notes Payable	68,007	30,796
	360,885	203,649
Less: Current Portion	12,044	13,218
Total	<u>\$ 348,841</u>	<u>\$ 190,431</u>

**STERICYCLE, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)**  
**December 31, 2005**

Payments due on long-term debt excluding capital lease obligations, during each of the five years subsequent to December 31, 2005 are as follows:

	(In thousands)
2006	\$ 11,037
2007	23,897
2008	12,439
2009	9,230
2010	299,217
Thereafter	3,856
	<u>\$ 359,676</u>

We paid interest of \$13.5 million, \$11.5 million and \$13.6 million for the years ended December 31, 2005, 2004 and 2003, respectively.

Property under capital leases included with property, plant and equipment in the accompanying Consolidated Balance Sheets is as follows at December 31:

	2005	2004
	(In thousands)	
Machinery and Equipment	\$ 401	\$ 43
Vehicles	5,936	5,786
Less — accumulated depreciation and amortization	(5,831)	(5,823)
	<u>\$ 506</u>	<u>\$ 6</u>

Amortization related to these capital leases is included with depreciation expense.

Minimum future lease payments under capital leases are as follows (in thousands):

2006	\$ 1,068
2007	195
2008	35
2009	—
2010	—
Total minimum lease payments	1,298
Less amounts representing interest	(89)
Present value of net minimum lease payments	1,209
Less Current portion	1,007
Long-term obligations under capital leases	<u>\$ 202</u>

**Senior Credit Facility**

In June 2005, we obtained a new \$400.0 million senior unsecured revolving credit facility maturing in June 2010, containing a letter of credit sub limit of \$125.0 million, in place of our existing senior secured credit facility.

The new revolving credit facility, provided under a credit agreement with various financial institutions, reduced the interest rates that we are charged by reducing the applicable margin that is added to the relevant

STERICYCLE, INC. AND SUBSIDIARIES  
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interest rate. The new facility also allows us to borrow in pre-approved currencies other than United States dollars. Our borrowings bear interest at fluctuating interest rates determined, at our election in advance for any quarterly or other applicable interest period, by reference to (i) a “base rate” (the higher of the prime rate at Bank of America, N.A. or 0.5% above the rate on overnight federal funds transactions) or (ii) the London Interbank Offered Rate, or LIBOR, plus, in either case, the applicable margin within the relevant range of margins provided in our credit agreement. The applicable margin is based upon our consolidated leverage ratio. As of December 31, 2005, the margin for interest rates on borrowings under our revolving new credit facility was zero on base rate loans and 0.75% on LIBOR loans.

Our credit agreement requires us to comply with various financial, reporting and other covenants and restrictions, including restrictions on dividend payments. At December 31, 2005, we were in compliance with these covenants and restrictions.

In December 2005, we increased our revolving credit facility from \$400.0 million to \$550.0 million and also increased the letter of credit sub limit from \$125.0 million to \$150.0 million.

As of December 31, 2005, we had \$291.7 million of borrowings outstanding under our senior unsecured credit facility, which includes foreign currency borrowings of \$5.2 million. In addition, we had \$65.9 million committed to outstanding letters of credit. The weighted average rate of interest on the unsecured revolving credit facility was 4.99% per annum.

As of December 31, 2004, our senior secured credit facility consisted of a \$205.0 million revolving credit facility and a Term A loan in the principal amount of \$62.4 million.

As of December 31, 2004, we had \$171.4 million of borrowings outstanding under our senior secured credit facility, of which \$109.0 million consisted of borrowings under the revolving credit component and \$62.4 million under the Term A component. In addition at December 31, 2004 we had \$30.9 million of standby letters of credit issued under our revolving credit component. As of December 31, 2004, the margin for interest rates on borrowings under our revolving credit facility and the Term A component was zero on base rate loans and 1.25% on LIBOR loans. The average rate of interest on the revolving credit facility was 3.64% per annum and the average rate of interest on the Term A loan was 3.66% per annum. This secured credit facility was replaced in June 2005 with the unsecured credit facility discussed above.

***Senior Subordinated Notes***

On November 15, 2004 we redeemed the remaining \$50.9 million of our senior subordinated notes in accordance with the terms of the governing specified in the trust indenture. The redemption price was 106.1875% of the principal face amount plus accrued interest as of the redemption date. The interest rate for the senior subordinated notes was 12<sup>3</sup>/<sub>8</sub>% per annum. These notes had a maturity date of November 15, 2009.

***Notes Payable***

At December 31, 2005 we had promissory notes, primarily issued as a result of acquisitions totaling \$68.0 million. The weighted average interest rate on these notes is 5.30%. The fixed rate to floating rate ratio is 78.4% to 21.6%. The weighted average maturity is approximately 4.2 years.

At December 31, 2004 we had \$17.5 million outstanding related to promissory notes issued in connection with acquisitions during 2002 and 2004, consisting primarily of a three-year note issued as part of the White Rose Environmental Ltd. acquisition, which had an outstanding balance of \$10.9 million at December 31, 2004.

**STERICYCLE, INC. AND SUBSIDIARIES**  
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**Guarantees**

We have guaranteed a loan to the Azorua Bank in Japan on behalf of Shiraishi-Sogyo Co. Ltd. (“Shiraishi”). Shiraishi is a customer in Japan that is expanding their medical waste management business and has a five-year loan with a current balance of \$6.5 million with the Azorua Bank that expires in June 2009.

**Note 6 — Accrued Liabilities**

Accrued liabilities at December 31 consist of the following items (in thousands):

	<u>2005</u>	<u>2004</u>
Accrued compensation	\$ 7,394	\$ 5,370
Accrued vacation	5,596	4,470
Accrued insurance	12,075	12,913
Accrued income tax	3,950	9,235
Accrued interest	2,684	554
Accrued professional liabilities	3,105	2,038
Accrued liabilities — other	13,646	9,831
Total accrued liabilities	<u>\$ 48,450</u>	<u>\$ 44,411</u>

**Note 7 — Derivative Instruments**

In July 2004, we entered into four forward contracts to hedge a GBP Sterling-based intercompany loan between our US-based subsidiary, Stericycle International L.L.C. and our subsidiary in the United Kingdom, Stericycle International Ltd. The subsidiary borrowed the funds for the purchase of White Rose. The forward contracts align with the anticipated repayment schedule of the loan and the last contract expires in July 2009. Initially, we did not elect hedge accounting on the forward contracts and have been recognizing the change in value of the hedges through other income (expense). This amount has been generally offset by the currency adjustment to the intercompany receivable. During 2004 the cost of the forward contract was immaterial to our net income.

On October 1, 2005, we prospectively designated these existing forward contracts as cash flow hedges and are using hedge accounting. We expect the income related to this hedge accounting election will be \$0.1 million, recognized over the remaining life of the contracts through interest income. During 2005 and 2004 the cost of the forward contracts recognized was immaterial to our net income. As of December 31, 2005, the total notional amount of hedges outstanding is GBP 13.0 million. At December 31, 2005 the hedges were determined to be 100% effective.

**Note 8 — Goodwill and Other Intangible Assets**

In June 2001, the FASB issued FAS No. 141, Business Combinations, and FAS No. 142, Goodwill and Other Intangible Assets. Under FAS 142, goodwill and other indefinite lived intangibles are no longer amortized and are subject to an annual impairment test, or to more frequent testing if circumstances indicate that they may be impaired. In 2005 and 2004 we performed our annual impairment evaluations and determined that there was no impairment. At December 31, 2005 and 2004, we had \$18.5 million and \$17.4 million, respectively, of indefinite lived intangibles that consist of environmental permits for which we performed an annual impairment test, and determined there was no impairment.



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We have two geographical reporting segments, United States and Foreign Countries, both of which have goodwill. The changes in the carrying amount of goodwill for the years ended December 31, 2005 and 2004 was as follows (in thousands):

	<u>United States</u>	<u>Foreign Countries</u>	<u>Total</u>
Balance as of January 1, 2004	\$ 458,593	\$ 6,353	\$ 464,946
Goodwill acquired during year	16,988	32,638	49,626
Effect of currency fluctuation on carrying value	—	2,236	2,236
Balance as of December 31, 2004	475,581	41,227	516,808
Goodwill acquired during year	145,915	24,035	169,950
Effect of currency fluctuation on carrying value	—	(1,589)	(1,589)
Balance as of December 31, 2005	<u>\$ 621,496</u>	<u>\$ 63,673</u>	<u>\$ 685,169</u>

According to FAS 142, other intangible assets will continue to be amortized over their useful lives.

During the year ended December 31, 2005 we recorded at fair value the intangibles acquired in connection with our acquisitions of Sanford Motors, Iowa Medical Waste Reduction Center, Automated Health Technologies, L.L. Horizons, Bio-Med Tech, Envirotech, Bio Clean, Medical Systems, Med Trac, and the acquisitions completed by our United Kingdom and Mexican subsidiaries. We assigned \$13.3 million to customer relationships with amortization periods of 20 to 40 years, \$1.7 million to facility environmental permits with indefinite lives and \$0.4 million to non-compete agreements with amortization periods of one to five years.

During 2005 we were in arbitration proceedings regarding various disputes under an exclusive marketing and license agreement with a licensor of software. On March 1, 2006, subsequent to year-end, the arbitrator awarded in favor of the licensor. Although this event occurred after the end of the year, we are required to write-off the unamortized portion of the license fee that we had previously paid because the license agreement was effectively terminated. The effect is a reduction in the carrying amount of this intangible by \$1.8 million and a reduction in the accumulated amortization of \$0.4 million.

During the year ended December 31, 2004 we recorded at fair value the intangibles acquired in connection with our acquisitions of PSSI, American Waste Industries, Inc. Texas Environmental Services, Inc., White Rose Environmental Ltd., and Sterimed S.A.de C.V. We assigned \$11.7 million to customer relationships with amortization periods of 20 to 40 years, \$2.2 million to tradenames with an amortization period of 20 to 40 years, \$6.4 million to facility environmental permits with indefinite lives, \$0.5 million to a software license with an amortization period of 5 years and \$0.2 million to non-compete agreements with amortization periods of one to five years.

**STERICYCLE, INC. AND SUBSIDIARIES**  
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As of December 31, the value of the amortizing intangible assets were as follows (in thousands):

	Gross Carrying Amount		Accumulated Amortization	
	2005	2004	2005	2004
Non-compete	\$ 6,881	\$ 6,528	\$ 6,046	\$ 5,716
Customer relationships	40,978	28,551	2,385	1,526
Tradenames	3,575	3,790	274	187
License agreement	500	2,300	208	477
Other	141	141	52	45
Total	<u>\$ 52,075</u>	<u>\$ 41,310</u>	<u>\$ 8,965</u>	<u>\$ 7,951</u>

During the year ended December 31, 2005, 2004 and 2003 the aggregate amortization expense was \$1.6 million, \$2.4 million and \$1.9 million respectively. The estimated amortization expense, in thousands, for each of the next five years is as follows for the years ended December 31:

2006	\$ 1,779
2007	1,760
2008	1,531
2009	1,409
2010	1,299

**Note 9 — Lease Commitments**

We lease various plant equipment, office furniture and equipment, motor vehicles and office and warehouse space under operating lease agreements, which expire at various dates over the next twelve years. The leases for most of the properties contain renewal provisions.

Rent expense for 2005, 2004, and 2003 was \$25.8 million, \$21.2 million and \$18.2 million, respectively.

Minimum future rental payments under non-cancelable operating leases that have initial or remaining terms in excess of one year as of December 31, 2005 for each of the next five years and in the aggregate are as follows:

	(In thousands)
2006	\$ 24,747
2007	19,529
2008	15,636
2009	12,200
2010	8,808
Thereafter	16,822
Total minimum rental payments	<u>\$ 97,742</u>

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**Note 10 — Net Income per Common Share**

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

	Year Ended December 31,		
	2005	2004	2003
	(In thousands, except share and per share data)		
<b>Numerator:</b>			
Net income	\$ 67,154	\$ 78,178	\$ 65,781
<b>Denominator:</b>			
Denominator for basic earnings per share — weighted-average shares	44,284,580	44,250,913	41,439,020
<b>Effect of dilutive securities:</b>			
Employee stock options	1,025,822	1,142,564	1,814,728
Warrants	107	8,613	8,386
Convertible preferred stock	—	793,807	2,835,668
<b>Dilutive potential common shares</b>	<b>1,025,929</b>	<b>1,944,984</b>	<b>4,658,782</b>
Denominator for diluted earnings per share — adjusted weighted-average shares and assumed conversions	45,310,509	46,195,897	46,097,802
<b>Basic net income per share</b>	<b>\$ 1.52</b>	<b>\$ 1.77</b>	<b>\$ 1.59</b>
<b>Diluted net income per share</b>	<b>\$ 1.48</b>	<b>\$ 1.69</b>	<b>\$ 1.43</b>

For additional information regarding outstanding employee stock options and outstanding warrants, see Note 11.

In 2005, 2004 and 2003, options and warrants to purchase 33,208 shares, 55,719 shares and 13,623 shares, respectively, at exercise prices of \$44.22-\$62.21, \$46.95-\$51.14 and \$35.05-\$49.84, respectively, were not included in the computation of diluted earnings per share because the effect would be antidilutive.

**Note 11 — Preferred Stock, Stock Options and Warrants**

***Preferred Stock***

At December 31, 2005 and 2004 we had 1,000,000 authorized shares of preferred stock and no shares issued or outstanding.

***Stock Options***

We have adopted five stock option plans: (i) the 2005 Incentive Stock Option Plan (the “2005 Plan”), which our stockholders approved in April 2005; (ii) the 2000 Nonstatutory Stock Option Plan (the “2000 Plan”), which our Board of Directors adopted in February 2000; (iii) the 1997 Stock Option Plan (the “1997 Plan”), which our stockholders approved in April 1997; (iv) the Directors Stock Option Plan (the “Directors Plan”), which our shareholders approved in July 1996 (prior to our initial public offering in August 1996); and (v) the 1995 Incentive Compensation Plan (the “1995 Plan”), which our stockholders approved in September 1995.

