AS FILED WITH THE SECURITIES AND EXCHANGE COMMISSION ON JULY 29, 1996
REGISTRATION NO. 333-05665

- ---
- ---

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

AMENDMENT NO. 2
TO
FORM S-1

REGISTRATION STATEMENT
UNDER
THE SECURITIES ACT OF 1933

STERICYCLE, INC.
(Exact name of Registrant as specified in its charter)

DELAWARE	4953	36-3640402
(State or other jurisdiction of incorporation or organization)	(Primary Standard Industrial Classification Code Number)	(I.R.S. Employer Identification Number)

1419 LAKE COOK ROAD, SUITE 410
DEERFIELD, ILLINOIS 60015
(847) 945-6550
(Address, including zip code, and telephone number, including area code, of Registrant's principal executive offices)

MARK C. MILLER
PRESIDENT AND CHIEF EXECUTIVE OFFICER
STERICYCLE, INC.
1419 LAKE COOK ROAD, SUITE 410
DEERFIELD, ILLINOIS 60015
(847) 945-6550
(Name, address, including zip code, and telephone number, including area code, of agent for service)

COPIES TO:

Craig P. Colmar, Esq. Michael Bonn, Esq. Johnson and Colmar 300 South Wacker Drive Chicago, Illinois 60606	Geoffrey E. Liebmann, Esq. Cahill Gordon & Reindel 80 Pine Street New York, New York 10005

APPROXIMATE DATE OF COMMENCEMENT OF PROPOSED SALE TO THE PUBLIC:
AS SOON AS PRACTICABLE AFTER THE EFFECTIVE DATE OF THIS REGISTRATION STATEMENT.

If any of the securities being registered on this Form are to be offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act of 1933, check the following box. / /

If this Form is filed to register additional securities for an offering pursuant to Rule 426(b) under the Securities Act, please check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. / /

If this Form is a post-effective amendment filed pursuant to Rule 462(c) under the Securities Act, check the following box and list the Securities Act registration Statement number of the earlier effective registration statement for the same offering. / /

If delivery of the prospectus is expected to be made pursuant to Rule 434, please check the following box. / /

THE REGISTRANT HEREBY AMENDS THIS REGISTRATION STATEMENT ON SUCH DATE OR DATES AS MAY BE NECESSARY TO DELAY ITS EFFECTIVE DATE UNTIL THE REGISTRANT SHALL FILE A FURTHER AMENDMENT WHICH SPECIFICALLY STATES THAT THIS REGISTRATION STATEMENT SHALL THEREAFTER BECOME EFFECTIVE IN ACCORDANCE WITH SECTION 8(A) OF THE SECURITIES ACT OF 1933 OR UNTIL THE REGISTRATION STATEMENT SHALL BECOME EFFECTIVE ON SUCH DATE AS THE COMMISSION, ACTING PURSUANT TO SUCH SECTION 8(A), MAY DETERMINE.

- ---
- ---

STERICYCLE, INC.

CROSS-REFERENCE SHEET

PURSUANT TO ITEM 501(B) OF REGULATION S-K SHOWING LOCATION
IN PROSPECTUS OF PART I ITEMS OF FORM S-1

ITEM NUMBER AND HEADING IN FORM S-1 REGISTRATION STATEMENT	LOCATION OR CAPTION IN PROSPECTUS
1. Forepart of the Registration Statement and Outside Front Cover Page of Prospectus.....	Forepart of Registration Statement; Outside Front Cover Page
2. Inside Front and Outside Back Cover Pages of Prospectus.....	Inside Front Cover Page; Outside Back Cover Page
3. Summary Information, Risk Factors and Ratio of Earnings to Fixed Charges.....	Prospectus Summary; Risk Factors
4. Use of Proceeds.....	Use of Proceeds
5. Determination of Offering Price.....	Outside Front Cover Page; Underwriting
6. Dilution.....	Dilution
7. Selling Security Holders.....	Not Applicable
8. Plan of Distribution.....	Outside and Inside Front Cover Pages; Underwriting; Outside Back Cover Page
9. Description of Securities to be Registered...	Outside Front Cover Page; Prospectus Summary; Dividend Policy; Capitalization; Description of Capital Stock; Shares Eligible for Future Sale
10. Interests of Named Experts and Counsel.....	Not Applicable
11. Information with Respect to the Registrant...	Outside and Inside Front Cover Pages; Prospectus Summary; Risk Factors; Use of Proceeds; Dividend Policy; Capitalization; Dilution; Selected Consolidated Financial Data; Management's Discussion and Analysis of Financial Condition and Results of Operations; Business; Management; Certain Transactions; Principal Stockholders; Shares Eligible for Future Sale; Description of Capital Stock; Additional Information; Consolidated Financial Statements; Outside Back Cover Page
12. Disclosure of Commission Position on Indemnification for Securities Act Liabilities.....	Not Applicable

SUBJECT TO COMPLETION, DATED JULY 29, 1996

3,000,000 SHARES

STERICYCLE, INC.

Common Stock

The 3,000,000 shares of Common Stock, par value $.01 per share (the "Common Stock"), offered hereby (this "Offering") are being offered by Stericycle, Inc. ("Stericycle" or the "Company"). Prior to this Offering there has been no public market for the Common Stock. It is currently estimated that the initial public offering price will be between $11.00 and $13.00 per share. See "Underwriting" for the factors considered in determining the initial public offering price.

The Common Stock has been approved for quotation on the Nasdaq National Market ("Nasdaq") under the symbol "SRCL," subject to notice of issuance.

FOR A DISCUSSION OF CERTAIN RISKS OF AN INVESTMENT IN THE SHARES OF COMMON STOCK OFFERED HEREBY, SEE "RISK FACTORS" ON PAGES 7 TO 14.

THESE SECURITIES HAVE NOT BEEN APPROVED OR DISAPPROVED BY THE SECURITIES AND EXCHANGE COMMISSION OR ANY STATE SECURITIES COMMISSION NOR HAS THE SECURITIES AND EXCHANGE COMMISSION OR ANY STATE SECURITIES COMMISSION PASSED UPON THE ACCURACY OR ADEQUACY OF THIS PROSPECTUS. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

	PRICE TO PUBLIC	UNDERWRITING DISCOUNTS AND COMMISSIONS*	PROCEEDS TO COMPANY+
Per Share	$	$	$
Total++	$	$	$

- ---

* The Company has agreed to indemnify the Underwriters against certain liabilities, including liabilities under the Securities Act of 1933. See "Underwriting."

\+ Before deducting expenses of this Offering payable by the Company estimated to be $800,000.

++ The Company has granted the Underwriters a 30-day option to purchase up to 450,000 additional shares of Common Stock on the same terms per share solely to cover over-allotments, if any. If such option is exercised in full, the total price to public will be $, the total underwriting discounts and commissions will be $ and the total proceeds to the Company will be $. See "Underwriting."

The Common Stock is being offered by the Underwriters as set forth under "Underwriting" herein. It is expected that the delivery of certificates therefor will be made at the offices of Dillon, Read & Co. Inc., New York, New York, on or about , 1996, against payment therefor. The Underwriters include:

DILLON, READ & CO. INC.

SALOMON BROTHERS INC

WILLIAM BLAIR & COMPANY

THE DATE OF THIS PROSPECTUS IS , 1996.

[Illustration]

Steri-Cement-Registered Trademark-, Steri-Fuel-Registered Trademark-, Steri-Plastic-Registered Trademark- and Steri-Tub-Registered Trademark- are registered trademarks and Stericycle-Registered Trademark- is a registered service mark of the Company.

IN CONNECTION WITH THIS OFFERING, THE UNDERWRITERS MAY OVER-ALLOT OR EFFECT TRANSACTIONS WHICH STABILIZE OR MAINTAIN THE MARKET PRICE OF THE COMMON STOCK OF THE COMPANY AT A LEVEL ABOVE THAT WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH TRANSACTIONS MAY BE EFFECTED ON THE NASDAQ NATIONAL MARKET OR OTHERWISE. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.

PROSPECTUS SUMMARY

THE FOLLOWING SUMMARY IS QUALIFIED IN ITS ENTIRETY BY THE MORE DETAILED INFORMATION AND THE CONSOLIDATED FINANCIAL STATEMENTS, CONDENSED CONSOLIDATED FINANCIAL STATEMENTS AND RELATED NOTES THERETO APPEARING ELSEWHERE IN THIS PROSPECTUS. UNLESS OTHERWISE INDICATED, ALL INFORMATION IN THIS PROSPECTUS (I) REFLECTS A 1-FOR-5.3089 REVERSE STOCK SPLIT, TO BE EFFECTIVE PRIOR TO COMPLETION OF THIS OFFERING, (II) REFLECTS THE REDESIGNATION OF ALL OF THE COMPANY'S OUTSTANDING SHARES OF CLASS A COMMON STOCK AND CLASS B COMMON STOCK AS A LIKE NUMBER OF SHARES OF COMMON STOCK, TO BE EFFECTIVE PRIOR TO COMPLETION OF THIS OFFERING, AND (III) ASSUMES THAT THE UNDERWRITERS' OVER-ALLOTMENT OPTION IS NOT EXERCISED. SEE "DESCRIPTION OF CAPITAL STOCK," "CAPITALIZATION" AND "UNDERWRITING." UNLESS THE CONTEXT REQUIRES OTHERWISE, REFERENCES TO "STERICYCLE" AND THE "COMPANY" REFER TO STERICYCLE, INC. AND ITS SUBSIDIARIES. PROSPECTIVE INVESTORS SHOULD CAREFULLY CONSIDER THE INFORMATION UNDER "RISK FACTORS."

THE COMPANY

Stericycle is a multi-regional integrated company employing proprietary technology to provide environmentally-responsible management of regulated medical waste for the health care industry. Because of the Company's health care orientation, proprietary technology and breadth of service, the Company believes that it is in a unique position to meet the fundamental need of the health care industry to manage regulated medical waste in a safe and cost-effective manner and to capitalize on the current consolidation trend in the regulated medical waste management industry. The Company believes that its exclusive focus on regulated medical waste and the experience of its management in the health care industry distinguish the Company from its chief competitors, most of whom participate in multiple businesses and most of whose management experience is primarily in the solid waste business. The Company believes that its regulated medical waste management system, including its proprietary ELECTRO-THERMAL-DEACTIVATION ("ETD") treatment process, is the only commercially-proven system that provides all of the following benefits: (i) it kills human pathogens in regulated medical waste without generating liquid effluents or regulated air emissions; (ii) it affords certain operating cost advantages over the principal competing technologies; (iii) it reduces the volume of regulated medical waste by up to 85%; (iv) it renders regulated medical waste unrecognizable; (v) it permits the recovery and recycling of usable plastics from regulated medical waste; and (vi) it enables the remaining regulated medical waste to be safely landfilled or used as an alternative fuel in energy production. The Company's full-service program is designed to help to protect its customers and their employees against potential liabilities and injuries in connection with the handling, transportation and disposal of regulated medical waste.

The Company's integrated services include regulated medical waste collection, transportation, treatment, disposal, reduction, reuse and recycling services, together with related training and education programs, consulting services and product sales, in four geographic service areas: (i) California; (ii) Washington, Oregon, Idaho and British Columbia; (iii) Wisconsin, Illinois, Indiana and Michigan; and (iv) Massachusetts, Maine, New Hampshire, Vermont, Rhode Island, Connecticut, New York and New Jersey. As of December 31, 1995, the Company served over 13,000 customers, consisting of two principal types of regulated medical waste generators. Approximately 70% of the Company's 1995 revenues were derived from hospitals, blood banks and pharmaceutical manufacturers ("Core" generators), and approximately 30% of its revenues were derived from long-term and subacute care facilities, outpatient clinics, medical and dental offices, industrial clinics, dialysis centers, laboratories, biotechnology and biomedical companies, veterinary offices, municipal health departments, ambulance, fire and police departments, correctional facilities, schools, park districts and funeral homes ("Alternate Care" generators). The Company's current operations are comprised of four treatment centers, one recycling center, five transfer stations and four customer service centers.

Regulated medical waste is generally defined as any waste that can cause an infectious disease or that reasonably can be suspected of harboring human pathogenic organisms. Regulated medical waste includes single-use disposable items such as needles, syringes, gloves and laboratory, surgical, emergency room and other supplies which have been in contact with blood or bodily fluids; cultures and stocks of infectious agents; and blood and blood products.

Generators of regulated medical waste are responsible for that waste from its origin through its disposal. The Company seeks to offer a single-source solution to a wide spectrum of regulated medical waste management issues

confronting generators of regulated medical waste, thereby managing the generators' compliance responsibilities relating to proper packaging, labeling, handling, treatment, disposal, tracking and reporting. In addition, the Company offers programs to assist customers in educating their employees on safety, resource conservation and compliance issues. This full-service approach to regulated medical waste management assists customers in dealing cost-effectively with the increasingly complex regulatory framework in which generators of regulated medical waste operate.

An independent study published in 1995 estimated that the size of the regulated medical waste management market in the United States in 1995 was approximately $1 billion. Based upon certain public information and the Company's estimates of its competitors' revenues, the Company believes that it is the second-largest provider of regulated medical waste management services in the United States.

The Company believes that the demand for its services will grow as a consequence of certain trends in the health care and regulated medical waste industries:

- The handling and disposal of the large quantities of regulated medical waste generated by the health care industry has attracted increasing public awareness and regulatory attention. The Occupational Health and Safety Administration ("OSHA") has issued regulations concerning employee exposure to bloodborne pathogens and other potentially infectious materials that require, among other things, special procedures for handling regulated medical waste and annual training of all personnel who are potentially exposed to blood and bodily fluids.

- Alternate Care generators have become an increasingly important source of revenues in the regulated medical waste industry. Individual Alternate Care generators, however, typically do not produce regulated medical waste in sufficient volumes to justify substantial capital expenditures on their own waste treatment facilities or the expense of hiring regulatory compliance personnel. Accordingly, Alternate Care generators often rely on a regulated medical waste management provider for a broad range of regulated medical waste management services.

- The health care industry is under increasing pressure to reduce costs and improve efficiency, which the Company believes can be achieved in the case of regulated medical waste by obtaining waste management services from outside sources.

- Governmental clean air regulations and public opposition are combining to increase the cost and difficulty of obtaining permits to build and operate incinerators. As a result, many hospitals have shut down their incinerators, and the Company expects that many more will do so, with a corresponding increase in demand for off-site alternative treatment services such as those offered by the Company.

- Although the regulated medical waste management industry remains fragmented, the number of competitors is rapidly decreasing as a result of industry consolidation.

The Company believes that it has the opportunity to increase its penetration of the geographic service areas in which it currently operates as well as to expand into adjacent service areas and offer additional products and services to its customers. Since August 1993, the Company has acquired eight regulated medical waste management businesses. The Company intends to continue to expand through business acquisitions, in which it will attempt to acquire businesses that can be integrated into the Company's existing operations and businesses in new geographic service areas that can be assembled in a "hub and spoke" configuration using transfer stations and treatment facilities. Through a combination of logistics and marketing efforts and business acquisitions, the Company intends to improve its operating efficiency.

Stericycle, Inc. is a Delaware corporation with its principal executive offices located at 1419 Lake Cook Road, Suite 410, Deerfield, Illinois 60015. Its telephone number is (847) 945-6550.

THE OFFERING

Common Stock offered by the Company.....	3,000,000 shares
Common Stock to be outstanding after this Offering.....	9,218,455 shares (1)
Use of proceeds.....	To repay bank and other debt and for general corporate purposes, including capital expenditures, working capital and potential future acquisitions. See "Use of Proceeds."
Proposed Nasdaq National Market symbol.....	SRCL

- ----------

(1) Based on the number of shares outstanding as of June 1, 1996. Excludes 414,030 shares issuable upon the exercise of outstanding stock options exercisable within 60 days of June 1, 1996, at a weighted average exercise price of $0.69 per share, and 387,468 shares issuable upon the exercise of outstanding warrants all of which were exercisable as of June 1, 1996 at a weighted average exercise price of $5.31 per share. Also excludes 304,413 shares issuable upon the exercise of outstanding stock options, at a weighted average exercise price of $1.37 per share, and 22,381 shares issuable upon the exercise of outstanding warrants at a weighted average exercise price of $33.18 per share, which either were not exercisable within 60 days of June 1, 1996 or were exercisable at prices in excess of $12.00 per share, the mid-point of the price range as set forth on the cover page of this Prospectus. See "Description of Capital Stock -- Options" and "-- Warrants."

SUMMARY CONSOLIDATED FINANCIAL DATA
(IN THOUSANDS, EXCEPT SHARE AND PER SHARE DATA)

	YEAR ENDED DECEMBER 31,					THREE MONTHS ENDED MARCH 31,	
	1991	1992(4)	1993	1994	1995	1995	1996
STATEMENTS OF OPERATIONS DATA:							
Revenues	$ 1,563	$ 5,010	$ 9,141	$ 16,141	$ 21,339	$ 5,446	$ 5,578
Cost of revenues	2,005	5,466	9,137	13,922	17,478	4,227	4,337
Selling, general and administrative expenses	3,377	11,223	5,988	7,927	8,137	2,762	1,505
Loss from operations	(3,819)	(11,679)	(5,984)	(5,708)	(4,276)	(1,543)	(264)
Interest expense	(77)	(244)	(245)	(260)	(277)	(54)	(83)
Interest income	243	283	201	156	9	6	--
Net loss	$ (3,653)	$ (11,640)	$ (6,028)	$ (5,812)	$ (4,544)	$ (1,591)	$ (347)
Less cumulative preferred dividends	(1,351)	(2,737)	(3,733)	(4,481)	--(5)	(1,573)	--
Loss applicable to common stock	$ (5,004)	$ (14,377)	$ (9,761)	$ (10,293)	$ (4,544)	$ (3,164)	$ (347)
Net loss per common share (1)	$ (2.79)	$ (7.77)	$ (5.28)	$ (5.57)	$ (0.64)	$ (1.71)	$ (0.05)
Weighted average number of common shares outstanding	1,791,662	1,850,445	1,847,432	1,847,808	7,060,438	1,847,808	7,094,703
Pro forma net loss per common share (2)					$ (0.45)		$ (0.03)
Pro forma weighted average number of common shares outstanding (3)					10,060,438		10,094,703

	MARCH 31, 1996		
	ACTUAL	PRO FORMA(6)	PRO FORMA, AS ADJUSTED(7)
BALANCE SHEET DATA:			
Cash and cash equivalents	$ 120	$ 120	$ 28,800
Total assets	23,876	25,710	54,390
Current portion of long-term debt	759	2,593	759
Long-term debt, net of current maturities	5,996	5,996	2,342
Shareholders' equity	12,228	12,228	46,396

- ---

(1) See Note 2 to the Consolidated Financial Statements for information concerning the computation of net loss per share.

(2) Adjusted to give effect to the sale of 3,000,000 shares of Common Stock offered hereby and application of the estimated net proceeds to the Company for contemplated debt repayment, with elimination of the interest expense on the indebtedness repaid ($64,000 for the year ended December 31, 1995 and $38,000 for the three months ended March 31, 1996). See "Use of Proceeds."

(3) Adjusted to give effect to the sale of 3,000,000 shares of Common Stock offered hereby.

(4) During 1992, the Company approved a restructuring plan which resulted in a nonrecurring charge of $2,747,000, primarily to write-off assets associated with a technology used by the Company prior to the development of the ETD process.

(5) In August 1995 and in connection with a recapitalization of the Company, the liquidation preference on the Company's preferred stock was eliminated and the Company's preferred stock was reclassified as Class A common stock. See "Description of Capital Stock -- 1995 Recapitalization."

(6) Adjusted to give effect to the acquisition of certain assets of Sharps Incinerator of Fort, Inc. in April 1996 and the acquisition of certain assets of Doctors Environmental Control, Inc. in May 1996. See Note 2 to the Condensed Consolidated Financial Statements.

(7) Adjusted to give effect to the sale of 3,000,000 shares of Common Stock offered hereby (at an assumed initial public offering price of $12.00 per share, the mid-point of the price range as set forth on the cover page of this Prospectus, and after the deduction of estimated underwriting discounts and commissions and estimated offering expenses payable by the Company) and application of the estimated net proceeds to the Company. See "Use of Proceeds."

RISK FACTORS

IN ADDITION TO THE OTHER INFORMATION CONTAINED IN THIS PROSPECTUS, THE FOLLOWING FACTORS SHOULD BE CAREFULLY CONSIDERED IN EVALUATING AN INVESTMENT IN THE COMMON STOCK OFFERED BY THIS PROSPECTUS.

HISTORY OF LOSSES; UNCERTAINTY OF FUTURE PROFITABILITY

The Company is engaged in the regulated medical waste management business. The Company's operations have not been profitable since the Company began operations in 1989. As of March 31, 1996, the Company had an accumulated deficit of approximately $37,449,000. For the year ended December 31, 1995 and the quarter ended March 31, 1996, the Company had net losses of approximately $4,544,000, or $0.64 per share, and approximately $347,000, or $0.05 per share, respectively. The Company estimates that it had a net loss of approximately $1,100,000 for the six months ended June 30, 1996, on revenues of approximately $11,600,000. There can be no assurance that the Company will be able to operate profitably in the future. The Company is subject to the risks and uncertainties inherent in the growth of a developing business in its industry, including, among other things, limited access to capital, difficulties and delays in obtaining necessary government permits and authorizations, other delays in implementing its business strategy in particular geographic service areas and significant competition.

IMPACT OF GOVERNMENT REGULATION

The regulated medical waste management industry is subject to extensive federal, state, local and applicable foreign laws and regulations. The collection, transportation, treatment and disposal of regulated medical waste require applicable government permits, authorizations and approvals ("permits"), the nature of which may vary from jurisdiction to jurisdiction, and continuing compliance with required packaging, labeling, handling, treatment, disposal and documentation procedures and notice and reporting obligations. The Company believes that it has obtained all government permits required to operate its existing business and that it is in compliance in all material respects with these permits and all applicable laws and regulations. State and local laws and regulations change with some frequency, however, and the amendment of existing laws or regulations or the adoption of new laws or regulations could require the Company to obtain new government permits or to modify its current methods of operation in order to comply with these changes. There can be no assurance that the Company would be able to obtain any such new permits or that the cost of compliance with any such changes would not have a material adverse effect on the Company's business, financial condition and results of operations. See "Business - -- Governmental Regulation."

The permits that the Company requires, and in particular the permits required to build and operate treatment and transfer facilities and transport regulated medical waste, are difficult and time-consuming to obtain and, if and when issued, may be subject to conditions or restrictions which limit the Company's ability to operate efficiently in the applicable jurisdiction. There can be no assurance that the Company will be successful in obtaining the permits necessary in order to expand the geographic service areas in which it operates or that any such permits will be obtained when contemplated by the Company's expansion plans or under conditions or with restrictions acceptable to the Company. The Company's inability to expand the geographic service areas in which it operates, either because it is unable to obtain the necessary permits or because they are issued under conditions or with restrictions which are not acceptable to the Company, could have a material adverse effect on the Company's business, financial condition and results of operations. The Company's applications for treatment and transfer facility permits are frequently subject to opposition by elected officials, local residents or citizen groups, and public opposition could force the Company to delay or withdraw its application and abandon its plans to expand into a particular geographic service area or to locate a treatment or transfer facility at a particular site. Even after a permit is issued, opponents may initiate administrative proceedings or litigation to compel the applicable regulatory agency to modify the conditions under which the permit was granted or to revoke the issuance of the permit. The Company's withdrawal of a permit application, after incurring substantial costs in the preparation and prosecution of the application and underlying market studies, site selection, facility design and pre-marketing activities, could have a material adverse effect on the Company's business, financial condition and results of operations. See "Business -- Governmental Regulation."

The Company's failure to operate in compliance with the requirements and limitations of any permit, or with the laws and regulations pursuant to which the permit was issued, could jeopardize the permit. Routine compliance inspections by the issuing regulatory agency, as well as complaints filed or anonymously sponsored by the Company's

competitors or others alleging that the Company is not operating in compliance with a particular permit, could result in administrative proceedings to modify, suspend or revoke the permit. Any such modification, suspension or revocation could have a material adverse effect on the Company's business, financial condition and results of operations. Some permits have to be renewed periodically, and there can be no assurance that any existing or future permit which is required to be renewed will be renewed by the issuing regulatory agency. The failure to obtain any such renewal could have a material adverse effect on the Company's business, financial condition and results of operations. Subsequent to the issuance of the Company's original license for its Woonsocket, Rhode Island treatment facility, the State of Rhode Island enacted legislation that required the Company to obtain an additional license for its regulated medical waste operations. The Company has applied for but not yet received this additional license. Until regulatory action is taken in respect of this additional license, the Company is permitted to continue to operate under its current license. There can be no assurance that the Company will receive the additional license. Denial of this license could result in the Company being required to cease treatment operations in Rhode Island and could have a material adverse effect on the Company's business, financial condition and results of operations. See "Business -- Governmental Regulation."

The Company's treatment technology is an alternative to the conventional treatment technologies of incineration and autoclaving and has not been approved in all states for the treatment of regulated medical waste. The Company has been permitted to operate its treatment technology in 13 states with additional applications pending. There can be no assurance, however, that the Company's treatment technology will be approved for the treatment of regulated medical waste in each state or other jurisdiction where the Company may seek regulatory approval in the future to construct and operate a treatment facility. The Company's inability to obtain any such regulatory approval could have a material adverse effect on the Company's business, financial condition and results of operations. Like any technology, the Company's treatment process may be subject to certain technological limitations. Although the Company has never been denied regulatory approval because of any technological limitation on its treatment process, there can be no assurance that specific limitations will not be identified by a regulatory agency as a sufficient reason to withhold a necessary permit in a particular jurisdiction or used by competitors to encourage customers or potential customers to engage their services rather than those of the Company. There can be no assurance that any such actions would not have a material adverse effect on the Company's business, financial condition and results of operations.

In the State of Washington, the Company is subject to regulation by the Utilities and Transportation Commission, which regulates all businesses engaged in transportation in the state. As a regulated business, the Company must receive approval from the Utilities and Transportation Commission for the prices that it charges for its services in Washington. While the Commission has approved the Company's current prices, there can be no assurance that the Commission will approve the prices that the Company may seek to charge in the future or that the prices approved will be adequate to enable the Company to earn an acceptable return on its operations in Washington. There can be no assurance that the Company will not be regulated in a similar manner in other states or jurisdictions in the future. Any such regulation could result in the Company's failure to attain otherwise available levels of profitability and could have a material adverse effect on the Company's business, financial condition and results of operations. See "Business -- Governmental Regulation."

GOVERNMENTAL ENFORCEMENT PROCEEDINGS

The Company has been and may continue to be subject from time to time to governmental enforcement proceedings and has been and may be required to pay fines and penalties or undertake remedial work at its facilities. The amount of any such fines and penalties and the cost of any such remedial work could be substantial and could have a material adverse effect on the Company's business, financial condition and results of operations. In August 1995, the Company and the Rhode Island Department of Environmental Management ("RIDEM") entered into a settlement agreement pursuant to which, without admitting liability, the Company agreed to pay $400,000 over a seven-year period and to perform community services and conduct seminars over a five-year period. The settlement arose from certain notices of violation that RIDEM issued in September 1994 and April 1995 pursuant to which RIDEM sought penalties of $3,356,000, claiming that the Company had violated state medical waste and solid waste regulations by, among other things, mishandling and improperly treating medical waste and endangering its employees' health by failing to provide proper training and protective clothing. RIDEM has recently contacted the Company's local counsel and informally suggested that it may issue additional notices of violation. The

Company believes that there is no basis for the issuance of any such additional notices and that the resolution of the matter will be favorable to the Company. There can be no assurance, however, that if the resolution is unfavorable to the Company, the Company's obligations as a result of any such additional notices of violation would not have a material adverse effect on the Company's business, financial condition or results of operations.

The Company believes that the action by RIDEM prompted regulatory authorities in all of the other states in which the Company does business to investigate or inquire into the Company's operations. None of these investigations or inquiries has resulted in any fines, penalties or remedial work. The Company believes that the Massachusetts Attorney General inquired into the Company's activities in Massachusetts but does not know whether the inquiry, if any, is still pending. The Company believes, however, that if there is or was any such inquiry, it was begun following the adverse publicity that the Company received in connection with the notices of violation from RIDEM.

In 1994, when the Company still used a third party for transportation services prior to obtaining its own California waste transportation permit, the California Department of Health Services initiated an investigation of possible violations of the state medical waste management act by the third party and the Company, including delays in transport and insufficient tracking of regulated medical waste in transit. In order to resolve this matter, the Company agreed in April 1995 to pay $75,000 to the California Department of Health Services Medical Waste Management Fund and to assume direct responsibility for the transportation of regulated medical waste to the Company's treatment facilities. In 1993 the Company resolved separate inquiries by the Federal Trade Commission and state agencies in California and Washington by voluntarily agreeing to clarify in its promotional materials the proportions of treated regulated medical waste going to resource recovery and recycling.

There can be no assurance that the Company will be successful in its defense of any future government enforcement proceeding or in obtaining a settlement of any fines or penalties sought to be imposed on terms acceptable to the Company. The expense and time involved in defending against any such enforcement proceeding, the cost of any fines or penalties imposed or paid in settlement, and the adverse publicity, loss of customers and additional investigations or inquiries associated with any proceeding, could have a material adverse effect on the Company's business, financial condition and results of operations. See "Business -- Regulatory and Legal Proceedings."

IMPORTANCE OF GOVERNMENTAL ENFORCEMENT OF ENVIRONMENTAL REGULATIONS

The Company believes that its business prospects are enhanced by the enforcement of stringent statutory and regulatory requirements relating to the collection, transportation, treatment and disposal of regulated medical waste. These laws and regulations are, and will continue to be, a principal factor affecting demand for the Company's regulated medical waste management services. In addition, the Company views laws and regulations that make it more difficult or expensive to use competing regulated medical waste treatment technologies, such as incineration and autoclaving, as advantageous to its business prospects. The Company believes that legislative initiatives offering financial incentives for or otherwise encouraging the recycling of treated medical waste similarly enhance the Company's business prospects. Changes in the law or regulations that relax the requirements governing regulated medical waste, including changes that reduce incentives to landfill diversion and resource recovery or that remove obstacles to the use of incineration and autoclaving for the treatment of regulated medical waste, could have a material adverse effect on the Company's business, financial condition and results of operations. The level of future enforcement of existing and new laws and regulations, the scope of future laws and regulations and the impact of technological changes on existing or future laws and regulations cannot be predicted. The level of enforcement in each jurisdiction is subject to changing political and budgetary pressures. A significant reduction in government enforcement in one or more jurisdictions could have a material adverse effect on the Company's business, financial condition and results of operations.

INTENSE COMPETITION WITHIN INDUSTRY

The Company operates within the intensely competitive regulated medical waste management industry. Competition in the industry has resulted in substantial price reductions in virtually all geographic areas. Although prices have stabilized in certain areas, there can be no assurance that competitive pressures within the regulated

medical waste management industry will not result in continued or accelerated price reductions. Substantial continued or accelerated price reductions would have a material adverse effect on the Company's business, financial condition and results of operations.

The Company faces competition from several national waste management companies and many regional and local businesses in its present locations, and will be confronted in the future with such competition in each location where it seeks to expand. The Company's business strategy involves selling its services to customers who may have established relationships with existing regulated medical waste management businesses and who therefore may be reluctant to use the Company's services. Several of the Company's competitors are larger and have substantially greater capital resources, regulatory experience, sales and marketing capabilities and broader product and service offerings than the Company and are well established in their respective markets. Among these larger competitors are Browning-Ferris Industries, Inc. ("BFI"), WMX Technologies, Inc., Laidlaw Waste Systems, Inc. and USA Waste Services, Inc. The Company's primary competitor is BFI. BFI or other competitors, either alone or together with competitors having sufficient resources, could engage in a variety of actions that may have the effect of delaying or preventing the implementation of the Company's business strategy. These activities may include aggressive price competition, bundling of regulated medical waste management services with other services including solid waste management, lobbying or other government relations initiatives designed to impede the Company's ability to obtain or maintain necessary permits and approvals, financial support of citizens' groups that oppose the Company's plans to locate a facility at a particular site, offering a higher level of customer service, and efforts to recruit the Company's customers. There can be no assurance that the Company's competitors will not substantially increase their commitment of resources devoted to competing aggressively with the Company or that the Company will be able to compete profitably with BFI or other competitors. To the extent that the Company's competitors are able to secure significant numbers of long-term customer agreements with penalties for early termination in geographic service areas that the Company targets for growth, the Company may be unable to meet its growth objectives. In addition, the widespread adoption of long-term regulated medical waste management agreements among the Company's potential customers may increase the likelihood that the Company will be accused of wrongful interference with the contractual rights of a competitor if and when the Company attempts to persuade a potential customer to terminate its relationship with that competitor and become a customer of the Company. See "Business -- Competition."

GROWTH STRATEGY DEPENDENT UPON ACQUISITIONS

The Company's growth strategy depends in significant part on its ability to acquire other regulated medical waste management businesses. There can be no assurance that the Company will be able to identify suitable businesses to acquire, successfully negotiate their acquisition, improve the productivity of their operations or integrate their operations into the Company's business. The recent consolidation in the regulated medical waste management industry may increase competition for the acquisition of existing businesses and result in fewer acquisition opportunities and higher purchase prices. Some of the Company's competitors for acquisitions are larger companies with significantly greater resources than the Company. If the Company is successful in identifying suitable regulated medical waste management businesses to acquire and in negotiating terms of acquisition acceptable to the Company, there can be no assurance that any debt or equity financing which may be necessary to complete their acquisition could be obtained on terms satisfactory to the Company. Any additional equity financing may be dilutive to the Company's existing stockholders, and any debt financing, if available, may significantly increase the Company's debt and involve restrictive covenants which limit the Company's operations. The Company's failure to implement successfully its growth strategy could delay the Company's achievement of profitable operations and could have a material adverse effect on the Company's business, financial condition and results of operations. See "Use of Proceeds" and "Business -- Growth Strategy" and "-- Acquisition Program."

If the Company is successful in acquiring additional regulated medical waste management businesses, the Company may experience a period of rapid growth which could place significant additional demands on the Company's management, resources and management information systems. The Company's failure to manage any such rapid growth effectively could have a material adverse effect on the Company's business, financial condition and results of operations.

POTENTIAL INABILITY TO FUND FUTURE CAPITAL REQUIREMENTS

The Company anticipates that its future acquisitions of other regulated medical waste management businesses will be made by the payment of cash, including cash from the net proceeds of this Offering, the issuance of debt or equity securities or a combination of these methods. In addition, the Company's growth through internal expansion of its existing business as well as continuing operations will require substantial expenditures. If the Company is unable to use debt or equity securities to make business acquisitions after the substantial exhaustion of the net proceeds of this Offering, there can be no assurance that the Company will have sufficient capital resources for that purpose, or other purposes, or that it will be able to obtain additional resources on terms acceptable to the Company or at all. Any additional equity financing may be dilutive to the Company's existing stockholders, and any debt financing, if available, may involve restrictive covenants which limit the Company's operations. The Company's failure to raise capital if and when needed could delay or suspend the Company's growth strategy and result in a material modification of the Company's business strategy. The Company's inability to fund its capital requirements could have a material adverse effect on the Company's business, financial condition and results of operations. See "Use of Proceeds" and "Business -- Growth Strategy" and "-- Acquisition Program."

DEPENDENCE ON PATENTS AND PROPRIETARY INFORMATION

The Company owns four United States patents and is the owner or licensee of a number of United States and foreign patent applications covering aspects of the treatment of medical waste through ELECTRO-THERMAL DEACTIVATION and irradiation. The Company also owns one United States patent for its STERI-TUB-Registered Trademark- container. The Company believes that its patents are important to its prospects for success. There can be no assurance, however, that the Company's patent applications will issue as patents or that any issued patents will provide competitive advantages to the Company or will not be successfully challenged or circumvented by competitors or other third parties. In addition, there can be no assurance that the Company's regulated medical waste treatment processes do not infringe the patent or other proprietary rights of third parties. Litigation may be required to enforce the Company's patents, to defend the Company against claims of infringement by third parties and to determine the enforceability, validity and scope of third parties' proprietary rights. Any such litigation could involve a substantial expense to the Company and require significant time and attention of the Company's management. The Company also could be required to participate in interference proceedings declared by the U.S. Patent and Trademark Office to determine the priority of inventions, which also could involve a substantial expense. A determination adverse to the Company in any such litigation or interference proceedings could result in a substantial liability to the Company or prevent the Company from continuing to use its regulated medical waste treatment processes. In the former event, the liability could have a material adverse effect on the Company's business, financial condition and results of operations. In the latter event, the Company could seek a license from the third party or attempt to redesign its regulated medical waste treatment processes to avoid infringement. The Company's failure to obtain such a license on terms acceptable to the Company, or its failure to redesign its processes to avoid infringement, similarly could have a material adverse effect on the Company's business, financial condition and results of operations. See "Business -- Patents and Proprietary Rights."

In addition to patent protection, the Company seeks to protect its proprietary information through confidentiality agreements with its employees, consultants and collaborators. There can be no assurance that such agreements will not be breached, that the Company will have adequate remedies for any such breach or that the Company's proprietary information will not otherwise become known to or be independently developed by the Company's competitors. See "Business -- Patents and Proprietary Rights."

The Company holds federal registrations of the trademarks "Steri-Fuel," "Steri-Plastic," "Steri-Tub" and "Steri-Cement" and the service marks "Stericycle" and a mark consisting of a graphic that the Company uses in association with its name and services in the United States. There can be no assurance that the registered or unregistered trademarks or service marks of the Company will not infringe upon the rights of third parties. The requirement to change any trademark, service mark or trade name of the Company would result in the loss of any goodwill associated with that trademark, service mark or trade name, could entail significant expense and could have a material adverse effect on the Company's business, financial condition and results of operation.

POTENTIAL RISK OF PRODUCT LIABILITY AND POTENTIAL UNAVAILABILITY OF INSURANCE

The regulated medical waste management industry involves potentially significant risks of statutory, contractual, tort and common law liability. The Company's failure to comply with applicable laws and regulations or to manage regulated medical waste in an environmentally safe manner could result in environmental contamination, personal injury and property damage. The Company maintains pollution liability, general liability and workers'

compensation insurance which the Company considers adequate to protect its business and employees. An uninsured or partially insured claim against the Company, however, could have a material adverse effect on the Company's business, financial condition and results of operations. The federal Comprehensive Environmental Response, Compensation and Liability Act of 1980, as amended ("CERCLA"), and similar state laws, impose strict, joint and several liability on current and former owners and operators of facilities from which releases of hazardous substances have occurred and on generators and transporters of the hazardous substances that come to be located at such facilities. Responsible parties may be liable for substantial waste site investigation and clean-up costs and natural resource damages, regardless of whether they exercised due care and complied with applicable laws and regulations. If the Company were found to be a responsible party for a particular site, it could be required to pay the entire cost of waste site investigation and clean-up, even though other parties also may be liable. The Company's ability to obtain contribution from other responsible parties may be limited by the Company's inability to identify those parties and by their financial inability to contribute to investigation and clean-up costs. There can be no assurance that the Company will not face claims under CERCLA or similar state laws, or under other laws, resulting in a substantial liability for which the Company is unable to obtain contribution from other responsible parties and for which the Company is uninsured or only partially insured. The Company's pollution liability insurance excludes liabilities under CERCLA. The Company may experience difficulty in the future in obtaining adequate insurance coverage on acceptable terms. A successful claim against the Company for which it is uninsured or only partially insured, and for which it is unable to obtain contribution from other responsible parties, could have a material adverse effect on the Company's business, financial condition and results of operations. See "Business -- Potential Liability and Insurance."

ALTERNATIVE TECHNOLOGIES; TECHNOLOGICAL OBSOLESCENCE

The regulated medical waste management industry presents continuing opportunities for the development of alternative treatment and disposal technologies. These alternative technologies may emphasize operating cost efficiencies, reductions in the volume of regulated medical waste generated or other environmental factors. The development and commercialization of alternative treatment or disposal technologies that are more cost-efficient than the Company's technologies or that reduce the volume of regulated medical waste generated or afford other environmental benefits could place the Company at a competitive disadvantage. The Company is aware of certain new regulated medical waste management technologies, including the production of reusable or degradable medical products, which, if successfully developed and commercialized, could have a material adverse effect on the Company's business, financial condition and results of operations.

UNPROFITABILITY OF REUSE AND RECYCLING

One of the components of the Company's business and marketing strategy is to reuse and recycle treated regulated medical waste. The demand for reusable and recyclable regulated medical waste products can be volatile and subject to changing market conditions. The Company does not currently make a profit on its reuse and recycling operations, and there can be no assurance that the Company will do so in the future. In the event that the cost of operating its reuse and recycling programs increases significantly in the future, the Company may abandon those programs. Their abandonment would deprive the Company of what it considers to be a significant marketing and sales advantage over its competitors who do not offer such services while increasing the Company's disposal costs related to such waste, and thus could have a material adverse effect on the Company's business, financial condition and results of operations.

DEPENDENCE ON KEY PERSONNEL

The Company is dependent upon a limited number of key management, technical and sales personnel. The Company's future success will depend, in part, upon its ability to attract and retain highly qualified personnel. The Company faces competition for such personnel from other companies and organizations, and there can be no assurance that the Company will be successful in hiring or retaining qualified personnel. The Company does not have written employment agreements with its officers providing for specific terms of employment, and officers and other key personnel could leave the Company's employ with little or no prior notice. The Company's loss of key personnel, especially if the loss is without advance notice, or the Company's inability to hire or retain key personnel, could have a material adverse effect on the Company's business, financial condition and results of operations. The Company does not carry any key man life insurance.

BROAD DISCRETION IN USE OF PROCEEDS

The Company intends to use approximately $5,964,000 of the estimated net proceeds of this Offering for debt repayment, development of the Company's transfer station in San Leandro, California as a combined treatment and transfer facility, and a project to utilize treated regulated medical waste as a fossil fuel substitute in cement production. The Company intends to use the remaining estimated net proceeds of approximately $26,716,000 for general corporate purposes, including capital expenditures, working capital and potential future acquisitions of other regulated medical waste management or related businesses. As of the date of this Prospectus, the Company has no pending agreements, commitments or understandings to acquire other regulated medical waste management or related businesses. At the discretion of the Company's Board of Directors, the Company could use a substantial portion of the net proceeds of this Offering to make one or more acquisitions, or could apply the net proceeds for other purposes, which some or even a majority of the Company's stockholders might oppose but which would not be submitted to a vote of the stockholders for their approval. See "Use of Proceeds."

CONTINUED CONTROL BY CURRENT OFFICERS, DIRECTORS AND AFFILIATED ENTITIES

Following completion of this Offering, the Company's current executive officers, directors and entities affiliated with them will beneficially own, in the aggregate, approximately 32.9% of the Company's outstanding Common Stock. If they were to act together, these stockholders would be able to control substantially all matters requiring approval by the Company's stockholders, including the election of directors and the approval of mergers or other business combination transactions. This concentration of ownership could prevent a change in control of the Company. See "Principal Stockholders."

EFFECT OF APPLICABLE ANTI-TAKEOVER PROVISIONS OF DELAWARE LAW

The Company has not elected to be excluded from the provisions of Section 203 of the Delaware General Corporation Law, which imposes certain restrictions on transactions between a corporation and "interested stockholders" (as defined in Section 203). These restrictions could operate to delay or prevent a change in control of the Company and to discourage, impede or prevent a merger, tender offer or proxy contest involving the Company. See "Description of Capital Stock - -- Anti-Takeover Provisions of Delaware Law."

NO PRIOR PUBLIC MARKET; POSSIBLE VOLATILITY OF STOCK PRICE

Prior to this Offering, there has been no public market for the Common Stock, and there can be no assurance that an active public market for the Common Stock will develop or, if one develops, that it will be sustained. The initial public offering price for the shares of Common Stock offered hereby was determined by negotiation between the Company and the Managing Underwriters based upon several factors and may not be indicative of the market price of the Common Stock after this Offering. See "Underwriting." The market price of the Common Stock may be volatile. The market price of the Common Stock could be adversely affected by fluctuations in the Company's operating results or the operating results of the Company's competitors, the failure of the Company's operating results to meet the expectations of market analysts and investors, changes in regulated medical waste management laws and regulations, actions by regulatory authorities, developments in respect of patents or proprietary rights, changes in market analyst recommendations regarding the Company or the regulated medical waste management industry generally, general market conditions, or other events and factors.

SHARES ELIGIBLE FOR FUTURE SALE

Sales of substantial numbers of shares of Common Stock in the public market following this Offering could adversely affect the market price of the Common Stock. Such sales could also make it more difficult for the Company to sell equity securities or equity-related securities in the future at a time and price that the Company considers desirable.

Upon completion of this Offering, the Company will have 9,218,455 shares of Common Stock outstanding, assuming no exercise of the Underwriters' over-allotment option and no exercise of outstanding stock options and warrants after June 1, 1996. Of these outstanding shares, the 3,000,000 shares of Common Stock sold in this Offering will be freely tradeable without restriction or further registration under the Securities Act of 1933, as amended (the "Securities Act"), unless they are purchased by an "affiliate" of the Company as that term is defined in Rule 144 under the Securities Act. The remaining 6,218,455 shares of Common Stock held by the Company's existing stockholders will be "restricted securities" as that term is defined in Rule 144 under the Securities Act, and were issued and sold by the Company in reliance on exemptions from the registration requirements of the Securities Act. These shares may be sold in the public market only if they are registered under the Securities Act or if they

qualify for an exemption from registration under Rule 144. Holders of 5,571,624 shares of Common Stock, including all of the Company's officers and directors, have entered into "lock-up" agreements with the Managing Underwriters pursuant to which such holders have agreed not to offer, sell, contract to sell, grant any option to purchase or otherwise dispose of, directly or indirectly, any of their shares of Common Stock, or any shares that they may acquire through the exercise of stock options or warrants, or to exercise any of their registration rights in respect of their shares of Common Stock, for a period of 180 days after the date of this Prospectus without the prior written consent of Dillon, Read & Co. Inc. on behalf of the Managing Underwriters. A holder of 461,028 of such shares has certain limited redemption rights. See "Description of Capital Stock -- Limited Redemption Rights of One Holder." Upon the expiration of these agreements, 2,218,298 shares will be eligible for sale without restriction pursuant to Rule 144(k), 3,354,708 shares will be eligible for sale subject to the volume limitation and other conditions of Rule 144, and the remaining 645,449 shares will become eligible for sale pursuant to Rule 144 upon the expiration of their respective two-year holding periods on various dates occurring more than 180 days after the date of this Prospectus. In addition, holders of 5,107,829 shares of Common Stock, warrants to purchase 6,773 shares of Common Stock and a note payable upon completion of this Offering by, in part, the Company's issuance of 98,001 shares of Common Stock, have certain registration rights in respect of such shares. By virtue of the lock-up agreements, no registration rights can be exercised for a period of 180 days after the date of this Prospectus without the prior written consent of Dillon, Read & Co. Inc. on behalf of the Managing Underwriters. The number of shares of Common Stock sold in the public market could increase significantly if holders of registration rights were to exercise their rights following the expiration of the lock-up agreements. See "Description of Capital Stock -- Registration Rights of Certain Holders" and "Shares Eligible for Future Sale."

As of June 1, 1996, there were outstanding options under the Company's Incentive Compensation Plan (the "1995 Stock Plan") to purchase 696,962 shares of Common Stock, of which options for 397,554 shares were exercisable within 60 days of June 1, 1996, and other options outstanding to purchase 21,481 shares of Common Stock, of which options for 16,475 shares were exercisable within 60 days of June 1, 1996. Of the total options exercisable within 60 days of June 1, 1996, options for 286,769 shares were held by officers, directors and employees of the Company and other parties subject to the lock-up agreements described above. Shortly after completion of this Offering, the Company intends to register the 1,500,000 shares of Common Stock issued or issuable under the 1995 Stock Plan and the 285,000 shares of Common Stock issuable under the Company's Directors Stock Option Plan. The shares registered will be available for immediate sale in the public market, subject to the volume limitation under Rule 144 in the case of sales by affiliates of the Company, except to the extent that the shares are subject to the lock-up agreements described above. See "Management -- Stock Option Plans" and "Shares Eligible for Future Sale."

As of June 1, 1996, there were outstanding warrants to purchase 409,848 shares of Common Stock, all of which were then exercisable. Holders of warrants to purchase 387,829 shares of Common Stock are subject to the lock-up agreements described above.

After completion of this Offering, the Company may issue unregistered shares of Common Stock as full or partial consideration for future business acquisitions and may grant registration rights to the holders of such shares. The Company has agreed that no such grant of registration rights would permit the rights to be exercised for a period of 180 days after the date of this Prospectus without the prior written consent of Dillon, Read & Co. Inc. on behalf of the Managing Underwriters. See "Business -- Acquisition Program."

IMMEDIATE AND SUBSTANTIAL DILUTION

The initial public offering price is substantially higher than the net tangible book value per share of Common Stock. New investors purchasing Common Stock in this Offering accordingly will incur immediate dilution of $7.57 in the net tangible book value per share of Common Stock purchased (at an assumed initial public offering price of $12.00, the mid-point of the price range as set forth on the cover page of this Prospectus and after the deduction of estimated underwriting discounts and commissions and estimated offering expenses payable by the Company). See "Dilution."

ABSENCE OF DIVIDENDS

The Company has never paid any cash dividends on its Common Stock and does not anticipate paying cash dividends in the foreseeable future. See "Dividend Policy."

USE OF PROCEEDS

The net proceeds to the Company from this Offering are estimated to be approximately $32,680,000 ($37,702,000 if the Underwriters' over-allotment option is exercised in full), assuming an initial public offering price of $12.00 per share, the mid-point of the price range as set forth on the cover page of this Prospectus, and after deducting estimated underwriting discounts and commissions and estimated offering expenses payable by the Company.

Approximately $1,200,000 of the net proceeds will be used to repay the Company's outstanding indebtedness under its revolving credit facility with Silicon Valley Bank. The Company's borrowings under this credit facility were incurred primarily to refinance other debt, to provide working capital and to finance the Company's acquisitions of certain assets of Bio-Med of Oregon, Inc. and WMI Medical Services of New England, Inc. in January 1996, and of Doctors Environmental Control, Inc. ("Doctors") and Sharps Incinerator of Fort, Inc. in May 1996, at an aggregate cost of $2,426,000, of which an aggregate of $1,062,000 was paid in cash at the respective closings of these acquisitions. The Company's revolving credit facility provides for borrowings of up to $2,500,000, subject to certain limitations based upon eligible accounts receivable, had a weighted average interest rate of 11.5% per annum at December 31, 1995 and will mature in October 1997.

Approximately $600,000 of the net proceeds will be used to repay the Company's outstanding indebtedness under certain notes given in connection with the Doctors acquisition in May 1996. The notes have an interest rate of 6.0% per annum and are scheduled to mature in May 1998.

Approximately $222,000 of the net proceeds will be used to repay the Company's outstanding indebtedness under a note to Security State Bank in connection with a loan to acquire and equip the Company's treatment facility at Morton, Washington. The note had an interest rate of 9.78% per annum at December 31, 1995 and is scheduled to mature in December 2007.

Approximately $992,000 of the net proceeds will be used to pay the cash portion of a note (the "Safe Way Note") to Safe Way Disposal Systems, Inc. ("Safe Way") which was given in connection with the Company's purchase of certain of Safe Way's assets in September 1994. The Safe Way Note is for $2,480,000, does not bear interest, is due upon completion of this Offering and is payable in cash for 40% of its face amount and in 98,001 shares of Common Stock for the balance.

Approximately $1,000,000 of the net proceeds will be used to repay the Company's outstanding indebtedness to holders of subordinated notes that the Company issued in May 1996 in connection with a short-term loan to provide working capital. The subordinated notes are interest-free if paid when due, subject to certain exceptions, and are due within 30 days after completion of this Offering. In connection with this loan, the Company issued warrants to the lenders to purchase an aggregate of 226,036 shares of Common Stock at a price of $7.96 per share. See "Certain Transactions."

The Company intends to use a portion of the net proceeds to complete the construction and equipping of a treatment facility at its San Leandro, California transfer station. The Company currently estimates the cost of completion at approximately $1,600,000. In addition, the Company currently intends to use approximately $350,000 of the net proceeds on a project to utilize treated regulated medical waste as a fossil fuel substitute in cement production. The remainder of the net proceeds will be used for general corporate purposes, including capital expenditures, working capital and potential future acquisitions of other regulated medical waste management or related businesses. See "Business -- Growth Strategy" and "-- Acquisition Program." After repayment of the revolving credit facility, the Company also will be able to redraw on the credit facility for capital expenditures, potential future acquisitions, working capital and other general corporate purposes. Pending use of the net proceeds, the Company intends to invest the net proceeds in interest-bearing, investment-grade securities.

DIVIDEND POLICY

The Company has never paid cash dividends on its capital stock. The Company currently expects that it will retain future earnings for use in the operation and expansion of its business and does not anticipate paying any cash dividends in the foreseeable future. The Company is prohibited from paying cash dividends under the terms of its revolving credit facility with Silicon Valley Bank and is restricted from paying cash dividends under an agreement in

connection with the industrial development revenue bonds issued to finance the Company's construction of its treatment facility at Woonsocket, Rhode Island. See "Management's Discussion and Analysis of Financial Condition and Results of Operations."

DILUTION

Dilution is the reduction in the value of a purchaser's investment in Common Stock measured by the difference between the purchase price per share and the net tangible book value per share of the Common Stock after the purchase. The net tangible book value per share of the Common Stock represents the net tangible book value of the Company divided by the number of shares of Common Stock outstanding. The net tangible book value of the Company represents its total assets less its total liabilities and intangible assets (consisting primarily of goodwill).

As of March 31, 1996, the net tangible book value of the Company was approximately $4,410,000, and the net tangible book value per share was approximately $0.79. The pro forma net tangible book value of the Company as of March 31, 1996 was approximately $38,578,000, and the pro forma net tangible book value per share was approximately $4.43, after giving effect to (i) the sale of the 3,000,000 shares of Common Stock offered hereby (at an assumed initial public offering price of $12.00 per share, the mid-point of the price range as set forth on the cover page of this Prospectus, and after the deduction of estimated underwriting discounts and commissions and estimated offering expenses payable by the Company) and (ii) payment of the Safe Way Note, which was outstanding as of March 31, 1996 and is payable upon completion of this Offering by payment of $992,000 in cash and delivery of 98,001 shares of Common Stock. This difference represents an immediate increase in net tangible book value per share of $3.64 to existing stockholders and an immediate dilution in net tangible book value per share of $7.57 to new investors purchasing Common Stock in this Offering. The following table illustrates this per share dilution:

Assumed initial public offering price per share	$ 12.00
Net tangible book value per share before this Offering	0.79
Increase per share attributable to new investors (1)	3.64
Pro forma net tangible book value per share after this Offering	4.43
Dilution per share to new investors	$ 7.57

- ------------------------
(1) After deduction of estimated underwriting discounts and commissions and estimated offering expenses payable by the Company.

The following table summarizes, on a pro forma basis as of March 31, 1996, the difference between the number of shares of Common Stock purchased from the Company, the total consideration paid and the average price per share paid by the existing stockholders and by new investors purchasing Common Stock in this Offering (at an assumed initial public offering price of $12.00 per share, the mid-point of the price range as set forth on the cover page of this Prospectus, before deduction of estimated underwriting discounts and commissions and estimated offering expenses payable by the Company):

	SHARES PURCHASED		TOTAL CASH CONSIDERATION		AVERAGE PRICE
	NUMBER	PERCENT	AMOUNT	PERCENT	PER SHARE
Existing shareholders	5,714,652	65.6%	$ 49,749,000	58.0%	$ 8.71
New investors	3,000,000	34.4	36,000,000	42.0	12.00
Total	8,714,652	100.0%	$ 85,749,000	100.0%	

Both of these tables assume no exercise of outstanding options and warrants and no exercise of the Underwriters' over-allotment option. As of March 31, 1996, there were outstanding options to purchase 1,013,077 shares of Common Stock, at a weighted average exercise price of $0.66 per share, and outstanding warrants to purchase 242,396 shares of Common Stock, at a weighted average exercise price of $4.52 per share. To the extent that these options and warrants are exercised, there will be further dilution to new investors.

CAPITALIZATION

The following table sets forth, as of March 31, 1996, the actual capitalization of the Company, the capitalization of the Company on a pro forma basis, and the capitalization of the Company on a pro forma basis as adjusted to give effect to the receipt and application by the Company of the estimated net proceeds from the sale of the 3,000,000 shares of Common Stock offered hereby (at an assumed initial public offering price of $12.00 per share, the mid-point of the price range as set forth on the cover page of this Prospectus, and after the deduction of estimated underwriting discounts and commissions and estimated offering expenses payable by the Company). The table also gives effect to (i) a reverse 1-for-5.3089 stock split, (ii) the redesignation of outstanding shares of Class A and Class B common stock as a like number of shares of Common Stock and (iii) the decrease in the Company's authorized stock from 58,000,000 to 30,000,000 shares, all of which are to be effective prior to completion of this Offering:

	MARCH 31, 1996		
	ACTUAL	PRO FORMA (1)	PRO FORMA, AS ADJUSTED
	(IN THOUSANDS)		
Short-term debt:			
Current portion of long-term debt	$ 759	$ 2,593	$ 759
Long-term debt:			
Industrial development revenue bonds and other	2,564	2,564	2,342
Note payable to bank	952	952	0
Note payable	2,480	2,480	0
Total long-term debt	5,996	5,996	2,342
Shareholders' Equity:			
Common Stock, $0.01 par value; 30,000,000 shares authorized actual; 5,616,651 shares issued and outstanding actual, 8,714,652 shares issued and outstanding pro forma, as adjusted	56	56	87
Additional paid-in-capital	49,693	49,693	83,830
Notes receivable for common stock purchases	(72)	(72)	(72)
Accumulated deficit	(37,449)	(37,449)	(37,449)
Total shareholders' equity	12,228	12,228	46,396
Total capitalization	$ 18,983	$ 20,817	$ 49,497

- ------------------------

(1) Adjusted to give effect to the acquisition of certain assets of Sharps Incinerator of Fort, Inc. in April 1996 and the acquisition of certain assets of Doctors Environmental Control, Inc. in May 1996. See Note 2 to the Condensed Consolidated Financial Statements.

SELECTED CONSOLIDATED FINANCIAL DATA

The following table sets forth selected consolidated financial data of the Company. The statements of operations data for the years ended December 31, 1991, 1992, 1993, 1994 and 1995 and the balance sheet data at December 31, 1991, 1992, 1993, 1994 and 1995 have been derived from the consolidated financial statements of the Company (the "Consolidated Financial Statements"), which are included elsewhere in this Prospectus and which have been audited by Ernst & Young LLP, independent auditors. The statements of operations data for the three months ended March 31, 1995 and 1996 and the balance sheet data at March 31, 1996 are derived from the unaudited condensed consolidated financial statements of the Company (the "Condensed Consolidated Financial Statements") included elsewhere in this Prospectus. The Condensed Consolidated Financial Statements include all adjustments, consisting of normal recurring adjustments and the adjustment described in Note 1 to the Condensed Consolidated Financial Statements, that the Company considers necessary for a fair presentation of the financial position and results of operations for that period. Operating results for the three months ended March 31, 1996 are not necessarily indicative of the results that may be expected for the entire year ending December 31, 1996. The data set forth below should be read in conjunction with "Management's Discussion and Analysis of Financial Condition and Results of Operations" and the Consolidated Financial Statements, Condensed Consolidated Financial Statements and related Notes thereto included elsewhere in this Prospectus. The Company did not declare any cash dividends during any of the periods for which consolidated financial data is presented.

	YEAR ENDED DECEMBER 31,					THREE MONTHS ENDED MARCH 31,	
	1991	1992(2)	1993	1994	1995	1995	1996
	(IN THOUSANDS, EXCEPT SHARE AND PER SHARE DATA)						
STATEMENTS OF OPERATIONS DATA:							
Revenues	$ 1,563	$ 5,010	$ 9,141	$ 16,141	$ 21,339	$ 5,446	$ 5,578
Cost of revenues	2,005	5,466	9,137	13,922	17,478	4,227	4,337
Selling, general and administrative expenses	3,377	11,223	5,988	7,927	8,137	2,762	1,505
Loss from operations	(3,819)	(11,679)	(5,984)	(5,708)	(4,276)	(1,543)	(264)
Interest expense	(77)	(244)	(245)	(260)	(277)	(54)	(83)
Interest income	243	283	201	156	9	6	--
Net loss	(3,653)	(11,640)	(6,028)	(5,812)	(4,544)	(1,591)	(347)
Less cumulative preferred dividends	(1,351)	(2,737)	(3,733)	(4,481)	--(3)	(1,573)	--
Loss applicable to common stock	$ (5,004)	$ (14,377)	$ (9,761)	$ (10,293)	$ (4,544)	$ (3,164)	$ (347)
Net loss per common share (1)	$ (2.79)	$ (7.77)	$ (5.28)	$ (5.57)	$ (0.64)	$ (1.71)	$ (0.05)
Weighted average number of common shares outstanding	1,791,662	1,850,445	1,847,432	1,847,808	7,060,438	1,847,808	7,094,703

	DECEMBER 31,					MARCH 31,
	1991	1992	1993	1994	1995	1996
	(IN THOUSANDS)					
BALANCE SHEET DATA:						
Cash and cash equivalents	$ 7,046	$ 11,343	$ 7,690	$ 1,206	$ 138	$ 120
Total assets	12,720	21,368	21,355	27,809	23,491	23,876
Long-term debt, net of current maturities	1,256	2,935	2,293	4,838	5,622	5,996
Convertible redeemable preferred stock	$ 20,617	$ 40,354	$ 52,079	$ 62,909	--	--
Shareholders' equity (net capital deficiency)	$ (11,068)	$ (25,663)	$ (35,106)	$ (45,363)	$ 12,574	$ 12,228

- ---

(1) See Note 2 to the Consolidated Financial Statements for information concerning the computation of net loss per share.

(2) During 1992, the Company approved a restructuring plan which resulted in a nonrecurring charge of $2,747,000, primarily to write-off assets associated with a technology used by the Company prior to the development of the ETD process.

(3) In August 1995 and in connection with a recapitalization, the liquidation

preference on the Company's preferred stock was eliminated and the Company's preferred stock was reclassified as Class A common stock. See "Description of Capital Stock -- 1995 Recapitalization."

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

THE FOLLOWING DISCUSSION OF THE FINANCIAL CONDITION AND RESULTS OF OPERATIONS OF THE COMPANY SHOULD BE READ IN CONJUNCTION WITH THE COMPANY'S CONSOLIDATED FINANCIAL STATEMENTS, CONDENSED CONSOLIDATED FINANCIAL STATEMENTS AND RELATED NOTES THERETO INCLUDED ELSEWHERE IN THIS PROSPECTUS.

BACKGROUND

The Company was incorporated in March 1989. The Company provides regulated medical waste collection, transportation, treatment, disposal, reduction, reuse and recycling services to its customers, together with related training and education programs and consulting services. The Company also sells ancillary supplies and transports pharmaceuticals, photographic chemicals, lead foil and amalgam for recycling in selected geographic service areas. As part of its recycling services, the Company supplies recycled treated medical waste plastics to a plastics manufacturer and supplies treated medical waste as a refuse-derived fuel for use in the production of electricity. The Company's regulated medical waste treatment facilities utilize its patented treatment technology, ELECTRO-THERMAL DEACTIVATION ("ETD"). The Company opened its first full-scale ETD treatment facility in Morton, Washington in January 1992 and opened additional treatment facilities in Loma Linda, California, Woonsocket, Rhode Island, and Yorkville, Wisconsin in November 1992, December 1992 and November 1993, respectively.