The 2005 Plan authorizes awards of stock options and stock appreciation rights for a total of 2,400,000 shares; as amended, the 2000 Plan authorizes stock option grants for a total of 3,500,000 shares; the

**STERICYCLE, INC. AND SUBSIDIARIES**  
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1997 and 1995 Plans each authorize stock option grants for a total of 3,000,000 shares; and as amended, the Directors Plan authorizes stock option grants for a total of 1,170,000 shares.

The 2005 Plan provides for the grant of nonstatutory stock options (“NSOs”) and incentive stock options intended to qualify under section 422 of the Internal Revenue Code (“ISOs”) as well as stock appreciation rights; the 2000 Plan provides for the grant of NSOs; the 1997 and 1995 Plans each provide for the grant of NSOs and ISOs; and the Directors Plan provides for the grant of NSOs.

The 2005 Plan authorizes awards to our officers, employees and consultants and, following the expiration of the Directors Plan in May 2006, to our directors; the 2000 Plan authorizes stock option grants to our employees and consultants but not to our officers and directors; the 1997 and 1995 Plans each authorize stock option grants to our officers, directors, employees and consultants; and the Directors Plan authorizes stock option grants to our outside directors.

The exercise price per share of an option granted under any of our stock option plans may not be less than the closing price of a share of our common stock on the date of grant. The maximum term of an option granted under any plan may not exceed 10 years. An option may be exercised only when it is vested and, in the case of an option granted to an employee (including an officer), only while he or she remains an employee and for a limited period following the termination of his or her employment.

Options granted to officers and employees generally vest over five years. During 2005, options granted to officers and employees generally vested at the rate of 20% of the option shares on each of the first five anniversaries of the option grant date. During 2004, options granted to officers and employees generally vested at the rate of 20% of the option shares on the first anniversary of the option grant date and then at the rate of 1/60 of the option shares for each of the next 48 months. In 2000, our Board of Directors approved the 2000 Nonstatutory Stock Option Plan (the “2000 Plan”), which in total now provides for the granting of 3,500,000 shares of our common stock in the form of stock options to employees, (but not to officers or directors).

Shares of the Company’s common stock have been reserved for issuance upon the exercise of outstanding options and warrants. These shares, which include both shares available for option grant and shares granted as options but not yet exercised, have been reserved as follows at December 31, 2005:

1995 Plan options	367,615
1996 Directors Plan options	602,112
1997 Plan options	952,182
2000 Plan options	2,202,468
2005 Plan options	2,400,000
Warrants	1,000
Total shares reserved	<u>6,525,377</u>

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**December 31, 2005**

A summary of stock option information follows:

	2005		2004		2003	
	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price
Outstanding at beginning of year	3,420,298	\$ 27.13	3,653,799	\$ 21.02	3,610,373	\$ 14.95
Granted	897,687	48.44	805,069	44.74	981,267	32.36
Exercised	(646,035)	21.19	(797,946)	16.13	(831,491)	12.08
Cancelled/Forfeited	(79,101)	39.84	(240,624)	29.26	(106,350)	22.33
Outstanding at end of year	3,592,849	33.24	3,420,298	27.13	3,653,799	21.02
Exercisable at end of year	1,840,013	\$ 23.91	1,770,681	\$ 20.03	1,617,059	\$ 15.62
Available for future grant	2,931,528		1,349,114		1,913,559	

Options outstanding and exercisable as of December 31, 2005 by price range:

Range of Exercise Price	Options Outstanding			Options Exercisable	
	Shares	Outstanding Average Remaining Life in Years	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price
\$4.000-\$10.125	553,560	3.51	\$ 7.78	552,060	\$ 7.78
\$10.344-\$22.505	401,355	5.11	16.38	367,892	16.46
\$22.910-\$27.370	382,425	6.08	27.23	243,090	27.19
\$30.699-\$35.050	466,943	7.05	34.85	246,375	34.72
\$35.430-\$44.050	250,143	7.31	38.48	149,831	38.13
\$44.220-\$45.710	568,859	8.19	44.36	184,417	44.31
\$45.800-\$45.800	620,873	9.13	45.80	3,035	45.80
\$44.850-\$62.210	348,691	9.22	53.19	93,313	47.81
	<u>3,592,849</u>	<u>6.95</u>	<u>\$ 33.24</u>	<u>1,840,013</u>	<u>\$ 23.91</u>

We have elected to follow APB 25, "Accounting for Stock Issued to Employees" and related interpretations in accounting for its employee stock options because, as discussed below, the alternative fair value accounting provided for under FAS 123, "Accounting for Stock-Based Compensation", requires use of option valuation models that were not developed for use in valuing employee stock options. Under APB 25, because the exercise price of our employee stock options equals the market price of the underlying stock on the date of grant, no compensation expense is recognized.

Pro forma information regarding net income and net income per share is required by FAS 123 as if we had accounted for our employee stock options granted subsequent to December 31, 1994 under the fair value method of that statement. Options granted were valued using the Black-Scholes option-pricing model. In 2005, in anticipation of the adoption of FAS 123R on January 1, 2006, we reviewed the values of the variables used to determine the fair value of its stock options granted in 2003, 2004 and 2005. We determined that the values of the expected volatility, weighted average expected life of the option and risk-free interest rates variables should be modified slightly in order to provide a better estimate of the fair value of the employee stock options. The modifications resulted in an immaterial reduction in the pro forma stock option expense in 2005, 2004 and 2003. The following revised assumptions were used in 2005, 2004 and 2003: expected volatility of 0.32 in 2005, 0.42 in 2004 and 0.49 in 2003; risk-free interest rates of 4.05% in 2005, 3.43% in 2004, and

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2.97% in 2003; a dividend yield of 0%; and a weighted-average expected life of the option of 52 months in 2005, 56 months 2004 and 56 months in 2003. The revised weighted-average fair values of options granted during 2005, 2004 and 2003 were \$14.52 per share, \$15.57 per share, and \$13.73 per share, respectively.

Option value models require the input of highly subjective assumptions. Because our employee stock options have characteristics significantly different from those of traded options, and because changes in the subjective input assumptions can materially affect the fair value estimate, in management's opinion, the existing method does not necessarily provide a reliable single measure of the fair value of its employee stock options.

For purposes of pro forma disclosures, the estimated fair value of the options is amortized to expense over the option-vesting period. Our pro forma information follows (in thousands, except for per share information):

	Year Ended December 31,		
	2005	2004	2003
Stock options expense included in net income	\$ 16	\$ 13	\$ 46
As reported net income	\$ 67,154	\$ 78,178	\$ 65,781
Pro forma impact of stock options, net of tax	(5,940)	(5,540)	(6,172)
Pro forma impact of employee stock plan, net of tax	(127)	(111)	(149)
Pro forma net income	\$ 61,087	\$ 72,527	\$ 59,460
Earnings per share			
Basic — as reported	\$ 1.52	\$ 1.77	\$ 1.59
Basic — pro forma	\$ 1.38	\$ 1.64	\$ 1.43
Diluted — as reported	\$ 1.48	\$ 1.69	\$ 1.43
Diluted — pro forma	\$ 1.36	\$ 1.58	\$ 1.30

**Warrants:**

In June 2000, in connection with our acquisition of an additional 15% interest in Medam, we issued warrants to purchase 88,748 shares of our common stock. Of these warrants, warrants for 62,256 shares were immediately exercisable, while the remaining 26,492 shares become exercisable over five years. The exercise price of the warrants is \$8.75 per share. In 2001, warrants to purchase 65,190 shares were exercised. In 2003, warrants to purchase 12,966 shares were exercised. In 2005, warrants to purchase 10,592 shares were exercised. At December 31, 2005 there were no warrants outstanding.

In September 2003, in connection with our acquisition of NAWA Medical Disposal L.L.C. we issued warrants to purchase 1,000 shares of our common stock. The warrants will become exercisable in September 2008. The exercise price of the warrants is \$47.25 per share. At December 31, 2005 all of the warrants were outstanding.

**Note 12 — Employee Benefit Plan**

We have a 401(k) defined contribution retirement savings plan covering substantially all employees. Each participant may elect to defer a portion of his or her compensation subject to certain limitations. We may contribute up to 50% of the first 5% of compensation contributed to the plan by each employee up to a

**STERICYCLE, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)**  
**December 31, 2005**

maximum of \$1,500 per annum. Our contributions for the years ended December 31 2005, 2004 and 2003 were approximately \$1.3 million, \$1.3 million and \$1.1 million, respectively.

**Note 13 — Employee Stock Purchase Plan**

In October 2000, our Board of Directors adopted the Stericycle, Inc. Employee Stock Purchase Plan (the “ESPP”) effective as of July 1, 2001. Our stockholders approved the ESPP in May 2001. The ESPP authorizes 300,000 shares of our common stock to be purchased by employees at a 15% discount from the market price of the stock through payroll deductions during two six-month offerings each year. An employee who elects to participate in an offering is granted an option on the first day of the offering for a number of shares equal to the employee’s payroll deductions under the ESPP during the offering period (which may not exceed \$5,000) divided by the option price per share. The option price per share is the lower of 85% of the closing price of a share of our common stock on the first trading day of the offering period or 85% of the closing price on the last trading day of the offering period. Every employee who has completed one year’s employment as of the first day of an offering and who is a full-time employee, or a part-time employee who customarily works at least 20 hours per week, is eligible to participate in the offering. During 2005, 2004 and 2003, 18,572 shares, 20,363 shares and 22,012 shares, respectively, were issued through the ESPP.

**Note 14 — Non-Consolidating Joint Ventures**

We have an investment in a joint venture, Medam, B.A. Srl, an Argentine corporation, which was formed to utilize our ETD technology to treat medical waste primarily in the Buenos Aires market. Our investment in the joint venture was \$2.6 million and \$2.8 million at December 31, 2005 and 2004 respectively, which is included in other long-term assets.

In 2005, 2004 and 2003, we recorded \$0.3 million, \$0.2 million and \$1.7 million, respectively, of equity losses related to the above joint venture, which was recorded in the other income (expense).

During January 2004 we sold our minority interest investment in Evertrade Medical Waste (Pty) Ltd, a South African company and the associated current receivables and loans due from the joint venture to Reno Africa PTE Ltd for cash and an \$8.1 million note receivable. During the fourth quarter of 2005 the remaining unpaid loan balance was \$2.5 million. During December 2005 we determined that the issuer of the note would be unable to generate the remaining cash to pay off the note receivable and therefore we wrote-off the remaining \$2.5 million balance as uncollectible at December 31, 2005.

**Note 15 — 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.

*3CI Litigation.* In November 2005, we entered into a preliminary settlement to resolve class action litigation by the minority shareholders of our majority-owned subsidiary, 3CI Complete Compliance Corporation (“3CI”), in which 3CI joined with the class as a plaintiff. This litigation is pending in state court in Louisiana (*Robb, et al. v. Stericycle, Inc., et al.*, First Judicial District Court, Caddo Parish, Louisiana (No. 467704-A)) (the “Louisiana Litigation”). We have described this litigation on a number of occasions, including our report on Form 10-K for 2004.

Under the terms of the preliminary settlement, we agreed to pay \$32.5 million in cash to a trust fund to be established by a claims administrator approved by the court for the purpose of (i) settling all claims in the Louisiana Litigation and in related litigation in state court in Texas (*3CI Complete Compliance Corporation v. Waste Systems, Inc., et al.*, 269th Judicial District, Harris County, Texas (No. 2003-46899)), (ii) canceling or

STERICYCLE, INC. AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)  
December 31, 2005

otherwise acquiring all of the shares of 3CI common stock held by members of the plaintiff class and (iii) paying court-approved administrative expenses and legal fees. In accordance with the terms of the preliminary settlement, we made the required \$32.5 million deposit with the claims administrator following the court's preliminary approval of the settlement in December 2005.

The preliminary settlement remains subject to the court's final approval. A hearing on final approval was held on February 21, 2006. The court has not yet rendered its decision.

The parties to the preliminary settlement intend that, through the settlement, we will acquire sufficient shares of 3CI common stock so that, with the shares that we and one of our subsidiaries already own, we will own 90% or more of 3CI's outstanding common stock. This level of ownership would enable us to acquire the balance of the outstanding 3CI common stock through a "short-form" merger under Delaware law. If we do acquire 90% or more of 3CI's common stock as contemplated, we intend to conduct such a short-form merger as soon as practicable as we determine.

*Private Antitrust Litigation.* In January 2003, we were sued in federal court in Arizona by a private plaintiff claiming anticompetitive conduct in Arizona, Colorado and Utah from November 1997 to the present and seeking certification of the lawsuit as a class action on behalf of all customers of ours and of Browning-Ferris Industries, Inc. in the three-state area during the period in question. Over the next three months, four similar suits were filed in federal court in Utah, Arizona, Colorado and New Mexico. In February and May 2003, two additional suits were filed, in federal court in Utah and Arizona, claiming substantially the same anticompetitive conduct but not seeking class action certification. In December 2003, an eighth suit was filed in federal court in Utah claiming monopolistic and other anticompetitive conduct in California during the prior four years and seeking certification of the suit as a class action on behalf of all California customers of ours during this four-year period. These eight suits were subsequently consolidated before the same judge in federal court in Utah. The first five suits were consolidated under one consolidated class action complaint; the next two suits were consolidated for discovery purposes; and the eighth suit was coordinated for discovery purposes. In June 2004 we settled, for an immaterial amount, the suit filed in May 2003, which, as noted, did not seek class action certification.

Proceedings in the remaining seven suits remain in the discovery stage. We do not believe that any of these suits has merit and are vigorously defending them.

*Other Litigation.* In Australia, we are in arbitration with SteriCorp Limited over the ETD equipment that we sold to them. Discovery is pending in these proceedings. We currently expect that the arbitration hearing will be held during the second quarter of 2006.