The Company's results of operations from its inception through December 31, 1995 reflect significant expenditures to develop proprietary treatment and recycling processes, obtain required governmental permits and approvals, build and equip the Company's treatment facilities and a recycling and research and development center, and open its transfer stations. The Company also made significant expenditures to develop its sales and marketing resources and to acquire selected assets of other regulated medical waste management businesses. The Company believes that additional revenues for its existing treatment facilities, and in particular additional revenues derived from Alternate Care generators (as defined below), will significantly enhance operating efficiencies at the Company's treatment facilities, all of which currently operate at levels below capacity.

The Company's revenues have increased from $1,563,000 in 1991 to $21,339,000 in 1995. From January 1991 to July 1993, the Company relied entirely on its internal sales force to add new customers in existing geographic service areas and to develop customers in new areas. The Company's sales force consisted of sales representatives with backgrounds in the health care industry. Beginning in 1993, these direct sales enabled the Company to generate sufficient revenues to cover its cost of revenues.

Since August 1993, the Company has acquired selected assets of eight regulated medical waste management companies. In each of these acquisitions the Company purchased specific assets of the seller consisting principally of customer lists, customer contracts, vehicles and related supplies and equipment. In some of these acquisitions the Company also assumed certain of the seller's liabilities. The Company did not acquire any of the regulated medical waste treatment facilities or technology of any of the sellers, and those sellers with their own regulated medical waste treatment facilities within the service areas of the acquired businesses subsequently closed their facilities. All of these acquisitions were accounted for as purchases, and accordingly, the results of operations of the acquired businesses have been included in the Company's financial statements only from their respective dates of acquisition and have affected period-to-period comparisons of the Company's operating results. The Company seeks to integrate its acquisitions rapidly into its existing operations. Accordingly, the impact of such acquisitions on the Company's revenues, cost of revenues and expenses is measured by the Company only to the extent that this financial information correlates to the operations of a particular treatment facility or route, which the Company considers to be of greater financial relevance. The Company anticipates that a significant portion of its future growth will come from the acquisition of additional regulated medical waste management or related businesses. Such additional acquisitions could continue to affect period-to-period comparisons of the Company's operating results.

RESULTS OF OPERATIONS

GENERAL

Revenues from regulated medical waste collection, transportation, treatment and disposal accounted for approximately 95% of the Company's revenues of $21,339,000 during the year ended December 31, 1995. Revenues from the sale of ancillary supplies and miscellaneous products and services accounted for the remaining 5% of the Company's 1995 revenues.

The Company derives its revenues from services to two principal types of generators of regulated medical waste: (i) hospitals, blood banks and pharmaceutical manufacturers ("Core" generators) and (ii) long-term and subacute care facilities, outpatient clinics, medical and dental offices, industrial clinics, dialysis centers, laboratories, biotechnology and biomedical companies, veterinary offices, municipal health departments, ambulance, fire and police departments, correctional facilities, schools and park districts and funeral homes ("Alternate Care" generators). Substantially all of the Company's services are provided pursuant to customer contracts specifying either scheduled or on-call regulated medical waste management services, or both. Contracts with hospitals and other Core generators, 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. Contracts with Alternate Care generators generally provide for annual price increases and have an automatic renewal provision unless the customer notifies the Company prior to completion of the contract. As of December 31, 1995, the Company had more than 13,000 customers.

In 1993, the Company began to make acquisitions of selected assets, including customer lists and customer contracts, of competitors who were withdrawing in whole or in part from the regulated medical waste management business. The Company's revenues increased from $5,010,000 in 1992, before the Company began its acquisition program, to $21,339,000 in 1995. The Company estimates that approximately $8,500,000 of this increase in revenues was attributable to the four acquisitions that it completed during this three-year period. These acquisitions provided the Company with a substantial new base of customers, principally Alternate Care generators. These new customers provided the Company with additional volume for its treatment facilities, generally at a higher unit pricing than the unit pricing of Core generators. Alternate Care generators typically require greater service and support in relation to the volume of regulated medical waste produced than do Core generators, and accordingly, the Company can price its services at levels permitting it to realize higher gross profit margins on Alternate Care generators than it can realize on Core generators. The growth in the number of Alternate Care generators that the Company serves has contributed to an improvement in the Company's operating results. The Company believes that cost-containment pressures in the health care industry will result in continued growth in the number of medical procedures performed by Alternate Care generators. The Company has continued to pursue acquisitions within the geographic areas in which it currently operates and to focus on acquisitions that provide the desired proportion of Core and Alternate Care generators and allow the Company to improve the efficiency of its transportation, treatment and sales functions.

Prices for the Company's services are determined on the basis of the type and frequency of the services required, the weight and types of regulated medical waste to be collected, container count, container volume, type and quantity of equipment and supplies furnished, distance to collection site, types of medical waste, special treatments required, state tariffs and prices charged for similar services by competitors. The Company's ability to pass on cost increases may be limited by the terms of its contracts. Service agreements are generally for a period of one to five years with renewal options, although customers may terminate on written notice and typically upon payment of a penalty.

The Company's operating expenses for the collection, transportation, treatment and disposal of regulated medical waste include direct labor wages and benefits, equipment lease payments, expenses for fuel, electricity, processing, safety supplies, containers, ancillary supplies and equipment maintenance, depreciation of plant, equipment, vehicles and containers, and disposal fees paid to landfills and waste-to-energy facilities.

As part of the Company's marketing strategy, the Company offers reduction, resource recovery and recycling services to customers. Accordingly, the Company has invested funds to treat and recover the plastics from single-use products, and as a part of that strategy, the Company has entered into an agreement with a plastic products manufacturer to provide recycled regulated medical waste plastics for use in a line of medical waste sharps

containers. The Company has delivered the recycled plastics as required under the agreement and continues to recycle plastics as part of the Company's commitment to provide environmentally sound alternatives to other regulated medical waste treatment methods. The demand for recycled treated regulated medical waste plastics is currently limited. The Company continues to search for additional uses and users of recycled plastics. See "Risk Factors -- Cost of Reuse and Recycling."

In 1994, as a result of increasing demand for customer service from the growing number of Alternate Care generators, the Company began implementing a transition from the use of a national contract carrier to its own transportation of regulated medical waste. The Company has obtained its own permits, hired and trained its own drivers, purchased or leased its own trucks and trailers and obtained approvals for and opened transfer stations. The Company believes that since it has assumed control of transportation, it has been able to improve service levels, equipment utilization and route density and provide more efficient dispatching.

Selling, general and administrative expenses include management salaries and benefits, clerical and administrative expenses, costs associated with the sales force, permitting fees, research and development expenses, office rental expenses, legal and audit expenses, travel expenses, depreciation of office equipment and amortization of goodwill.

The Company expenses as incurred all permitting, design and start-up costs associated with all of its facilities. The Company elects to expense rather than to capitalize the costs of obtaining permits and approvals for each proposed facility regardless of whether the Company is ultimately successful in obtaining the desired permits and approvals and developing the facility. The Company recognizes as a current expense all legal fees and other costs related to obtaining and maintaining permits and approvals. In addition, the Company expenses all costs related to research and development as incurred.

The Company has currently invested $1,000,000 and expensed $800,000 against operating results in a project to utilize treated regulated medical waste as an alternative fuel for use in the production of cement. The Company may be required to expend approximately $350,000 or more to complete this project or may abandon the project if it is unable to incorporate successfully the treated medical waste into the cement production process.

As of December 31, 1995, the Company had net operating loss carryforwards for income tax purposes of approximately $36,493,000, expiring beginning in 2004. No income tax expense has been recorded since the Company's inception. Utilization of the Company's net operating loss carryforwards may be subject to annual limitations under the Internal Revenue Code of 1986, as amended, as a result of changes in the Company's ownership, which could significantly restrict or partially eliminate their utilization.

Inflation has not had a significant impact to date on the Company's operations.

QUARTER ENDED MARCH 31, 1996 COMPARED TO QUARTER ENDED MARCH 31, 1995

REVENUES. Revenues increased $132,000, or 2.4%, to $5,578,000 during the quarter ended March 31, 1996 from $5,446,000 during the comparable quarter in 1995 as the Company continued to implement its strategy of focusing on higher-margin Alternate Care generators while simultaneously paring certain higher-revenue but lower-margin accounts with Core generators. This increase also reflects the inclusion of a full quarter of revenues from the Safetech Health Care, Inc. ("Safetech") acquisition, which was completed in June 1995, and two months of revenues from the WMI Medical Services of New England, Inc. ("WMI-NE") acquisition, which was completed in January 1996. The increase in revenues was partially offset by a decline in revenues attributable to a lack of any miscellaneous product sales during the quarter ended March 31, 1996 and the sale in April 1995 of certain unprofitable customer accounts and related assets obtained through acquisitions.

COST OF REVENUES. Cost of revenues increased $110,000, or 2.6%, to $4,337,000 during the quarter ended March 31, 1996 from $4,227,000 during the comparable quarter in 1995. The principal reasons for the increase were higher transportation costs as a result of the Safetech and WMI-NE acquisitions and start-up expenses related to the Company's expansion into new geographic areas where the Company primarily serves Alternate Care generators. Cost of revenues as a percentage of revenues increased slightly to 77.8% during the quarter ended March 31, 1996 from 77.6% during the comparable quarter in 1995.

SELLING, GENERAL AND ADMINISTRATIVE EXPENSES. Selling, general and administrative expenses decreased to $1,505,000 during the quarter ended March 31, 1996 from $2,762,000 during the comparable quarter in 1995. This decrease was primarily attributable to a reduction in research and development expenditures to develop treated medical waste as an alternate fuel for the production of cement and to savings from the integration into the Company's operations of the Safe Way Disposal Systems, Inc. ("Safe Way") acquisition in September 1994. These savings resulted from the elimination of redundant employee and staff positions and the reallocation of resources to Alternate Care generators. In addition, corporate costs and permitting expenses were at lower levels during the quarter ended March 31, 1996 than they were during the comparable quarter in 1995. Selling, general and administrative expenses as a percentage of revenues decreased to 27.0% during the quarter ended March 31, 1996 from 50.7% during the comparable quarter in 1995.

INTEREST EXPENSE AND INTEREST INCOME. Interest expense increased to $83,000 during the quarter ended March 31, 1996 from $54,000 during the comparable quarter in 1995. This increase was primarily attributable to higher indebtedness under the Company's revolving credit facility. Interest income declined to a negligible amount during the quarter ended March 31, 1996 from $6,000 during the comparable quarter in 1995.

YEAR ENDED DECEMBER 31, 1995 COMPARED TO YEAR ENDED DECEMBER 31, 1994

REVENUES. Revenues increased $5,198,000, or 32.2%, to $21,339,000 in 1995 from $16,141,000 in 1994. This increase was attributable primarily to the inclusion of a full year of revenues from customers acquired as a result of the Recovery Corporation of Illinois ("RCI") acquisition, which was completed in March 1994, and the Safe Way acquisition, which was completed in September 1994. Revenues for 1995 reflected only a partial year of revenues from the Safetech acquisition, which was completed in June 1995.

COST OF REVENUES. Cost of revenues increased $3,556,000, or 25.5%, to $17,478,000 in 1995 from $13,922,000 in 1994. The principal reasons for the increase were higher transportation costs, processing costs, disposal volumes and container costs attributable to additional customers acquired during 1995. Cost of revenues as a percentage of revenues decreased to 81.9% in 1995 from 86.3% in 1994. This percentage decrease was primarily due to increased utilization of the Company's treatment facilities and transportation equipment as a result of increased volumes.

SELLING, GENERAL AND ADMINISTRATIVE EXPENSES. Selling, general and administrative expenses increased to $8,137,000 in 1995 from $7,927,000 in 1994. The increase was primarily attributable to an increase in amortization expense as a result of additional goodwill from the Company's acquisitions. Selling, general and administrative expenses as a percentage of revenues decreased to 38.1% in 1995 from 49.1% in 1994. This percentage decrease was due primarily to lower permitting costs and reduced administrative expenses, as partially offset by higher goodwill amortization expense.

INTEREST EXPENSE AND INTEREST INCOME. Interest expense increased to $277,000 in 1995 from $260,000 in 1994, primarily as a result of commitment fees and higher interest rates associated with the Company's revolving credit facility. In addition, the Company incurred higher levels of indebtedness during 1995. Interest income decreased to $9,000 in 1995 from $156,000 in 1994.

YEAR ENDED DECEMBER 31, 1994 COMPARED TO YEAR ENDED DECEMBER 31, 1993

REVENUES. Revenues increased $7,000,000, or 76.6%, to $16,141,000 in 1994 from $9,141,000 in 1993. This increase was attributable primarily to the inclusion of revenues from customers acquired as a result of the RCI and Safe Way acquisitions, which were completed in March and September 1994, respectively, and the addition of Core generators as new customers.

COST OF REVENUES. Cost of revenues increased $4,785,000, or 52.4%, to $13,922,000 in 1994 from $9,137,000 in 1993. The primary reasons for this increase were higher transportation costs, processing costs, disposal volumes and container costs attributable to additional customers and the inclusion of a full year's depreciation expense for the Company's Yorkville, Wisconsin treatment facility. Cost of revenues as a percentage of revenues decreased to 86.3% in 1994 from 100.0% in 1993. This percentage decrease was primarily due to increased utilization of the Company's treatment facilities and transportation equipment as a result of increased volumes.

SELLING, GENERAL AND ADMINISTRATIVE EXPENSES. Selling, general and administrative expenses increased to $7,927,000 in 1994 from $5,988,000 in 1993. This increase was the result of an increase in sales personnel as a

result of the Safe Way acquisition, additional marketing and sales expenses for Alternate Care generators and an increase in amortization expense as a result of additional goodwill from the Company's acquisitions. Selling, general and administrative expenses as a percentage of revenues decreased to 49.1% in 1994 from 65.5% in 1993. This percentage decrease was primarily due to the integration of sales and administrative personnel resulting from the Company's Safe Way acquisition.

INTEREST EXPENSE AND INTEREST INCOME. Interest expense increased to $260,000 in 1994 from $245,000 in 1993 primarily as a result of additional debt related to equipment financing at the Company's Yorkville, Wisconsin treatment facility. Interest income decreased to $156,000 in 1994 from $201,000 in 1993.

LIQUIDITY AND CAPITAL RESOURCES

To date, the Company has been financed principally through the sale of preferred stock to investors. Purchasers of preferred stock have invested more than $49,749,000 in capital which has been used to fund research and development, acquisitions, capital expenditures, ongoing operating losses and working capital requirements. The Company has also been able to secure plant and equipment leasing or financing in connection with some of its facilities. These debt facilities are secured by security interests in the financed assets. In addition, during 1995 the Company was able to obtain a $2,500,000 revolving line of credit secured by accounts receivable and a security interest in all other assets of the Company.

During 1995 the Company's stockholders approved a plan of recapitalization, pursuant to which all of the Company's outstanding shares of preferred stock were reclassified as shares of new Class A common stock. As a result, the Company was able to eliminate any liability for accrued but unpaid dividends on its preferred stock and the preferential rights on liquidation of holders of preferred stock.

At March 31, 1996, the Company's working capital was $39,000 compared to $1,770,000 at March 31, 1995. This reduction was due to a lower cash position, a lower level of accounts receivable as a result of improved collections, a lower level of prepaid insurance and a reduced supply of recycled plastics. The Company continues to use all available cash and working capital to fund current operating losses and capital requirements. During the quarter ended March 31, 1996, the Company's loss from operations of $264,000 was exceeded by its depreciation and amortization expense of $479,000, resulting in cash flow from operations of $215,000.

The Company is also using its line of credit to fund cash requirements of any acquisitions. At March 31, 1996, the Company had drawn $952,000 on its line of credit and had approximately $1,348,000 available. The revolving credit facility matures in October 1997. The facility requires the Company to maintain certain financial ratios and consult with the bank on acquisitions and also includes a prohibition on the payment of dividends. In April 1996, the Company used substantially all of its remaining line of credit to fund the cash portion of two additional acquisitions, for Doctors Environmental Control, Inc. and Sharps Incinerator of Fort, Inc. The bank agreed to revise certain financial covenants in order to allow the Company to complete the acquisitions. The loan agreement allows the bank to demand immediate repayment of the Company's indebtedness if the bank, acting in a commercially reasonable manner, deems itself insecure.

In May 1996, the Company borrowed $1,000,000 under a short-term loan from a lending group comprised of certain officers, directors and stockholders of the Company to provide working capital. The subordinated notes issued in connection with this loan are interest-free if paid when due, subject to certain exceptions, and are due within 30 days after completion of this Offering. See "Certain Transactions."

The Company's other financial obligations include industrial development revenue bonds issued on behalf of and guaranteed by the Company to finance its Woonsocket, Rhode Island treatment facility and equipment. These bonds, which had an outstanding aggregate balance of $1,602,000 as of March 31, 1996 at fixed interest rates ranging from 5.8% to 7.4%, are due in various amounts through June 2017. An agreement entered into by the Company in connection with the issuance of these bonds requires the Company to maintain specified levels of working capital and other debt and net worth ratios. As of December 31, 1995, the Company reclassified its reusable containers as long-term assets based upon their expected useful lives, which resulted in a violation of the Company's requirement to maintain a specified current ratio on December 31, of each year. The Company received a waiver of this requirement for December 31, 1995, to the extent of any violation as a result of the Company's

reclassification of its reusable containers. Any violation of this or the other requirements of the Company's agreement in connection with the issuance of the industrial development revenue bonds would constitute a default under the Company's revolving credit facility with Silicon Valley Bank.

In connection with the Safe Way acquisition, the Company issued the Safe Way Note which does not bear interest and is due upon completion of this Offering. The Safe Way Note is payable in cash for 40% of its face amount, or $992,000, and 60% in stock, or 98,001 shares of Common Stock.

The Company has an obligation to pay the Rhode Island Air and Water Protection Fund $35,000 each year from 1995 to 1998, $50,000 in 1999, $60,000 in 2000 and $150,000 in 2001. Without admitting liability, the Company agreed to make these payments as part of a settlement of two notices of violations issued by the Rhode Island Department of Environmental Management in 1994 and 1995. Although the Company disputed both the nature and extent of the alleged violations, the Company entered into the settlement in order to resolve the matter in the best interests of the Company and its customers in a timely manner. The Company recorded the present value of all payments to the Air and Water Protection Fund and the Company's legal fees relating to the matter as expenses in 1995. Under the settlement agreement, the Company is also required to perform certain community service and educational projects, including conducting environmental management seminars. The Company has accrued the expenses associated with conducting these activities. See "Risk Factors -- Governmental Enforcement Proceedings."

Capital expenditures for 1996 are currently estimated to be approximately $2,350,000, of which approximately $1,600,000 is for the construction and equipping of a treatment facility at the Company's San Leandro, California transfer station and approximately $750,000 is for containers and transportation equipment. Capital expenditures were $726,000 in 1995 and $1,910,000 in 1994. The Company did not open any new treatment facilities during 1995. The Company may decide to build additional treatment facilities as volumes increase in the Company's current geographic services areas or as the Company enters new areas. The Company also may elect to increase capacity in its existing treatment facilities, which would require additional capital expenditures. In addition, capital requirements for transportation equipment will continue to increase as the Company grows. The amount and level of these expenditures cannot be determined currently as they will depend upon the nature and extent of the Company's growth and acquisition opportunities. The Company believes that cash flow from operations and funds provided from this Offering will fund its capital requirements through 1997.

Net cash used for operations decreased to $871,000 in 1995 from $6,712,000 in 1994. The reduced cash usage reflects a smaller operating loss, higher depreciation and amortization expenses and improved collections of accounts receivables.

Net cash used in investing activities was $393,000 in 1995 compared to $3,440,000 in 1994. The reduction in 1995 from the prior year was due to reduced plant requirements and fewer business acquisitions. The Company benefitted from the sale in April 1995 of certain unprofitable customer accounts and related assets obtained through acquisitions.

Net cash provided by financing activities decreased to $196,000 in 1995 from $3,668,000 in 1994. The difference is primarily attributable to no issuance of preferred stock during 1995 compared to the issuance of $3,458,000 in preferred stock in 1994.

INTRODUCTION

Stericycle is a multi-regional integrated company employing proprietary technology to provide environmentally-responsible management of regulated medical waste for the health care industry. Because of the Company's health care orientation, proprietary technology and breadth of service, the Company believes that it is in a unique position to meet the fundamental need of the health care industry to manage regulated medical waste in a safe and cost-effective manner and to capitalize on the current consolidation trend in the regulated medical waste management industry. The Company believes that its exclusive focus on regulated medical waste and the experience of its management in the health care industry distinguish the Company from its chief competitors, most of whom participate in multiple businesses and most of whose management experience is primarily in the solid waste business. The Company believes that its regulated medical waste management system, including its proprietary ELECTRO-THERMAL-DEACTIVATION ("ETD") treatment process, is the only commercially-proven system that provides all of the following benefits: (i) it kills human pathogens in regulated medical waste without generating liquid effluents or regulated air emissions; (ii) it affords certain operating cost advantages over the principal competing treatment methods; (iii) it reduces the volume of regulated medical waste by up to 85%; (iv) it renders regulated medical waste unrecognizable; (v) it permits the recovery and recycling of usable plastics from regulated medical waste; and (vi) it enables the remaining regulated medical waste to be safely landfilled or used as an alternative fuel in energy production. The Company's full-service program is designed to help to protect its customers and their employees against potential liabilities and injuries in connection with the handling, transportation and disposal of regulated medical waste.

The Company's integrated services include regulated medical waste collection, transportation, treatment, disposal, reduction, reuse and recycling services, together with related training and education programs, consulting services and product sales, in four geographic service areas: (i) California; (ii) Washington, Oregon, Idaho and British Columbia; (iii) Wisconsin, Illinois, Indiana and Michigan; and (iv) Massachusetts, Maine, New Hampshire, Vermont, Rhode Island, Connecticut, New York and New Jersey. As of December 31, 1995, the Company served over 13,000 customers, consisting of two principal types of generators of regulated medical waste. Approximately 70% of the Company's 1995 revenues were derived from hospitals, blood banks and pharmaceutical manufacturers ("Core" generators), and approximately 30% of its revenues were derived from long-term and subacute care facilities, outpatient clinics, medical and dental offices, industrial clinics, dialysis centers, laboratories, biotechnology and biomedical companies, veterinary offices, municipal health departments, ambulance, fire and police departments, correctional facilities, schools, park districts and funeral homes ("Alternate Care" generators). The Company's current operations are comprised of four treatment centers, one recycling center, five transfer stations and four customer service centers.

Regulated medical waste is generally defined as any waste that can cause an infectious disease or that can reasonably be suspected of harboring human pathogenic organisms. Regulated medical waste includes single-use disposable items such as needles, syringes, gloves and laboratory, surgical, emergency room and other supplies which have been in contact with blood or bodily fluids; cultures and stocks of infectious agents; and blood and blood products. An independent study published in 1995 estimated that the size of the regulated medical waste management market in the United States in 1995 was approximately $1 billion.

Based upon certain public information and the Company's estimates of its competitors' revenues, the Company believes that it is the second-largest provider of regulated medical waste management services in the United States.

TRENDS IN THE HEALTH CARE AND MEDICAL WASTE INDUSTRIES

The Company believes that the demand for its services will grow as a consequence of certain trends in the health care and regulated medical waste industries.

INCREASED AWARENESS OF REGULATED MEDICAL WASTE. The handling and disposal of the large quantities of regulated medical waste generated by the health care industry has attracted increased public awareness and regulatory attention. The proper management of potentially infectious medical waste gained national attention in 1988 when disposable syringes and other medical waste washed ashore on New Jersey and New York coastlines. These events

raised concerns about the potential transmission of hepatitis B, HIV and other infectious diseases. The Medical Waste Tracking Act of 1988 ("MWTA") was enacted in response to this problem and established a two-year demonstration program for the proper tracking and treatment of medical waste. Many states have enacted legislation modeled on MWTA's requirements.

In addition, OSHA has issued regulations concerning employee exposure to bloodborne pathogens and other potentially infectious material that require, among other things, special procedures for the handling and disposal of regulated medical waste and annual training of all personnel who are potentially exposed to blood and other bodily fluids. The Company believes that the scope of these regulations will help to expand the market for the Company's services beyond traditional providers of health care.

As a consequence of these legislative and regulatory initiatives, the Company believes that health care providers and other generators of regulated medical waste have become increasingly concerned about the handling, treatment and disposal of regulated medical waste. These concerns are reflected by their desire to (i) reduce on-site handling of regulated medical waste in order to minimize employee contact; (ii) assure safe transportation of regulated medical waste to treatment sites; (iii) assure destruction of potentially infectious human pathogens; (iv) render the treated regulated medical waste non-recognizable in order to reduce liability and to increase disposal options; (v) minimize the impact of the treatment process on the environment and the volume of solid waste deposited in landfills; and (vi) participate in recycling programs where possible.

GROWING IMPORTANCE OF ALTERNATE CARE GENERATORS. The Company believes that in response to managed care and other health care cost-containment pressures, patient care is increasingly shifting from higher-cost acute-care settings to less expensive off-site treatment alternatives. According to a report published by the U.S. Health Care Financing Authority, total alternate-site health care expenditures in the United States increased from approximately $5 billion in 1985 to approximately $22 billion in 1994. The Company believes that alternate-site health care expenditures will continue to grow in response to governmental and private cost-containment initiatives. Many common diseases and conditions, including pulmonary diseases, neurological conditions, infectious diseases, digestive disorders, AIDS and various forms of cancer are now being treated in alternate-site settings.

Alternate Care generators have become an increasingly important source of revenues in the regulated medical waste industry. An independent report in 1990 estimated that approximately 23% (by weight) of regulated medical waste was produced by Alternate Care generators. Based on the Company's experience, the Company believes both that this percentage has increased significantly and that Alternate Care generators account for a greater percentage of regulated medical waste treatment revenues than the percentage of regulated medical waste volume that they generate. Individual Alternate Care generators typically do not produce a sufficient volume of regulated medical waste to justify substantial capital expenditures on their own waste treatment facilities or the expense of hiring regulatory compliance personnel. Accordingly, the Company believes that Alternate Care generators are extremely service-sensitive, relying on their regulated medical waste management provider for timely waste removal, creative solutions for safer regulated medical waste handling, establishment of regulated medical waste management protocols, education on regulated medical waste reduction techniques and assistance with compliance and record-keeping. The Company believes that growth in the number of Alternate Care generators will generate growth in the overall regulated medical waste market and may provide growth opportunities for the Company.

HEALTH CARE COST CONTAINMENT INITIATIVES. The health care industry is under increasing pressure to reduce costs and improve efficiency. The Company believes that its regulated medical waste management services facilitate cost containment by health care providers by reducing their regulated medical waste tracking, handling and compliance costs, reducing their potential liability related to employee exposure to bloodborne pathogens and other potentially infectious material, and significantly reducing the amount of capital invested in on-site treatment of regulated medical waste.

SHIFT FROM ON-SITE INCINERATION TO OFF-SITE TREATMENT. The Company believes that during the past five years, government clean air regulations have increased both the capital costs required to bring many existing incinerators into compliance with such regulations and the operating costs of continued compliance. As a result, many hospitals have shut down their incinerators. This trend is expected to accelerate when the U.S. Environmental Protection Agency ("EPA") adopts proposed regulations which are currently being revised and are scheduled to be released in July 1997. These regulations are expected to limit the discharge into the atmosphere of nine pollutants released by

hospital waste incineration. The EPA had predicted that under the regulations as initially proposed, many of the nation's hospital-based incinerators would be shut down and that many planned medical waste incinerators would not be built due to the increased costs of installing air pollution control systems. The Company expects to benefit from this trend as former users of incinerators seek alternatives for the treatment of their regulated medical waste.

INDUSTRY CONSOLIDATION. Although the regulated medical waste management industry remains fragmented, the number of competitors is rapidly decreasing as a result of industry consolidation. National attention on regulated medical waste in the late 1980s led to rapid growth in the industry and a highly-fragmented competitive structure. Entrants into the industry included several large municipal waste companies and many independent haulers and incinerator operators. Since 1990, however, government clean air regulations and public concern about the environment have increased the costs and public opposition to both on- and off-site regulated medical waste incineration. As a result, the Company believes that independent haulers and incinerator operators have encountered increasing difficulty competing with integrated companies like Stericycle, which typically have their own low-cost treatment plants located within the geographic areas that they serve. The Company believes that many of these independent haulers and incinerator operators are withdrawing from the regulated medical waste industry. The Company's internal estimates show that in its geographic service areas, the number of competitors has fallen from approximately 50 in 1991 to approximately 30 in 1996, a decline of 40%. As a result of industry consolidation, the Company believes that it has increasing opportunities to acquire regulated medical waste management businesses.

GROWTH STRATEGY

The Company believes that it is currently the second-largest provider of regulated medical waste management services in the United States. The Company's goals are to accelerate its revenue growth through penetration of existing geographic service areas and expansion into new areas and to become profitable and increase profits through the more efficient use of its existing infrastructure. See "Use of Proceeds."

INCREASED PENETRATION OF EXISTING SERVICE AREAS. All of the Company's treatment facilities are currently operating below capacity. Due to the high fixed costs associated with the collection and treatment of regulated medical waste, the Company's operating margins would increase with incremental volume gains. Accordingly, the Company is currently implementing a number of programs to increase customer density and penetration of its existing geographic service areas in order to maximize operating efficiencies. The Company focuses its telemarketing and direct sales efforts at securing agreements with new customers among both Core and Alternate Care generators. The Company intends to acquire competitors and enter into marketing alliances with various hospitals, health maintenance organizations, medical suppliers and others.

GEOGRAPHIC EXPANSION. In order to expand its geographic coverage, the Company plans, among other things, to develop additional transfer stations, acquire independent haulers and integrated competitors, expand its telemarketing and direct sales efforts and where appropriate construct new treatment facilities. The Company estimates that its existing transportation and treatment system enables it to serve effectively an area encompassing approximately 25% of the U.S. population. The Company believes that expanding its "hub and spoke" transportation strategy would allow it to maximize the utilization of existing treatment facilities by channeling waste through existing and additional transfer stations. The Company estimates that doing so would enable it to serve effectively an area encompassing approximately 55% of the U.S. population. In order to reach new geographic service areas, the Company is exploring acquiring independent haulers and integrated competitors. The Company believes that expanding telemarketing and direct sales efforts will increase customer density in existing and new geographic service areas. A combination of these factors may lead to the construction of additional treatment and other facilities.

OTHER GROWTH OPPORTUNITIES. The Company believes that it has the opportunity to expand its business by increasing the range of products and services that it offers to its existing customers and by adding new customer categories. The Company, for example, may expand its collection, treatment, disposal and recycling of regulated medical waste generated by health care providers to include wastes that are currently handled by the Company only on a limited basis, such as photographic chemicals, lead foils and amalgam used in dental and radiology laboratories. In addition, the Company may decide to offer single-use disposable medical supplies to its customers. The Company is exploring marketing alliances with organizations that focus on Alternate Care generators. The Company is also

investigating expansion into international markets. In June 1996, the Company entered into an agreement with a Brazilian company to assist it in exploring opportunities for the commercialization of the Company's medical waste management technology in certain territories in South America.

ACQUISITION PROGRAM

The acquisition of other regulated medical waste management businesses, including both independent haulers and integrated competitors, is a key element of the Company's strategy to increase the number of customers in its current markets and to expand its operations geographically. Many of these potential acquisition candidates participate in both the solid waste industry as well as the regulated medical waste industry. The Company believes that its exclusive focus on the regulated medical waste industry makes it an attractive buyer for the medical waste operations of these companies. The Company believes that its expansion strategy also makes it an attractive buyer to haulers whose owners may wish to remain active in their businesses, both as managers and as equity holders, while participating in the growth potential inherent in an industry consolidation. In addition, the Company believes that its customer-service focus makes it an attractive buyer to owners who place significant importance on the assurance that their customers will receive quality service following the sale of their businesses.

The Company's senior management is actively involved in identifying acquisition candidates and consummating acquisitions. In determining whether to proceed with a business acquisition, the Company evaluates a number of factors, including: (i) the composition and size of the seller's customer base; (ii) the efficiencies that may be obtained when the acquisition is integrated with one or more of the Company's existing operations; (iii) the potential for enhancing or expanding the Company's geographic service area and allowing the Company to make other acquisitions in the same service area; (iv) the seller's historical and projected financial results; (v) the purchase price negotiated with the seller and the Company's expected internal rate of return; (vi) the experience, reputation and personality of the seller's management; (vii) the seller's customer service reputation and relationships with the communities that it serves; and (viii) if the acquisition involves the assumption of liabilities, the extent and nature of the seller's liabilities, including environmental liabilities. Following this Offering, the Company will also consider the effect of the proposed acquisition on the Company's earnings per share as an evaluation factor.

The Company has established a procedure for efficiently integrating newly-acquired companies into its business while minimizing disruption of the continuing operations of both the Company and the acquired business. Once a medical waste management business is acquired, the Company promptly implements programs designed to improve customer service, sales, marketing, routing, equipment utilization, employee productivity, operating efficiencies and overall profitability.

The Company anticipates that its future acquisitions of other regulated medical waste management businesses will be made by the payment of cash, including cash from the net proceeds of this Offering, the issuance of debt or equity securities or a combination of these methods. The Company believes that its acquisition strategy will be enhanced by the fact that the Company's Common Stock will be publicly-traded. Historically, the Company's acquisition strategy has been to acquire selected assets of regulated medical waste management businesses, consisting principally of customer lists, customer contracts, vehicles and related supplies and equipment. Some of the Company's acquisitions have also involved the Company's assumption of certain liabilities of the seller. The following table shows the Company's completed acquisitions since the Company began its acquisition program in August 1993.

ACQUISITIONS SINCE AUGUST 1993

SELLER	ACQUISITION DATE	LOCATION	STERICYCLE TREATMENT FACILITY
Therm-Tec Destruction Service of Oregon, Inc.	August 1993	Portland, OR	Morton, WA
Recovery Corporation of Illinois	March 1994	Lombard, IL	Yorkville, WI
Safe Way Disposal Systems, Inc.	September 1994	Middletown, CT	Woonsocket, RI
Safetech Health Care	June 1995	Valencia, CA	Loma Linda, CA
Bio-Med of Oregon, Inc.	January 1996	Portland, OR	Morton, WA
WMI Medical Services of New England, Inc.	January 1996	Hudson, NH	Woonsocket, RI
Doctors Environmental Control, Inc.	May 1996	Santa Ana, CA	Loma Linda, CA
Sharps Incinerator of Fort, Inc.	May 1996	Fort Atkinson, WI	Yorkville, WI

TREATMENT TECHNOLOGY

The three most common off-site commercial technologies for treating regulated medical waste are incineration, autoclaving and the Company's proprietary ETD treatment process. Alternative technologies and methods, which have not gained wide commercial acceptance, include chemical treatment, microwaving and certain specialized or experimental technologies, including the development and marketing of reusable or degradable medical products designed to reduce the generation of regulated medical waste. The Company believes that the ETD treatment process has certain advantages over incineration and autoclaving.

PRINCIPAL TREATMENT TECHNOLOGIES

- INCINERATION. Incineration accounts for approximately 70% of permitted off-site capacity to treat regulated medical waste. Incineration burns regulated medical waste at elevated temperatures and reduces it to ash. Like ETD, incineration significantly reduces the volume of waste, and it is the recommended treatment and disposal option for certain types of regulated medical waste such as anatomical waste or residues from chemotherapy procedures. Incineration has come under increasing criticism from the public and from state and local regulators, however, because of the airborne emissions that it generates. Emissions from incinerators can contain pollutants such as dioxins, furans, carbon monoxide, mercury, cadmium, lead and other toxins which are subject to federal, state and, in some cases, local regulation. The fly-ash by-product of incineration may also constitute a hazardous substance. As a result, there is a significant cost to construct new incineration facilities, or to improve existing facilities, to insure that their operation is in compliance with regulatory standards.

- AUTOCLAVING. Autoclaving accounts for approximately 22% of permitted off-site capacity to treat regulated medical waste. Autoclaving treats regulated medical waste with steam at high temperature and pressure to kill pathogens. The technology is most effective if all surfaces are uniformly exposed to the steam, but uniform exposure may not always occur, potentially leaving some pathogens untreated. In addition, autoclaving alone does not change the appearance of waste, and recognizable regulated medical waste may not be accepted by landfill operators. To compensate for this disadvantage, autoclaving may be combined with a shredding or grinding process to render the regulated medical waste non-recognizable. The high temperatures generated in the autoclaving process occasionally change the physical properties of plastic waste, prohibiting its recycling.

- ETD TREATMENT PROCESS. The Company's patented ETD treatment process accounts for approximately 7% of permitted off-site capacity to treat regulated medical waste. ETD also includes a proprietary system for grinding regulated medical waste. ETD uses an oscillating energy field of low-frequency radio waves to heat regulated medical waste to temperatures that destroy pathogens such as viruses, vegetative bacteria, fungi and yeast without melting the plastic content of the waste. ETD is most effective on materials with low

electrical conductivity that contain polar molecules, including all human pathogens. Polar molecules are molecules that have an asymmetric electronic structure and tend to align themselves with an imposed electric field. When the polarity of the applied field changes rapidly, the molecules try to keep pace with the alternating field direction, thus vibrating and in the process dissipating energy as heat. The Company believes that the electric field created by ETD produces high molecular agitation and thus rapidly creates high temperatures. All of the molecules exposed to the field are agitated simultaneously, and accordingly, heat is produced evenly throughout the waste instead of being imposed from the surface as in conventional heating. This phenomenon, called volumetric heating, transfers energy directly to the waste, resulting in uniform heating throughout the entire waste material and eliminating the inherent inefficiency of transferring heat first from an external source to the surface of the waste and then from the surface to the interior of the waste material. ETD employs low-frequency radio waves because they can penetrate deeper than high-frequency waves, such as microwaves, which can penetrate regulated medical waste of a typical density only to a depth of approximately five inches. ETD uses specific frequencies that match the physical properties of regulated medical waste generally, enabling the ETD treatment process to kill pathogens while maintaining the temperature of the non-pathogenic waste at temperatures as low as 90 DEG. C. Although ETD is effective in destroying pathogens present in anatomical waste, the Company does not currently treat anatomical waste through the ETD process.

ADVANTAGES OF ETD. The Company believes that its proprietary ETD treatment process provides certain advantages over incineration and certain advantages over autoclaving.

- PERMITTING. It is difficult and time-consuming to obtain the permits necessary to construct and operate any regulated medical waste treatment facility, regardless of the treatment technology to be employed at the proposed facility. Local residents, citizen groups and elected officials frequently object to the construction and operation of proposed regulated medical waste treatment facilities solely because regulated medical waste will be transported to and stored and handled at the facility. The Company believes, however, that the fact that the ETD treatment process does not generate liquid effluents or regulated air emissions may enable the Company to locate treatment facilities near dense population centers, where greater numbers of potential customers are found, with less difficulty than would be encountered by a competitor attempting to locate an incinerator in the same area.

- COST. The Company believes that it is less expensive to construct and operate an ETD treatment facility than to construct and operate either a like-capacity incinerator or a like-capacity autoclave with shredding capability, which may enable the Company to price its treatment services competitively. The Company believes that the comparative advantage that it possesses in its ability to locate treatment facilities near dense population centers may also provide transportation and operating efficiencies.

- VOLUME REDUCTION AND UNRECOGNIZABILITY. The Company's regulated medical waste management program reduces the overall volume of regulated medical waste in several ways. The Company's patented reusable container, used under the trademark STERI-TUB-Registered Trademark-, replaces the use of corrugated containers for many Core and Alternate Care generators of large amounts of regulated medical waste, thus reducing waste volume by as much as 10-15%. Once medical waste has undergone the ETD treatment process, the original cubic volume of the waste is reduced by approximately 85%. This reduction in the volume of regulated medical waste is comparable to the volume reduction obtained by incineration. Autoclaving alone does not reduce the volume of regulated medical waste or render it unrecognizable. To reduce waste volume and to overcome the unwillingness of many landfill operators to accept recognizable treated regulated medical waste, autoclaving must be combined with a shredding or grinding operation, adding to its cost. A proprietary grinding feature is a component of the ETD treatment process. The Company believes that the ability of its ETD treatment process both to reduce the volume of regulated medical waste and to render it unrecognizable gives the process an advantage over autoclave operations that do not include shredding or grinding.

- REUSE AND RECYCLING. The Company believes that its reuse and recycling capabilities provide a marketing advantage with customers who prefer to use a regulated medical waste management provider with a commitment to resource conservation. The Company's customers can participate in a voluntary recycling

program by source-segregating their regulated medical waste. The source-segregated regulated medical waste is treated by the ETD treatment process and then processed through the Company's proprietary systems for the automatic recovery of polypropylene plastics. The recovered polypropylene plastics are used by a third party to manufacture a line of "sharps" containers which are used by health care providers to dispose of sharp objects such as needles and blades. In addition, in two of the Company's geographic service areas, the Company's treated regulated medical waste is transported to resource recovery facilities owned by third parties where it is used as refuse-derived fuel in "waste-to-energy" plants to produce electricity. The Company is working to develop a process in conjunction with a cement manufacturer to utilize treated regulated medical waste as a fossil fuel substitute in cement kilns. As a result of grinding, reuse and recycling, only approximately 7% of the original cubic volume of the regulated medical waste treated by the Company during 1995 was disposed of in landfills.

MARKETING AND SALES

MARKETING STRATEGY. The Company's marketing strategy is to provide customers with a complete cost management and compliance program for their regulated medical waste. In addition to its regulated medical waste collection, transportation, treatment and disposal services, the Company also offers a variety of training and education programs and consulting services to its customers. The Company's senior management and many of its other employees are experienced health care professionals able to convey the importance of these issues in the healthcare marketplace.

The Company's marketing strategy recognizes that its potential customers are generally health care providers, who approach the problem of regulated medical waste management from a different perspective than typical generators of solid or municipal waste. Health care personnel have become increasingly sensitive to the risk of contracting diseases such as AIDS and hepatitis through accidental contact with infected patient blood. In addition, patients are increasingly demanding that practitioners demonstrate continual vigilance against such risks. Regulations which were recently adopted by OSHA require annual training of all personnel who potentially can come into contact with bloodborne pathogens and other potentially infectious materials. These regulations also require documentation of handling procedures and detailed clean-up plans. As a result, there has been heightened awareness by health care providers of the need to implement safeguards against such risks.

The Company has developed programs to help train employees of customers on the proper methods of handling, segregating and containing regulated medical waste in order to reduce their potential exposure. The Company can also advise health care providers on the proper methods of recording and documenting their regulated medical waste management in order to comply with federal, state and local regulations. In addition, the Company offers consulting and review services to such providers regarding their internal collection and control systems and assists them in developing systems to provide for the efficient management of their regulated medical waste from the point of generation through treatment and disposal. The Company also offers consulting services to its health care customers to assist them in reducing the amount of regulated medical waste at the point of generation.

The Company's marketing and sales efforts are an integral part of its strategy of pursuing opportunities for targeted growth. The Company attempts to focus its marketing and sales efforts on potential customers that will yield the greatest transportation and operating advantages.

CORE GENERATORS. The Company's marketing and sales efforts to Core generators are conducted by account executives whose responsibilities include identifying and attracting new customers and serving existing customers. In addition, the Company employs customer service representatives to assist its account executives. The Company's marketing and sales personnel are trained to understand the issues confronting Core generators of regulated medical waste. In addition to securing customer contracts, the Company's marketing and sales personnel provide consulting services to its health care customers to assist them in reducing the amount of regulated medical waste that they generate, training their employees on safety issues and implementing programs to audit, classify and segregate regulated medical waste in a proper manner.

The Company has secured several large and prestigious hospitals and health care institutions as customers, including Sharp HealthCare and Stanford University Medical Center in California; the Kaiser Permanente Medical

Care Program in California, Washington and Oregon; Northwestern Memorial Hospital in Illinois; and VHA Healthfront in New England. The Company believes that its relationship with these and other similarly well-known institutions will enhance its ability to market its services to other Core generators and surrounding Alternate Care generators.

The Company's marketing and sales efforts directed to Core generators are supplemented by several strategic marketing alliances. In October 1993, the Company entered into an alliance agreement with Baxter Healthcare Corporation ("Baxter"). A key component of this agreement is the expansion of Baxter's procedure-based delivery system ("PBDS") to include regulated medical waste disposal by the Company. Under PBDS, Baxter hospital supplies are custom-packed in containers provided by the Company based on the requirements of a specific hospital and, in many cases, the requirements of a specific medical provider. Baxter's agreement to include regulated medical waste disposal as part of PBDS was intended to assist its customers in consolidating the specific costs of a patient procedure. In connection with the alliance agreement, Baxter paid $8,000,000 to purchase shares of the Company's preferred stock, of which the Company was required to spend $1,000,000 for research and development related to enhancements of the Company's technology to increase recycling of Baxter's products. See "Description of Capital Stock -- Limited Redemption Rights of One Holder." In November 1995, Baxter's parent corporation, Baxter International Inc., announced that it intended to spin off its domestic hospital supply and health care cost management businesses, which had sales of approximately $4.58 billion in 1995, to a new company, Allegiance Corporation ("Allegiance"). The spin-off is expected to be completed later this year, and the Company anticipates that Baxter will transfer its interest in the alliance agreement to Allegiance in connection with the spin-off. In addition to the Baxter alliance, the Company has entered into strategic marketing alliances with several hospital associations pursuant to which the Company may receive endorsements or marketing assistance.

ALTERNATE CARE GENERATORS. The Company's marketing and sales efforts for Alternate Care generators are conducted by telemarketing representatives who use the Company's proprietary database to identify and qualify potential customers and set appointments for the Company's trained field sales representatives. These field sales representatives provide follow-up customer service and ancillary product sales. The Company has refined its telemarketing system and believes it to be a cost-effective means to reach the numerous Alternate Care generators of small quantities of regulated medical waste. The Company's sales efforts are supplemented by several strategic marketing agreements with, for example, the Massachusetts Dental Society and the Sisters of Providence Health System in Washington and Oregon, under which the Company may receive endorsements or marketing assistance.

SERVICE AGREEMENTS. The Company negotiates individual service agreements with each Core and Alternate Care generator customer. Although the Company has a standard form of agreement, terms vary depending upon the customer's service requirements and volume of regulated medical waste generated. Service agreements typically include provisions relating to types of containers, frequency of collection, pricing, treatment and documentation for tracking purposes. Each agreement also specifies the customer's obligation to pack its regulated medical waste in approved containers. Service agreements are generally for a period of one to five years and include renewal options, although customers may terminate on written notice and typically upon payment of a penalty. Many payment options are available including flat monthly or quarterly charges. The Company may set its prices on the basis of the number of containers that it collects, the weight of the regulated medical waste that it collects and treats, the number of collection stops that it makes on the customer's route, the number of collection stops that it makes for a particular multi-site customer, and other factors.

The Company has a diverse customer base, with no single customer accounting for more than three percent of the Company's 1995 revenues. The Company does not believe that the loss of any single customer would have a material adverse effect on its business, financial condition or results of operations.

LOGISTICS

An important element of the Company's business strategy is to maximize the efficiency with which it collects and transports a large volume of regulated medical waste and directs the deployment of many collection vehicles. This aspect of the Company's operations -- referred to as logistics -- represents the Company's single largest operating cost. Accordingly, the Company considers logistics to be a critical component of its operating plan. The Company's integrated approach to regulated medical waste management is designed to provide it with numerous logistic advantages in the process of managing regulated medical waste.

PRE-COLLECTION. Before regulated medical waste is collected, the Company's integrated waste management approach can "build in" efficiencies that will yield logistic advantages. For example, the Company's consulting services can assist its customers in minimizing their regulated medical waste volume at the point of generation. In addition, the Company provides customers with the documentation necessary for regulatory compliance which, if properly completed, will minimize interruptions in the regulated medical waste treatment cycle for verification of regulatory compliance.

CONTAINERS. A key element of the Company's pre-collection measures is the use of specially-designed containers by most of the Company's Core and Alternate Care generators of large volumes of regulated medical waste. The Company has developed and patented a reusable leak- and puncture-resistant container, called a STERI-TUB, made from recycled plastic. The STERI-TUB enables regulated medical waste generators to reduce costs by reducing the number of times that regulated medical waste is handled, eliminating the cost (and weight) of corrugated boxes and potentially reducing workers' compensation liability resulting from human contact with regulated medical waste. The Company recently introduced two smaller sizes of STERI-TUBS that are popular in certain areas of hospitals, such as the laboratory, and with many Alternate Care generators. The Company has also developed a step-on lid opener and a sliding lid that fit the various sizes of STERI-TUB and make STERI-TUBS even safer and more convenient to use. STERI-TUBS are designed to maximize the loads that will fit within the cargo compartments of standard trucks and trailers. The Company believes these features to be an improvement over its competitors' reusable "point-of-generation" containers. The Company's customers are responsible for packing their regulated medical waste in a STERI-TUB or approved corrugated container and placing the loaded containers at a designated collection area on their premises. If a customer generates a large volume of waste, the Company will place a large temporary storage container or trailer on the customer's premises. In order to maximize regulatory compliance and minimize potential liability, the Company will not accept medical waste unless it is properly packaged by customers in Company-supplied or Company-approved containers.

COLLECTION AND TRANSPORTATION. Efficiency of collection and transportation is a critical element of the Company's logistics. The Company seeks to maximize route density and the number of stops on each route. The Company also employs a tracking system for its collection vehicles which is designed to maximize logistic efficiency. The Company deploys dedicated collection vehicles of different capacities depending upon the amount of regulated medical waste to be collected at a particular stop or on a particular route. The Company collects containers of regulated medical waste from its customers at intervals depending upon customer requirements, terms of the service agreement and the volume of regulated medical waste produced. All containers are inspected at the customer's site prior to pickup. The waste is then transported directly to one of the Company's treatment facilities or to one of the Company's transfer stations where it is aggregated with other regulated medical waste and then transported to a treatment facility. In certain circumstances, the Company transports waste to other specially-licensed regulated medical waste treatment facilities. The Company transports small quantities of hazardous substances, such as photographic fixer, lead foils and amalgam, from certain of its customers to a metals recycling operation.

TRANSFER STATIONS. The use of transfer stations is another important component of the Company's logistics. The Company utilizes transfer stations in a "hub and spoke" configuration which allows the Company to expand its geographic service area and increase the volume of regulated medical waste that can be treated at a particular facility. Smaller loads of waste containers are stored at the transfer stations until they can be consolidated into full truckloads and transported to a treatment facility.

INSPECTION, TREATMENT AND DISPOSAL. Upon arrival at a treatment facility, each container of regulated medical waste is scanned to verify that it does not contain any unacceptable materials such as hazardous substances or radioactive material. Any container which is discovered to contain hazardous substances or radioactive material is returned to the customer. In some cases the Company's operating permits require that unacceptable waste be reported to the appropriate regulatory authorities. After inspection, the regulated medical waste is loaded into the processing system and ground, compacted and treated using the Company's ETD treatment process. Upon completion of this process, the treated medical waste is transported for resource recovery, recycling or disposal in a nonhazardous waste landfill. After the STERI-TUBS have been emptied, they are washed, sanitized and returned to customers for re-use.

DOCUMENTATION. The Company provides complete documentation to its customers for all regulated medical waste that it collects, including the name of the generator, date of pick-up and date of delivery to a treatment facility. The Company's documentation system meets all applicable federal, state and local regulations regarding the packaging and labeling of regulated medical waste, including, but not limited to, all relevant regulations issued by the U.S. Department of Transportation, OSHA and state and local authorities.

FACILITIES

The Company's corporate offices occupy 7,300 square feet under a lease expiring in April 1999. The Company owns or leases the following facilities:

PRINCIPAL FUNCTION	LOCATION	OWNED OR LEASED	SIZE
Treatment facility	Loma Linda, CA	Leased; lease expires in December 2001	11,500 square feet
Treatment facility	Morton, WA	Owned	15,000 square feet
Treatment facility	Woonsocket, RI	Leased; lease expires in June 2017; option to purchase for $2,000	24,000 square feet
Treatment facility	Yorkville, WI	Owned	18,000 square feet
Recycling and research development facility	West Memphis, AR	Owned	10,000 square feet
Transfer station	San Leandro, CA	Leased; lease expires in December 2002	22,500 square feet
Transfer station	Valencia, CA	Leased; month-to-month	5,900 square feet

The Company also utilizes three transfer stations, in New York, New York, Haverhill, Massachusetts and Vancouver, British Columbia, at facilities owned by third parties licensed to operate transfer stations. In addition, all of the Company's treatment facilities are authorized to transfer regulated medical waste. The Company also leases sales and customer service centers in Kirkland, Washington, Salem, New Hampshire and Middletown, Connecticut, and a depot in Valparaiso, Indiana.

The Company's lease of its treatment facility at Woonsocket, Rhode Island expires in June 2017 upon the maturity of the last to mature of the industrial development revenue bonds which were issued to finance the acquisition and equipping of the facility. The Company's leasehold interest in the facility and the Company's machinery and equipment at the facility are pledged as collateral to secure the Company's obligations in connection with these bonds. The Company has an option to purchase the facility for $2,000 upon the repayment of all of the bonds. The Company's machinery and equipment at its Yorkville, Wisconsin treatment facility are leased under an equipment lease expiring in February 1999 and are pledged as collateral to secure the Company's obligations under the lease. Substantially all of the Company's property and equipment provide collateral for the Company's obligations under its revolving credit facility with Silicon Valley Bank. The Company believes that its existing facilities are generally adequate for its current needs.

COMPETITION

The regulated medical waste services industry is highly competitive, fragmented, and requires substantial labor and capital resources. Intense competition exists within the industry not only for customers but also for businesses to acquire. The Company's largest competitor is BFI. Other significant competitors include WMX Technologies, Inc., Laidlaw Waste Systems, Inc. and USA Waste Services, Inc. A large number of regional and local companies also compete in the industry. The Company faces competition from these national waste management companies and from many regional and local businesses in its present locations and will be confronted with such competition in the future in each location where it intends to expand. In addition, the Company faces competition from businesses and other organizations that are attempting to commercialize alternate treatment technologies or products designed to reduce or eliminate the generation of regulated medical waste, such as reusable or degradable medical products.

The Company competes for service agreements primarily on the basis of cost effectiveness, quality of service, geographic location and generator-perceived liability risks. The Company's 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 may reduce its prices to the potential customer. See "Risk Factors -- Intense Competition Within Industry."

GOVERNMENTAL REGULATION

The Company operates within the regulated medical waste management industry, which 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 the Company, including requirements to obtain and maintain government permits. These permits grant the Company the authority, among other things, to construct and operate treatment and transfer facilities, to transport regulated medical waste within and between relevant jurisdictions, and to handle particular regulated substances. The Company's permits must be periodically renewed and are subject to modification or revocation by the issuing regulatory authority. In addition to the requirement that it obtain and maintain permits, the Company is subject to extensive federal, state and local laws and regulations that, among other things, govern the definition, generation, segregation, handling, packaging, transportation, treatment, storage and disposal of regulated medical waste. The Company is also subject to extensive regulation designed to minimize employee exposure to regulated medical waste. In addition, the Company is subject to certain foreign laws, rules and regulations. See "Risk Factors -- Impact of Government Regulation."

FEDERAL REGULATION

There are at least four federal agencies that have authority over medical waste. These agencies are the EPA, OSHA, Department of Transportation ("DOT") and Postal Service. These agencies regulate medical waste under a variety of statutory and regulatory authorities.

MEDICAL WASTE TRACKING ACT OF 1988. In the late 1980s, the EPA outlined a two-year demonstration program pursuant to the Medical Waste Tracking Act of 1988 ("MWTA"), which was added as Subtitle J to the Resource Conservation and Recovery Act of 1976 ("RCRA"). The MWTA was adopted in response to health and environmental concerns over infectious medical waste after medical waste washed ashore on beaches, particularly in New York and New Jersey during the summer of 1988. Public safety concerns were amplified by media reports of careless management of medical waste. The MWTA was intended to be the first step in addressing these problems. The primary objective of the MWTA was to ensure that regulated medical wastes which were generated in a covered state and which posed environmental (including aesthetic) problems were delivered to disposal or treatment facilities with a minimum of exposure to waste management workers and the public. The MWTA's tracking requirements included accounting for all waste transported and imposed civil and criminal sanctions for violations.

In its regulations implementing the MWTA, the EPA defined regulated medical waste and established guidelines for its segregation, handling, containment, labeling and transport. Under the MWTA, the EPA was to deliver three reports to Congress on different aspects of regulated medical waste management and the success of the demonstration program for tracking regulated medical waste. Two of these reports were completed; the third report has not yet been issued. The third report is expected to cover the use of alternative medical waste treatment technologies, including the Company's ETD technology. There can be no assurance that if and when the third report is issued, it will not contain findings or make recommendations that are adverse to the Company's medical waste treatment technology. Any such adverse findings or recommendations could have a material adverse effect on the Company's business, financial condition and results of operations.

The MWTA demonstration program expired in 1991, but the MWTA established a model followed by many states in developing their specific medical waste regulatory frameworks.

RESOURCE CONSERVATION AND RECOVERY ACT OF 1976. In 1976, Congress passed RCRA as a response to growing public concern about problems associated with the handling and disposal of solid and hazardous waste. RCRA required the EPA to promulgate regulations identifying hazardous wastes. RCRA also created standards for the generation, transportation, treatment, storage and disposal of solid and hazardous wastes, including a manifest program for the transportation of hazardous wastes and a permit system for solid and hazardous waste disposal facilities. Regulated medical wastes are currently considered non-hazardous solid wastes under RCRA. However,

certain substances collected by the Company from some of its customers, including photographic fixer developer solutions, lead foils and amalgam, are considered hazardous wastes, for which the Company provides transportation services for metals recycling.

DEPARTMENT OF TRANSPORTATION REGULATIONS. The DOT has implemented regulations under the Hazardous Materials Transportation Authorization Act of 1994 governing the transportation of hazardous materials, regulated medical waste and infectious substances. Under these regulations, the Company is required to package regulated medical waste in compliance with the bloodborne pathogens standards issued by OSHA. Under these standards, the Company must identify its packaging with a "biohazard" marking on the outer packaging, and its regulated medical waste container must be rigid, puncture-resistant, leak-resistant, properly sealed and impervious to moisture.

The transportation of infectious substances is subject to additional packaging standards. However, the Company is presently party to an exemption to these standards which authorizes the transportation of certain cultures and stocks of infectious substances if they are described and properly packaged. The exemption issued by DOT is scheduled to expire on December 31, 1997. The Company believes that it would be able to fully comply with the stricter packaging standards applicable to the infectious substances it transports if and when the exemption expires. DOT regulations also require that a transporter of hazardous substances be capable of responding on a 24 hour-per-day basis in the event of an accident, spill or release to the environment of a hazardous material. The Company has entered into an agreement with CHEMTREC, an organization that provides 24-hour emergency spill coverage in the United States and Canada, to provide spill cleanup services in all of the Company's service areas.

The Company's drivers are specifically trained on topics such as safety, hazardous materials, specifically-regulated medical waste, hazardous chemicals and infectious substances. Employees are trained to deal with emergency situations including spills, accidents and releases in to the environment, and the Company has a written contingency plan for these events. The Company's vehicles are outfitted with spill control equipment and the drivers are trained in their use.

COMPREHENSIVE ENVIRONMENTAL RESPONSE, COMPENSATION AND LIABILITY ACT OF 1980. The Comprehensive Environmental Response, Compensation and Liability Act of 1980, as amended ("CERCLA"), established a regulatory and remedial program to provide for the investigation and clean-up of facilities from which there has been an actual or threatened release of hazardous substances into the environment. CERCLA and similar state laws, 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 such facilities. Responsible parties may be liable for substantial waste site investigation and clean-up costs and natural resource damages, regardless of whether they exercised due care and complied with applicable laws and regulations. If the Company were found to be a responsible party for a particular site, it could be required to pay the entire cost of waste site investigation and clean-up, even though other parties also may be liable. The Company's ability to obtain contribution from other responsible parties may be limited by the Company's inability to identify those parties and by their financial inability to contribute to investigation and clean-up costs.

The Company utilizes landfills for disposal of treated regulated medical waste from three of its facilities. Following treatment by the Company, the waste is considered non-hazardous solid waste. Non-hazardous solid waste is not regulated as hazardous unless it has been contaminated with a hazardous substance. The Company employs quality control measures to check incoming regulated medical waste for hazardous substances. Customer contracts also require the exclusion of hazardous substances or radioactive materials from the regulated medical waste. Separate customer contracts govern the Company's transportation for recycling of limited quantities of its customers' hazardous substances.

OCCUPATIONAL SAFETY AND HEALTH ACT OF 1970. The Occupational Safety and Health Act of 1970, as amended, authorizes OSHA to promulgate occupational safety and health standards. Various standards apply to certain aspects of the Company's operations. These standards include rules governing exposure to bloodborne pathogens and other potentially infectious materials, lock out/tag out procedures, medical surveillance requirements, use of respirators and personal protective equipment, emergency planning, hazard communication, noise, ergonomics, and forklift safety, among others. OSHA regulations are designed to minimize the exposure of employees to hazardous work environments. The Company is subject to unannounced safety inspections at any time. Employees are

required by Company policy to receive new employee training, annual refresher training and training in their specific tasks. As part of the Company's medical surveillance program, employees receive pre-employment physicals, including drug testing, annually-required medical surveillance and exit physicals. The Company also subscribes to a drug-free workplace policy.

UNITED STATES POSTAL SERVICE. The Company was required to obtain a permit from the U. S. Postal Service to conduct its "mail-back" program, pursuant to which customers mail appropriately packaged sharps containers which contain regulated medical waste directly to the Company's treatment facilities.

STATE AND LOCAL REGULATION

The Company currently conducts some type of business activity in 17 states. These activities include the collection, transportation, processing, transferring or recycling of regulated medical waste and, in somes cases, hazardous substances. Each state has its own regulations related to the handling, treatment and storage of regulated medical waste. Although there are many differences among the various state laws and regulation, many states have followed the regulated medical waste model under the MWTA and are implementing programs under RCRA. Regulations cover the Company's transportation of regulated medical waste both intrastate and interstate. In each of the states where the Company operates a treatment facility or transfer station, it is required to comply with numerous state and local laws and regulations as well as its site-specific operating plan. Agencies writing regulations at the state level typically include departments of health and state environmental protection agencies. In addition, many municipalities have ordinances, local laws and regulations affecting the Company's operations, including but not limited to zoning and health measures.

In recent years, a number of communities have instituted "flow control" requirements, which typically require that waste collected within a particular area be deposited at a designated facility. In May 1994, the U.S. Supreme Court ruled that a flow control ordinance was inconsistent with the Commerce Clause of the Constitution of the United States. A number of lower federal courts have struck down similar measures. Although the U. S. Senate passed a bill proposing the Interstate Transportation of Municipal Solid Waste Act of 1995, which would have partially granted flow control authority to states under the Commerce Clause, the U. S. House of Representatives rejected the bill in January 1996. The Company believes that the U.S. Congress will continue to consider other bills that could at least partially overturn these court decisions and immunize particular governmental actions from Commerce Clause scrutiny.

Similarly, the U. S. Supreme Court has consistently held that state and local measures that seek to restrict the importation of extraterritorial waste or tax imported waste at a higher rate are unconstitutional. To date, congressional efforts to enable states, under certain circumstances, to impose differential taxes on out-of-state waste or restrict waste importation have been unsuccessful. At present, a bill that would partially grant flow control authority to states and authorize certain restrictions on interstate waste disposal is being considered by a committee of the U.S. House of Representatives.