During 2005, we were in arbitration regarding various disputes under an exclusive marketing and distribution license agreement with a licensor of software. The licensor claimed, among other things, that our license had ceased to be exclusive because of our failure to pay minimum royalties under the license agreement and we claimed, among other things, that the licensor's actions entitled us to rescind the license agreement and to be repaid the \$1.8 million license fee that we had paid. On March 1, 2006, the arbitrator awarded the licensor \$0.4 million in damages for breach of the license agreement and denied all of the parties' other claims, including our claim for rescission, and the license agreement was effectively terminated. As a result of the arbitrator's decision we wrote-off the remaining \$1.4 million unamortized portion of our license intangible asset.

**Note 16 — Products and Services and Geographic Information**

FAS 131, Disclosures about Segments of an Enterprise and Related Information, requires segment information to be reported based on information utilized by executive management to internally assess performance and make operating decisions. In determining our reportable operating segments, management



**STERICYCLE, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)**  
**December 31, 2005**

determined that we have two reportable segments, United States and foreign operations, based on our consideration of the following criteria:

- the same services are provided,
- the same types of customers are serviced,
- the same types of medical waste collection, transportation and treatment methods are utilized,
- their regulatory environments are similar but vary based upon country specific regulations, and
- they employ the same sales and marketing techniques and activities.

Summary information for our reportable segments is as follows:

	Year Ended December 31,		
	2005	2004	2003
	(In thousands)		
<b>Revenues:</b>			
United States	\$ 508,247	\$ 449,501	\$ 429,638
Foreign countries	101,210	66,727	23,587
<b>Total</b>	<b>\$ 609,457</b>	<b>\$ 516,228</b>	<b>\$ 453,225</b>
<b>Income before income taxes:</b>			
United States	\$ 102,286	\$ 119,387	\$ 103,339
Foreign countries	9,694	9,177	5,390
<b>Total</b>	<b>\$ 111,980</b>	<b>\$ 128,564</b>	<b>\$ 108,729</b>
<b>Total assets:</b>			
United States	\$ 978,027	\$ 775,476	\$ 694,818
Foreign countries	69,633	58,665	12,644
<b>Total</b>	<b>\$ 1,047,660</b>	<b>\$ 834,141</b>	<b>\$ 707,462</b>
<b>Long-lived assets:</b>			
United States	\$ 859,497	\$ 689,178	\$ 602,009
Foreign countries	44,121	29,471	7,716
<b>Total</b>	<b>\$ 903,618</b>	<b>\$ 718,649</b>	<b>\$ 609,725</b>

Revenues are attributed to countries based on the location of customers. Intercompany revenues recorded by the United States for work performed in Canada are eliminated prior to reporting United States revenues. The amounts eliminated were \$0.1 million, \$0.1 million and \$0.3 million for 2005, 2004 and 2003 respectively. The same accounting principles and critical accounting policies are used in the preparation of the financial statements for both reporting segments.

STERICYCLE, INC. AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)  
December 31, 2005

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

	Year Ended December 31,		
	2005	2004 (In thousands)	2003
Medical waste management services	\$ 495,469	\$ 448,485	\$ 429,638
Pharmaceutical returns services	12,778	1,016	—
Total revenues	\$ 508,247	\$ 449,501	\$ 429,638
Net interest expense	11,621	9,340	11,964
Debt extinguishment and refinancing	197	4,574	3,268
3CI settlement of class action litigation	36,481	—	—
Licensing legal settlement	1,823	—	—
Income before income taxes	102,286	119,387	103,339
Income taxes	41,298	50,136	43,007
Net income	\$ 60,988	\$ 69,251	\$ 60,332
Depreciation and amortization	\$ 16,317	\$ 17,029	\$ 15,526

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

	Year Ended December 31,		
	2005	2004 (In thousands)	2003
Medical waste management services	\$ 100,147	\$ 58,590	\$ 20,774
Proprietary equipment and technology license sales	1,063	8,137	2,813
Total revenue	\$ 101,210	\$ 66,727	\$ 23,587
Net interest expense	626	1,288	334
Debt extinguishment and refinancing	250	—	—
Income before income taxes	9,694	9,177	5,390
Income taxes	3,528	250	(59)
Net income	6,166	\$ 8,927	5,449
Depreciation and amortization	\$ 5,114	\$ 4,774	\$ 1,729

**STERICYCLE, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)**  
**December 31, 2005**

**Note 17 — Selected Quarterly Financial Data (Unaudited)**

The following table summarizes our unaudited consolidated quarterly results of operations as reported for 2005 and 2004 (in thousands, except for per share amounts):

	First Quarter 2005	Second Quarter 2005	Third Quarter 2005	Fourth Quarter 2005
Revenues	\$ 140,578	\$ 149,148	\$ 153,176	\$ 166,555
Gross profit	60,933	65,279	67,588	74,237
Income from operations	39,095	41,983	41,952	45,325
3CI legal settlement	—	—	—	36,481
Licensing legal settlement	—	—	—	1,823
Write-down of note receivable with former joint venture	—	—	—	2,495
Net income (loss)	21,815	22,982	23,383	(1,026)
*Basic earnings per common share	0.49	0.52	0.53	(0.02)
*Diluted earnings per common share	0.48	0.51	0.52	(0.02)

	First Quarter 2004	Second Quarter 2004	Third Quarter 2004	Fourth Quarter 2004
Revenues	\$ 117,556	\$ 123,793	\$ 135,989	\$ 138,890
Gross profit	53,155	55,335	59,167	60,549
Income from operations	34,691	34,606	38,214	38,144
Net income	19,124	18,867	21,128	19,059
*Basic earnings per common share	0.44	0.43	0.47	0.42
*Diluted earnings per common share	0.42	0.41	0.46	0.42

- The fourth quarter of 2005 includes \$36.5 million (\$23.4 million after tax) in 3CI legal settlement expenses, \$1.8 million (\$1.1 million after tax) in licensing legal settlement, \$2.5 million (\$1.5 million after tax) in non-cash write-down of a note receivable with a former joint venture.
- The third quarter of 2005 includes \$0.9 million (\$0.5 million after tax) in a non-cash write-down of impaired building and property.
- The fourth quarter of 2004 includes \$3.1 million (\$1.9 million after tax) in redemption premium expense and \$1.1 million (\$0.7 million after tax) in non-cash accelerated amortization of financing fees. See Note 5-Long Term Debt — *Senior Subordinated Notes*.
- The second quarter of 2004 includes a \$1.2 million (\$0.7 million after tax) non-cash write-down of idled incinerator equipment and related spare parts.
- Earnings per share are calculated on a quarterly basis, and, as such, the amounts may not total the calculated full-year earnings per share.

**Note 18 — Subsequent Event**

On February 27, 2006 we completed the acquisition of Sterile Technologies Group Limited, a leading provider of medical waste management services in Ireland and the United Kingdom, for approximately \$131 million, of which \$114 million was paid in cash and \$17 million was paid by assumption of debt. Sterile

**STERICYCLE, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)**  
**December 31, 2005**

Technologies Group Limited is headquartered in Dublin, Ireland and provides medical waste management services to customers in Ireland, Scotland, England and Wales.

During 2005 we were in arbitration proceedings regarding various disputes under an exclusive marketing and distribution license agreement with a licensor of software. See Note 15, Legal Proceedings — Other Litigation. On March 1, 2006, after we had announced our 2005 results on February 7, 2006, the arbitrator awarded the licensor \$0.4 million in damages for breach of the agreement and denied all of the parties' other claims, and the license agreement was effectively terminated. As a result of the arbitrator's award, we are required to record a pre-tax cash charge of \$0.4 million and a pretax non-cash charge of \$1.4 million, representing the write-off of the unamortized portion of the license fee that we had paid.

Although the arbitrator's award is a subsequent event that occurred after the end of the year, we were required to record these charges for the quarter and year ended December 31, 2005. As a result, our net income for the quarter and year ended December 31, 2005 are reduced by \$1.1 million, net of tax, from the net income for the quarter and year that we announced on February 7, 2006. We have included a new line item, licensing legal settlement, on the consolidated statements of income and have made related changes to the other consolidated financial statements, to which these notes are an integral part.

**STERICYCLE, INC. AND SUBSIDIARIES**  
**SCHEDULE II — VALUATION AND ALLOWANCE ACCOUNTS**

	<u>Balance 12/31/02</u>	<u>Charges to Expenses</u>	<u>Other Charges(1)</u> (In thousands)	<u>Write-offs/ Payments</u>	<u>Balance 12/31/03</u>
Allowance for doubtful accounts	\$ 3,779	\$ 1,953	\$ 263	\$ (1,846)	\$ 4,149
Accrued severance and closure costs	125	—	—	(110)	15
Accrued transition expenses	—	670	—	(670)	—
Deferred tax valuation allowance	\$ 7,050	\$ (6,128)	\$ —	\$ —	\$ 922
	<u>Balance 12/31/03</u>	<u>Charges to Expenses</u>	<u>Other Charges(1)</u>	<u>Write-offs/ Payments</u>	<u>Balance 12/31/04</u>
Allowance for doubtful accounts	\$ 4,149	\$ 763	\$ 175	\$ (899)	\$ 4,188
Accrued severance and closure costs	15	(15)	—	—	—
Deferred tax valuation allowance	\$ 922	\$ —	\$ —	\$ —	\$ 922
	<u>Balance 12/31/04</u>	<u>Charges to Expenses</u>	<u>Other Charges(1)</u>	<u>Write-offs/ Payments</u>	<u>Balance 12/31/05</u>
Allowance for doubtful accounts	\$ 4,188	\$ 2,645	\$ 1,215	\$ (3,238)	\$ 4,810
Deferred tax valuation allowance	\$ 922	\$ —	\$ —	\$ (922)	\$ —

(1) Amounts consist primarily of costs assumed from acquired companies recorded prior to the date of acquisition

**Item 9. *Changes in and Disagreements with Accountants on Accounting and Financial Statement Disclosure.***

None.

**Item 9A. *Controls and Procedures.***

**(a) *Evaluation of disclosure controls and procedures.***

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 year covered by this Report. On the basis of this evaluation, our President and Chief Executive Officer and our Chief Financial Officer each concluded that our disclosure controls and procedures were effective.

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

**(b) *Internal control over financial reporting***

Management’s Report on Internal Control over Financial Reporting and our Independent Registered Public Accounting Firm’s Attestation Report are included in Item 8.

**(c) *Changes in internal controls***

There were no significant changes in our internal controls or in other factors that could significantly affect those controls during the quarter ended December 31, 2005.

**Item 9B. *Other Information***

None.

**PART III**

**Item 10. *Directors and Executive Officers of the Registrant***

The information required by this Item regarding our directors is incorporated by reference to the information contained under the caption “Election of Directors” in our definitive proxy statement for our 2006 Annual Meeting of Stockholders to be held on May 3, 2006, to be filed pursuant to Regulation 14A.

The information required by this Item regarding our executive officers is contained under the caption “Executive Officers of the Registrant” in Part I of this Report.

The information required by this Item regarding compliance with Section 16(a) of the Securities Exchange Act of 1934 is incorporated by reference to the information contained under the caption “Section 16(a) Beneficial Ownership Reporting Compliance” in our definitive proxy statement for our 2006 Annual Meeting of Stockholders to be held on May 3, 2006, to be filed pursuant to Regulation 14A.

We have adopted a code of business conduct that applies generally to all of our employees and, in addition, we have a adopted a finance department code of ethics that applies specifically to our President and Chief Executive Office, Chief Financial Officer, Vice President-Finance and the members of our finance department. Both codes are available on our website, [www.stericycle.com](http://www.stericycle.com), under “About Us/Corporate

Overview,” Any amendment to or waiver of the finance department code of ethics will be posted on our website within five business days after the date of the amendment or waiver.

**Item 11.        *Executive Compensation***

The information required by this Item is incorporated by reference to the information contained under the caption “Executive Compensation” in our definitive proxy statement for our 2006 Annual Meeting of Stockholders to be held on May 3, 2006, to be filed pursuant to Regulation 14A.

**Item 12.        *Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters***

The information required by this Item is incorporated by reference to the information contained under the captions “Stock Ownership” and “Executive Compensation” in our definitive proxy statement for our 2006 Annual Meeting of Stockholders to be held on May 3, 2006 to be filed pursuant to Regulation 14A.

**Item 13.        *Certain Relationships and Related Transactions***

No information is required by this Item.

**Item 14.        *Principal Accountant Fees and Services***

**Audit Fees**

The aggregate fees billed by our independent public accountants, Ernst & Young LLP, for professional services rendered in connection with the audit of our annual financial statements and review of our interim financial statements included in our quarterly reports on Form 10-Q for the fiscal year ended December 31, 2005 were approximately \$568,000. This amount includes approximately \$34,000 for the statutory audit of the financial statements of our subsidiary operating in Puerto Rico and approximately \$63,000 for the specific scope audit and statutory audit of our subsidiary operating in the United Kingdom. In addition Ernst and Young LLP billed us approximately \$297,000 in connection with the audit of our internal controls over financial reporting.

The aggregate fees billed by our independent public accountants, Ernst & Young LLP, for professional services rendered in connection with the audit of our annual financial statements and review of our interim financial statements included in our quarterly reports on Form 10-Q for the fiscal year ended December 31, 2004 were approximately \$484,000. This amount includes approximately \$24,000 for the statutory audit of the financial statements of our subsidiary operating in Puerto Rico and approximately \$64,000 for the specific scope audit and statutory audit of our subsidiary operating in the United Kingdom. In addition Ernst and Young LLP billed us approximately \$230,000 in connection with the audit of our internal controls over financial reporting.

**Audit Related Fees**

In the years ended December 31, 2005 and 2004 Ernst & Young LLP did not bill us for any audit related fees. Ernst & Young LLP did not perform any other assurance or related services during either of these two fiscal years.

**Tax Fees**

Ernst & Young LLP did not provide any tax compliance, tax advice or tax planning services to us during the fiscal years ended December 31, 2005 and 2004.

**All Other Fees**

Ernst & Young LLP did not provide any other services to us during the fiscal years ended December 31, 2005 and 2004.