In the absence of federal legislation, certain local laws that direct waste flows to designated facilities may be unenforceable, and discriminatory taxes and waste importation restrictions should continue to be subject to judicial invalidation. If the U. S. Congress adopts legislation allowing for certain types of flow control or restricting the importation of waste, or if legislation affecting interstate transportation of waste is adopted at the federal or state level, such legislation could adversely affect the Company's medical waste collection, transport, treatment and disposal operations and hence would have a material adverse effect on the Company's business, financial condition and results of operations.

In 1993, the Company challenged an ordinance enacted by the City of Delavan, Wisconsin, which sought to prohibit transporting regulated medical waste into Delavan. The Company succeeded at trial in having the Delavan ordinance declared unconstitutional. Despite this favorable outcome, however, the Company abandoned its plans to construct and operate a regulated medical waste treatment facility in Delavan. The Company incurred significant expense in its abandoned efforts, and there can be no assurance that other municipalities will not attempt to block or discourage the Company from locating a treatment or transfer facility within their limits by passing similar ordinances, even though the Company may ultimately prevail in challenging the constitutionality of such ordinances.

States predominantly regulate medical waste as a solid or "special" waste and not as a hazardous waste under RCRA. State definitions of medical waste include, but are not limited to, microbiological waste (cultures and stocks of infectious agents); pathology waste (human body parts from surgical and autopsy waste); blood and blood products; and sharps.

Most states require segregation of different types of regulated medical waste at the point of generation. A majority of states require that the universal biohazard symbol or related label appear on medical waste containers. Storage regulations may apply to the generator, the treatment facility, the transport vehicle, or all three. Storage rules center on identifying and securing the storage area for public safety as well as setting standards for the manner and length of storage. Many states mandate employee training for safe environmental clean-up through emergency spill and decontamination plans. Many states mandate that transporters carry spill equipment in their vehicles. Those states whose regulatory framework relies on the MWTA model have tracking document systems in place.

In the State of Washington, the Company is subject to regulation by the Utilities and Transportation Commission, which regulates all businesses engaged in transportation in the state. As a regulated business, the Company must receive approval from the Utilities and Transportation Commission for the prices it charges for its services in Washington. See "Risk Factors -- Impact of Government Regulation."

The Company maintains numerous permits and licenses to conduct its business from various state and local authorities. The Company's permits vary from state to state based upon the Company's activities within that state and on the applicable state and local laws and regulations. These permits include transport permits for solid waste, regulated medical waste and hazardous substances, permits to construct and operate treatment facilities, permits to construct and operate transfer stations, permits governing discharge of sanitary water and registration of equipment under air regulations, specific approval for the use of ETD to treat regulated medical waste, a bulk pool irradiator operator's license for the Company's currently inactive irradiator at its West Memphis, Arkansas facility and various business operator's licenses. The Company believes that it is in substantial compliance with all applicable state and local laws and regulations.

The Company's treatment technology is an alternative to the conventional treatment technologies of incineration and autoclaving and has not been approved in all states for the treatment of regulated medical waste. The Company has been permitted to operate its treatment technology in 13 states with additional applications pending. There can be no assurance, however, that the Company's treatment technology will be approved for the treatment of regulated medical waste in each state or other jurisdiction where the Company may seek regulatory approval in the future to construct and operate a treatment facility. The Company's inability to obtain any such regulatory approval could have a material adverse effect on the Company's business, financial condition and results of operations.

FOREIGN REGULATION

The Company presently conducts business in only one foreign jurisdiction, British Columbia, Canada, where it collects regulated medical waste in the Vancouver area and transports it to the Company's Morton, Washington treatment facility. The Company's activities in British Columbia are governed at the federal level by the Canadian Transportation of Dangerous Goods Act, 1992, and at the provincial level by the British Columbia Waste Management Act. The federal Transportation of Dangerous Goods Act, 1992, regulates the movement of dangerous goods, including infectious substances and other "specified dangerous goods," by all modes of transportation, and imposes joint and several liability on all persons who are responsible for, or who caused or contributed to, the release of any "specified dangerous good" into the environment. Any business engaged in a regulated activity is presumed to be liable for any such release, unless the business can demonstrate that it acted reasonably. The provincial Waste Management Act regulates the storage, transportation and disposal of waste, including biomedical waste, and imposes strict, joint and several liability for all clean-up costs associated with the release of hazardous substances into the environment. The Company has obtained all permits required by these two acts. There can be no assurance, however, that the Company will not be required in the future to pay for waste clean-up costs incurred under either act on a joint and several basis.

If the Company expands its operations into other foreign jurisdictions, it will be required to comply with the laws and regulations of each such jurisdiction.

PERMITTING PROCESS

Each state in which the Company operates, and each state in which the Company may operate in the future, has a specific permitting process. After the Company has identified a geographic area in which it wishes to locate a treatment or transfer facility, the Company will identify one or more locations for a potential new site. Typically, the Company will develop a site contingent on obtaining zoning approval and local and state operating authority. Most communities rely on state authorities to provide operating rules and safeguards for their community. Usually the state provides public notice of the project and, if a sufficient threshold of public interest is shown, a public hearing may be held. If the Company is successful in meeting all regulatory requirements, the state may issue a permit to construct the treatment facility or transfer station. Once the facility is constructed, the state may again issue public notice of its intent to issue an operating permit and provide an opportunity for public opposition or other action that may impede the Company's ability to construct or operate the planned facility.

The Company has been successful in obtaining permits for its current regulated medical waste transfer, treatment and processing facilities and for its transportation operations. Several of the Company's past attempts to construct and operate regulated medical waste treatment facilities, however, have met with significant community opposition. In some of these cases, the Company has withdrawn from the permitting process. Permitting for transportation operations frequently involves registration of vehicles, inspection of equipment and background investigations on the Company's officers and directors.

REGULATORY AND LEGAL PROCEEDINGS

In August 1995, the Company entered into a voluntary settlement with the Rhode Island Department of Environmental Management ("RIDEM") pursuant to which, without admitting liability, the Company agreed to pay $400,000 over a seven-year period and to perform community services and conduct seminars over a five-year period.The settlement arose from certain notices of violation that RIDEM issued in September 1994 and April 1995 pursuant to which RIDEM sought penalties of $3,356,000, claiming that the Company had violated state medical waste and solid waste regulations by, among other things, mishandling and improperly treating medical waste and endangering its employees' health by failing to provide proper training and protective clothing. RIDEM has recently contacted the Company's local counsel and informally suggested that it may issue additional notices of violation. The Company believes that there is no basis for the issuance of any such additional notices and that the resolution of the matter will be favorable to the Company. There can be no assurance, however, that if the resolution is unfavorable to the Company, the Company's obligations as a result of any such additional notices of violation would not have a material adverse effect on the Company's business, financial condition or results of operations.

The Company believes that the Massachusetts Attorney General inquired into the Company's activities in Massachusetts but does not know whether the inquiry, if any, is still pending. The Company believes, however, that if there is or was any such inquiry, it was begun following the adverse publicity that the Company received in connection with the notices of violation from RIDEM. See "Risk Factors -- Governmental Enforcement Proceedings."

In September 1995, the Connecticut Department of Revenue Services notified the Company that it was being assessed for sales and use tax of $219,000 as the successor in interest to Safe Way. The Company appealed the assessment on the ground that, as a purchaser of assets, it was not legally obligated to pay Safe Way's debts. The Company has been informed that its appeal has been denied by the Department of Revenue Services. Safe Way has indemnified the Company for any liability as a result of Safe Way's obligations arising prior to the closing of the Safe Way acquisition in September 1994. Safe Way's indemnification obligation is secured first by 129,985 shares of Common Stock issued to Safe Way which are currently held in escrow and then by off-set rights of the Company under the Safe Way Note.

In April 1996, Local 174, International Brotherhood of Teamsters, AFL-CIO, filed an unfair labor practice charge against the Company with the National Labor Relations Board. The charge arose from an attempt by the union to organize the the Company's truck drivers in Washington and Oregon, and claims that the Company's elimination of certain drivers' positions shortly before a union recognition election, which the union lost, unlawfully discriminated against employees engaged in protected activity. The Company is defending its actions as unrelated to any union activity. The Company's production and maintenance employees at its Morton, Washington facility voted to affiliate with the union. The Company is challenging the results of that vote.

The Company operates in a highly competitive industry and may be exposed to regulatory inquiries or investigations from time to time. Investigations can be initiated for a variety of reasons. The Company has been involved in several legal and administrative proceedings that have been settled or otherwise resolved on terms acceptable to the Company, without having a material adverse effect on the Company's business, financial condition or results of operations. From time to time the Company may consider it more cost-effective to settle such proceedings than to involve itself in costly and time-consuming administrative actions or litigation. The Company is also a party to various legal proceedings arising in the ordinary course of its business. The Company believes that the resolution of these other matters will not have a material adverse effect on the Company's business, financial condition or results of operations. See "Risk Factors -- Governmental Enforcement Proceedings."

POTENTIAL LIABILITY AND INSURANCE

The regulated medical waste management industry involves potentially significant risks of statutory, contractual, tort and common law liability. Potential liability could involve, for example, claims for clean-up costs, personal injury or damage to the environment, claims of employees, customers or third parties for personal injury or property damages occurring in the course of the Company's operations, or claims alleging negligence or professional errors or omissions in the planning or performance of work. The Company could also be subject to fines in connection with violations of regulatory requirements.

The Company carries liability insurance coverage which it considers sufficient to meet regulatory and customer requirements and to protect the Company's employees, assets and operations. The availability of liability insurance within the regulated medical waste industry has been adversely affected by the constrained market for environmental liability and other insurance. More aggressive enforcement of environmental and management regulations, as well as legal decisions and judgments adverse to companies exposed to pollution damage claims, could lead to a substantial reduction in the availability and extent of insurance coverage. In the future, available insurance may be at significantly increased premiums with less extensive coverage. If the Company is unable to obtain adequate insurance coverage at a reasonable cost, it may become exposed to potential liability claims. In such event, a successful claim of sufficient magnitude could have a material adverse effect on the Company's business, financial condition or results of operation.

CERCLA and similar state statutes impose strict, joint and several liability on the present 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 such facilities. Responsible parties may be liable for waste site investigation, waste site clean-up costs and natural resource damages, which costs could be substantial, regardless of whether they exercised due care and complied with all relevant laws and regulations. There can be no assurance that the Company will not face claims under CERCLA or similar state laws resulting in substantial liability for which the Company is uninsured and which could have a material adverse effect on the Company's business, financial condition and results of operations. The Company's pollution liability insurance excludes liabilities under CERCLA. See "Risk Factors -- Potential Risk of Product Liability and Potential Unavailability of Insurance."

PATENTS AND PROPRIETARY RIGHTS

The Company considers the protection of its technology relating to the processing of regulated medical waste to be material to its business. The Company's policy is to protect its technology by a variety of means, including applying for patents in the United States and in appropriate foreign countries. See "Risk Factors -- Dependence on Patents and Proprietary Information."

The Company holds four United States patents and has three additional patent applications pending in the United States relating to the ETD treatment process and other aspects of processing regulated medical waste. The Company has filed counterpart patent applications in several foreign countries and has received patents in Mexico and Australia. The Company also holds one United States patent for its reusable container, used under the trademark
STERI-TUB-Registered Trademark-.

In November 1995, the Company entered into a license agreement with IIT Research Institute ("IITRI"). Under this agreement, IITRI granted to the Company a royalty-free exclusive license in North America, Europe, Japan and other industrialized countries throughout the world to use and commercialize certain patent rights and

know-how held by IITRI relating to the use of radio-frequency technology in the treatment of regulated medical waste, and the Company granted to IITRI a royalty-free exclusive license in the remaining countries of the world to use and commercialize certain corresponding patent rights and know-how held by the Company. The agreement continues until the expiration of the last-to-expire of any of the subject patents held by either IITRI or the Company.

An issued patent grants to the owner the right to exclude others from practicing the inventions claimed in the patent. In the United States, a patent filed before June 8, 1995 is enforceable for 17 years from the date of issuance or 20 years from the effective date of filing, whichever is longer. Patents issued on applications filed on or after June 8, 1995 expire 20 years from the effective date of filing. The last-to-expire of the Company's existing United States patents relating to its ETD treatment process will expire in April 2013.

In addition, the Company has additional proprietary technology relating to the processing of regulated medical waste that the Company believes is patentable. The Company has chosen, however, not to file for patent protection for this technology at this time.

There can be no assurance that any claims which are included in pending or future patent applications will be issued, that any issued patents will provide the Company with competitive advantages or will not be challenged by third parties or that the existing or future patents of third parties will not have an adverse effect on the ability of the Company to carry out its business. In addition, there can be no assurance that other companies will not independently develop similar processes or engineer around patents that may have been issued to the Company. Litigation or administrative proceedings may be necessary to enforce the patents issued to the Company or to determine the scope and validity of others' proprietary rights. Any litigation or administrative proceeding could result in substantial cost to the Company and distraction of the Company's management. An adverse ruling in any litigation or administrative proceeding could have a material adverse effect on the Company's business, financial condition and results of operations.

The commercial success of the Company will also depend in part upon the Company's not infringing patents issued to competitors. There can be no assurance that patents belonging to competitors will not require the Company to alter its processes, pay licensing fees or cease development of its current or future processes. Litigation or administrative proceedings may be necessary to enforce the patents issued to the Company or to determine the scope and validity of others' proprietary rights. Any litigation or administrative proceeding could result in substantial cost to the Company and distraction of the Company's management. An adverse ruling in any litigation or administrative proceeding could have a material adverse effect on the Company's business, financial condition and results of operations. In addition, there can be no assurance that the Company would be able to license the technology rights that it may require at a reasonable cost or at all. Failure by the Company to obtain a license to any technology that the Company currently uses to process regulated medical waste would have a material adverse effect on the Company's business, financial condition and results of operations. In addition, to determine the priority of inventions or patent applications the Company may have to participate in interference proceedings declared by the U.S. Patent and Trademark Office or in proceedings before foreign agencies, any of which would result in substantial costs to the Company and distraction of the Company's management.

The Company holds federal registrations of the trademarks "Steri-Fuel," "Steri-Plastic," "Steri-Tub" and "Steri-Cement" and the service marks "Stericycle" and a mark consisting of a graphic the Company uses in association with its name and services in the United States. There can be no assurance that the registered or unregistered trademarks or service marks of the Company will not infringe upon the rights of third parties. The requirement to change any trademark, service mark or trade name of the Company would result in the loss of any goodwill associated with that trademark, service mark or trade name and could entail significant expense.

The Company also relies on unpatented and unregistered trade secrets, trademarks, proprietary know-how and continuing technological innovation that it seeks to protect, in part, by confidentiality agreements with its employees, vendors and consultants. There can be no assurance that these agreements will not be breached, that the Company would have adequate remedies for any breach or that the Company's trade secrets or know-how will not otherwise become known or independently discovered by third parties.

EMPLOYEES

At December 31, 1995, the Company employed 216 full-time employees and 27 part-time employees engaged primarily in sales and marketing.

The Company considers its employee relations generally to be satisfactory. None of the Company's employees is covered by a collective bargaining agreement. The Company's production and maintenance employees at its Morton, Washington facility have voted to affiliate with a union. See "-- Legal and Regulatory Proceedings."

MANAGEMENT

EXECUTIVE OFFICERS AND DIRECTORS

The directors and executive officers of Stericycle, Inc. and their ages as of June 1, 1996, are as follows:

NAME	AGE	POSITION
Mark C. Miller	40	President, Chief Executive Officer and Director
Anthony J. Tomasello	49	Vice President, Operations
Linda D. Lee	39	Vice President, Regulatory Affairs and Quality Assurance
James F. Polark	46	Vice President, Finance and Chief Financial Officer
Michael J. Bernert	42	Vice President, Eastern Region
Richard O. Shea	43	Vice President, Western Region
Jack W. Schuler (1)	55	Chairman of the Board of Directors
Patrick F. Graham (2)	56	Director
John Patience (2)	48	Director
Lloyd D. Ruth (2)	49	Director
Peter Vardy (1)	66	Director
L. John Wilkerson, Ph.D (1)	52	Director

(1) Member of Compensation Committee

(2) Member of Audit Committee

MARK C. MILLER has served as President and Chief Executive Officer and a director of the Company since May 1992. From May 1989 until he joined the Company, 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 Affiliated Research Centers, Inc., which provides clinical research for pharmaceutical companies. Mr. Miller received a B.S. degree in computer science from Purdue University, where he graduated Phi Beta Kappa.

ANTHONY J. TOMASELLO has served as the Company's Vice President, Operations since August 1990. For five years prior to joining Stericycle, Mr. Tomasello was President and Chief Operating Officer of Pi Enterprises and Orbital Systems, companies providing process and automation services. From 1980 to 1985, he served as Vice President of Operations for Spang and Company, an operating service firm specializing in resource recovery and recycling for manufacturing and process industries. Mr. Tomasello received a B.S. degree in mechanical engineering from the University of Pittsburgh.

LINDA D. LEE has served as the Company's Vice President, Regulatory Affairs and Quality Assurance since July 1990. She previously served as the Company's Executive Director for Regulatory Compliance. Prior to joining the Company in November 1989, she served for six years as Director of Environmental Health and Safety for Medical Services at the University of Arkansas. Ms. Lee has served as the chairperson of the American Hospital Association's Environmental Advocacy Committee and on the American Society for Hospital Engineers' Safety Committee. She has also served on a number of government committees, including the Arkansas Governor's Task Force on Medical Waste, and has written several books and articles on safety and waste disposal. Ms. Lee received a B.S. degree in environmental health sciences from Indiana State University and an M.S. degree in operations management from the University of Arkansas.

JAMES F. POLARK has served as the Company's Vice President, Finance and Chief Financial Officer since July 1993. From 1980 until joining the Company, he served in various capacities with Sara Lee Corporation, most recently as Chief Financial Officer of Superior Coffee and Foods, Inc., one of Sara Lee' divisions. Prior to joining Sara Lee, Mr. Polark was a member of the audit staff at Price Waterhouse. He received a B.S. degree in accounting from the University of Northern Iowa.

MICHAEL J. BERNERT has served as the Company's Vice President, Eastern Region, with responsibility for sales and service in New England and the Midwest, since February 1992. Prior to joining the Company in 1992, he held a series of management positions with Abbott Laboratories. Mr. Bernert received a B.A. degree in economics from Brown University and an M.B.A. degree from the University of Dallas.

RICHARD O. SHEA has served as the Company's Vice President, Western Region, with responsibility for sales and service in the Pacific Northwest and California, since April 1991. From September 1989 to March 1991, he was Vice President of Sales and Marketing for Microprobe Corporation in Bethell, Washington. He previously held several management positions with the Diagnostics Division of Abbott Laboratories. Mr. Shea received a B.S. degree in marketing from Nichols College.

JACK W. SCHULER has served as Chairman of the Board of Directors of the Company since January 1990. From January 1987 to August 1989, Mr. Schuler served as President and Chief Operating Officer of Abbott Laboratories, a diversified health care company which he joined in 1972 and where he held a number of management and marketing positions and served as a director from April 1985 to August 1989. Mr. Schuler serves as a director of Chiron Corporation, Medtronic, Inc. and Somatogen, Inc., and several privately held companies. He is a co-founder of Crabtree Partners, a private investment partnership in Deerfield, Illinois, which was formed in June 1995. He received a B.S. degree in mechanical engineering from Tufts University and an M.B.A. degree from the Stanford University Graduate School of Business Administration.

PATRICK F. GRAHAM has served as a director of the Company since May 1991. He is a co-founder of Bain & Company, Inc., a management consulting firm in Boston, Massachusetts, where he has served in a number of positions since 1973, including Vice Chairman and Chief Financial Officer. He was previously a Group Vice President with Boston Consulting Group. Mr. Graham is a director of WorldCorp, Inc. and several privately held companies. He received a B.A. degree from Knox College.

JOHN PATIENCE has served as a director of the Company since its incorporation in March 1989. He is a co-founder and partner of Crabtree Partners, a private investment partnership in Deerfield, Illinois, which was formed in June 1995. From January 1988 to March 1995, Mr. Patience was a general partner of the general partner of Marquette Venture Partners, L.P., a venture capital fund which he co-founded and which participated in the initial capitalization of the Company. He was previously a director with McKinsey & Company, Inc., a general management consulting firm. Mr. Patience is a director of TRO Learning, Inc., and several privately held companies. He received B.A. and B.L. degrees from the University of Sydney, Sydney, Australia, and an M.B.A. degree from the Wharton School of Business of the University of Pennsylvania.

LLOYD D. RUTH has served as a director of the Company since September 1995. He previously served as a director of the Company from December 1989 to October 1990. Mr. Ruth is a co-founder of Marquette Venture Partners, L.P., a venture capital fund in Deerfield, Illinois, where he has served as a general partner of its general partner since January 1988. From 1981 until 1988 he served with the Sprout Group, a venture capital fund affiliate of Donaldson, Lufkin & Jenrette Securities Corporation. Mr. Ruth received a B.S. degree in industrial engineering from Cornell University, an M.S. degree in computer science from the Naval Postgraduate School in Monterey, California and an M.B.A. degree from Stanford University.

PETER VARDY has served as a director of the Company since July 1990. He is the Managing Director of Peter Vardy & Associates, an international environmental consulting firm in Chicago, Illinois, which he founded in June 1990. From April 1973 to May 1990, Mr. Vardy served at Waste Management, Inc. (now WMX Technologies, Inc.), a waste management services company, where he was Vice President, Environmental Management. He is a director of EMCON, which he co-founded in 1971. Mr. Vardy received a B.S. degree in geological engineering from the University of Nevada.

L. JOHN WILKERSON, PH.D., has served as a director of the Company since July 1992. He is a consultant to The Wilkerson Group, a health care products consulting firm in New York, New York, where he has served since 1982. Dr. Wilkerson also serves as a general partner of the general partner of Galen Partners, L.P. and Galen Partners International, L.P., affiliated venture capital funds. He is a director of British Biotech Plc, Gensia, Inc., TheraTx, Incorporated and several privately held companies. Dr. Wilkerson received a B.S. degree in biological sciences from Utah State University and a Ph.D. degree in managerial economics and marketing research from Cornell University.

BOARD OF DIRECTORS

Directors are elected at the annual meeting of stockholders and hold office until the next annual meeting or until their successors have been elected and qualified. Members of the Board of Directors receive no cash compensation for their services as directors. During the year ended December 31, 1995, the Company granted options to Jack W. Schuler, Patrick F. Graham and Peter Vardy, all of whom are members of the Board of Directors, to purchase 52,857, 32,723 and 7,120 shares of Common Stock, respectively. These options were granted pursuant to an equity restructuring program which was intended, among other purposes, to reverse the dilutive effect of a recapitalization pursuant to which the Company's outstanding shares of preferred stock were reclassified as common stock. See "-- 1995 Equity Adjustment Program" and "Description of Capital Stock - -- 1995 Recapitalization."

Pursuant to the Company's Directors Stock Option Plan, which was adopted by the Board of Directors in June 1996 and approved by the Company's stockholders in July 1996, directors who are not officers or employees of the Company will be eligible to receive periodic option grants. See "-- Stock Option Plans."

The Compensation Committee of the Board of Directors, consisting of Messrs. Schuler and Vardy and Dr. Wilkerson, makes recommendations to the full Board of Directors concerning salaries and incentive compensation for employees of the Company and administers the Company's Incentive Compensation Plan. The Audit Committee of the Board of Directors, consisting of Messrs. Graham, Patience and Ruth makes recommendations to the full Board of Directors regarding the selection of independent auditors, reviews the results and scope of the audit and other services provided by the Company's independent auditors and reviews and evaluates the Company's internal control functions.

EXECUTIVE COMPENSATION

The following table sets forth the compensation paid by the Company during the year ended December 31, 1995 to the Company's President and Chief Executive Officer and its four other most highly compensated executive officers (collectively, the "Named Executive Officers"):

SUMMARY COMPENSATION TABLE

NAME AND PRINCIPAL POSITION	FISCAL YEAR	ANNUAL COMPENSATION SALARY	LONG-TERM COMPENSATION AWARDS NUMBER OF SECURITIES UNDERLYING OPTIONS
Mark C. Miller..... President and Chief Executive Officer	1995	$ 212,083	485,620
Anthony J. Tomasello..... Vice President, Operations	1995	146,875	31,816
Linda D. Lee..... Vice President, Regulatory Affairs and Quality Assurance	1995	127,916	28,621
Michael J. Bernert..... Vice President, Eastern Region	1995	108,750	49,515
Richard O. Shea..... Vice President, Western Region	1995	113,541	46,353

STOCK OPTION INFORMATION

The following table sets forth certain information regarding stock options that the Company granted to the Named Executive Officers during the year ended December 31, 1995. In accordance with the rules of the Securities and Exchange Commission, the following table also sets forth the potential realizable value over the term of the options (the period from the date of grant to the date of expiration) based upon assumed rates of stock appreciation of 5% and 10%, compounded annually. These amounts do not represent the Company's estimate of future appreciation of the price of its Common Stock. The Company did not grant stock appreciation rights to any Named Executive Officer during the year ended December 31, 1995.

OPTIONS GRANTS IN LAST FISCAL YEAR

	INDIVIDUAL GRANTS				POTENTIAL REALIZABLE VALUE AT ASSUMED ANNUAL RATES OF STOCK PRICE APPRECIATION FOR OPTION TERM(4)	
	NUMBER OF SECURITIES UNDERLYING OPTIONS(1)	% OF TOTAL OPTIONS GRANTED TO EMPLOYEES IN FISCAL YEAR(2)	EXERCISE PRICE PER SHARE(3)	EXPIRATION DATE	5%	10%
Mark C. Miller	485,620	52.60%	$ 0.53	11/1/05	$ 161,864	$ 410,195
Anthony J. Tomasello	31,816	3.4%	0.53	11/1/05	10,605	26,874
Linda D. Lee	28,621	3.1%	0.53	11/1/05	9,540	24,176
Michael J. Bernert	49,515	5.4%	0.53	11/1/05	16,504	41,825
Richard O. Shea	46,353	5.0%	0.53	11/1/05	15,450	39,154

- ------------------------

(1) All of the options granted to the Named Executive Officers were granted under the Company's Incentive Compensation Plan (the "1995 Stock Plan") pursuant to an equity adjustment program which was substantially implemented in November 1995. See "-- Stock Option Plans" and "-- 1995 Equity Adjustment Program." The options granted were for shares of the Company's Class B common stock. The number of options granted shown in the table has been adjusted to reflect the 1-for-5.3089 reverse stock split to be effective prior to completion of this Offering. Also prior to completion of this Offering, all of the Company's outstanding options to purchase shares of Class B common stock will be converted into options to purchase a like number of shares of Common Stock. See "Description of Capital Stock -- Reverse Stock Split." The options granted to the Named Executive Officers vest in equal monthly increments over periods of 12, 24 or 36 months.

(2) Based on an aggregate of 923,292 options granted to employees during the year ended December 31, 1995, all of which were granted under the 1995 Stock Plan.

(3) The exercise price per share of each option is equal to the fair market value of the Company's Class B common stock on the date of grant as determined by the Company's Board of Directors.

(4) The potential realizable value was calculated based on the 10-year term of each option on its date of grant, assuming that the fair market value of the underlying stock on the date of grant appreciates at the indicated annual rate compounded annually for the entire term of the option and that the option is exercised and sold on the last day of its term for the appreciated stock price. The potential realizable value of each option was calculated using the exercise price of the option as the fair market value of the underlying stock on the date of grant. The actual realizable value of the options could be considerably higher than the potential realizable values shown in the table.

OPTION EXERCISES AND FISCAL YEAR END OPTION VALUES

The following table sets forth certain information with respect to the value of the stock options held by the Named Executive Officers at December 31, 1995. No Named Executive Officer exercised any stock options or stock appreciation rights during the year ended December 31, 1995 or had any stock appreciation rights outstanding at the end of the year.

FISCAL YEAR END OPTION VALUES

	NUMBER OF SECURITIES UNDERLYING UNEXERCISED OPTIONS AT FISCAL YEAR END(1)		VALUE OF UNEXERCISED IN-THE-MONEY OPTIONS AT FISCAL YEAR END(2)	
	VESTED	UNVESTED	VESTED	UNVESTED
Mark C. Miller	333,275	152,345	--	--
Anthony J. Tomasello	16,383	15,433	--	--
Linda D. Lee	12,814	15,808	--	--
Michael J. Bernert	23,567	25,948	--	--
Richard O. Shea	30,627	15,725	--	--

- ----------

(1) All unexercised options at December 31, 1995 were options to purchase shares of the Company's Class B common stock. The number of unexercised options shown in the table has been adjusted to reflect a 1-for-5.3089 reverse stock split to be effective prior to completion of this Offering. See "Description of Capital Stock -- Reverse Stock Split."

(2) The value of unexercised options was calculated based on the fair market value of the underlying shares of the Company's Class B common stock at December 31, 1995 ($0.53 per share), as determined by the Company's Board of Directors, less the exercise price payable for such shares ($0.53 per share), adjusting both amounts to reflect the 1-for-5.3089 reverse stock split to be effective prior to completion of this Offering. Also prior to completion of this Offering, all of the Company's outstanding options to purchase shares of Class B common stock will be converted into options to purchase a like number of shares of Common Stock. See "Description of Capital Stock -- Reverse Stock Split."

STOCK OPTION PLANS

1995 STOCK PLAN. The Company's Incentive Compensation Plan (the "1995 Stock Plan") was adopted by the Board of Directors in August 1995 and approved by the Company's stockholders in September 1995 in connection with a recapitalization of the Company. See "Description of Capital Stock -- 1995 Recapitalization." As amended by the Board of Directors in May and July 1996 and approved by the Company's stockholders in July 1996, the 1995 Stock Plan authorizes a total of 1,500,000 shares of Common Stock to be issued pursuant to options granted and restricted stock awarded under the plan. If an option granted under the 1995 Stock Plan expires unexercised or is surrendered, or if the Company repurchases shares of restricted stock awarded under the plan, the shares of Common Stock subject to the option or repurchased by the Company once again become available for option grants and restricted stock awards under the 1995 Stock Plan. As of June 1, 1996, options to purchase an aggregate of 696,962 shares were outstanding and 31,476 shares were available for future option grants or restricted stock awards. The 1995 Stock Plan has a 10-year term, and no option may be granted or shares of restricted stock awarded under the plan after its expiration in July 2005.

The 1995 Stock Plan provides for the grant of incentive stock options intended to satisfy the requirements of Section 422 of the Internal Revenue Code of 1986, as amended, nonstatutory stock options and restricted stock awards. Incentive stock options may be granted and shares of restricted stock may be awarded only to employees of the Company. Nonstatutory stock options may be granted only to employees of and consultants to the Company. The 1995 Stock Plan is administered by the Compensation Committee of the Board of Directors, which selects the eligible persons to whom options are granted or restricted stock is awarded and, subject to the provisions of the plan, determines the terms of each option or award, including, in the case of an option, the number of shares, type of option, exercise price and vesting schedule, and, in the case of an award of restricted stock, the purchase price, if any, and the restrictions applicable to the award.

The exercise price of options granted under the 1995 Stock Plan must be at least equal to the fair market value of the Common Stock on the date of grant, with the exception that the exercise price of an incentive stock option granted to an employee of the Company holding more than 10% of the outstanding stock of the Company must be at least 110% of the fair market value. The maximum term of any option may not exceed 10 years. An option may be exercised only when it is vested and, in the case of options granted to employees, only while the holder of the option remains an employee of the Company or during the 90-day period following the termination of his or her employment. In the Compensation Committee's discretion, this 90-day period may be extended in the case of nonstatutory stock options to any date ending on or before the expiration date of the option. In addition, the Compensation Committee may accelerate the exercisability of an option at any time. With the approval of the Compensation Committee, the holder of an option may pay the exercise price by delivering other shares of Common Stock, or by directing the Company to withhold shares of Common Stock otherwise issuable upon exercise of the option, having a fair market value on the date of exercise equal to the exercise price.

DIRECTORS STOCK OPTION PLAN. The Company's Directors Stock Option Plan (the "Directors Plan") was adopted by the Board of Directors in June 1996 and approved by the Company's stockholders in July 1996. The Directors Plan authorizes a total of 285,000 shares of Common Stock to be issued pursuant to nonstatutory stock options granted under the plan to directors of the Company other than directors who are officers or employees of the Company ("outside directors"). Under the Directors Plan, each incumbent outside director will automatically receive an option as of the date of closing of this Offering for a number of shares of Common Stock determined by multiplying 7,000 shares by a fraction, the numerator of which is $12.00 and the denominator of which is the average of the closing bid and asked prices of a share of Common Stock (the "closing price") on the date of grant. As of each annual meeting of the Company's stockholders after the date of this Offering, each incumbent outside director who is re-elected as a director at the annual meeting will automatically receive an option for a number of shares of Common Stock determined by multiplying 7,000 shares by a fraction, the numerator of which is $12.00 and the denominator of which is closing price on the date of the annual meeting, and each outside director who is elected as a director for the first time will automatically receive an option for a number of shares of Common Stock determined by multiplying 21,000 shares by a fraction, the numerator of which is $12.00 and the denominator of which is closing price on the date of the annual meeting. These option grants are subject to a maximum grant of 9,500 shares and a minimum grant of 4,500 shares (or to a maximum grant of 28,500 shares and a minimum grant of 13,500 shares in the case an outside director who is elected as a director for the first time at an annual meeting). In

addition, each outside director who is elected as a director for the first time other than at an annual meeting of the Company's stockholders will automatically receive, as of the date of his or her election, an option for a number of shares of Common Stock equal to three times the number of shares of Common Stock for which each incumbent outside director received an option as of the last annual meeting. The exercise price of each option granted under the Directors Plan will be the closing price on the date of grant. The term of each option will be six years from the date of grant. Each option will vest in 16 equal quarterly installments and may be exercised only when it is vested and only while the holder of the option remains a director of the Company or during the 90-day period following the date that he or she ceases to serve as a director. With the approval of the full Board of Directors, the holder of an option may pay the exercise price by delivering other shares of Common Stock, or by directing the Company to withhold shares of Common Stock otherwise issuable upon exercise of the option, having a fair market value on the date of exercise equal to the exercise price. The Directors Plan has a six-year term, and no option may be granted under the plan after its expiration in June 2002.

1995 EQUITY ADJUSTMENT PROGRAM

In November 1995, the Company substantially implemented a program to adjust the equity interests of the Company's officers and employees and certain of its directors to reflect a plan of recapitalization of the Company which was adopted by the Board of Directors in August 1995 and approved by the Company's stockholders in September 1995 and which, among other things, authorized the issuance of Class A and Class B common stock. See "Description of Capital Stock -- 1995 Recapitalization." The purpose of the program was to (i) restore the percentages of potential ownership interests in the Company of participants in the program to substantially the same percentages that existed prior to the recapitalization, (ii) substantially restore the potential value of stock in the Company that participants had previously purchased or for which they had been granted stock options, (iii) provide additional potential ownership interests by option grants for voluntary participation in a new salary reduction program being adopted for the Company's management and (iv) provide the Company's President and Chief Executive Officer, Mark C. Miller, with the opportunity potentially to acquire a 5% ownership interest in the Company. In connection with this equity adjustment program, the Company allowed participants to surrender their existing options to purchase shares of Class A common stock for options to purchase a larger number of shares of Class B common stock. The Company also agreed to reduce the purchase price of Class A common stock being purchased by participants under non-recourse notes to reflect the stock's current fair market value, as determined by the Board of Directors, and to accept shares of Class A common stock in satisfaction of the unpaid balance of the notes and issue shares of Class B common stock in exchange for the shares of Class A common stock for which the purchase price had been paid. The following table sets forth certain information for the year ended December 31, 1995 regarding the Named Executive Officers and the directors of the Company who participated in the equity adjustment program:

NAME	OPTIONS SURRENDERED(1)	SHARES OF STOCK EXCHANGED(1)	NEW OPTIONS RECEIVED(2)	NEW SHARES OF STOCK RECEIVED(2)
Mark C. Miller.....	37,989	38,262	485,620	3,868
Anthony J. Tomasello.....	4,031	12,244	31,816	48,974
Linda D. Lee.....	3,014	8,288	28,621	26,465
Michael J. Bernert.....	7,791	2,825	49,515	283
Richard O. Shea.....	4,073	8,476	46,353	11,584
Jack W. Schuler.....	6,404	80,768	52,857	211,429
Patrick F. Graham.....	1,601	9,306	32,723	--
Peter Vardy.....	5,463	6,404	7,120	28,480

- ------------------------

(1) All options surrendered were options to purchase, and all shares of stock exchanged were, shares of the Company's Class A common stock. The number of options surrendered and shares of stock exchanged have been adjusted to reflect a 1-for-5.3089 reverse stock split to be effective prior to completion of this Offering. See "Description of Capital Stock -- Reverse Stock Split."

(2) All options received were options to purchase, and all shares of stock received were, shares of the Company's Class B common stock. The number of options and shares of stock received have been adjusted to reflect a 1-for-5.3089 reverse stock split to be effective prior to completion of this Offering. See "Description of Capital

Stock -- Reverse Stock Split." Also prior to completion of this Offering, all of the Company's outstanding shares of Class B common stock and outstanding options to purchase shares of Class B common stock will be converted automatically into a like number of shares of Common Stock, or options to purchase a like number of shares of Common Stock, as the case may be. See "Description of Capital Stock -- Reverse Stock Split."

OTHER PLANS

The Company maintains a 401(k) plan in which employees who have completed one year's employment and attained age 21 are eligible to participate. The plan permits the Company to make matching contributions of a percentage of participants' deferrals to be determined each year by the Board of Directors. For 1993, 1994 and 1995, the Company made matching contributions of 30% of the first $1,000 contributed by participants.

EMPLOYMENT AGREEMENTS

The Company has not entered into written employment agreements with any of its executive officers or employees. All of the Company's executive officers and employees have signed confidentiality agreements with the Company.

LIMITATIONS ON DIRECTORS' LIABILITY AND INDEMNIFICATION

The Company's Certificate of Incorporation provides that to the fullest extent permitted by Delaware law, the Company's directors will not be liable for monetary damages for breach of a director's duty of care to the Company and its stockholders. This provision does not eliminate a director's duty of care, and in appropriate circumstances equitable remedies such as an injunction or other forms of non-monetary relief will remain available under Delaware law. Each director continues to remain liable for a breach of the director's duty of loyalty to the Company, for acts or omissions not in good faith or involving intentional misconduct or a knowing violation of the law, for improper distributions to stockholders and for any transaction from which the director derives an improper personal benefit. This provision also does not affect a director's liability under other laws, such as the federal securities laws.

The Company's By-Laws provide that the Company will indemnify its directors and executive officers and may indemnify its other officers and employees and other agents to the fullest extent permitted by Delaware law. The Company believes that indemnification under its By-Laws covers at least negligence and gross negligence on the part of indemnified parties. The Company's By-Laws also permit it to enter into indemnification agreements with its directors and officers and to purchase insurance on behalf of any person whom it is required or permitted to indemnify. Prior to completion of this Offering, the Company intends to enter into indemnification agreements with each of its executive officers and directors, indemnifying them for certain expenses (including attorneys' fees), judgments, fines and settlement payments in certain circumstances, and to obtain a policy of directors' and officers' liability insurance to insure against certain liabilities.

There is no pending litigation or proceeding involving a director or officer of the Company for which indemnification is required or permitted, and the Company is not aware of any pending or threatened litigation that may result in claims for indemnification by any director or officer.

CERTAIN TRANSACTIONS

In July 1995, the Company borrowed $830,000 under a 90-day line of credit, at the prime rate plus 3% per annum, from a lending group comprised of Galen Partners, L.P., Galen International, L.P. and Marquette Venture Partners, L.P., stockholders of the Company, and John Patience, Jack W. Schuler and Peter Vardy, directors of the Company. The Company's notes to the members of the lending group were secured by the Company's accounts receivable. In connection with this line of credit, the Company issued warrants to members of the lending group to purchase an aggregate of 220,559 shares of Common Stock. These warrants expire in July 2000 and are exercisable at any time at the price of $1.59 per share (or 70% of the per share purchase price if the Company sells Common Stock in a single transaction prior to July 27, 1996 in which the aggregate purchase price is at least $1,000,000). As of June 1, 1996, warrants for 59,128 shares had been exercised.

In May 1996, the Company borrowed $1,000,000 under a short-term loan from a lending group comprised of Galen Partners, L.P. and Galen International, L.P., stockholders of the Company, Jack W. Schuler, Mark C. Miller, John Patience and Peter Vardy, directors of the Company (and, in Mr. Miller's case, also an executive officer) and Michael J. Bernert, James F. Polark and Anthony J. Tomasello, executive officers of the Company. The Company's notes to the members of the lending group are interest-free if paid when due, subject to certain exceptions, and are due within 30 days after completion of this Offering or upon the occurrence of certain other events. The notes are unsecured and are subordinated to certain bank and other debt. In connection with this loan, the Company issued warrants to members of the lending group to purchase an aggregate of 226,036 shares of Common Stock. These warrants expire in May 2001 and are exercisable at any time at a price of $7.96 per share. The Company will record as an interest expense the excess over the exercise price of the fair market value at the time of exercise of the shares of Common Stock for which any warrant is exercised. Each warrant may be exercised by the holder at any time by directing the Company to withhold in payment, from the shares of Common Stock otherwise issuable upon the exercise of the warrant, a number of shares of Common Stock having a fair market value on the date of exercise equal to the exercise price. In connection with the loan, the Company also amended the warrants issued in connection with the July 1995 line of credit held by members of the lending group to add a similar "cashless exercise" provision to those warrants.

In June 1996, the Company loaned $31,000 to Richard O. Shea, an executive officer of the Company. This loan has an interest rate of 11.75% per annum. The Company previously made two loans to Mr. Shea of $60,000 and $5,000, respectively, which remain outstanding. These loans have interest rates of 5.54% per annum. All three loans are due on December 2, 1998 and are secured by a security interest in all of Mr. Shea's shares of Common Stock, including any shares issuable upon his exercise of any stock options.

PRINCIPAL STOCKHOLDERS

The following table sets forth certain information regarding the beneficial ownership of the Company's Common Stock as of June 1, 1996, and as adjusted to reflect the sale by the Company of the shares of Common Stock offered hereby, by (i) each person known to the Company to beneficially own more than 5% of the Company's Common Stock, (ii) each of the Company's directors, (iii) each of the Named Executive Officers and (iv) all directors and executive officers of the Company as a group:

NAME OF BENEFICIAL OWNER	NUMBER OF SHARES (1)	PERCENTAGE BENEFICIALLY OWNED (1) BEFORE OFFERING	PERCENTAGE BENEFICIALLY OWNED (1) AFTER OFFERING
Marquette Venture Partners, L.P. (2) Corporate 500 Center 520 Lake Cook Road, Suite 450 Deerfield, Illinois 60015	1,154,731	18.7%	12.5%
State Farm Mutual Automobile Insurance Company One State Farm Plaza Bloomington, Illinois 61710	937,521	15.3%	10.2%
Missner Venture Partners II, L.P. (3) Two First National Bank Plaza, Suite 2020 Chicago, Illinois 60603	466,212	7.6%	5.1%
Baxter Healthcare Corporation One Baxter Parkway Deerfield, Illinois 60015	461,028	7.5%	5.0%
Galen Partners, L.P (4) 666 West Third Avenue, Suite 1400 New York, New York 10017	433,476	7.0%	4.7%
Jack W. Schuler (5)	813,382	13.0%	8.7%
Mark C. Miller (6)	558,171	9.0%	6.0%
Linda D. Lee (7)	55,333	*	*
Anthony J. Tomasello (8)	131,003	2.1%	1.4%
Michael J. Bernert (9)	52,590	*	*
Richard O. Shea (10)	55,315	*	*
Patrick F. Graham (11)	35,727	*	*
John Patience (12)	200,858	3.3%	2.2%
Lloyd D. Ruth (2)	--	*	*
Peter Vardy (13)	160,107	2.6%	1.7%
L. John Wilkerson, Ph.D. (14)	--	*	*
All officers and directors as a group (11 persons) (15)	2,120,119	31.8%	21.7%

* Less than 1%.

(1) Beneficial ownership is determined in accordance with the rules of the Securities and Exchange Commission and generally includes voting or investment power with respect to securities. Unless otherwise indicated in the footnotes to this table and subject to applicable community property laws, the persons named in this table have sole voting and investment power with respect to all shares of Common Stock shown as beneficially owned by them. Shares of Common Stock subject to options or warrants that are currently exercisable or exercisable within 60 days of June 1, 1996 are considered outstanding for purposes of computing the percentage of the person holding the option or warrant but are not considered for purposes of computing the percentage of any other person. The 98,001 shares of Common Stock issuable under the Safe Way Note are considered outstanding after completion of this Offering.

(2) Includes 53,811 shares issuable under a warrant exercisable within 60 days of June 1, 1996. Lloyd D. Ruth, a director of the Company, is a general partner of the general partner of Marquette Venture Partners, L.P.

("Marquette"). Mr. Ruth disclaims any beneficial ownership in any of the shares held by Marquette except to the extent of his pecuniary interest arising from his general partnership interest in the general partner of Marquette.

(3)Includes 35,414 shares owned by Richard H. Missner, who is a general partner and a limited partner of Missner Venture Partners II, L.P. ("Missner Partners"). Mr. Missner disclaims any beneficial ownership of the shares held by Missner Partners except to the extent of his individual ownership and his pecuniary interest arising from his general partnership and limited partnership interests in Missner Partners.

(4)Includes 81,374 shares issuable under a warrant exercisable within 60 days of June 1, 1996 and 40,459 shares (including 8,377 shares issuable under a warrant exercisable within 60 days of June 1, 1996) which are owned by an affiliate, Galen Partners International, L.P. L. John Wilkerson, Ph.D., a director of the Company, is a general partner of the general partner of Galen Partners, L.P. and Galen Partners International, L.P. Dr. Wilkerson disclaims any beneficial ownership of the shares held by Galen Partners, L.P. or Galen Partners International, L.P. except to the extent of his individual ownership and his pecuniary interest arising from his general partnership interest in their general partner.

(5)Includes 89,524 shares issuable under warrants exercisable within 60 days of June 1, 1996, 39,643 shares issuable under stock options exercisable within 60 days of June 1, 1996 and 32,716 shares owned by Mr. Schuler's wife or trusts for the benefit of his children, in respect of which Mr. Schuler disclaims any beneficial ownership.

(6)Includes 27,509 shares issuable under stock options exercisable within 60 days of June 1, 1996 and 63,290 shares issuable under a warrant exercisable within 60 days of June 1, 1996, and 75,345 shares owned by trusts for the benefit of Mr. Miller's children, in respect of which Mr. Miller disclaims any beneficial ownership.

(7)Includes 25,519 shares issuable under stock options exercisable within 60 days of June 1, 1996.

(8)Includes 29,687 shares issuable under stock options exercisable within 60 days of June 1, 1996 and 12,432 shares issuable under a warrant exercisable within 60 days of June 1, 1996.

(9)Includes 40,041 shares issuable under stock options exercisable within 60 days of June 1, 1996 and 11,302 shares issuable under a warrant exercisable within 60 days of June 1, 1996.

(10)Includes 43,544 shares issuable under stock options exercisable within 60 days of June 1, 1996.

(11)Includes 31,087 shares issuable under stock options exercisable within 60 days of June 1, 1996.

(12)Includes 1,627 shares issuable under stock options exercisable within 60 days of June 1, 1996 and 34,583 shares issuable under a warrant exercisable within 60 days of June 1, 1996.

(13)Includes 22,966 shares issuable under a warrant exercisable within 60 days of June 1, 1996, 1,780 shares issuable under options exercisable within 60 days of June 1, 1996 and 67,613 shares owned by trusts for the benefit of Mr. Vardy's children, in respect of which Mr. Vardy disclaims any beneficial ownership.

(14)L. John Wilkerson, Ph.D., a director of the Company, is a general partner of the general partner of Galen Partners, L.P. and Galen Partners International, L.P. Dr. Wilkerson disclaims any beneficial ownership of the shares held by Galen Partners, L.P. or Galen Partners International, L.P. except to the extent of his individual ownership and his pecuniary interest arising from his general partnership interest in their general partner.

(15)Includes 286,769 shares issuable under stock options exercisable within 60 days of June 1, 1996 and 244,269 shares issuable under warrants exercisable within 60 days of June 1, 1996.

DESCRIPTION OF CAPITAL STOCK

Upon completion of this Offering, the Company's authorized capital stock will consist of 30,000,000 shares of Common Stock, par value $.01 per share. The following description reflects (i) a 1-for-5.3089 reverse stock split to be effective immediately prior to completion of this Offering and (ii) the automatic redesignation upon completion of this Offering of all of the Company's outstanding shares of Class A and Class B common stock and outstanding options to purchase shares of Class A or Class B common stock as a like number of shares of Common Stock or options to purchase a like number of shares of Common Stock, as the case may be. See "-- Reverse Stock Split."

COMMON STOCK

As of June 1, 1996, there were 6,218,455 shares of Common Stock outstanding which were held of record by 139 stockholders.

Holders of Common Stock are entitled to one vote per share on all matters to be voted upon by the stockholders but do not have cumulative voting rights in respect of the election of directors. Holders of Common Stock are entitled to receive ratably such dividends, if any, as may be declared from time to time by the Company's Board of Directors out of legally available funds. In the event of the liquidation, dissolution or winding up of the Company, holders of Common Stock are entitled to share ratably in all of the assets of the Company remaining after payment or provision for payment of the Company's liabilities. Holders of Common Stock have no preemptive or other subscription rights to purchase any securities of the Company, and there are no conversion rights or redemption or sinking fund provisions in respect the Common Stock. All outstanding shares of Class A and Class B common stock are, and all shares of Common Stock to be outstanding upon completion of this Offering will be, fully paid and non-assessable.

WARRANTS

As of June 1, 1996, there were outstanding warrants to purchase 409,848 shares of Common Stock, all of which were then exercisable at a weighted average exercise price of $6.83 per share. Of these outstanding warrants, warrants for 15,608 shares of Common Stock, at an exercise price of $17.63 per share, expire in March 1998; warrants for 6,773 shares of Common Stock, at an exercise price of $69.02 per share, expire in March 1999; warrants for 161,432 shares of Common Stock, at an exercise price of $1.59 per share (or 70% of the per share purchase price if the Company sells Common Stock in a single transaction prior to July 27, 1996 in which the aggregate purchase price is at least $1,000,000), expire in July 2000; and warrants for 226,036 shares of Common Stock, at an exercise price of $7.96, expire in May 2001. Holders of the warrants expiring on March 17, 1999 are entitled to certain rights in respect of the registration under the Securities Act of 1933, as amended (the "Securities Act"), of the shares of Common Stock issued upon the exercise of the warrants. See "-- Registration Rights of Certain Holders."

OPTIONS

As of June 1, 1996, there were outstanding options to purchase 718,443 shares of Common Stock, at a weighted average exercise price of $0.97 per share, of which options for 414,030 shares, at a weighted average exercise price of $0.69 per share, were exercisable within 60 days of June 1, 1996. With the exception of options for 9,943 shares, which were granted under terminated plans and are held by former employees and vendors to the Company and options for 11,537 shares issued to consultants engaged by the Company, all of these outstanding options were granted under the 1995 Stock Plan. See "Management -- Stock Option Plans."

REGISTRATION RIGHTS OF CERTAIN HOLDERS

Upon completion of this Offering, holders of 5,212,603 shares of Common Stock (including 6,773 shares issuable upon the exercise of certain of the Company's outstanding warrants and 98,001 shares to be issued in partial payment of an outstanding note due upon completion of this Offering) (the "Registrable Shares") will be entitled to certain rights in respect of the registration of the Registrable Shares under the Securities Act. Under the Amended and Restated Registration Agreement dated October 19, 1994, as amended, among the Company and such holders, holders of a majority of the Registrable Shares have the right, until the Company is eligible to file a registration statement on Form S-2 or Form S-3, to request on two occasions that the Company file a registration statement on Form S-1 to register all or a portion of their Registrable Shares. If and when the Company is eligible to file a registration statement on Form S-2 or Form S-3, holders of at least 25% of the Registrable Shares have the

right to request on an unlimited number of occasions that the Company file a registration statement on Form S-2 or Form S-3 to register all or a portion of their Registrable Shares. In addition, one holder of 937,521 Registrable Shares has the right, which may be exercised at any time, to request on two occasions that the Company file a registration statement on any available form to register all or a portion of its Registrable Shares; and a second holder of 461,028 Registrable Shares has the right, which may be exercised at any time after completion of this Offering, to request on one occasion that the Company file a registration statement on any available form to register all or a portion of its Registrable Shares. If the Company proposes at any time to register any of its securities under the Securities Act, either for its own account or for the account of other security holders exercising registration rights, all holders of Registrable Shares are entitled to notice of the proposed registration and may request all or a portion of their Registrable Shares to be included in the registration. In general, the Company is required to pay all of the expenses in connection with any registration of Registrable Shares, including the fees and expenses of one counsel for the selling holder or holders of Registrable Shares but excluding underwriting discounts and commissions. The rights of holders of Registrable Shares are subject to certain conditions and limitations, including (i) a prohibition on the registration of any Registrable Shares within six months after the effective date of any prior registration of Registrable Shares and (ii) in the case of any proposed registration of the Company's securities which are to be sold in an underwritten public offering, the right of the underwriters to limit the number of Registrable Shares that may be included in the registration.

LIMITED REDEMPTION RIGHTS OF ONE HOLDER

Under the Company's alliance agreement with Baxter, Baxter has the right, solely until the expiration of its 180-day "lock-up" agreement with the Managing Underwriters, to require the Company to redeem all of Baxter's 461,028 shares of Common Stock if the Company willfully breaches or defaults under the alliance agreement, a competitor of Baxter's acquires control of the Company, the Company sells or distributes hospital or medical products or services as part of a program like Baxter's procedure-based delivery system, or the Company enters into an agreement with a third party to provide regulated medical waste management services to its customers in connection with a program by the third party like Baxter's procedure-based delivery system. The redemption price will not exceed the greater of $15.18 per share plus simple interest at the rate of 10% per annum from October 1993 or the fair market value of the Common Stock that Baxter owns at the time of redemption. See "Business -- Marketing and Sales - -- Core Generators" and "Shares Eligible for Future Sale."

ANTI-TAKEOVER PROVISIONS OF DELAWARE LAW

The Company is subject to Section 203 of the Delaware General Corporation Law regulating corporate takeovers. Section 203 prevents certain Delaware corporations, including those whose securities are listed on Nasdaq, from engaging in any "business combination" with any "interested stockholder" for a period of three years following the date that the stockholder became an interested stockholder, with three exceptions: (i) prior to such date, the board of directors of the corporation approved either the business combination or the transaction which resulted in the stockholder becoming an interested stockholder; (ii) upon the consummation of the transaction which resulted in the stockholder becoming an interested stockholder, the interested stockholder owned at least 85% of the voting stock of the corporation outstanding at the time that the transaction commenced, excluding for purposes of determining the number of shares outstanding the shares owned by persons who are both directors and officers of the corporation and the shares owned by employee stock plans in which employee participants do not have the right to determine confidentially whether shares held subject to the plan will be tendered in a tender or exchange offer; or (iii) on or subsequent to the date that the stockholder became an interested stockholder, the business combination is approved by the board of directors of the corporation and authorized at an annual or special meeting of stockholders, and not pursuant to written consent, by the affirmative vote of at least 66 2/3% of the outstanding voting stock of the corporation, excluding voting stock owned by the interested stockholder. The restrictions in Section 203 also do not apply to certain business combinations proposed by an interested stockholder following the announcement or notification of one of certain extraordinary transactions involving the corporation (for example, a proposed tender or exchange offer for 50% or more of the corporation's outstanding voting stock) which is approved or not opposed by a majority of the corporation's directors then in office and which is with or by a person who had not been an interested stockholder during the preceding three years or who became an interested stockholder with the approval of the corporation's board of directors.

Section 203 defines a "business combination" as, in general: (i) any merger or consolidation involving the corporation and the interested stockholder; (ii) any sale, lease, transfer, pledge or other disposition to the interested stockholder of 10% or more of the corporation's assets; (iii) subject to certain exceptions, any transaction which results in the issuance or transfer by the corporation to the interested stockholder of any stock of the corporation; (iv) any transaction involving the corporation which has the effect of increasing the proportionate share of the stock of any class or series, or of securities convertible into the stock of any class or series, which is beneficially owned by the interested stockholder; or (v) the receipt by the interested stockholder of the benefit of any loans, advances, guarantees, pledges or other financial benefits provided by or through the corporation. Section 203 defines an "interested stockholder" as, in general, any person or entity who or which directly or indirectly beneficially owns 15% or more of the outstanding voting stock of the corporation and any person or entity affiliated or associated with or controlling or controlled by that person or entity.

The provisions of Section 203 could operate to delay or prevent the removal of incumbent directors of the Company or a change in control of the Company. They also could discourage, impede or prevent a merger, tender offer or proxy contest involving the Company, even if such an event would be favorable to the interests of the Company's stockholders generally. By adopting an amendment to the Company's certificate of incorporation or by-laws, the Company's stockholders may elect not to have Section 203 apply to the Company effective 12 months after the adoption of the amendment. Neither the Company's Certificate of Incorporation nor its By-Laws currently exclude the Company from the restrictions imposed by Section 203.

1995 RECAPITALIZATION

In order to simplify the Company's capital structure and align stockholder interests, the Board of Directors adopted a plan of recapitalization in August 1995 which was approved by the Company's stockholders in September 1995. Pursuant to the plan of recapitalization, the Company authorized the issuance of Class A and Class B common stock and reclassified its outstanding preferred stock, consisting of nine classes, as shares of Class A common stock using a reclassification formula for each class reflecting the conversion rate for that class and certain other adjustments. The Company also reclassified its outstanding common stock as a like number of shares of Class A common stock. The new Class B common stock could be issued only pursuant to the exercise of options granted and restricted stock awarded under the 1995 Stock Plan. The Class B common stock was subject to certain first refusal rights in the event of any proposed sale or transfer at the lower of the original exercise or purchase price or the price to be paid by the proposed purchaser or transferee.

REVERSE STOCK SPLIT

Prior to completion of this Offering, the Company will effect a 1-for-5.3089 reverse stock split pursuant to which each outstanding share of Class A and Class B common stock will become 0.1884 shares, and the number of shares and exercise price of each outstanding option will be adjusted accordingly. All of the Company's outstanding warrants will be similarly adjusted in accordance with their terms. Also prior to completion of this Offering, all of the Company's outstanding shares of Class A and Class B common stock and outstanding options to purchase shares of Class A or Class B common stock will be redesignated as a like number of shares of Common Stock or options to purchase a like number of shares of Common Stock, as the case may be.

TRANSFER AGENT AND REGISTRAR

The transfer agent and registrar for the Common Stock is Harris Trust and Savings Bank.

SHARES ELIGIBLE FOR FUTURE SALE

Prior to this Offering, there has been no public market for the Common Stock of the Company. Future sales of substantial amounts of Common Stock in the public market could adversely affect the market price of Common Stock. Aside from the 3,000,000 shares sold in this Offering, only a limited number of shares will be available for sale immediately following completion of this Offering because of certain contractual and legal restrictions on resale (as described below). Accordingly, sales of substantial amounts of Common Stock of the Company in the public market after these restrictions lapse could adversely affect the prevailing market price and the ability of the Company to raise equity capital in the future.

Upon completion of this Offering, the Company will have outstanding an aggregate of 9,218,455 shares of Common Stock, assuming no exercise of the Underwriters' over-allotment option and no exercise of outstanding stock options and warrants. Of these outstanding shares of Common Stock, the 3,000,000 shares sold in this Offering will be freely tradeable without restriction or further registration under the Securities Act, unless purchased by an "affiliate" of the Company as that term is defined in Rule 144 under the Securities Act.

The remaining 6,218,455 shares of Common Stock held by existing stockholders (the "Restricted Shares") will be "restricted securities" as that term is defined in Rule 144 under the Securities Act. The Restricted Shares may be sold in the public market only if they are registered under the Securities Act or if they qualify for an exemption from registration under Rule 144 under the Securities Act (which is summarized below). Sales of the Restricted Shares in the public market, or the availability of the Restricted Shares for sale, could adversely affect the market price of the Common Stock.

Certain stockholders of the Company, including all executive officers and directors and the individuals and entities named in the table under "Principal Stockholders," who will beneficially own in the aggregate 5,571,624 Restricted Shares after the Offering, have entered into "lock-up" agreements with the Managing Underwriters pursuant to which they have agreed not to offer, sell, contract to sell, grant any option to purchase or otherwise dispose of, directly or indirectly, any of their Restricted Shares, or any shares of Common Stock that they may acquire through the exercise of stock options or warrants, or to exercise any of their registration rights in respect of their shares of Common Stock, for a period of 180 days from the date of this Prospectus without the prior written consent of Dillon, Read & Co. Inc. on behalf of the Managing Underwriters. As a result of these contractual restrictions, shares of Common Stock subject to the lock-up agreements are restricted from sale until the lock-up agreements expire, notwithstanding that they otherwise may be eligible for sale under Rule 144. Upon the expiration of the lock-up agreements, shares will be eligible for sale pursuant to Rule 144.

In general, under Rule 144 as currently in effect, beginning 90 days after the date of this Prospectus, a person (or persons whose shares are required to be aggregated) who has beneficially owned Restricted Shares for at least two years (including the holding period of any prior beneficial owner except an affiliate of the Company) would be entitled to sell during any three-month period a number of Restricted Shares that does not exceed the greater of (i) 1% of the number of shares of Common Stock then outstanding or (ii) the average weekly trading volume of the Common Stock during the four calendar weeks preceding the filing of the required notice of sale on Form 144. Sales of Restricted Shares under Rule 144 are also subject to compliance with certain conditions relating to the manner of sale, the requirement to file notice of the sale with the Securities and Exchange Commission on Form 144 and the availability of current public information about the Company. Under Rule 144(k), a person who is not deemed to have been an affiliate of the Company at any time during the 90 days preceding a sale, and who has beneficially owned the Restricted Shares proposed to be sold for at least three years (including the holding period of any prior owner except an affiliate), may sell the Restricted Shares under Rule 144 without regard to any volume limitation or other conditions or requirements of the rule. Accordingly, unless otherwise restricted, holders of Restricted Shares who are eligible to use Rule 144(k) may sell their shares immediately upon completion of this Offering.

As of June 1, 1996, there were outstanding options under the 1995 Stock Plan to purchase 696,962 shares of Common Stock, of which options for 414,030 shares were exercisable within 60 days of June 1, 1996. Of the options exercisable within 60 days of June 1, 1996, options for 286,769 shares were held by officers and directors of the Company subject to the lock-up agreements described above. Shortly after completion of this Offering, the Company intends to file a registration statement on Form S-8 to register the 1,500,000 shares of Common Stock issued or issuable under the 1995 Stock Plan and the 285,000 shares of Common Stock issuable under the Directors Plan. This registration statement will become effective automatically upon filing. Accordingly, shares registered under this registration statement will be available for sale in the public market, subject to the volume limitations under Rule 144 in the case of sales by affiliates of the Company, except to the extent that the shares are subject to contractual restrictions on sale under the lock-up agreements described above.

As of June 1, 1996, there were also other options outstanding to purchase 21,481 shares of Common Stock, of which options for 16,475 shares were exercisable within 60 days of June 1, 1996.

As of June 1, 1996, there were outstanding warrants to purchase 409,848 shares of Common Stock, all of which were then exercisable. Holders of warrants to purchase 387,829 shares of Common Stock are subject to the lock-up agreements described above.