In accordance with policies adopted by the Audit Committee of our Board of Directors, all audit and non-audit related services to be performed for us by our independent public accountants must be approved in advance by the Committee.

## PART IV

### Item 15. Exhibits and Financial Statement Schedules

(a) List of Financial Statements, Financial Statement Schedule and Exhibits

We have filed the following financial statements and financial statement schedule as part of this report:

	<u>Page</u>
Report of Independent Registered Public Accounting Firm on Internal Control Over Financial Reporting	29
Report of Independent Registered Public Accounting Firm	30
Consolidated Financial Statements — Stericycle, Inc. and Subsidiaries	
Consolidated Balance Sheets at December 31, 2005 and 2004	31
Consolidated Statements of Income for Each of the Years in the Three-Year Period Ended December 31, 2005	32
Consolidated Statements of Cash Flows for Each of the Years in the Three-Year Period Ended December 31, 2005	33
Consolidated Statements of Changes in Shareholders' Equity For Each of the Years in the Three-Year Period Ended December 31, 2005	34
Notes to Consolidated Financial Statements	35
Schedule II — Valuation and Allowance Accounts	57

We have filed the following exhibits with this report:

<u>Exhibit Index</u>	<u>Description</u>	<u>Filed with Electronic Submission</u>
3.1*	Amended and restated certificate of incorporation (incorporated by reference to Exhibit 3.1 to our 1996 Form S-1)	
3.2*	First certificate of amendment to amended and restated certificate of incorporation (incorporated by reference to Exhibit 3.1 to our current report on Form 8-K filed November 29, 1999)	
3.3*	Second certificate of amendment to amended and restated certificate of incorporation (incorporated by reference to Exhibit 3.4 to our annual report on Form 10-K for 2002)	
3.4	Amended and restated bylaws	x
4.1*	Specimen certificate for shares of our common stock, par value \$.01 per share (incorporated by reference to Exhibit 4.1 to our 1996 Form S-1)	
10.1	Credit Agreement dated as of June 30, 2005 entered into by us and certain subsidiaries of ours as borrowers or guarantors, Bank of America, N.A., as administrative agent, swing line lender, a lender and letter of credit issuer, other lenders party to the Credit Agreement, JPMorgan Chase Bank, N.A., as syndication agent, and Fortis Capital Corp. and Calyon-New York Branch, as co-documentation agents (incorporated by reference to our current report on Form 8-K filed July 7, 2005)	
10.2	Amendment No. 1 to Credit Agreement, dated as of December 29, 2005, entered into by us and certain subsidiaries of ours as borrowers or guarantors), various lenders party to the Credit Agreement, Bank of America, N.A. and Comerica Bank, as letter of credit issuers, Bank of America, N.A., as swingline lender and Bank of America, N.A., as administrative agent	x
10.3*†	Directors Stock Option Plan (Amended and Restated) ("Directors Plan") (incorporated by reference to Exhibit 4.1 to our registration statement on Form S-8 filed August 2, 2001 (Registration No. 333-66542))	



Exhibit Index	Description	Filed with Electronic Submission
10.4**†	First amendment to Directors Plan (incorporated by reference to Exhibit 10.9 to our annual report on Form 10-K for 2001)	
10.5**†	Form of stock option agreement for option grant under Directors Plan (incorporated by reference to Exhibit 10.1 to our quarterly report on Form 10-Q for the quarter ended September 30, 2004)	
10.6**†	1997 Stock Option Plan ("1997 Plan") (incorporated by reference to Exhibit 10.3 to our annual report on Form 10-K for 1997)	
10.7**†	First amendment to 1997 Plan (incorporated by reference to Exhibit 10.9 to our 1999 Form S-3)	
10.8**†	Second amendment to 1997 Plan (incorporated by reference to Exhibit 10.12 to our annual report on Form 10-K for 2001)	
10.9**†	Third amendment to 1997 Plan (incorporated by reference to Exhibit 10.16 to our annual report on Form 10-K for 2003)	
10.10**†	2000 Nonstatutory Stock Option Plan ("2000 Plan") (incorporated by reference to Exhibit 10.13 to our annual report on Form 10-K for 2001)	
10.11**†	First amendment to 2000 Plan (incorporated by reference to Exhibit 10.14 to our annual report on Form 10-K for 2001)	
10.12**†	Second amendment to 2000 Plan (incorporated by reference to Exhibit 10.15 to our annual report on Form 10-K for 2001)	
10.13**†	Third amendment to 2000 Plan (incorporated by reference to Exhibit 4.2 to our registration statement on Form S-8 filed December 20, 2002 (Registration No. 333-102097))	
10.14**†	2005 Incentive Stock Plan ("2005 Plan") (incorporated by reference to Exhibit 4.1 to our registration statement on Form S-8 filed August 9, 2005 (Registration No. 333-127353))	
10.15†	Form of stock option agreement for option grant under 1997 Plan, 2000 Plan and 2005 Plan	x
10.16†	Form of stock option agreement for bonus conversion option grant under 1997 Plan, 2000 Plan and 2005 Plan	x
10.17**†	Employee Stock Purchase Plan ("ESPP") (incorporated by reference to Exhibit 4.1 to our registration statement on Form S-8 filed August 2, 2001 (Registration No. 333-66544))	
10.18**†	First amendment to ESPP (incorporated by reference to Exhibit 10.21 to our annual report on Form 10-K for 2002)	
14	Code of ethics (incorporated by reference to Exhibit 10.14 to our annual report on Form 10-K for 2003)	
21	Subsidiaries	x
23	Consent of Independent Registered Public Accounting Firm	x
31.1	Rule 13a-14(a)/15d-14(a) Certification of Chief Executive Officer	x
31.2	Rule 13a-14(a)/15d-14(a) Certification of Chief Financial Officer	x
32	Section 1350 Certification of Chief Executive Officer and Chief Financial Officer	x

\* Previously filed

† Management contract or compensatory plan required to be filed pursuant to Item 601 of Regulation S-K

References to our "1996 Form S-1" are to our registration statement on Form S-1 as declared effective on August 22, 1996 (Registration No. 333-05665); and references to our "1999 Form S-3" are to our registration statement on Form S-3 as declared effective on February 4, 1999 (Registration No. 333-60591).

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) 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.

Stericycle, Inc.

By: /s/ MARK C. MILLER  
Mark C. Miller  
President and Chief Executive Officer

Date: March 6, 2006.

Pursuant to the requirements of the Securities Exchange Act of 1934, this Report has been signed by the following persons in the capacities and on the dates indicated.

Name	Title	Date
<u>/s/ JACK W. SCHULER</u> Jack W. Schuler	Chairman of the Board of Directors	March 6, 2006
<u>/s/ MARK C. MILLER</u> Mark C. Miller	President and Chief Executive Officer and a Director (Principal Executive Officer)	March 6, 2006
<u>/s/ FRANK J.M. TEN BRINK</u> Frank J.M. ten Brink	Executive Vice President and Chief Financial Officer (Principal Financial and Accounting Officer)	March 6, 2006
<u>/s/ ROD F. DAMMEYER</u> Rod F. Dammeyer	Director	March 6, 2006
<u>/s/ PATRICK F. GRAHAM</u> Patrick F. Graham	Director	March 6, 2006
<u>/s/ JONATHAN T. LORD, M.D.</u> Jonathan T. Lord, M.D.	Director	March 6, 2006
<u>/s/ JOHN PATIENCE</u> John Patience	Director	March 6, 2006
<u>/s/ THOMAS R. REUSCHÉ</u> Thomas R. Reusché	Director	March 6, 2006
<u>/s/ L. JOHN WILKERSON, PH.D.</u> L. John Wilkerson, Ph.D.	Director	March 6, 2006
<u>/s/ PETER VARDY</u> Peter Vardy	Director	March 6, 2006

## Amended and Restated Bylaws of

Stericycle, Inc.

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**Amended and Restated Bylaws of**

**Stericycle, Inc.**

**Article 1  
Offices**

**1.1 Registered Office**

The Corporation's registered office in the State of Delaware shall be located at 1209 Orange Street, Wilmington, Delaware 19801 (New Castle County), and its registered agent shall be The Corporation Trust Company. The Corporation's registered office and registered agent may be changed at any time by the board of directors.

**1.2 Other Offices**

The Corporation may also have other offices, either within or outside the State of Delaware, as the board of directors determines or as the Corporation's business requires.

**Article 2  
Stockholders**

**2.1 Annual Meeting**

An annual meeting of stockholders for the election of directors and the transaction of any other business which properly comes before the meeting shall be held between March 31 and October 31 of each year, on the date fixed by the board of directors.

**2.2 Special Meetings**

A special meeting of stockholders may be called for any purpose or purposes by the chairman of the board, the president or the board of directors. The business transacted at any special meeting of stockholders shall be limited to matters relating to the purpose or purposes stated in the notice of the meeting.

**2.3 Place of Meetings**

Meetings of stockholders shall be held at the place designated by the board of directors, which may be within or outside the State of Delaware. If the Board does not designate a place, the place shall be the Corporation's principal office.

**2.4 Notice of Meetings**

Written notice of each meeting of stockholders shall be given to all stockholders entitled to vote at the meeting at least 10 but not more than 60 days prior to the meeting (unless otherwise provided by law). The notice shall state the date, place and time of the meeting, and in the case of a special meeting of stockholders, the purpose or purposes for which the meeting is

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called. If mailed, the notice shall be considered given when deposited in the United States mail, proper postage prepaid, directed to the stockholder at his address as it appears on the Corporation's records.

#### 2.5 **Quorum**

The holders of a majority of the shares entitled to vote at a meeting of stockholders, present in person or represented by proxy, shall constitute a quorum for the transaction of business at the meeting, except as otherwise provided by law or by the Corporation's certificate of incorporation.

#### 2.6 **Voting**

Each holder of common stock shall be entitled to one vote for each share of common stock that he holds of record. When a quorum is present at any meeting of stockholders, the affirmative vote of holders of a majority of the shares present in person or represented by proxy, entitled to vote on a matter and voting shall decide the matter, except in the case of the election of directors or when a different vote is required by law or by the Corporation's certificate of incorporation. Directors shall be elected by a plurality of the votes of the shares present in person or represented by proxy at the meeting and entitled to vote on the election of directors.

#### 2.7 **Proxies**

Each stockholder entitled to vote at a meeting of stockholders, or to consent to corporate action without a meeting, may authorize another person to act for him by a written proxy signed by him or his authorized agent and delivered to the secretary of the Corporation prior to or at the time of the meeting or other action. No proxy may be voted or acted on more than three years after its date, unless the appointment expressly provides for a longer period. A stockholder may revoke his appointment of a proxy by written notice to the secretary of the Corporation, by a subsequent appointment or by attendance at the meeting and voting in person.

#### 2.8 **Voting List**

At least 10 days before every meeting of stockholders, the secretary of the Corporation shall prepare a complete alphabetical list of the stockholders entitled to vote at the meeting, showing the address of each stockholder and the number of shares registered in his name. This list shall be open to the examination of any stockholder, for any purpose germane to the meeting, during ordinary business hours for a period of at least 10 days prior to the meeting. The place of inspection shall be either the place where the meeting is to be held or a place within the city where the meeting is to be held, in which case the notice of the meeting shall specify the place of inspection. This list shall also be produced and kept open during the meeting of stockholders and may be inspected by any stockholder who is present.

#### 2.9 **Inspectors**

The board of directors shall appoint in advance of any meeting of stockholders one or more inspectors to act at the meeting. If no inspector appointed is able to act at the meeting, the

chairman of the meeting shall appoint one or more inspectors. Each inspector shall take and sign an oath faithfully to carry out the duties of inspector with strict impartiality and according to the best of his ability. The inspectors shall determine the number of shares outstanding and the voting power of each, determine the shares represented at the meeting and the validity of proxies and ballots, count all votes and ballots, determine (and retain for a reasonable period a record of) the disposition of any challenges made to any determination of the inspectors, and certify their determination of the number of shares represented at the meeting and their count of all votes and ballots.

#### **2.10 Adjournments**

Any meeting of stockholders may be adjourned to another time or place by the holders of a majority of the shares present or represented by proxy at the meeting and entitled to vote, even though less than a quorum. Notice need not be given of the adjourned meeting if the time and place of the adjourned meeting are announced at the meeting at which the adjournment is taken, unless the adjournment is for more than 30 days or, after the adjournment, a new record date is fixed for the adjourned meeting. The Corporation may transact any business at the adjourned meeting which might have been transacted at the original meeting.

#### **2.11 Business at Annual Meetings of Stockholders**

(a) Only such business shall be conducted at an annual meeting of stockholders as may be properly brought before the meeting. To be properly brought before an annual meeting, the business must be either (i) specified in the Corporation's notice of the meeting pursuant to Section 2.4 of these Bylaws or (ii) proposed to be brought before the meeting by any stockholder of record (i) who is entitled to vote at the meeting, (ii) who gives timely notice of the proposed business in compliance with this Section 2.11, and (iii) who is a stockholder of record at the time of giving notice. In addition, for any business to be properly brought before an annual meeting by a stockholder, the business must be a proper matter for stockholder action.

(b) To be timely, a stockholder's notice of proposed business must be addressed to the secretary of the Corporation and received at the Corporation's principal executive offices no later than the close of business on the 90th day, and no earlier than the close of business on the 120th day, prior to the first anniversary of the preceding year's annual meeting of stockholders. If, however, the date of the annual meeting is more than 30 days before or after the first anniversary, the stockholder's notice must be received no later than the close of business on the 90th day, and no earlier than the 120th day, prior to the annual meeting.

(c) The stockholder's notice to the secretary shall include, for each item of business that the stockholder proposes to bring before the annual meeting, a brief description of the business and the reasons for conducting the business at the annual meeting. The stockholder's notice shall also include the stockholder's name and address as they appear on the Corporation's books, the name and address of the of the beneficial owner, if any, on whose behalf the stockholder is acting and the number of shares of the

Corporation's stock beneficially owned by the beneficial owner, and a statement of any interest of the stockholder or beneficial owner in the business proposed to be brought before the meeting.

(d) The chairman of the annual meeting shall have the power to determine whether any business was not properly brought before the annual meeting in accordance with the procedures in this Section 2.11. If the chairman determines that any business was not properly brought before the meeting, the chairman shall inform the meeting that the business was not brought properly before the meeting and that the business may not be transacted.

#### **2.12 Action by Consent**

Any action which may be taken at a meeting of stockholders may be taken without a meeting (and without prior notice) if a written consent or consents, setting forth the action taken, are signed by the holders of outstanding stock having not less than the minimum number of votes that would be necessary to authorize or take the action at a meeting at which all shares entitled to vote were present and voted. Prompt notice of the taking of any corporate action without a meeting by less than unanimous written consent shall be given to those stockholders who have not consented.

### **Article 3 Directors**

#### **3.1 General Powers**

The Corporation's business and affairs shall be managed by or under the direction of a board of directors, which may exercise all of the powers of the Corporation except as otherwise provided by law or by the Corporation's certificate of incorporation.

#### **3.2 Number and Term of Office**

The number of directors constituting the board of directors shall be nine. The number of directors may be changed by a resolution of the board of directors or the stockholders, but if changed, no decrease in the number of directors shall affect the term of any incumbent. Directors shall be elected at the annual meeting of stockholders, and each director shall hold office until his successor is elected or until his earlier death, resignation or removal. Despite the expiration of a director's term, the director shall continue to serve in office until the next meeting of stockholders at which directors are elected. Directors need not be stockholders of the Corporation.

#### **3.3 Regular Meetings**

Regular meetings of the board of directors shall be held, at least once each fiscal quarter, at the times and places determined by the board of directors. Notice of a regular meeting of the board of directors need not be given (except to a director who was absent when the determination of the time and place was made).



#### 3.4 Special Meetings

Special meetings of the board of directors may be held at any time at the call of the chairman of the board, the president or any two directors. Special meetings shall be held at the Corporation's principal office unless the board of directors designates a different location.

#### 3.5 Notice of Special Meetings

Written notice of a special meeting of the board of directors shall be given to each director at his business address by the secretary of the Corporation, or by the officer or one of the directors calling the meeting, by personal delivery, telecopier, overnight courier service or mail at least 48 hours prior to the meeting. The notice shall state the time and place of the meeting but need not specify the purpose of the meeting.

#### 3.6 Quorum

A majority of the total number of directors shall constitute a quorum to transact business at all meetings of the board of directors. In the absence of quorum at any meeting, a majority of the directors present may adjourn the meeting without further notice other than announcement of the time and place of the adjourned meeting.

#### 3.7 Participation by Telephone

A director or member of any committee designated by the board of directors may participate in any meeting of the board of directors or of such committee by conference telephone or similar communications equipment which enables all persons participating in the meeting to hear one another, and participation in this manner shall constitute presence in person at the meeting.

#### 3.8 Voting

The vote of a majority of the directors present at any meeting of the board of directors at which a quorum is present shall be the act of the board of directors, unless the vote of a greater number is required by the Corporation's certificate of incorporation.

#### 3.9 Resignation

A director may resign at any time by written notice to the Corporation at its principal office or to the chairman of the board, president or secretary. Unless otherwise specified in the director's notice, his resignation shall be effective on receipt by the Corporation or designated officer.

#### 3.10 Removal

Any director may be removed, with or without cause, at any special meeting of stockholders called for that purpose, by the affirmative vote of holders of a majority of the shares then entitled to vote at an election of directors.

### **3.11 Vacancies**

Any vacancy in the board of directors created by a director's resignation, death or removal, or any vacancy arising because of an increase in the number of directors may be filled by the incumbent directors. A director elected to fill a vacancy shall hold office for the balance of the term for which he was elected.

### **3.12 Compensation**

The board of directors may establish reasonable fees to be paid to directors for their services, and may also authorize the payment of their expenses, if any, reasonably incurred in attending meetings of the board of directors.

### **3.13 Committees**

The board of directors, by resolution passed by a majority of the whole Board, may create one or more committees (for example, a Compensation Committee or an Audit Committee) of two or more directors to serve at the Board's pleasure. The board of directors may designate one or more directors as alternate members of any committee who may replace any absent or disqualified member of the committee at any meeting of the committee. To the extent provided in the resolution creating each committee, and subject to the limitations imposed by law, the committee shall have and may exercise all of the powers and authority of the board of directors in respect of matters within the scope of the committee's authority. Unless the resolution creating any committee specifies a greater number, a majority of the members of the committee shall constitute a quorum, and a majority of a quorum shall be necessary for committee action. Subject to the direction of the board of directors, each committee shall determine the time and place of its meetings and establish appropriate rules to govern its activities.

### **3.14 Action by Consent**

Any action which may be taken at a meeting of the board of directors or of any committee of the board of directors may be taken without a meeting (and without prior notice) if a written consent or consents, setting forth the action taken, are signed by all of the directors or members of the committee and filed with minutes of proceedings of the board of directors or the committee.

## **Article 4 Officers**

### **4.1 Principal Officers**

The principal officers of the Corporation shall consist of a president, chief financial officer and secretary. The board of directors may elect a chairman of the board from among the directors and may appoint such other officers and assistant officers, including one or more vice presidents, assistant treasurers and assistant secretaries as the Board considers advisable. More than one office may be held by the same person.

#### 4.2 Election and Term of Office

The president, chief financial officer and secretary shall be elected annually by the board of directors at the first meeting of the board of directors following the annual meeting of stockholders. A chairman of the board and other officers may be elected or appointed at this meeting or at any other meeting. Each officer shall hold office until his successor is elected and qualified or until his earlier death, resignation or removal. The election or appointment of an officer shall not of itself create any contract rights.

#### 4.3 Resignation

An officer may resign at any time by written notice to the Corporation at its principal office or to the chairman of the board, president or secretary. Unless otherwise specified in the officer's notice, his resignation shall be effective on receipt by the Corporation or designated officer.

#### 4.4 Removal

Any officer may be removed by the board of directors, with or without cause, whenever in its judgment the officer's removal would serve the Corporation's best interests. Unless the board of directors determines otherwise, no officer who is removed shall have any right to compensation as an officer for any period following his removal except as provided in an authorized contract with the Corporation.

#### 4.5 Vacancies

The board of directors may fill a vacancy in any office occurring for any reason or may leave any vacant office unfilled other than the offices of president, Treasurer or secretary.

#### 4.6 Chairman of the Board

The chairman of the board, if one is elected, shall confer with the president on matters of general policy affecting the day- to-day management of the Corporation's business and have such other powers and duties as the board of directors assigns. The chairman of the board shall preside at all meetings of the board of directors.

#### 4.7 President

The president shall be the Corporation's chief executive officer and, subject to the direction of the board of directors and such supervisory powers, if any, that the board may give to the chairman of the board, shall have general charge of the Corporation's business and day-to-day management. He shall also supervise the Corporation's other officers and see that all resolutions and orders of the board of directors are carried into effect. He shall preside at all meetings of the stockholders and, in the absence of the chairman of the board or if one is not elected, at all meetings of the board of directors. In general, the president shall have the powers and duties usually vested in the office of president of a corporation and such other powers and duties as the board of directors assigns.

#### **4.8 Chief Operating Officer**

The chief operating officer of the Corporation shall be responsible, under the president's direction, for overseeing the Corporation's day-to-day business operations. The chief operating officer shall have the powers and duties usually vested in the office of chief operating officer of a corporation and such other powers and duties as the president or the board of directors assigns.

#### **4.9 Chief Financial Officer**

The chief financial officer of the Corporation shall be responsible, under the president's direction, for all financial and accounting matters, including custody of the Corporation's funds and securities and responsibility for depositing, investing and disbursing the Corporation's funds. The chief financial officer shall have the powers and duties usually vested in the office of chief financial officer of a corporation and such other powers and duties as the president or board of directors assigns.

#### **4.10 Vice Presidents**

The vice president, if one is appointed, or, if there is more than one, the vice presidents, shall assist the president as he directs in the management of the Corporation's business and the implementation of resolutions and orders of the board of directors. If there is more than one vice president, the board of directors may give them titles that are descriptive of their respective functions or indicative of their relative seniority. In the event of the absence or inability to act of the president, the vice president, or if there is more than one, the vice presidents in the order of their seniority as indicated by their titles or as otherwise determined by the board of directors, shall perform the duties of president. The vice president or vice presidents shall also have such other powers and duties as the president or board of directors assigns.

#### **4.11 Secretary**

The secretary shall the powers and duties usually vested in the office of secretary of a corporation, including custody of the Corporation's corporate records and responsibility for sending all notices to stockholders and directors required by law or by these Bylaws and recording all proceedings of meetings of the stockholders and the directors. The secretary shall have authority to certify copies of these Bylaws, resolutions of the stockholders and directors and other documents of the Corporation as true and correct and shall also such other powers and duties as the president or board of directors assigns.

#### **4.12 Assistant Officers**

The assistant treasurer and the assistant secretary (or if more than one is appointed, the assistant treasurers and assistant secretaries in the order determined by the board of directors) shall perform the duties of the treasurer or secretary, as the case may be, in the event of his absence or inability to act. Each assistant treasurer or assistant secretary shall also have such powers and duties as the president or board of directors assigns.

#### 4.13 Salaries

Officers of the Corporation shall be entitled to such salaries, compensation or reimbursement as the board of directors determines. No officer shall be prevented from receiving a salary by reason of the fact that he is also a director.

#### Article 5 Indemnification

The Corporation shall indemnify each person who was or is made a party or is threatened to be made a party to any threatened, pending or completed action, suit or proceeding, whether civil, criminal, administrative or investigative, other than an action by or in the right of the Corporation (a “proceeding”) by reason of the fact that he, or the person of whom he is the legal representative, is or was a director or officer of the Corporation or, while a director or officer, is or was serving at the Corporation’s request as a director, officer, trustee, employee or agent of another corporation or of a partnership, joint venture, trust or other enterprise, against all expenses (including attorneys’ fees), judgments, fines and amounts paid in settlement that he reasonably incurs in connection with the proceeding, to the fullest extent authorized by the Delaware General Corporation Law, as it now exists and as it may be amended (but in the case of any amendment, only to the extent that the amendment authorizes the Corporation to provide broader indemnification rights than were permitted prior to the amendment). This right to indemnification shall continue as to a person who has ceased to be a director or officer of the Corporation and shall inure to the benefit of his heirs and legal representatives.

The Corporation shall be required to indemnify a director or officer in connection with any proceeding initiated that the director or officer initiated only if the initiation of the proceeding was authorized by the board of directors.

The right to indemnification shall include the right to be paid by the Corporation the expenses incurred in defending any proceeding in advance of its final disposition. Payment of such expenses shall be made, however, only upon delivery of an undertaking by the director or officer to repay all amounts advanced if it is ultimately determined that he is not entitled to indemnification under this Article (or otherwise).

The right to indemnification under this Article shall not be exclusive of any other rights that a director or officer may have by law, under the corporation’s certificate of incorporation, these Bylaws or any contract or by vote of the stockholders or disinterested directors or otherwise.

The Corporation, by action of its board of directors, may provide indemnification to its employees and agents with the same scope and effect as the indemnification provided to its directors and officers in this Article.

The Corporation may purchase and maintain insurance on its own behalf and on behalf of any person who is or was a director, officer, employee or agent of the Corporation or is or was serving at the Corporation’s request as a director, officer, trustee, employee or agent of another

corporation or of a partnership, joint venture, trust or other enterprise, against any liability asserted against him and incurred by him in any such capacity, whether or not the Corporation would have the power to indemnify such person against such liability under this Article 5 or the General Corporation Law of the State of Delaware.

**Article 6**  
**Stock**

**6.1 Stock Certificates**

The shares of the Corporation shall be represented by certificates. The board of directors may provide by resolution that some or all of the Corporation's stock shall be uncertificated shares, but any such resolution shall not apply to any shares represented by a certificate until the certificate is surrendered to the Corporation. In any case, every holder of stock represented by certificates, and upon request every holder of uncertificated shares, shall be entitled to a certificate representing the number of shares registered in his name. Each certificate shall be signed by or in the name of the Corporation by the chairman of the board or the president or a vice president and by the secretary or an assistant secretary. Any or all of the signatures on the certificate may be a facsimile. If any officer, transfer agent or registrar who has signed a certificate, or whose facsimile signature has been placed upon a certificate, ceases to serve before the certificate is issued, the certificate may be issued with the same effect as if the officer, transfer agent or registrar were still serving at the time of issuance. All certificates shall be in the form prescribed by the board of directors, and shall be consecutively numbered or otherwise identified. The name and post office address of the person to whom the shares represented by the certificate are issued, with the number of shares and date of issuance, shall be entered on the Corporation's stock transfer books.

**6.2 Endorsements**

Each certificate for shares of stock which are subject to any restriction on transfer pursuant to the Corporation's certificate of incorporation, these Bylaws, applicable securities laws or an agreement between the Corporation and any number of stockholders shall have conspicuously noted on the face or back of the certificate either the full text of the restriction or a statement that the shares of stock represented by the certificate are subject to the restriction.

**6.3 Transfers**

Shares of stock of the Corporation may be transferred on the books of the Corporation by the surrender to the Corporation or its transfer agent of the certificate representing such shares properly endorsed or accompanied by a written assignment or power of attorney properly executed, with such proof of authority or authenticity of signature as may be required by rules and regulations adopted by the board of directors. Whenever any transfer of shares is made for collateral security and not absolutely, it shall be so expressed in the entry in the Corporation's stock transfer books if, when the certificate is presented for transfer, both the transferor and the transferee request the Corporation to do so.

#### 6.4 Lost Certificates

The Corporation may issue a new certificate of stock in place of any certificate previously issued which is alleged to have been lost, stolen or destroyed on such terms and conditions as the board of directors may prescribe, including presentation of reasonable evidence of such loss, theft or destruction and such bond or other indemnity as the board of directors requires for the protection of the Corporation and its transfer agent.