UNDERWRITING

The names of the Underwriters of the shares of Common Stock offered hereby and the aggregate number of shares of Common Stock that each of them has agreed to purchase from the Company, subject to the terms and conditions specified in the Underwriting Agreement, are as follows:

UNDERWRITERS	NUMBER OF SHARES
Dillon, Read & Co. Inc.	
Salomon Brothers Inc	
William Blair & Company L.L.C	
Total	3,000,000

The Managing Underwriters are Dillon, Read & Co. Inc., Salomon Brothers Inc and William Blair & Company L.L.C.

If any shares of Common Stock offered hereby are purchased by the Underwriters, all such shares will be so purchased. The Underwriting Agreement contains certain provisions whereby, if any Underwriter defaults in its obligation to purchase such shares, and the aggregate obligations of the Underwriters so defaulting do not exceed 10% of the shares offered hereby, the remaining Underwriters, or some of them, must assume such obligations.

The Common Stock offered hereby is being initially offered severally by the Underwriters for sale at the price set forth on the cover page of this Prospectus, or at such price less a concession not to exceed $ per share on sales to certain dealers. The Underwriters may allow, and such dealers may reallow, a concession not to exceed $ per share on sales to certain other dealers. The offering of shares is made for delivery when, as, and if accepted by the Underwriters and subject to prior sale and withdrawal, cancellation or modification of the offer without notice. The Underwriters reserve the right to reject any order for the purchase of the shares. After the initial public offering, the public offering price, the concession and the reallowance may be changed by the Managing Underwriters.

The Company has granted to the Underwriters an over-allotment option to purchase up to an aggregate of 450,000 shares of Common Stock. If the Underwriters exercise this option, each of the Underwriters will have a firm commitment, subject to certain conditions, to purchase approximately the same percentage of the aggregate shares to be purchased as the number of shares to be purchased by it shown in the above table bears to 3,000,000. The Underwriters may exercise such option on or before the thirtieth day from the date of the Underwriting Agreement and only to cover over-allotments made of the shares in connection with this Offering.

The Company has agreed in the Underwriting Agreement to indemnify the Underwriters against certain liabilities, including liabilities under the Securities Act, or to contribute to payments that the Underwriters may be required to make in respect thereof.

The Company and certain of its officers, directors and stockholders prior to this Offering have agreed not to offer, sell, contract to sell, grant any option to sell, or otherwise dispose of, directly or indirectly, any shares of Common Stock, or securities convertible into or exercisable or exchangeable for, any shares of Common Stock or warrants or other rights to purchase shares of Common Stock, or permit the registration of any shares of Common Stock for a period of 180 days after the date of this Prospectus, without the prior consent of Dillon, Read & Co. Inc. acting on behalf of the Managing Underwriters.

Prior to this Offering, there has been no public market for the Common Stock of the Company. Consequently, the initial public offering price was determined by negotiation between the Company and the Managing Underwriters. Factors considered in determining this price included, among other things, prevailing market conditions, the state of the Company's development, the future prospects of the Company and its industry, market valuations of securities of companies engaged in activities deemed by the Managing Underwriters to be similar to those of the Company, and other factors deemed relevant. Consideration was also given to the general state of the securities market, the market conditions for new issues of securities and the demand for similar securities of comparable companies. The Common Stock has been approved for quotation on Nasdaq under the symbol "SRCL," subject to notice of issuance.

The Underwriters do not expect to confirm sales to accounts over which they exercise discretionary authority.

At the request of the Company, the Underwriters have reserved up to 150,000 shares of Common Stock for sale at the initial offering price to employees of the Company and certain other parties. The number of shares available for sale to the general public will be reduced to the extent such individuals purchase such reserved shares. Any reserved shares not so purchased will be released for sale by the Underwriters to the general public no later than the closing date of this Offering (which is expected to be three business days after the date of this Prospectus) on the same terms as the other shares offered hereby. Reserved shares purchased by such individuals will, except as restricted by applicable securities laws, be available for resale following this Offering.

LEGAL MATTERS

Certain legal matters in connection with the Common Stock offered hereby are being passed upon for the Company by Johnson and Colmar, Chicago, Illinois and for the Underwriters by Cahill Gordon & Reindel (a partnership including a professional corporation), New York, New York.

EXPERTS

The consolidated financial statements of Stericycle, Inc. and subsidiaries at December 31, 1994 and 1995, and for each of the three years in the period ended December 31, 1995, appearing in this Prospectus and in the Registration Statement have been audited by Ernst & Young LLP, independent auditors, as set forth in their report with respect thereto, appearing elsewhere herein and in the Registration Statement and are included in reliance upon such report given upon the authority of such firm as experts in accounting and auditing.

ADDITIONAL INFORMATION

This Prospectus forms part of a Registration Statement on Form S-1 (the "Registration Statement") which the Company has filed with the Securities and Exchange Commission (the "Commission") under the Securities Act. In accordance with the Commission's rules and regulations, this Prospectus omits certain of the information in the Registration Statement and all of its exhibits, and reference is made to the Registration Statement and its exhibits for further information relating to the Company and the Common Stock offered hereby. Copies of the Registration Statement and its exhibits may be inspected without charge at the public reference facilities maintained by the Commission at 450 Fifth Street, N.W., Washington, D.C. 20549, and copies of this material can be obtained from the Public Reference Section of the Commission at 450 Fifth Street, N.W., Washington, D.C. 20549 at prescribed rates. In addition, the Commission maintains a Web site on the World Wide Web, and copies of the Registration Statement and its exhibits may be accessed at this Web site (http://www.sec.gov). Statements in this Prospectus concerning the provisions of any contract or document are not necessarily complete, and each such statement is qualified in its entirety by reference to the copy of the relevant contract or document filed as an exhibit to the Registration Statement.

STERICYCLE, INC. AND SUBSIDIARIES
INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

REPORT OF INDEPENDENT AUDITORS

The Board of Directors and Shareholders
Stericycle, Inc.

We have audited the accompanying consolidated balance sheets of Stericycle, Inc. and Subsidiaries as of December 31, 1994 and 1995, and the related consolidated statements of operations, changes in shareholders' equity (net capital deficiency), and cash flows for each of the years in the three-year period ended December 31, 1995. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. 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 our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Stericycle, Inc. and Subsidiaries at December 31, 1994 and 1995, and the consolidated results of their operations and their cash flows for each of the years in the three-year period ended December 31, 1995, in conformity with generally accepted accounting principles.

Chicago, Illinois
March 20, 1996,
except for the first paragraph of Note 7,
as to which the date is , 1996

- ---

The foregoing report is in the form that will be signed when the reverse stock split, decrease in authorized common stock and redesignation of the Class A and Class B common stock as a like number of shares of common stock all become effective prior to completion of an initial public offering as described in the first paragraph of Note 7 to the financial statements.

ERNST & YOUNG LLP

Chicago, Illinois
July 26, 1996

STERICYCLE, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

	DECEMBER 31,	
	1994	1995
	(IN THOUSANDS)	
ASSETS		
Current assets:		
Cash and cash equivalents	$ 1,206	$ 138
Accounts receivable, less allowance for doubtful accounts of $150 in 1994 and $138 in 1995	4,817	3,731
Parts and supplies	603	468
Prepaid expenses	405	431
Other current assets	657	424
Total current assets	7,688	5,192
Property, plant and equipment:		
Land	90	90
Buildings and improvements	5,348	5,394
Machinery and equipment	7,240	7,644
Office equipment and furniture	390	406
Construction in progress	784	281
	13,852	13,815
Less accumulated depreciation and amortization	(2,219)	(3,587)
Property, plant and equipment-net	11,633	10,228
Other assets:		
Organization costs, net	75	32
Goodwill, less accumulated amortization of $97 in 1994 and $417 in 1995	7,782	7,517
Other	631	522
Total other assets	8,488	8,071
Total assets	$27,809	$23,491
LIABILITIES AND SHAREHOLDERS' EQUITY (NET CAPITAL DEFICIENCY)		
Current liabilities:		
Current portion of long-term debt	$ 603	$ 297
Accounts payable	1,291	1,868
Accrued liabilities	2,655	1,956
Deferred revenue	629	632
Total current liabilities	5,178	4,753
Long-term debt:		
Industrial development revenue bonds and other	2,358	2,284
Note payable to bank	--	858
Note payable	2,480	2,480
Total long-term debt	4,838	5,622
Other liabilities	247	542
Convertible redeemable preferred stock (par value $.01 per share; 550,200 shares authorized, 489,079 issued and outstanding in 1994; none in 1995)	62,909	--
Shareholders' Equity (net capital deficiency):		
Common stock (par value $.01 per share, 30,000,000 shares authorized, 369,808 issued and outstanding in 1994, 5,582,385 issued and outstanding in 1995)	4	55
Additional paid-in capital	811	49,621
Accumulated dividends on convertible redeemable preferred stock	(13,001)	--
Notes receivable for common stock purchases	(619)	--
Accumulated deficit	(32,558)	(37,102)
Total shareholders' equity (net capital deficiency)	(45,363)	12,574
Total liabilities and shareholders' equity (net capital deficiency)	$27,809	$23,491

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

STERICYCLE, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS
(IN THOUSANDS, EXCEPT SHARE AND PER SHARE INFORMATION)

	FOR THE YEARS ENDED DECEMBER 31,		
	1993	1994	1995
Revenues	$ 9,141	$ 16,141	$ 21,339
Costs and expenses:			
Cost of revenues	9,137	13,922	17,478
Selling, general and administrative expenses	5,988	7,927	8,137
Total costs and expenses	15,125	21,849	25,615
Loss from operations	(5,984)	(5,708)	(4,276)
Other income (expense):			
Interest income	201	156	9
Interest expense	(245)	(260)	(277)
Total other income (expense)	(44)	(104)	(268)
Net loss	(6,028)	(5,812)	(4,544)
Less cumulative preferred dividends	(3,733)	(4,481)	--
Loss applicable to common stock	$ (9,761)	$ (10,293)	$ (4,544)
Net loss per common share	$ (5.28)	$ (5.57)	$ (0.64)
Weighted average number of common shares outstanding	1,847,432	1,847,808	7,060,438

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

STERICYCLE, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
(NET CAPITAL DEFICIENCY)
YEARS ENDED DECEMBER 31, 1993, 1994 AND 1995
(IN THOUSANDS)
COMMON STOCK

	ISSUED AND OUTSTANDING SHARES	AMOUNT	ADDITIONAL PAID-IN CAPITAL	ACCUMULATED DIVIDENDS ON CONVERTIBLE REDEEMABLE PREFERRED STOCK	NOTES RECEIVABLE FOR COMMON STOCK PURCHASES	ACCUMULATED DEFICIT	TOTAL SHAREHOLDERS' EQUITY (NET CAPITAL DEFICIENCY)
BALANCES AT DECEMBER 31, 1992	372	$ 4	$ 813	$ (4,787)	$(974)	$(20,718)	$(25,662)
Issuance of common stock	6		35		(4)		31
Shares repurchased and retired	(9)		(37)		46		9
Accumulated dividends				(3,733)			(3,733)
Principal payments under notes receivable					277		277
Net loss for the year ended December 31, 1993						(6,028)	(6,028)
BALANCES AT DECEMBER 31, 1993	369	$ 4	$ 811	$ (8,520)	$(655)	$(26,746)	$(35,106)
Issuance of common stock	1						
Accumulated dividends				(4,481)			(4,481)
Principal payments under notes receivable					36		36
Net loss for the year ended December 31, 1994						(5,812)	(5,812)
BALANCES AT DECEMBER 31, 1994	370	$ 4	$ 811	$(13,001)	$(619)	$(32,558)	$(45,363)
Common stock issued in exchange for preferred stock	5,043	50	49,439				49,489
Common stock issued -- $.01 per share	350	3					3
Accumulated dividends canceled				13,001			13,001
Notes receivable canceled	(181)	(2)	(629)		619		(12)
Net loss for the year ended December 31, 1995						(4,544)	(4,544)
BALANCES AT DECEMBER 31, 1995	5,582	$ 55	$49,621	$ --	$ --	$(37,102)	$ 12,574

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

STERICYCLE, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS

	FOR THE YEARS ENDED DECEMBER 31,		
	1993	1994	1995
	(IN THOUSANDS)		
OPERATING ACTIVITIES:			
Net loss	$ (6,028)	$ (5,812)	$ (4,544)
Adjustments to reconcile net loss to net cash used in operating activities:			
Depreciation and amortization	869	1,306	1,916
Settlement with regulatory agency	--	--	273
Other, net	100	--	129
Change in net operating assets, net of effect of acquisitions and divestitures:			
Accounts receivable	(800)	(3,126)	866
Parts and supplies	(84)	(241)	135
Prepaid expenses and other current assets	(174)	(486)	196
Other assets	(185)	(278)	128
Accounts payable	(464)	879	570
Accrued liabilities	(1,026)	766	(838)
Deferred revenue and other liabilities	2	280	298
Net cash used in operating activities	(7,790)	(6,712)	(871)
INVESTING ACTIVITIES:			
Capital expenditures	(3,368)	(1,910)	(726)
Payments for acquisitions, net of cash acquired	--	(1,530)	(459)
Proceeds from divestitures	--	--	792
Restricted certificate of deposit	285	--	--
Net cash used in investing activities	(3,083)	(3,440)	(393)
FINANCING ACTIVITIES:			
Repayment of long-term debt	(220)	(79)	(171)
Net proceeds from note payable to bank	--	--	858
Proceeds from sale and leaseback of equipment	--	882	--
Principal payments under capital lease obligations	(586)	(629)	(482)
Proceeds from issuance of convertible redeemable preferred stock	8,000	3,458	--
Repurchase of preferred stock	(8)	--	--
Principal payments on notes receivable for common stock purchases	319	36	--
Issuance of common stock	--	--	18
Other	--	--	(27)
Net cash provided by financing activities	7,505	3,668	196
Net decrease in cash and cash equivalents	(3,368)	(6,484)	(1,068)
Cash and cash equivalents at beginning of year	11,058	7,690	1,206
Cash and cash equivalents at end of year	$ 7,690	$ 1,206	$ 138

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

NOTE 1 -- DESCRIPTION OF BUSINESS

Stericycle, Inc. (the "Company") was incorporated in Delaware in March 1989 for the purpose of providing collection, transportation, treatment, disposal, reduction, reuse and recycling services for regulated medical waste to hospitals and other healthcare providers in the United States and Canada.

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, Stericycle of Arkansas, Inc., Stericycle of Washington, Inc. and SWD Acquisition Corporation. All significant intercompany accounts and transactions have been eliminated.

REVENUE RECOGNITION:

The Company recognizes revenue when the treatment of the infectious medical waste is completed on-site or the waste is shipped off-site for processing and disposal. For waste shipped off-site, all associated costs are recognized at time of shipment.

CASH EQUIVALENTS:

The Company considers all highly liquid instruments with a maturity of less than three months when purchased to be cash equivalents.

PROPERTY, PLANT AND EQUIPMENT:

Property, plant and equipment are stated at cost. Depreciation and amortization, which includes the amortization 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 Improvements -- 10 to 30 years
Machinery and Equipment -- 3 to 10 years
Office Equipment and Furniture -- 5 to 10 years.

ORGANIZATION COSTS:

Organization costs are amortized using the straight-line method over five years. Accumulated amortization at December 31, 1994 and 1995 was $141,000 and $184,000, respectively.

GOODWILL:

Goodwill is amortized using the straight-line method over 15 to 25 years. The Company periodically assesses whether a change in circumstances has occurred subsequent to an acquisition which would indicate that the future useful life or carrying value of goodwill should be revised. The Company considers the future earnings potential of the acquired business in assessing the recoverability of goodwill.

NEW PLANT DEVELOPMENT AND PERMITTING COSTS:

The Company expenses costs associated with the operations of new plants prior to the commencement of services to customers and all initial and on-going costs related to permitting.

STOCK OPTIONS:

The Company accounts for stock options in accordance with Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees" ("APB 25"). In accordance with APB 25, as the exercise price of the Company's employee stock options equals the fair value, as determined by the Company's Board of Directors, of the underlying stock on the date of grant, no compensation expense is recorded.

NOTE 2 -- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

RESEARCH AND DEVELOPMENT COSTS:

The Company expenses costs associated with research and development as incurred. Research and development expense for 1993, 1994, and 1995 was $231,000, $1,082,000, and $975,000, respectively.

INCOME TAXES:

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. Deferred tax liabilities and assets are determined based on the difference between the financial statement and tax basis of assets and liabilities using enacted tax rates in effect for the year in which the differences are expected to reverse.

LONG-LIVED ASSETS:

In March 1995, the Financial Accounting Standards Board issued Financial Accounting Standards No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of" ("FAS 121"), which requires impairment losses to be recorded on long-lived assets used in operations when indicators of impairment are present and the undiscounted cash flows estimated to be generated by those assets are less than the assets' carrying amount. FAS 121 also addresses the accounting for long-lived assets that are expected to be disposed of. The Company adopted FAS 121 in 1996, the effect of which was not material to the Company's financial position or results of operations.

FINANCIAL INSTRUMENTS:

The Company's financial instruments consist of cash and cash equivalents, accounts receivable and payable and long-term debt. The fair values of these financial instruments were not materially different from their carrying values, except for long-term debt as discussed in Note 5. Financial instruments which potentially subject the Company to concentrations of credit risk consist principally of accounts receivable. The Company performs ongoing credit evaluations of its customers and maintains allowances for potential credit losses. These losses, when incurred, have been within the range of management's expectations.

USE OF ESTIMATES:

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

EARNINGS PER SHARE:

Earnings per share computations are based on the weighted average number of shares of common stock outstanding and include the dilutive effect of stock options and warrants using the treasury stock method. The computations also reflect the effect of the stock split and the redesignation of Class A common stock and Class B common stock as common stock as discussed in Note 7.

Pursuant to the Securities and Exchange Commission Staff Accounting Bulletin No. 83, stock options and warrants granted by the Company during the 12 months immediately preceding the initial filing of a registration statement have been included as common stock equivalents as if they were outstanding for all periods presented, whether or not dilutive, because the sale or option price per share was below the initial public offering price per share.

NOTE 3 -- INCOME TAXES

At December 31, 1995, the Company had net operating loss carryforwards for income tax purposes of approximately $36,493,000, expiring beginning in 2004. Based on the Internal Revenue Code of 1986, as amended, and changes in the ownership of the Company, utilization of the net operating loss carryforwards may be subject to annual limitations, which could significantly restrict or partially eliminate the utilization of the net operating losses.

NOTE 3 -- INCOME TAXES (CONTINUED)

The Company's deferred tax liabilities and assets as of December 31, 1994 and 1995 are as follows:

	1994	1995
Deferred tax liabilities:		
Property, plant, and equipment	$ (280,000)	$ (319,000)
Goodwill	(42,000)	(122,000)
Total deferred tax liabilities	(322,000)	(441,000)
Deferred tax assets:		
Accrued liabilities	395,000	298,000
Capital lease obligations	146,000	--
Research and development costs	--	324,000
Other	60,000	190,000
Net operating tax loss carryforward	13,214,000	14,597,000
Total deferred tax assets	13,815,000	15,409,000
Net deferred tax assets	13,493,000	14,968,000
Valuation allowance	(13,493,000)	(14,968,000)
Net deferred tax assets	$ --	$ --

NOTE 4 -- ACQUISITIONS AND DIVESTITURES

In January 1996, the Company purchased the customer list and certain other assets of WMI Medical Services of New England, Inc. for $100,000 in cash and $492,000 in notes payable issued to sellers.

In July 1995, the Company sold selected customer lists and related assets for $248,000. The Company recognized a gain of $50,000 on this transaction, which is included in the 1995 Consolidated Statement of Operations as Selling, General and Administrative Expense.

In June 1995 the Company purchased the customer list and transportation equipment and assumed certain contract obligations of Safetech Health Care for $160,000.

In April 1995, the Company sold the St. Louis portion of its business to a competitor. The Company received $544,000 as payment for the customer list and concurrently agreed to resolve an anti-trust lawsuit brought against this competitor by the Company. The Company recognized a gain on this transaction of $408,000, which is included in the 1995 Consolidated Statement of Operations as Selling, General and Administrative Expense.

In September 1994, SWD Acquisition Corporation, a wholly owned subsidiary of the Company, purchased selected assets and assumed certain liabilities of Safe Way Disposal Systems, Inc. ("Safe Way"). The assets purchased consisted of the customer list, containers, transportation equipment and office equipment. The Company issued a $2,480,000 note and 25,228 shares of preferred stock with a liquidation value of $100 per share. The Company assumed liabilities of $2,271,000 related to this acquisition. The note payable and stock are held in escrow (see Note 5). As part of the agreement, the Company agreed to pay up to $575,000 of certain current liabilities of Safe Way upon its request. In consideration for these payments, the preferred stock issued under such agreement would be reduced. As of December 31, 1995, the Company has paid $468,000 of additional liabilities.

As a result of the Company's 1995 recapitalization, the 25,228 shares of preferred stock issued in connection with the Safe Way acquisition were reclassified as 130,003 shares of common stock. See further discussion in Note 7.

NOTE 4 -- ACQUISITIONS AND DIVESTITURES (CONTINUED)

In March 1994, the Company purchased the customer list, containers and transportation equipment of Recovery Corporation of Illinois for $630,000 in cash and 5,000 shares of preferred stock with a liquidation value of $100 per share.

For financial reporting purposes, each acquisition was accounted for as a purchase, and the purchase price was allocated to assets acquired and liabilities assumed based on the estimated fair market value at the date of acquisition. The excess of the purchase price over fair market value of net assets acquired is reflected in the accompanying consolidated balance sheets as goodwill. The results of operations of these acquired businesses are included in the consolidated statements of operations from the date of acquisition. The effect of these acquisitions would not have a significant effect on the Company's operations, except for the Safe Way acquisition.

Based on unaudited data, the following table presents selected financial information for the Company and its subsidiaries on a pro forma basis, assuming the Company and Safe Way had been combined since January 1, 1993:

	YEAR ENDED DECEMBER 31, 1993	YEAR ENDED DECEMBER 31, 1994
Revenues	$ 16,655	$ 20,494
Loss applicable to common stock	(10,604)	(10,597)
Net loss per common share	$ (3.70)	$ (3.70)

The pro forma results are not necessarily indicative of future operations or the actual results that would have occurred had the Safe Way acquisition been made as of January 1, 1993.

NOTE 5 -- LONG-TERM DEBT

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

	1994	1995
	(IN THOUSANDS)	
Industrial development revenue bonds	$ 1,753	$ 1,633
Obligations under capital leases	970	488
Note payable to bank	--	858
Note payable	2,480	2,480
Mortgage payable and other	238	460
	5,441	5,919
Less: Current portion	603	297
TOTAL	$ 4,838	$ 5,622

On October 31, 1995, the Company entered into a revolving line of credit with Silicon Valley Bank. To secure this line of credit, the Company granted the bank a lien on all of the Company's assets. Borrowings under the line of credit are limited to the lesser of $2,500,000 or a specified percentage of the Company's eligible receivables, as defined in the loan and security agreement. Outstanding borrowings bear interest at the bank's prime rate (8.5% at December 31, 1995), plus 3.0%. At December 31, 1995, the outstanding loan balance was $858,000 and the Company had unused borrowing capacity of $821,000. This agreement has a maturity date of October 31, 1997 and is subject to automatic renewal for additional one year periods, unless 60 days written notice is provided by either party in advance of the maturity date. Under the terms of the loan and security agreement, the Company is, among other things, restricted from paying dividends and is required to maintain minimum levels of tangible net worth and debt to tangible net worth.

In 1995, an agreement was reached with the Rhode Island Department of Environmental Management regarding two notices of violation issued in 1994 and 1995. Although the Company believed that the allegations

NOTE 5 -- LONG-TERM DEBT (CONTINUED)
were meritless, the agreement was entered into in order to resolve the matter in the best interests of the Company and its customers in a timely manner. The Company agreed to pay $35,000 each year from 1995 to 1998, $50,000 in 1999, $60,000 in 2000 and $150,000 in 2001 to the Rhode Island Air and Water Protection Fund. In addition, the Company agreed to perform community services and conduct seminars over a five-year period. The Company recorded this obligation based on the discounted cash flows expected to be paid over the term of agreement, using a discount rate of 11.75%. The recorded obligation of $240,000 at December 31, 1995 has been included in mortgage payable and other long-term debt. An expense of $458,000 is included in the 1995 Consolidated Statement of Operations as Selling, General and Administrative Expense. This amount reflects the recorded obligation and legal fees incurred in the settlement.

In 1994, a non-interest bearing note in the amount of $2,480,000 was issued as part of the purchase of the net assets of Safe Way. Upon maturity, a portion of the note is payable in 98,001 shares of common stock (see Note 7) and a portion is payable in cash. The note will mature on the earlier of June 25, 1997 or an initial public offering, as defined in the purchase agreement between the Company and Safe Way.

During 1992 the Company entered into certain obligations to finance the development of its Woonsocket, Rhode Island and Morton, Washington facilities. The development and purchase of substantially all of the property and equipment for the Woonsocket, Rhode Island facility was financed from the issuance of industrial development revenue bonds. The bonds are due in various amounts through 2017 at fixed interest rates ranging from 5.75% to 7.375% and are collateralized by the property and equipment at the Woonsocket, Rhode Island facility. The terms of an agreement entered into in connection with the issuance of the bonds contain, among other provisions, requirements for maintaining defined levels of working capital and various financial ratios including debt to net worth.

As part of the development of the Company's Morton, Washington facility, the Company entered into a loan agreement with a bank for $255,000. The Company is required to make monthly payments of $2,361 for principal and interest through 2007. Interest paid is based upon a specified index plus 4.5%. The interest rate was 9.54% and 9.78% at December 31, 1994 and 1995, respectively. The loan is collateralized by the property and equipment at the Morton, Washington facility.

Payments due on long-term debt, excluding capital lease obligations, during each of the five years subsequent to December 31, 1995 are as follows:

	(IN THOUSANDS)
1996	$ 159
1997	3,514
1998	182
1999	208
2000	223

The Company paid interest of $282,000, $271,000 and $262,000 for the years ended December 31, 1993, 1994 and 1995, respectively.

The fair value of the Company's long term debt was estimated using a discounted cash flow analysis, based on the Company's current incremental borrowing rates for similar types of borrowing arrangements. At December 31, 1995 the fair value of the Company's debt was approximately $4,275,000.

CAPITAL LEASES:

In February 1994, the Company entered into a sale and leaseback transaction for equipment acquisitions at the Yorkville, Wisconsin facility in the amount of $882,000. No gain or loss was recognized on the sale and leaseback.

NOTE 5 -- LONG-TERM DEBT (CONTINUED)
The lease arrangement has a term of 60 months and at the end of the lease, the Company will have the option to renew the lease, return the equipment or purchase the equipment at a fair market value not to exceed 11% of the original purchase price.

The Company is the lessee of machinery and equipment under capital leases expiring in 1999. At December 31, property under capital leases included with Property, Plant and Equipment in the accompanying Consolidated Balance Sheets is as follows:

	1994	1995
	(IN THOUSANDS)	
Machinery and equipment	$ 1,880	$ 882
Less-Accumulated depreciation and amortization	(345)	(169)
	$ 1,535	$ 713

Minimum future lease payments under capital leases are as follows:

	(IN THOUSANDS)
1996	$ 176
1997	176
1998	176
1999	26
Total minimum lease payments	554
Less -- Amounts representing interest	(66)
Present value of net minimum lease payment	488
Less -- Current portion	(138)
Long-term obligations under capital leases	$ 350

NOTE 6 -- LEASE COMMITMENTS
The Company leases 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 seven years. The leases for most of the properties contain renewal provisions.

Rent expense for 1993, 1994 and 1995 was $1,930,000, $1,643,000 and $1,739,000, 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, 1995 for each of the next five years and in the aggregate are as follows:

	(IN THOUSANDS)
1996	$ 1,324
1997	1,132
1998	985
1999	591
2000	442
Thereafter	462
Total minimum rental payments	$ 4,936

NOTE 7 -- COMMON AND PREFERRED STOCK

STOCK SPLIT:

In June 1996, the Company's Board of Directors authorized a 1-for-5.3089 reverse stock split, to be effective prior to completion of an initial public offering of the Company's common stock. Also prior to completion of an initial public offering, 5,236,209 shares of Class A common stock and 346,176 shares of Class B common stock will be redesignated as a like number of shares of common stock. In July 1996, the Company's Board of Directors and shareholders authorized a decrease in the number of authorized shares of common stock from 58,000,000 shares to 30,000,000 shares prior to completion of an initial public offering. All common shares, per share, weighted average shares outstanding and stock option data have been adjusted to reflect this reverse stock split, redesignation of the Class A and Class B common stock as common stock and decrease in authorized common stock.

The following table details the convertible redeemable preferred stock activities for each of the years in the three-year period ended December 31, 1995:

	SHARES	AMOUNT (IN THOUSANDS)
Balances at December 31, 1992	356	$ 40,353
Issuance of Class E preferred stock	70	8,000
Shares retired	--	(8)
Accumulated dividends	--	3,733
Balances at December 31, 1993	426	$ 52,078
Issuance of Classes F, G, H & I preferred stock	63	6,350
Accumulated dividends	--	4,481
Balances at December 31, 1994	489	$ 62,909
Canceled shares of preferred stock	(4)	(419)
Common stock issued in exchange for preferred stock	(485)	(62,490)
Balances at December 31, 1995	$ --	$ --

In August 1995 the Board of Directors adopted a plan of recapitalization which was approved by the Company's stockholders in September 1995, pursuant to which the Company reclassified its outstanding convertible redeemable preferred stock as 5,043,418 shares of common stock and increased the authorized common stock to 57,000,000 shares from 9,400,000 shares and in April 1996 authorized a further increase in the authorized common stock to 58,000,000 (see Note 8).

Shares of the Company's common stock have been reserved for issuance upon conversion of the Safe Way note payable (see Note 5) and the exercise of warrants and options. These shares have been reserved as follows at December 31, 1995:

Safe Way note payable	98,001
1993 Plan options	9,943
1995 Plan options	923,292
Warrants	242,396
Total shares reserved	1,273,632

As part of the plan of recapitalization, all conversion, redemption and liquidation rights associated with the convertible redeemable preferred stock were terminated in exchange for the issuance of shares of common stock. The liquidation preference of the preferred stock as of December 31, 1994 was $61,909,112 and was canceled by the plan of recapitalization.

NOTE 8 -- STOCK OPTIONS AND WARRANTS

STOCK OPTIONS:

In September 1993, the Company's shareholders approved an amended and restated stock option plan (the "1993 Plan"), which provided for the granting of options to purchase up to 113,018 shares of common stock. In November 1995, the outstanding options of all current employees were canceled in conjunction with the Company's recapitalization (see Note 7).

The following table summarizes option activity through December 31, 1995:

	OPTION PRICE	# SHARES	EXERCISABLE
Outstanding at December 31, 1992	$ 5.31-$42.47	35,412	5,274
Granted	$ 5.84	45,961	
Granted	$ 6.90	1,130	
Outstanding at December 31, 1993	$ 5.31-$42.47	82,503	15,626
Granted	$ 5.84	377	
Granted	$ 6.90	29,254	
Canceled		(2,405)	
Outstanding at December 31, 1994	$ 5.31-$42.47	109,729	39,864
Canceled		(99,786)	
Outstanding at December 31, 1995	$ 5.31-$42.47	9,943	4,938

In 1995, the Company's Board of Directors and shareholders approved an Incentive Compensation Plan (the "1995 Plan"), which provides for the granting of additional shares of common stock in the form of stock options and restricted stock to employees, officers, directors and consultants of the Company. The exercise price of options granted under the 1995 Plan must be at least equal to the fair market value of the common stock on the date of grant. The sale or transfer of outstanding shares of common stock is subject to the right of first refusal by the Company. As of December 31, 1995, options to purchase 923,292 shares of common stock at an exercise price of $0.53 per share had been granted and were outstanding, of which 537,682 were exercisable.

WARRANTS:

The Company, in conjunction with a lease financing agreement, issued the lessor warrants to purchase up to 15,064 shares of common stock at $18.58 per share. At December 31, 1995, all of these warrants were outstanding and expire on March 3, 1998.