#### 6.5 Stockholders of Record

Except as may be otherwise required by law, the Corporation shall be entitled to treat the holder of record of any shares of its stock as shown on its stock transfer records as the owner of those shares for all purposes, including the payment of dividends and the right to vote, until the shares have been transferred on the Corporation's stock transfer records in accordance with these Bylaws, regardless of any intervening transfer, pledge or other disposition of the shares.

#### 6.6 Record Date

The board of directors may fix a date in advance as the record date for purposes of determining the stockholders entitled to notice of or to vote at any meeting of stockholders, to consent to corporate action without a meeting, to receive payment of any dividend or other distribution, to exercise any rights in respect of any change, conversion or exchange of stock, or for purposes of any other lawful action. The record date may be fixed within these limits:

- (i) the record date for determining the stockholders entitled to notice of and to vote at any meeting of stockholders shall not be less than 10 or more than 60 days prior to the date of the meeting;
- (ii) the record date for determining the stockholders entitled to consent to corporate action without a meeting shall not be earlier than the date of the resolution fixing the record date or more than 10 days after such date; and
- (iii) the record date for determining the stockholders for any other purpose shall not be earlier than the date of the resolution fixing the record date or more than 60 days prior to the action for which the determination is being made.

If the board of directors does not fix a record date:

- (i) the record date for determining the stockholders entitled to notice of or to vote at a meeting of stockholders shall be at the close of business on the day before the date on which notice is given;
- (ii) the record date for determining stockholders entitled to consent to corporate action without a meeting shall be the first date on which a signed consent setting forth the action taken or proposed to be taken is delivered to the Corporation; and
- (iii) the record date for determining the stockholders for any other purpose shall be

the close of business on the day that the board of directors adopts the resolution authorizing the action with respect to which the determination is being made.

**Article 7**  
**General Provisions**

**7.1 Contracts**

The board of directors may authorize any officer or officers to enter into any contract or agreement for the Corporation. This authorization may be general or confined to specific instances.

**7.2 Loans**

The Corporation shall not borrow money unless authorized by the board of directors. This authorization may be general or confined to specific instances.

**7.3 Checks**

All checks, drafts and other orders for the payment of money, and all promissory notes and other evidences of indebtedness issued in the Corporation's name, shall be signed by the officer or officers and in the manner authorized by the board of directors.

**7.4 Depositories**

All funds of the Corporation shall be deposited in its name in the banks, trust companies or other depositories authorized by the board of directors.

**7.5 Fiscal Year**

The Corporation's fiscal year shall be fixed by the board of directors.

**7.6 Corporate Seal**

The corporate seal shall be in such form as the board of directors approves.

**7.7 Waiver of Notice**

Whenever notice is required to be given by law, the Corporation's certificate of incorporation or these Bylaws, a written waiver, signed by the person entitled to notice at any time before or after the time stated in the waiver, shall be considered equivalent to proper notice. Attendance of a person at any meeting shall constitute a waiver of notice of the meeting, unless the person attends for the express purpose of objecting, at the beginning of the meeting, to transacting any business the meeting because the meeting was not lawfully called or convened.

**7.8 Evidence of Authority**

A certificate by the secretary or an assistant secretary as to any action taken by the



stockholders or board of directors or any committee of the board of directors or officer of the Corporation shall be conclusive evidence of such action as to all persons who rely on the certificate in good faith.

7.9    **Transactions with Interested Parties**

No contract or transaction between the Corporation and one or more of its directors or officers, or between the Corporation and any other corporation, partnership, association or other organization in which one or more of its directors or officers are directors or officers or have a financial interest, shall be void or voidable solely for this reason, or solely because the director or officer is present at or participates in the meeting of the board of directors or committee which authorizes the contract or transaction, or solely because his or their votes are counted for such purpose, if:

- (a)    the material facts as to his relationship or interest and as to the contract or transaction are disclosed or are known to the board of directors or the committee, and the Board or committee in good faith authorizes the contract or transaction by the affirmative vote of a majority of the disinterested directors, even though the disinterested directors are less than a quorum;
- (b)    the material facts as to his relationship or interest and as to the contract or transaction are disclosed or are known to the stockholders entitled to vote on the matter, and the contract or transaction is specifically approved in good faith by the vote of the stockholders; or
- (c)    the contract or transaction is fair as to the Corporation as of the time that it is authorized, approved or ratified by the board of directors, committee or stockholders.

Interested directors may be counted in determining the presence of a quorum at a meeting of the board of directors or of a committee of directors which authorizes the contract or transaction.

7.10   **Use of Words**

Whenever the context requires, words used in these Bylaws in the singular shall be considered to be in the plural, and conversely. Similarly, the words “he,” “his” and “him” shall be considered “she” or “her” or “it” or “its” when appropriate to the reference.

**Article 8**  
**Amendments**

8.1    **By Board of Directors**

These Bylaws may be amended or repealed or new bylaws may be adopted by the affirmative vote of a majority of the directors present at any regular or special meeting of the board of directors at which a quorum is present.

## 8.2 By Stockholders

These Bylaws may be amended or repealed or new bylaws may be adopted by the affirmative vote of holders of a majority of the shares entitled to vote at any annual meeting of stockholders or at any special meeting of stockholders at which notice of the meeting included a statement or description of the proposed amendment, repeal or adoption of new bylaws.

## AMENDMENT NO. 1 TO CREDIT AGREEMENT

This AMENDMENT NO. 1 TO CREDIT AGREEMENT (the “Agreement”) is dated as of December 29, 2005 by and among Stericycle, Inc., a Delaware corporation (the “Company”), Stericycle International, Ltd. (the “Designated Borrower”), the Subsidiaries of the Company named as signatories hereto (collectively, the “Subsidiary Guarantors”), the financial institutions from time to time party to the Credit Agreement referred to and defined below (collectively, the “Lenders”), the “New Lender” referred to and defined below, Bank of America, N.A. and Comerica Bank, as letter of credit issuers (in such capacity, the “L/C Issuers”), Bank of America, N.A., as swingline lender (in such capacity, the “Swing Line Lender”) and Bank of America, N.A., as representative of the L/C Issuers and Lenders party to the Credit Agreement referred to and defined below (in such capacity, the “Administrative Agent”). Undefined capitalized terms used herein shall have the meanings ascribed to such terms in such Credit Agreement referred to and defined below.

## W I T N E S S E T H:

WHEREAS, the Company, the Designated Borrower, the Lenders, the L/C Issuers, the Administrative Agent, JPMorgan Chase Bank, N.A., as Syndication Agent, and Fortis Capital Corp. and Calyon-New York Branch, as Co-Documentation Agents, have entered into that certain Credit Agreement dated as of June 30, 2005 (as amended prior to the date hereof, the “Credit Agreement”), pursuant to which, among other things, the Lenders have agreed to provide, subject to the terms and conditions contained therein, certain loans and other financial accommodations to the Company, the Designated Borrower and the other “Designated Borrowers” from time to time party thereto;

WHEREAS, the Company has requested that the Administrative Agent, the L/C Issuers and the Lenders amend the Credit Agreement to, among other things, (i) increase the Letter of Credit Sublimit from \$125,000,000 to \$150,000,000, (ii) increase the amount by which the Aggregate Commitment can be increased pursuant to Section 2.15 of the Credit Agreement from \$50,000,000 to \$250,000,000 and (iii) amend Section 7.10 of the Credit Agreement to remove certain restrictions on the ability of the Designated Borrower to refinance Indebtedness incurred or assumed by it to finance, directly or indirectly, the acquisition of shares in the Designated Borrower or any of its Subsidiaries and, subject to the terms and conditions of this Agreement, the Administrative Agent, the L/C Issuers and the Lenders hereby agree to such amendments to the Credit Agreement;

WHEREAS, immediately upon the effectiveness of the amendments to the Credit Agreement contemplated in this Agreement, the Company has requested that (i) the Aggregate Commitment be increased by \$150,000,000 from \$400,000,000 to \$550,000,000 (the “Increase”) and (ii) Citibank, N.A. (the “New Lender”) become party to the Credit Agreement as a “Lender” (the “Joinder”) pursuant to Section 2.15 of the Credit Agreement; and

WHEREAS, in connection with the Increase and the Joinder, (i) each Lender which has an Applicable Percentage, as in effect immediately prior to giving effect to the

---

amendments and the Increase contemplated by this Agreement, that is greater than its Applicable Percentage proposed pursuant to this Agreement to be in effect immediately after giving effect to such amendments and such Increase (the “Assignor Lenders”) desires to sell and assign to the New Lender and each other Lender which has an Applicable Percentage, as in effect immediately prior to giving effect to the amendments and the Increase contemplated by this Agreement, that is less than its Applicable Percentage proposed pursuant to this Agreement to be in effect immediately after giving effect to such amendments and such Increase (together with the New Lender, the “Assignee Lenders”), and each Assignee Lender desires to purchase and acquire from each Assignor Lender, portions of the interests in the outstanding Loans and L/C Obligations of each such Assignor Lender as constituted immediately prior to the effectiveness of the Increase as may be necessary to result in all Lenders’ holding shares of such interests consistent with such proposed resulting Applicable Percentage and (ii) the Lenders have agreed to reallocate their Commitments, in each case, in accordance with the terms of this Agreement.

NOW, THEREFORE, in consideration of the foregoing premises, the terms and conditions stated herein and other valuable consideration, the receipt and sufficiency of which are hereby acknowledged by the Company, the Designated Borrower, the Subsidiary Guarantors, the L/C Issuers, the Swing Line Lender, the Lenders, the New Lender and the Administrative Agent, such parties hereby agree as follows:

1. Amendments to the Credit Agreement. Subject to the satisfaction of each of the conditions set forth in Section 3 of this Agreement, the Credit Agreement is hereby amended as follows:
  - (a) The defined term “Letter of Credit Sublimit” set forth Section 1.01 of the Credit Agreement is hereby amended to delete the reference to the dollar amount \$125,000,000” set forth in such defined term and to replace such dollar amount with the dollar amount “\$150,000,000.”
  - (b) Section 2.15(a) of the Credit Agreement is hereby amended to delete the reference to the dollar amount “\$50,000,000” set forth in the first sentence of such section and to replace such dollar amount with the dollar amount “\$250,000,000.”
  - (c) Section 2.15(a) of the Credit Agreement is hereby further amended to delete the reference to the number amount “two” set forth in clause (ii) of the proviso to the first sentence of such section and to replace such number with the number “three.”
  - (d) Section 7.10 of the Credit Agreement is hereby amended and restated in its entirety to read as follows:

**7.10 Use of Proceeds.** *Other than to the extent permitted under Section 7.06, use the proceeds of any Credit Extension, whether directly or indirectly, and whether immediately, incidentally or ultimately, to purchase or carry margin stock (within the meaning of Regulation U of the FRB) or to extend credit to others for the purpose of purchasing or carrying margin stock or to refund indebtedness originally incurred for such purpose.*

2. Increase in the Aggregate Commitment. Subject to the satisfaction of each of the conditions set forth in Section 3 of this Agreement and immediately after giving effect to the provisions of Section 1 of this Agreement, the parties hereto agree as follows notwithstanding anything in Section 2.15 of the Credit Agreement to the contrary:

(a) The Aggregate Commitment is increased by \$150,000,000 from \$400,000,000 to \$550,000,000 and, subject to the terms and conditions of this Agreement, such increase shall be deemed to have been effected in compliance with Section 2.15. After giving effect to the amendments effected pursuant to Section 1 of this Agreement and the foregoing increase, the Company may from time to time request, pursuant to Section 2.15, further increases in the aggregate commitments by an amount (for all further requests) not exceeding \$100,000,000; provided that (i) any such request for an additional increase shall be in a minimum amount of \$25,000,000 and (ii) the Company may make a maximum of two more such requests.

(b) The Assignee shall become a party to the Credit Agreement as a "Lender" and shall have all of the rights and obligations of a Lender thereunder and shall thereupon have a Commitment and an Applicable Percentage under and for purposes of the Credit Agreement in the amounts set forth opposite the New Lender's name on Schedule I hereof. The Administrative Agent acknowledges that this Agreement constitutes a joinder agreement in form and substance acceptable to the Administrative Agent pursuant to Section 2.15(c) of the Credit Agreement and each of the parties hereto hereby approve the New Lender as an Eligible Assignee under the Credit Agreement.

(c) Each of the Assignor Lenders hereby sells and assigns to the Assignee Lenders, and each of the Assignee Lenders hereby purchases and assumes from each of the Assignor Lenders, ratable portions of each Assignor Lender's interests in the outstanding Loans and the L/C Obligations (collectively the "Interests"), and each of the Lenders and the New Lender hereby agrees to reallocate among themselves their respective Commitments and interests in the outstanding Loans and L/C Obligations, in each case such that after giving effect to such sales, assignments, purchases, assumptions and reallocations contemplated in this paragraph, each Lender and the New Lender shall have the resulting Commitments and Applicable Percentages as are set forth on Schedule I opposite such Person's name therein. In addition, the Lenders' risk participations in outstanding L/C Obligations and Swing Line Loans shall be reallocated among the Lenders and the New Lender in such a manner as may be necessary to result in such participations being held ratably in accordance with such revised Applicable Percentages. The sales, assignments, purchases, assumptions and reallocations to be effected pursuant to this paragraph shall be without recourse to, or representation or warranty (except as expressly provided in this Agreement) by, any of the Lenders or the New Lender. As consideration for such sales, assignments, purchases, assumptions and reallocations, each Assignee Lender shall pay to the Administrative Agent, by wire transfer of immediately available funds, the positive amount set forth beside such Assignee Lender's name on Schedule I under the heading "Change in Outstandings", and, upon receipt of such amounts, the Administrative Agent shall pay to each Assignor Lender the negative amounts set forth beside each Assignor Lender's name Schedule I under the heading "Change in Outstandings."

(d) Each of the Assignor Lenders (i) represents and warrants that it is the legal and beneficial owner of the Interests being sold and assigned by it hereunder and that such Interests are free and clear of any Liens or any adverse claims; (ii) makes no representation or warranty and assumes no responsibility with respect to any statements, warranties or representations made by any the Company or any of its Affiliates in or in connection this Agreement or the Credit Agreement; and (iii) makes no representation or warranty and assumes no responsibility with respect to the financial condition of the Company or its Affiliates or the performance or observance by the Company or its Affiliates of any of their respective obligations under the Credit Agreement or any other instrument or document furnished pursuant thereto.

(e) The Company hereby agrees to compensate each Lender and the New Lender, in immediate available funds on date of this Agreement, for any losses, expenses and liabilities incurred by such Lender or New Lender in connection with the sales, assignments, purchases, assumptions and reallocations contemplated by this Agreement with respect to any Eurocurrency Rate Loan subject to such transactions.

(f) The New Lender hereby (i) confirms that it has received a copy of the Credit Agreement, together with copies of the financial statements and such other documents and information as it has deemed appropriate to make its own credit analysis and decision to enter into this Agreement; (ii) agrees that it will, independently and without reliance upon the Administrative Agent or any other Lender and based on such documents and information as it shall deem appropriate at the time, continue to make its own credit decisions in taking or not taking action under the Credit Agreement; (iii) appoints and authorizes the Administrative Agent to take such action as contractual representative on its behalf and to exercise such powers under the Credit Agreement and the other Loan Documents as are delegated to the Administrative Agent by the terms thereof, together with such powers as are reasonably incidental thereto; and (iv) agrees that it will perform in accordance with their terms all of the obligations which by the terms of the Credit Agreement are required to be performed by it as a Lender.

(g) The Administrative Agent shall make all payments under the Credit Agreement in respect of the Interests and other interests under the Credit Agreement assigned or reallocated hereby and the Commitments and Applicable Percentages as reallocated hereby (including all payments of principal, interest and fees with respect thereto).

(h) Schedule 2.01 of the Credit Agreement shall be amended and restated in its entirety as Schedule I hereto.

3. Effectiveness of this Agreement; Conditions Precedent. The provisions of Sections 1 and 2 of this Agreement shall be effective upon the Administrative Agent's receipt of:

(a) an originally-executed counterpart (or facsimile thereof) of this Agreement duly executed and delivered by authorized officers of the Company, the Designated Borrower, the L/C Issuers, the Swing Line Lender, the Subsidiary Guarantors, the New Lender and each other Lender;

(b) Notes, in form and substance acceptable to the Administrative Agent, made payable to each Lender (including the New Lender) whose Commitment is increased pursuant to this Agreement that requests a Note reflecting its Commitment, as amended hereby;

(c) a certificate signed by an officer of the Company and the Designated Borrower, dated as of the date hereof, certifying (i) the currency and authenticity of the resolutions of the board of directors (or the equivalent thereof) of such Person authorizing its execution and delivery of this Agreement and the performance hereof and of the Credit Agreement as to be amended hereby and (ii) that, both before and after giving effect to the increase in the Aggregate Commitment contemplated by Section 2 of this Agreement, (A) the representations and warranties of such Person contained in Article V of the Credit Agreement and the other Loan Documents to which such Person is a party are true and correct as of the date hereof (except (1) to the extent that such representations and warranties specifically refer to an earlier date, in which case they refer to an earlier date and (2) the representations and warranties contained in subsections (a) and (b) of Section 5.05 of the Credit Agreement shall be deemed to refer to the most recent statements furnished pursuant to such subsections (a) and (b), respectively, of Section 6.01 of the Credit Agreement) and (B) no Default exists;

(d) an opinion letter of Johnson & Colmar, counsel for the Company, addressing matters related to this Agreement and the Credit Agreement as amended by this Agreement;

(e) a good standing certificate of the Company certified as a recent date by the Secretary of State of the State of Delaware;

(f) evidence that all of the payments required to be made by the Assignee Lenders under Section 2(g) hereof have been made; and

(g) payment in full from the Company, in immediately available funds, of (i) a commitment increase fee payable to each Lender (including, without limitation, the New Lender) in an amount equal to 0.125% of the amount, if any, by which such Lender's Commitment is to be increased pursuant to this Agreement and (ii) the arrangement fee required under that certain letter agreement dated the date hereof by and among Bank of America, N.A., Banc of America Securities LLC, and the Company, all of which aforementioned fees shall be fully earned and non-refundable when due and payable (collectively, the "Amendment Fees").

4. Representations, Warranties and Covenants.

(a) Each of the Company, the Designated Borrower and each Subsidiary Guarantor hereby represents and warrants that this Agreement and the Credit Agreement, as applicable, constitute the legal, valid and binding obligations of such Person enforceable against such Person in accordance with their terms.

(b) Each of the Company, the Designated Borrower and each Subsidiary Guarantor hereby represents and warrants that its execution, delivery and performance of

this Agreement and the Credit Agreement, as applicable, have been duly authorized by all proper corporate action, do not violate any provision of its certificate of incorporation or bylaws, will not violate any law, regulation, court order or writ applicable to it, and will not require the approval or consent of any governmental agency, or of any other third party under the terms of any contract or agreement to which such Person or any such Person's Affiliates is bound.

(c) Each of the Company and the Designated Borrower hereby represents and warrants that, before and after giving effect to the provisions of this Agreement, (i) no Default or Event of Default has occurred and is continuing or will have occurred and be continuing and (ii) all of the representations and warranties of the Company and the Designated Borrower contained in the Credit Agreement and in each other Loan Document (other than representations and warranties which, in accordance with their express terms, are made only as of an earlier specified date) are, and will be, true and correct as of the date of the Company's or the Designated Borrower's, as applicable, execution and delivery hereof or thereof in all material respects as though made on and as of such date.

(d) The Company hereby agrees to pay the Amendment Fees to the Administrative Agent, for the benefit of the Lenders, and to the Administrative Agent, for the Arranger's sole account, upon the Company's execution and delivery of this Agreement.

5. Reaffirmation, Ratification and Acknowledgment; Reservation. The Company, the Designated Borrower and each Subsidiary Guarantor hereby (a) ratifies and reaffirms all of its payment and performance obligations, contingent or otherwise, under each Loan Document to which it is a party, (b) agrees and acknowledges that such ratification and reaffirmation is not a condition to the continued effectiveness of such Loan Documents, and (c) agrees that neither such ratification and reaffirmation, nor the Administrative Agent's, any L/C Issuer's, the Swing Line Lender's or any Lender's solicitation of such ratification and reaffirmation, constitutes a course of dealing giving rise to any obligation or condition requiring a similar or any other ratification or reaffirmation from the Company, the Designated Borrower or such Subsidiary Guarantors with respect to any subsequent modifications to the Credit Agreement or the other Loan Documents. The Credit Agreement is in all respects ratified and confirmed. Each of the Loan Documents shall remain in full force and effect and are hereby ratified and confirmed. Neither the execution, delivery nor effectiveness of this Agreement shall operate as a waiver of any right, power or remedy of the Administrative Agent or the Lenders, or of any Default or Event of Default (whether or not known to the Administrative Agent, the L/C Issuers, the Swing Line Lender or the Lenders), under any of the Loan Documents, all of which rights, powers and remedies, with respect to any such Default or Event of Default or otherwise, are hereby expressly reserved by the Administrative Agent, the L/C Issuers, the Swing Line Lender and the Lenders. This Agreement shall constitute a Loan Document for purposes of the Credit Agreement.

6. Governing Law. THIS AGREEMENT SHALL BE GOVERNED BY, AND CONSTRUED IN ACCORDANCE WITH, THE LAW OF THE STATE OF ILLINOIS.



7. Administrative Agent's Expenses. The Company hereby agrees to promptly reimburse the Administrative Agent for all of the reasonable out-of-pocket expenses, including, without limitation, attorneys' and paralegals' fees, it has heretofore or hereafter incurred or incurs in connection with the preparation, negotiation and execution of this Agreement and the related Loan Documents.

8. Counterparts. This Agreement may be executed in counterparts, each of which shall be an original and all of which together shall constitute one and the same agreement among the parties.

9. Service of Process. Each of the Designated Borrower and White Rose Environmental Limited hereby appoints the Company as its agent for any service of process relating to any proceedings in any Federal or State court located in the State of Illinois arising out of or in connection with any Loan Document to which such Person is party and the Company hereby accepts such appointment.

\* \* \* \* \*

IN WITNESS WHEREOF, this Agreement has been duly executed as of the day and year first above written.

**STERICYCLE, INC.**, as the Company

By: /s/ Frank J.M. ten Brink  
Name: Frank J.M. ten Brink  
Title: Executive Vice President and Chief  
Financial Officer

**STERICYCLE INTERNATIONAL, LTD.**, as  
the a Designated Borrower

By: /s/ Frank J.M. ten Brink  
Name: Frank J.M. ten Brink  
Title: Director

**STERICYCLE INTERNATIONAL, LLC**, as a  
Subsidiary Guarantor

By: /s/ Frank J.M. ten Brink  
Name: Frank J.M. ten Brink  
Title: Vice President and Manager

**WHITE ROSE ENVIRONMENTAL LIMITED**,  
as a Subsidiary Guarantor

By: /s/ Frank J.M. ten Brink  
Name: Frank J.M. ten Brink  
Title: Director

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**BANK OF AMERICA, N.A.**, as a Lender, an L/C  
Issuer and as Swing Line Lender

By: /s/ Richard D. Hill, Jr.  
Name: Richard D. Hill, Jr.  
Title: Managing Director

**BANK OF AMERICA, N.A.**, as Administrative  
Agent

By: /s/ Paul L. Folino  
Name: Paul L. Folino  
Title: Assistant Vice President

**CITIBANK, N.A.**, as the New Lender

By: /s/ James M. Buchanan  
Name: James M. Buchanan  
Title: Vice President

**JPMORGAN CHASE BANK, N.A.**, as a Lender

By: \_\_\_\_\_  
Name:  
Title:

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**FORTIS CAPITAL CORP.**, as a Lender

By: /s/ Trond Rokholt  
Name: Trond Rokholt  
Title: Managing Director

**U. S. BANK NATIONAL ASSOCIATION**, as a Lender

By: /s/ Kathleen D. Schurr  
Name: Kathleen D. Schurr  
Title: Vice President

**UBS AG, STAMFORD BRANCH**, as a Lender

By: /s/ Joselin Fernandez  
Name: Joselin Fernandez  
Title: Associate Director, Banking Products Services, US

By: /s/ Doris Mesa  
Name: Doris Mesa  
Title: Associate Director, Banking Products Services, US

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**CALYON NEW YORK BRANCH**, as a Lender

By: /s/ F. Frank Herrera

Name: F. Frank Herrera

Title: Director

**AIB DEBT MANAGEMENT LIMITED**, as a Lender

By: /s/ Rima Terradista

Name: Rima Terradista

Title: Co-Head Leverage Finance, Director of corporate Banking North America

**COMERICA BANK**, as a Lender and as an L/C Issuer

By: /s/ Felicia M. Maxwell

Name: Felicia M. Maxwell

Title: Vice President

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**WELLS FARGO BANK, NATIONAL ASSOCIATION**, as a  
Lender

By: /s/ Rhomes Ritter  
Name: Rhomes Ritter  
Title: Vice President

**THE NORTHERN TRUST COMPANY**, as a Lender

By: /s/ Jeffrey P. Sullivan  
Name: Jeffrey P. Sullivan  
Title: Vice President

**HARRIS N.A.**, as a Lender

By: /s/ Patrick McDonnell  
Name: Patrick McDonnell  
Title: Managing Director

**FIFTH THIRD BANK (CHICAGO)**, as a Lender

By: /s/ Joseph A. Wernhoff  
Name: Joseph A. Wernhoff  
Title: Vice President

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COMMITMENTS, APPLICABLE PERCENTAGES, ETC.

Lender	Commitment	Applicable Percentage	Change in Outstandings
Bank of America, N.A.			
Fortis Capital Corp.			
AIB Debt Management Limited			
JPMorgan Chase Bank, N.A.			
UBS Loan Finance LLC			
Calyon New York Branch			
Comerica Bank			
The Northern Trust Company			
Harris N.A.			
Fifth Third Bank (Chicago)			
U.S. Bank National Association			
Wells Fargo Bank, National Association			
Citibank, N.A.			
Total:	\$550,000,000.00	100.000000000%	\$0.00

Stock Option Agreement

((Nonstatutory)[Incentive] Stock Option Under  
[Stericycle, Inc. 2005 Incentive Stock Plan]  
[Stericycle, Inc. 2000 Nonstatutory Stock Option Plan]  
[Stericycle, Inc. 1997 Stock Option Plan])

Subject to the following terms, Stericycle, Inc., a Delaware corporation (the “Company”), grants to the following employee of the Company or one of its subsidiaries (the “Employee”), as of the following grant date (the “Option Grant Date”), a [nonstatutory][incentive] stock option (the “Option”) to purchase the following number of shares of the Company’s common stock, par value \$.01 per share (the “Option Shares”), at the following purchase price per share (the “Exercise Price”), exercisable in installments in accordance with the following vesting schedule:

Employee:  
  
Grant Date:  
  
Number of Option Shares:  
  
Exercise Price Per Share:  
  
Vesting Schedule: One-fifth of the Option Shares will vest on each of the first five anniversaries of the Option Grant Date.  
  
Expiration Date of Option:

Terms of Option

1. **Plan.** This Option has been granted under the [Stericycle, Inc. 2005 Incentive Stock Plan][Stericycle, Inc. 2000 Nonstatutory Stock Option Plan][Stericycle, Inc. 1997 Stock Option Plan] (the “Plan”), which is incorporated in this Agreement by reference. Capitalized terms used in this Agreement without being defined (for example, the term “Plan Administrator”) have the same meanings that they have in the Plan.
2. **Exercisability.** The Option may be exercised in whole or in part at any time prior to its Expiration Date to the extent that it is vested at the time of exercise. The Option shall not continue to vest after the Employee’s Termination Date. Any portion of the Option that remains unexercised shall expire on the Expiration Date. The Option shall be subject to earlier expiration as provided in Paragraph 5.
- The Option shall become fully vested upon a Change in Control, as provided in Article [6][8] of the Plan.
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3. **Manner of Exercise.** The Option may be exercised in respect of a whole number of Option Shares (and only in respect of a whole number) by:

(a) written notice of exercise to the Plan Administrator (or its designee) at the Company's principal executive offices (which are currently located at 28161 North Keith Drive, Lake Forest, Illinois 60045), which is received prior to the Option's Expiration Date;

(b) full payment of the Exercise Price of the Option Shares in respect of which the Option is exercised; and

(c) full payment of an amount equal to the Company's federal, state and local withholding tax obligation, if any, in connection with the exercise.

In addition, the exercise of the Option shall be subject to any procedures and policies that the Plan Administrator has adopted to administer the Plan which may be in effect at the time of exercise.

4. **Manner of Payment.** The Employee's payment of the Exercise Price of the Option Shares in respect of which the Option is exercised, and his or her payment of the Company's withholding tax obligation, if any, in connection with the exercise, shall be made by certified or bank cashier's check or by a wire transfer of immediately available funds.

Payment also may be made by means of a "cashless" net exercise through a broker approved by the Plan Administrator for the purpose, pursuant to which the full amount due to the Company is remitted directly by the broker from the net proceeds of the sale of a sufficient number of Option Shares. In addition, payment may be made in any other manner authorized by the Plan and specifically permitted by the Plan Administrator at the time of exercise.

5. **Early Expiration of Option.** If the Employee's ceases to serve as an employee of the Company or a Subsidiary, the unvested portion of the Option shall terminate on the Employee's Termination Date. The vested portion of the Option shall expire shall expire on the earlier of (i) 90 days after the Employee's Termination Date or (ii) the Option's Expiration Date (or if the Employee's employment terminated by reason of his or her death or Disability, on the earlier of (i) the first anniversary of the Termination Date or (ii) the Option's Expiration Date), unless the exercisability of the Option is extended by the Plan Administrator (in the Plan Administrator's sole discretion). The Plan Administrator may extend the exercisability of the Option to any date ending on or before the Option's Expiration Date.

6. **Transferability.** The Option may not be transferred, assigned or pledged (whether by operation of law or otherwise), except as provided by will or the applicable intestacy laws; and the Option shall not be subject to execution, attachment or similar process. The Option may be exercised only by the Employee or, in the case of his or her death, by the person or persons to whom the Option passes by the Employee's will or the applicable intestacy laws (or by the legal representative of the Employee's estate).

7. **Interpretation.** This Agreement is subject to the terms of the Plan, as the Plan may be amended (but except as required by applicable law, no amendment of the Plan after the Option Grant Date shall adversely affect the Employee's rights in respect of the Option without the Employee's consent). If there is a conflict or inconsistency between this Agreement and the Plan, the terms of the Plan shall control. The Plan Administrator's interpretation of this Agreement and the Plan shall be final and binding.
8. **No Employment Right.** Nothing in this Agreement shall be considered to confer on the Employee any right to continue in the employ of the Company or a Subsidiary or to limit the right of the Company or a Subsidiary to terminate the Employee's employment.
9. **Governing Law.** This Agreement shall be governed in accordance with the laws of the State of Illinois.
10. **Binding Effect.** This Agreement shall be binding on the Company and the Employee and on the Employee's heirs, legatees and legal representatives.
11. **Effective Date.** This Agreement shall not become effective until the Employee's acceptance of this Agreement and the related Confidentiality, Nonsolicitation and Noncompetition Agreement. Upon the Employee's acceptance, this Agreement shall become effective, retroactive to the Option Grant Date, without the necessity of further action by either the Company or the Employee.

**Stock Option Agreement**

([Nonstatutory][Incentive] Stock Option Under  
[Stericycle, Inc. 2005 Incentive Stock Plan]  
[Stericycle, Inc. 2000 Nonstatutory Stock Option Plan]  
[Stericycle, Inc. 1997 Stock Option Plan])

Subject to the following terms, Stericycle, Inc., a Delaware corporation (the “Company”), grants to the following employee of the Company or one of its subsidiaries (the “Employee”), as of the following grant date (the “Option Grant Date”), a [nonstatutory][incentive] stock option (the “Option”) to purchase the following number of shares of the Company’s common stock, par value \$.01 per share (the “Option Shares”), at the following purchase price per share (the “Exercise Price”), exercisable in installments in accordance with the following vesting schedule:

Employee:

Grant Date:

Number of Option Shares:

Exercise Price Per Share:

Vesting Schedule:

Full vesting as of the Option Grant Date.

Expiration Date of Option:

**Terms of Option**

1. **Plan.** This Option has been granted under the [Stericycle, Inc. 2005 Incentive Stock Plan][Stericycle, Inc. 2000 Nonstatutory Stock Option Plan][Stericycle, Inc. 1997 Stock Option Plan] (the “Plan”), which is incorporated in this Agreement by reference. Capitalized terms used in this Agreement without being defined (for example, the term “Plan Administrator”) have the same meanings that they have in the Plan.
  2. **Exercisability.** The Option may be exercised in whole or in part at any time prior to its Expiration Date. Any portion of the Option that remains unexercised shall expire on the Expiration Date.
  3. **Manner of Exercise.** The Option may be exercised in respect of a whole number of Option Shares (and only in respect of a whole number) by:
    - (a) written notice of exercise to the Plan Administrator (or its designee) at the Company’s principal executive offices (which are currently located at 28161 North Keith Drive, Lake Forest, Illinois 60045), which is received prior to the Option’s Expiration Date;
-

(b) full payment of the Exercise Price of the Option Shares in respect of which the Option is exercised; and

(c) full payment of an amount equal to the Company's federal, state and local withholding tax obligation, if any, in connection with the exercise.

In addition, the exercise of the Option shall be subject to any procedures and policies that the Plan Administrator has adopted to administer the Plan which may be in effect at the time of exercise.

4. **Manner of Payment.** The Employee's payment of the Exercise Price of the Option Shares in respect of which the Option is exercised, and his or her payment of the Company's withholding tax obligation, if any, in connection with the exercise, shall be made by certified or bank cashier's check or by a wire transfer of immediately available funds.

Payment also may be made by means of a "cashless" net exercise through a broker approved by the Plan Administrator for the purpose, pursuant to which the full amount due to the Company is remitted directly by the broker from the net proceeds of the sale of a sufficient number of Option Shares. In addition, payment may be made in any other manner authorized by the Plan and specifically permitted by the Plan Administrator at the time of exercise.

5. **Transferability.** The Option may not be transferred, assigned or pledged (whether by operation of law or otherwise), except as provided by will or the applicable intestacy laws; and the Option shall not be subject to execution, attachment or similar process. The Option may be exercised only by the Employee or, in the case of his or her death, by the person or persons to whom the Option passes by the Employee's will or the applicable intestacy laws (or by the legal representative of the Employee's estate).

6. **Interpretation.** This Agreement is subject to the terms of the Plan, as the Plan may be amended (but except as required by applicable law, no amendment of the Plan after the Option Grant Date shall adversely affect the Employee's rights in respect of the Option without the Employee's consent). If there is a conflict or inconsistency between this Agreement and the Plan, the terms of the Plan shall control. The Plan Administrator's interpretation of this Agreement and the Plan shall be final and binding.

7. **No Employment Right.** Nothing in this Agreement shall be considered to confer on the Employee any right to continue in the employ of the Company or a Subsidiary or to limit the right of the Company or a Subsidiary to terminate the Employee's employment.

8. **No Stockholder Rights.** The Employee shall not have any rights as a stockholder of the Company in respect of any of the Option Shares unless and until Option Shares are issued to the Employee upon the exercise of one or more installments of the Option.

9. **Governing Law.** This Agreement shall be governed in accordance with the laws of the State of Illinois.

10. **Binding Effect.** This Agreement shall be binding on the Company and the Employee and on the Employee's heirs, legatees and legal representatives.

11. **Effective Date.** This Agreement shall not become effective until the Employee's acceptance of this Agreement and the related Confidentiality, Nonsolicitation and Noncompetition Agreement. Upon the Employee's acceptance, this Agreement shall become effective, retroactive to the Option Grant Date, without the necessity of further action by either the Company or the Employee.

## Subsidiaries of the Registrant

3CI Complete Compliance Corporation, a Delaware corporation  
 American Medical Disposal, Inc., an Oklahoma corporation  
 BFI Medical Waste, Inc., a Delaware corporation  
 Biowaste Management Corp., a New York corporation  
 Bridgeview, Inc., a Pennsylvania corporation  
 East Coast Medical Waste, Inc., a New Jersey corporation  
 Enviromed, Inc., a South Carolina corporation  
 Environmental Health Systems, Inc., a Nebraska corporation  
 Five Star Waste, Inc., a Florida corporation  
 Ionization Research Co., Inc., a California corporation  
 Iowa Medical Waste Reduction Center, Inc., an Iowa corporation  
 Medam B.A. S.R.L. (Argentina)  
 Medam S.A. de C.V, a Mexican corporation  
 Med-Tech Environmental, Inc., a Delaware corporation  
 Med-Tech Environmental (MA), Inc., a Delaware corporation  
 Micro-Med Industries, Inc., a Florida corporation  
 Micro-Med of Georgia, Inc., a Georgia corporation  
 Micro-Med of North Carolina, Inc., a North Carolina corporation  
 Micro-Med of Tennessee, Inc., a Tennessee corporation  
 Nicklin Associates, Inc., a New York corporation  
 Sanford Motors, Inc., a Pennsylvania corporation  
 Scherer Laboratories, Inc., a Texas corporation  
 SDR Holding Corp., a Florida corporation  
 SDR NNC, Inc., a Delaware corporation  
 SMI East Coast Medical Waste, Inc., a Pennsylvania corporation  
 Stericycle Direct Return, Inc., a Florida corporation  
 Stericycle, Inc., a New Brunswick (Canada) corporation  
 Stericycle International, LLC, a Delaware limited liability company  
 Stericycle International, Ltd., an English company  
 Stericycle of Washington, Inc., a Washington corporation  
 Stericycle of Puerto Rico, Inc., a Puerto Rico corporation  
 Sterile Technologies Group Limited, an Irish corporation  
 Stroud Properties, Inc., a Delaware corporation  
 Universal Rx Solutions of Delaware, Inc., a Delaware corporation  
 Universal Rx Solutions of Georgia, Inc., a Georgia corporation  
 Universal Rx Solutions of New Jersey, Inc., a New Jersey corporation  
 Universal Solutions International, Inc., a North Carolina corporation  
 Universal Solutions of North Carolina, Inc., a North Carolina corporation  
 USI of NJ, L.P., a New Jersey limited partnership  
 White Rose Environmental Limited, an English company  
 Waste Systems, Inc., a Delaware corporation

## Consent of Independent Registered Public Accounting Firm

We consent to the incorporation by reference in the Registration Statement on Form S-8 (Registration No. 333-23695) pertaining to the Amended and Restated Incentive Compensation Plan of Stericycle, Inc., in the Registration Statement on Form S-8 (Registration No. 333-24185) pertaining to the Directors Stock Option Plan of Stericycle, Inc., in the Registration Statement on Form S-8 (Registration No. 333-48761) pertaining to the 1997 Stock Option Plan of Stericycle, Inc., in the Registration Statement on Form S-8 (Registration No. 333-55156) pertaining to the 2000 Nonstatutory Stock Option Plan of Stericycle, Inc., in the Registration Statement on Form S-8 (Registration No. 333-66542) pertaining to the Directors Stock Option Plan of Stericycle Inc. (Amended and Restated), in the Registration Statement on Form S-8 (Registration No. 333-66544) pertaining to the 2001 Employee Stock Purchase Plan of Stericycle, Inc., in the Registration Statement on Form S-3 (Registration No. 333-102144) pertaining to the registration of 438,063 shares, in the Registration Statement on Form S-8 (Registration No. 333-102097) pertaining to the Third Amendment to 2000 Nonstatutory Stock Option Plan of Stericycle, Inc., and in the Registration Statement on Form S-8 (Registration No. 333-127353) pertaining to the 2005 Incentive Stock Plan of Stericycle, Inc., of our reports dated March 1, 2006 with respect to the consolidated financial statements and schedule of Stericycle, Inc. and Subsidiaries, Stericycle, Inc. management's assessment of the effectiveness of internal control over financial reporting, and the effectiveness of internal control over financial reporting of Stericycle, Inc. included in this Annual Report on Form 10-K for the year ended December 31, 2005.

Chicago, IL  
March 1, 2006

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

Mark C. Miller  
President and Chief Executive Officer

I, Mark C. Miller, certify that:

1. I have reviewed this annual report on Form 10-K of Stericycle, Inc.;
2. Based on my knowledge, this annual 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 operation 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 procedure, 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 fourth fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting.
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: March 6, 2006.

/s/ MARK C. MILLER

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Mark C. Miller  
President and Chief Executive Officer  
Stericycle, Inc.



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

Frank J.M. ten Brink  
Executive Vice President and Chief Financial Officer

I, Frank J.M. ten Brink, certify that:

1. I have reviewed this annual report on Form 10-K of Stericycle, Inc.;
2. Based on my knowledge, this annual 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 operation 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 procedure, 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 fourth fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting.
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: March 6, 2006.

/s/ FRANK J.M. TEN BRINK

Frank J.M. ten Brink  
Executive Vice President and  
Chief Financial Officer  
Stericycle, Inc.

**SECTION 1350 CERTIFICATION**

In reference to this annual report on Form 10-K of Stericycle, Inc. we, Mark C. Miller, President and Chief Executive Officer of the registrant, and Frank J.M. ten Brink, 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: March 6, 2006.

/s/ Mark C. Miller

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Mark C. Miller  
President and Chief Executive Officer  
Stericycle, Inc.

/s/ Frank J.M. ten Brink

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Frank J.M. ten Brink  
Executive Vice President  
and Chief Financial Officer  
Stericycle, Inc.