The Company, in connection with the issuance of preferred stock, which was subsequently reclassified as common stock (see Note 7), issued warrants to purchase up to 6,773 shares of common stock at an exercise price of $69.02 per share. At December 31, 1995, warrants to purchase 6,773 shares at $69.02 per share were issued and outstanding. These warrants expire on March 16, 1999.

During 1995, several of the Company's shareholders and directors provided a bridge loan to the Company. The loan totaled $830,000 with interest at prime plus 3%. In addition to the interest, the lenders received warrants to purchase 220,559 shares of common stock at $1.59 per share. These warrants expire on July 31, 2000. The bridge loan was repaid in November 1995 with proceeds from the Company's revolving line of credit.

NOTE 9 -- REGISTRATION AGREEMENT

The Company is a party to a Registration Agreement which gives certain shareholders of the Company registration rights for their shares. The parties to the Registration Agreement are the original holders of the Company's prior Class A, B, C, D, E, F, H, and I preferred stock. After the Company's 1995 recapitalization, the

NOTE 9 -- REGISTRATION AGREEMENT (CONTINUED)
Registration Agreement was amended to provide that the registration rights applied to the shares of common stock that the parties to the Registration Agreement received pursuant to the recapitalization, shares issuable under certain warrants issued to purchasers of the Company's prior Class F preferred stock and the common stock to be delivered by the Company in payment of the Safe Way Note. According to the Registration Agreement (i) at any time, the holders of a majority of the shares which are subject to the registration rights can request registration of their shares on Form S-1 (a "Long-Form Registration") and the holders of at least 25% of these shares can request registration of their shares on Form S-2 or S-3, (ii) at any time after either an initial public offering or July 10,1996, one shareholder who is a party to the Registration Agreement may request a Long Form registration, (iii) at any time after an initial public offering, another shareholder who is a party to the Registration Agreement can request a Long Form registration, and (iv) the parties to the Registration Agreement have the right to include their shares in any registration which is requested or in any other registration that the Company may otherwise undertake. If any registration is requested, the Company will use its best efforts to effect the requested registration at its own expense.

NOTE 10 -- EMPLOYEE BENEFIT PLAN
The Company has a defined contribution retirement savings plan covering substantially all employees of the Company. Each participant may elect to defer a portion of his or her compensation subject to certain limitations. The Company may match up to 30% of the first $1,000 contributed to the retirement savings plan by each employee. The Company's contributions for the years ended December 31, 1993, 1994 and 1995 were approximately $9,000, $13,000 and $14,000, respectively.

NOTE 11 -- RELATED PARTIES
In October 1993, the Company entered into an Alliance Agreement ("Alliance") with an investor in the Company. The purpose of the Alliance was to develop new technologies and procedures for recycling regulated medical waste. The Company devoted resources to the Alliance research and development program during the first 18 months of the Alliance. The investor has rights with respect to the development of any Alliance technology as part of the research and development program. During the initial 18 months of the Alliance, the Company provided for $1 million of research and development costs under this agreement. A license agreement is effective upon the non-renewal of the Alliance and grants the investor a license to use the Alliance technology subject to certain conditions.

The Alliance also gives the investor the right under certain circumstances to require the Company to redeem the investor's 461,028 shares of the Company's common stock at a price not to exceed the greater of $15.18 per share, plus interest at the rate of 10% per annum from October 1993, or the fair market of the investor's common stock at the time of redemption. This redemption right terminates 180 days from the date of the Company's initial public offering of common stock.

Under the Alliance, the investor and the Company have an ongoing relationship to provide services and products to the healthcare market place.

STERICYCLE, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS (UNAUDITED)

	MARCH 31, 1996
	(IN THOUSANDS)
ASSETS	
Current Assets:	
Cash and cash equivalents	$ 120
Accounts receivable, less allowance for doubtful accounts of $146	3,995
Parts and supplies	436
Prepaid expenses	153
Other current assets	458
Total current assets	5,162
Property, Plant and Equipment:	
Land	90
Buildings and improvements	5,406
Machinery and equipment	8,171
Office equipment and furniture	408
Construction in progress	281
	14,356
Less accumulated depreciation and amortization	(3,961)
Property, plant and equipment -- Net	10,395
Other Assets:	
Organization costs, net	21
Goodwill, less accumulated amortization of $496	7,797
Other	501
Total other assets	8,319
Total assets	$ 23,876
LIABILITIES AND SHAREHOLDERS' EQUITY	
Current liabilities:	
Current portion of long-term debt	$ 759
Accounts payable	1,703
Accrued liabilities	2,009
Deferred revenue	652
Total current liabilities	5,123
Long-Term Debt:	
Industrial development revenue bonds and other	2,564
Note payable to bank	952
Note payable	2,480
Total long-term debt	5,996
Other Liabilities	529
Shareholders' Equity:	
Common stock (par value $.01 per share; 30,000,000 shares authorized, 5,616,651 issued and outstanding)	56
Additional paid-in capital	49,693
Notes receivable for common stock purchases	(72)
Accumulated deficit	(37,449)
Total shareholders' equity	12,228
Total liabilities and shareholders' equity	$ 23,876

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

STERICYCLE, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS (UNAUDITED)

	FOR THE QUARTER ENDED MARCH 31,	
	1995	1996
	(IN THOUSANDS, EXCEPT SHARE AND PER SHARE DATA)	
Revenues	$ 5,446	$ 5,578
Costs and expenses:		
Cost of revenues	4,227	4,337
Selling, general and administrative	2,762	1,505
Total costs and expenses	6,989	5,842
Loss from operations	(1,543)	(264)
Other income (expense):		
Interest income	6	--
Interest expense	(54)	(83)
Total other income (expense)	(48)	(83)
Net loss	(1,591)	(347)
Less cumulative preferred dividends	(1,573)	--
Loss applicable to common stock	$ (3,164)	$ (347)
Net loss per common share	$ (1.71)	$ (0.05)
Weighted average number of common shares outstanding	1,847,808	7,094,703

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

STERICYCLE, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
(UNAUDITED)
(IN THOUSANDS)
COMMON STOCK

	ISSUED AND OUTSTANDING SHARES	AMOUNT	ADDITIONAL PAID-IN CAPITAL	NOTES RECEIVABLE FOR COMMON STOCK PURCHASES	ACCUMULATED DEFICIT	TOTAL SHAREHOLDERS' EQUITY
BALANCES AT DECEMBER 31, 1995.....	5,582	$ 55	$49,621	$ --	$(37,102)	$ 12,574
Common stock issued -- $.01 per share...	35	1	72	(72)		1
Net loss for the quarter ended March 31, 1996.....					(347)	(347)
BALANCES AT MARCH 31, 1996.....	5,617	$ 56	$49,693	$ (72)	$(37,449)	$ 12,228

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

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

	FOR THE QUARTER ENDED MARCH 31,	
	1995	1996
	(IN THOUSANDS)	
OPERATING ACTIVITIES:		
Net loss	$ (1,591)	$ (347)
Adjustments to reconcile net loss to net cash (used in) provided by operating activities:		
Depreciation and amortization	443	479
Asset write down	503	--
Change in net operating assets, net of effect of acquisitions and divestitures:		
Accounts receivable	64	(81)
Parts and supplies	67	48
Prepaid expenses and other	128	245
Other assets	(115)	32
Accounts payable	311	(165)
Accrued liabilities	(685)	63
Deferred revenue and other liabilities	372	7
Net cash (used in) provided by operating activities	(503)	281
INVESTING ACTIVITIES:		
Capital expenditures	(9)	(169)
Payments for acquisitions, net of cash acquired	--	(100)
Net cash used in investing activities	(9)	(269)
FINANCING ACTIVITIES:		
Repayment of long-term debt	(30)	(82)
Net proceeds from note payable to bank	--	94
Principal payments under capital lease obligations	(136)	(42)
Net cash used in financing activities	(166)	(30)
Net decrease in cash and cash equivalents	(678)	(18)
Cash and cash equivalents at beginning of period	1,206	138
Cash and cash equivalents at end of period	$ 528	$ 120
Supplementary disclosure of cash flow information -- acquisition of machinery and equipment financed with a capital lease	$ --	$ 364

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

STERICYCLE, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)
MARCH 31, 1996

NOTE 1 -- BASIS OF PRESENTATION

The accompanying 1995 and 1996 unaudited interim consolidated financial statements have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission. Certain information and footnote disclosures normally included in annual consolidated financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted pursuant to such rules and regulations, although the Company believes these disclosures are adequate to make the information presented not misleading. During the quarter ended March 31, 1995, the Company recorded a write-down in the carrying value of a project to utilize treated regulated medical waste as an alternative fuel in the production of cement. The Company realized that the viability and completion of the project were doubtful and that, if the project were completed, the economic cost would not permit the Company to recover its investment. In the opinion of management, all adjustments necessary for a fair presentation for the periods presented have been reflected and, with the exception of the asset write-down during the quarter ended March 31, 1995, are of a normal recurring nature. These interim consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto for the three years ended December 31, 1995. The results of operations for the three-month period ended March 31, 1996 are not necessarily indicative of the results that may be achieved for the entire year ending December 31, 1996.

NOTE 2 -- ACQUISITIONS

On April 30, 1996, the Company purchased the customer list and certain other assets, totaling approximately $200,000, of Sharps Incinerator of Fort, Inc. for $757,000 in cash of which $562,000 was payable at closing and the balance plus interest (prime plus 1%) is due on November 1, 1996. This transaction will be accounted for using the purchase method of accounting.

On May 1, 1996, the Company purchased the customer list and certain other assets of Doctors Environmental Control, Inc. for $400,000 in cash and notes payable issued for $600,000, which are payable on May 1, 1998. In addition, the Company assumed two vehicle leases totaling $77,000 and delivered four option agreements to shareholders of the seller giving them an option to purchase up to a total of 53,816 shares of the Company's common stock. The price for the purchase of the common stock upon exercise of each option is (i) the surrender and cancellation of the note payable, or (ii) in the event that any payments have been made under the notes payable, the surrender and cancellation of the note payable and payment of cash such that the cash payment and the outstanding balance of principal and interest on the note payable together equal the balance of the note as if no payments had been made on the note payable. The transaction will be accounted for using the purchase method of accounting.

These acquisitions are not significant to the 1996 first quarter results.

NOTE 3 -- BRIDGE LOAN

In May 1996, the Company obtained a $1,000,000 bridge loan from certain shareholders, directors and officers to provide working capital and to finance additional acquisitions. The notes are subordinated to bank debt and bear interest at the rate of 7% per annum unless repaid prior to January 1997. The notes are due in May 1997 or within 30 days after completion of an initial public offering in which the Company raises at least $20,000,000. In connection with this loan, the Company issued warrants to members of the lending group to purchase an aggregate of 226,036 shares of common stock at $7.96 per share. The warrants expire in May 2001.

NOTE 4 -- STOCK OPTIONS

During the quarter ended March 31, 1996 the Board of Directors granted options to purchase 49,073 shares of common stock to key employees. The options will vest over 12 to 36 months at an exercise price of $0.53 per share.

Additionally, during the first quarter the Board approved the options to purchase 30,826 shares of common stock by various consultants to the Company. The options carry an exercise price of $2.12 per share.

NOTE 4 -- STOCK OPTIONS (CONTINUED)

In April 1996, the Board of Directors granted options to purchase 149,984 shares of common stock to employees. The options will vest over 12 to 36 months and carry an exercise price of $1.99 per share.

In June 1996, the Company's Board of Directors adopted a Directors Stock Option Plan. The plan authorizes stock options for a total of 285,000 shares of common stock to be granted to eligible directors of the Company, consisting of directors who are neither officers nor employees of the Company. Under such plan, each incumbent eligible director will automatically receive an option as of the date of closing of an initial public offering of the Company's common stock for a number of shares of common stock determined by multiplying 7,000 shares by a fraction, the numerator of which is $12.00 and the denominator of which is the average of the closing bid and asked prices of a share of common stock (the "closing price") on the date of grant. As of each annual meeting of the Company's stockholders after the date of such an initial public offering, each incumbent eligible director who is re-elected as a director at the annual meeting will automatically receive an option for a number of shares of common stock determined by multiplying 7,000 shares by a fraction, the numerator of which is $12.00 and the denominator of which is closing price on the date of the annual meeting, and each eligible director who is elected as a director for the first time will automatically receive an option for a number of shares of Common Stock determined by multiplying 21,000 shares by a fraction, the numerator of which is $12.00 and the denominator of which is closing price on the date of the annual meeting. These option grants are subject to a maximum grant of 9,500 shares and a minimum grant of 4,500 shares (or to a maximum grant of 28,500 shares and a minimum grant of 13,500 shares in the case an eligible director who is elected as a director for the first time at an annual meeting). In addition, each eligible director who is elected as a director for the first time other than at an annual meeting of the Company's stockholders will automatically receive, as of the date of his or her election, an option for a number of shares of common stock equal to three times the number of shares of common stock for which each incumbent eligible director received an option as of the last annual meeting. The exercise price of each option will be the closing price on the date of grant. The term of each option will be six years from the date of grant and will vest in 16 equal quarterly installments and may be exercised only when it is vested and only while the holder of the option remains a director of the Company or during the 90-day period following the date that he or she ceases to serve as a director. With the approval of the Company's Board of Directors, the holder of an option may pay the exercise price by delivering other shares of common stock, by surrendering exercisable options having a fair market value on the date of exercise equal to the exercise price, or by directing the Company to withhold shares of common stock otherwise issuable upon exercise of the option having a fair market value on the date of exercise equal to the exercise price, or by a combination of these methods.

NOTE 5 -- STOCK ISSUANCES

In May 1996, warrants to purchase 59,128 shares of common stock were exercised at a price of $1.59 per share. In May and June 1996, options to purchase 24,233 shares and 459,844 shares of common stock, respectively, were exercised at prices of $2.12 per share and $0.53 per share, respectively.

NOTE 6 -- INCOME TAXES

The Company incurred a net operating loss in both the first quarter of 1995 and 1996. Any tax benefit resulting from these net operating losses has been offset by a valuation allowance.

NOTE 7 -- EMPLOYEE STOCK PURCHASE PLAN

Under a plan approved by the Board of Directors, employees of Stericycle may purchase shares of common stock at a price of $2.12 per share. Under terms of the plan employees are allowed to purchase shares by December 31, 1995 and pay for the stock during 1996. Employees elected to purchase a total of 30,232 shares of common stock.

NOTE 8 -- STOCK SPLIT

STOCK SPLIT:

In June 1996, the Company's Board of Directors authorized a 1-for-5.3089 reverse stock split, to be effective prior to completion of an initial public offering of the Company's common stock. Prior to completion of an initial public offering, 5,236,209 shares of Class A common stock and 346,176 shares of Class B common stock will be redesignated as a like number of shares of common stock. In July 1996, the Company's Board of Directors and shareholders authorized a decrease in the number of authorized shares of common stock from 58,000,000 shares to 30,000,000 shares prior to completion of an initial public offering of the Company's common stock. All common shares, per share, weighted average shares outstanding and stock option data have been adjusted to reflect this reverse stock split, redesignation of the Class A and Class B common stock as common stock and decrease in authorized common stock.

NO DEALER, SALESPERSON OR OTHER PERSON HAS BEEN AUTHORIZED TO GIVE ANY INFORMATION OR TO MAKE ANY REPRESENTATIONS NOT CONTAINED IN THIS PROSPECTUS, AND, IF GIVEN OR MADE, SUCH INFORMATION OR REPRESENTATION MAY NOT BE RELIED UPON AS HAVING BEEN AUTHORIZED BY THE COMPANY OR ANY UNDERWRITER. THIS PROSPECTUS DOES NOT CONSTITUTE AN OFFER TO SELL, OR A SOLICITATION OF AN OFFER TO BUY, SHARES OF COMMON STOCK IN ANY JURISDICTION TO ANY PERSON TO WHOM IT IS UNLAWFUL TO MAKE ANY SUCH OFFER OR SOLICITATION IN SUCH JURISDICTION OR IN WHICH THE PERSON MAKING SUCH OFFER OR SOLICITATION IS NOT QUALIFIED TO DO SO. NEITHER THE DELIVERY OF THIS PROSPECTUS NOR ANY SALE MADE HEREUNDER SHALL, UNDER ANY CIRCUMSTANCES, CREATE AN IMPLICATION THAT THERE HAS BEEN NO CHANGE IN THE AFFAIRS OF THE COMPANY SINCE THE DATE OF HEREOF OR THAT THE INFORMATION CONTAINED HEREIN IS CORRECT AS OF ANY TIME SUBSEQUENT TO ITS DATE.

TABLE OF CONTENTS

UNTIL , 1996 (25 DAYS AFTER THE DATE OF THIS PROSPECTUS), ALL DEALERS EFFECTING TRANSACTIONS IN THE REGISTERED SECURITIES, WHETHER OR NOT PARTICIPATING IN THIS DISTRIBUTION, MAY BE REQUIRED TO DELIVER A PROSPECTUS. THIS IS IN ADDITION TO THE OBLIGATION OF DEALERS TO DELIVER A PROSPECTUS WHEN ACTING AS UNDERWRITERS AND WITH RESPECT TO THEIR UNSOLD ALLOTMENTS OR SUBSCRIPTIONS.

STERICYCLE, INC.

3,000,000 SHARES

COMMON STOCK

PROSPECTUS

, 1996

DILLON, READ & CO. INC.

SALOMON BROTHERS INC

WILLIAM BLAIR & COMPANY

PART II
INFORMATION NOT REQUIRED IN PROSPECTUS

ITEM 13. OTHER EXPENSES OF ISSUANCE AND DISTRIBUTION

The following table sets forth the various expenses in connection with the sale and distribution of the securities being registered (other than underwriting discounts and commissions). All amounts shown are estimates except the Securities and Exchange Commission registration fee, the NASD filing fee and the Nasdaq National Market application and listing fee. All of these expenses will be paid by the Registrant.

SEC registration fee	$15,465.00
NASD filing fee	4,985.00
Nasdaq National Market application and listing fee	43,500.00
Legal fees and expenses	250,000.00
Accounting fees and expenses	160,000.00
Printing and engraving expenses	80,000.00
Blue sky fees and expenses	20,000.00
Transfer agent fees	10,000.00
Directors' and officers' liability insurance	150,000.00
Miscellaneous	66,050.00
Total	$800,000.00

ITEM 14. INDEMNIFICATION OF DIRECTORS AND OFFICERS

Section 145 of the Delaware General Corporation Law provides generally that a person sued as a director, officer, employee or agent of a corporation may be indemnified by the corporation in non-derivative suits for expenses (including attorneys' fees), judgments, fines and amounts paid in settlement if such person acted in good faith and in a manner that he or she reasonably believed to be in or not opposed to the best interests of the corporation. In the case of criminal actions and proceedings, the person must also not have had reasonable cause to believe that his or her conduct was unlawful. Indemnification of expenses is also authorized in stockholder derivative actions if the person acted in good faith and in a manner that he or she reasonably believed to be in or not opposed to the best interests of the corporation and if he or she has not been found liable to the corporation. Even in this latter instance, the court may determine that in view of all the circumstances such person is entitled to indemnification for such expenses as the court deems proper. A person sued as a director, officer, employee or agent of a corporation who has been successful in defense of the action must be indemnified by the corporation against expenses.

Article Fifth of the Registrant's By-Laws requires the Company to indemnify its directors, officers, employees and agents to the maximum extent permitted by Delaware law. Article Fifth also requires the Registrant to advance the litigation expenses of a director or officer on receipt of his or her written undertaking to repay all amounts advanced if it is ultimately determined that he or she is not entitled to indemnification.

Section 102(b)(7) of the Delaware General Corporation Law permits a corporation to include a provision in its certificate of incorporation eliminating or limiting the personal liability of a director to the corporation or its stockholders for monetary damages for a breach of the director's fiduciary duty of care. Such a provision may not eliminate or limit the liability of a director for breaching his or her duty of loyalty, failing to act in good faith, engaging in intentional misconduct or knowingly violating a law, declaring an illegal dividend or approving an illegal stock repurchase, or obtaining an improper personal benefit.

Article Ninth of the Registrant's Certificate of Incorporation eliminates the personal liability of the Registrant's directors to the fullest extent permitted by Section 102(b)(7).

The Registrant intends to obtain directors' and officers' liability insurance to insure the Registrant's directors and officers are insured against actual liabilities, including liabilities under the federal securities laws, for acts or omissions related to the conduct of their duties.

The Underwriting Agreement, filed as Exhibit 1.1 to this Registration Statement, provides for indemnification by the Underwriters of the Registrant and its officers and directors for certain liabilities relating to this Offering.

ITEM 15. RECENT SALES OF UNREGISTERED SECURITIES

In October 1993, the Registrant 750.75 shares of Class B preferred stock and 21,450 shares of common stock to 27 employees for $235,953 and $23,595, respectively.

In October 1993, the Registrant sold 70,000 shares of Class E preferred stock to one investor for $8,000,000.

In February 1994, the Registrant issued 4,500 shares of common stock to a temporary employee for services rendered to the Registrant.

In March 1994, the Registrant sold 9,350 shares of Class F preferred stock and warrants to purchase 35,959 shares of the Registrant's common stock to 10 investors, including Peter Vardy, a director of the Registrant, for $935,360.

In March 1994, the Registrant issued 5,000 shares of Class G preferred stock, having a value of $500,000, to Recovery Corporation of Illinois ("RCI") in connection with the Registrant's purchase of certain of RCI's assets.

In September 1994, the Registrant issued 25,227.71 shares of Class H preferred stock, having an aggregate value of $2,522,700, and delivered a note for $2,480,000, payable, in part, by delivery of 14,880 shares of Class H preferred Stock, to Safe Way Disposal Systems, Inc. ("Safe Way") in connection with the Registrant's purchase of certain of Safe Way's assets.

In October 1994, the Registrant sold 25,225 shares of Class I preferred stock for $2,522,500 to 26 investors, including Jack W. Schuler, Peter Vardy and Mark C. Miller, directors of the Registrant (and in Mr. Miller's case, its President and Chief Executive Officer).

In July 1994, the Registrant issued 532 shares of common stock pursuant to the exercise of an option granted to a consultant for services rendered to the Registrant.

In July 1994, the Registrant issued 673 shares of common stock to a consultant who rendered services to the Registrant.

In August 1994, the Registrant sold 604.5 shares of Class F preferred stock for $60,450, and 4,650 shares of common stock for $6,045, to 15 of its employees.

In July 1995, the Registrant issued warrants to purchase 1,170,926 shares of Class A common stock, at an exercise price of $0.299 per share, to members of a group of lenders, including Jack W. Schuler, John Patience and Peter Vardy, directors of the Registrant. In May 1996, Mr. Patience exercised his warrant and acquired 133,088 shares of Class A common stock and Mr. Vardy exercised his warrant and acquired 180,814 shares of Class A common stock.

In September 1995, the Registrant issued 22,000 shares of common stock in connection with an agreement to settle a dispute with a consultant.

In November 1995, the Registrant issued 505 shares of Class A common stock to a vendor for services rendered to the Registrant.

In November 1995, the Registrant issued 1,211.5 shares of Class A common stock to each of two consultants for services rendered to the Registrant.

In December 1995, the Registrant sold 35,750 shares of Class A common stock for $14,300 to seven employees.

In January 1996, the Registrant sold 160,500 shares of Class A common stock for $64,200 to 11 of its employees.

In May 1996, the Registrant issued 102,400 shares of Class A common stock to seven consultants, including Peter Vardy, a director of the Company, pursuant to the exercise of options exercisable at a price of $0.40 per share.

In May 1996, the Registrant issued 2,239,435 shares of Class B common stock to Mark C. Miller, the Registrant's President and Chief Executive Officer, pursuant to the exercise of an option exercisable at a price of $0.10 per share.

In May 1996, the Registrant issued 18,900 shares of Class B common stock to Peter Vardy, a director of the Registrant, pursuant to the exercise of an option exercisable at a price of $0.10 per share.

In June 1996, the Registrant issued warrants to purchase 1,200,000 shares of Class A common stock, at an exercise price of $1.50 per share, to members of a group of lenders, including Jack W. Schuler, John Patience and Peter Vardy, directors of the Registrant, and Mark C. Miller and James F. Polark, the Registrant's President and Chief Executive Officer and its Vice President, Finance and Chief Financial Officer, respectively.

In June 1996, the Registrant issued 26,250 shares of Class A common stock to two consultants pursuant to the exercise of options exercisable at a price of $0.40 per share.

In June 1996, the Registrant issued 20,971 shares of Class B common stock to an employee pursuant to the exercise of an option exercisable at a price of $0.10 per share.

The sales of these securities were considered to be exempt from registration under the Securities Act of 1933, as amended, in reliance on Section 4(2), or Regulation D thereunder, as transactions by an issuer not involving a public offering. The recipients of these securities represented their intention to acquire the securities for investment purposes only and not with a view to or for sale in connection with any further distribution, and appropriate legends were affixed to the stock certificates and instruments issued to the recipients.

ITEM 16. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

(a) Exhibits

EXHIBIT NO.	DESCRIPTION
1.1	Form of Underwriting Agreement.
3.1*	Certificate of Incorporation of the Registrant, as currently in effect.
3.5*	By-Laws of the Registrant, as currently in effect.
4.1**	Specimen Common Stock Certificate.
4.2*	Form of Common Stock Purchase Warrant in connection with July 1995 line of credit.
4.3	Form of Common Stock Purchase Warrant in connection with May 1996 short-term loan.
4.4	Amended and Restated Registration Agreement dated October 19, 1994 between the Registrant and certain of its stockholders (previously filed), and related First Amendment dated September 30, 1995 (previously filed) and Second Amendment dated July 1, 1996.
5.1**	Opinion of Johnson and Colmar.
10.1	Amended and Restated Incentive Compensation Plan.
10.2	Directors Stock Option Plan.
10.3*	Loan and Security Agreement dated October 31, 1995 between the Registrant and Silicon Valley Bank, and related Amendments dated March 12, 1996 and June 4, 1996.
10.4*	Guaranty Agreement dated June 1, 1992 among the Registrant, Fleet National Bank, as Trustee, and Rhode Island Industrial-Recreational Building Authority, and related Regulatory Agreement dated June 1, 1992 between the Registrant and the Rhode Island Industrial-Recreational Building Authority.
10.5*+	Radio-Frequency Heating Technology License Agreement dated November 10, 1995 between the Registrant and IIT Research Institute.
10.6*+	Alliance Agreement dated October 12, 1993 between the Registrant and Baxter Healthcare Corporation.

EXHIBIT NO.	DESCRIPTION
10.7*+	Agreement dated May 6, 1994 between the Registrant and SAGE Products, Inc., and related letter agreement dated November 7, 1995.
10.8*	Office Lease dated December 26, 1991 between the Registrant and American National Bank and Trust Company of Chicago, as Trustee under Trust No. 57661, relating to the Registrant's Deerfield, Illinois office space.
10.9*	Standard Form Industrial Lease dated October 1, 1991 between the Registrant and General American Life Insurance Registrant, relating to the Registrant's Loma Linda, California treatment facility.
10.10*	Lease dated June 1, 1992 between the Registrant and Rhode Island Industrial Facilities Corporation, relating to the Registrant's Woonsocket, Rhode Island treatment facility.
10.11*	Lease dated February 25, 1992 between the Registrant and EML Associates, relating to the Registrant's San Leandro, California transfer station.
10.12*	Master Lease Agreement dated February 11, 1994 between the Registrant and Ziegler Leasing Corporation, relating to the machinery and equipment at the Registrant's Yorkville, Wisconsin treatment facility
10.13*	Master Lease Agreement dated March 14, 1991 between the Registrant and LINC Venture Lease Partners II, L.P., and related Equipment Schedule dated January 1, 1996, relating to the machinery and equipment at the Registrant's West Memphis, Arkansas recycling and research development facility, its San Leandro, California transfer station, and its Morton, Washington treatment facility.
10.14*	State of Rhode Island and Providence Plantations Consent Agreement dated August 22, 1995 between the Registrant and the Rhode Island Department of Environmental Management.
10.15*+	Interim Agreement dated June 28, 1996 between the Registrant and a Brazilian company.
11	Statement Re Computation of Per Share Earnings.
21.1*	Subsidiaries.
23.1	Consent of Ernst & Young LLP.
23.2**	Consent of Johnson and Colmar (to be filed as part of Exhibit 5.1).
24.1*	Power of Attorney.

* Previously filed.
** To be filed by amendment.
+ Confidential treatment requested.

SIGNATURES

Pursuant to the requirements of the Securities Act of 1933, the Registrant has duly caused this Amendment No. 2 to Registration Statement to be signed on its behalf by the undersigned, thereunto duly authorized, in the Village of Deerfield, State of Illinois, on July 26, 1996.

STERICYCLE, INC.

By: /s/ MARK C. MILLER
Mark C. Miller
PRESIDENT AND CHIEF EXECUTIVE OFFICER

Pursuant to the requirements of the Securities Act of 1933, this Amendment No. 2 to Registration Statement has been signed below by the following persons in the capacities and on the dates indicated.

NAME	TITLE	DATE
* Jack W. Schuler	Chairman of the Board of Directors	July 26, 1996
/s/ MARK C. MILLER Mark C. Miller	President, Chief Executive Officer and a Director (Principal Executive Officer)	July 26, 1996
* James F. Polark	Vice President, Finance and Chief Financial Officer (Principal Financial and Accounting Officer)	July 26, 1996
* Patrick F. Graham	Director	July 26, 1996
* John Patience	Director	July 26, 1996
* Lloyd D. Ruth	Director	July 26, 1996
* L. John Wilkerson, Ph.D.	Director	July 26, 1996
* Peter Vardy	Director	July 26, 1996

*By /s/ MARK C. MILLER
Mark C. Miller
ATTORNEY-IN-FACT

EXHIBIT INDEX

EXHIBIT NO.	DESCRIPTION
1.1	Form of Underwriting Agreement.
3.1*	Certificate of Incorporation of the Registrant, as currently in effect.
3.5*	By-Laws of the Registrant, as currently in effect.
4.1**	Specimen Common Stock Certificate.
4.2*	Form of Common Stock Purchase Warrant in connection with July 1995 line of credit.
4.3	Form of Common Stock Purchase Warrant in connection with May 1996 short-term loan.
4.4	Amended and Restated Registration Agreement dated October 19, 1994 between the Registrant and certain of its stockholders (previously filed), and related First Amendment dated September 30, 1995 (previously filed) and Second Amendment dated July 1, 1996.
5.1**	Opinion of Johnson and Colmar.
10.1	Amended and Restated Incentive Compensation Plan.
10.2	Directors Stock Option Plan.
10.3*	Loan and Security Agreement dated October 31, 1995 between the Registrant and Silicon Valley Bank, and related Amendments dated March 12, 1996 and June 4, 1996.
10.4*	Guaranty Agreement dated June 1, 1992 among the Registrant, Fleet National Bank, as Trustee, and Rhode Island Industrial-Recreational Building Authority, and related Regulatory Agreement dated June 1, 1992 between the Registrant and the Rhode Island Industrial-Recreational Building Authority.
10.5*+	Radio-Frequency Heating Technology License Agreement dated November 10, 1995 between the Registrant and IIT Research Institute.
10.6*+	Alliance Agreement dated October 12, 1993 between the Registrant and Baxter Healthcare Corporation.
10.7*+	Agreement dated May 6, 1994 between the Registrant and SAGE Products, Inc., and related letter agreement dated November 7, 1995.
10.8*	Office Lease dated December 26, 1991 between the Registrant and American National Bank and Trust Company of Chicago, as Trustee under Trust No. 57661, relating to the Registrant's Deerfield, Illinois office space.
10.9*	Standard Form Industrial Lease dated October 1, 1991 between the Registrant and General American Life Insurance Registrant, relating to the Registrant's Loma Linda, California treatment facility.
10.10*	Lease dated June 1, 1992 between the Registrant and Rhode Island Industrial Facilities Corporation, relating to the Registrant's Woonsocket, Rhode Island treatment facility.
10.11*	Lease dated February 25, 1992 between the Registrant and EML Associates, relating to the Registrant's San Leandro, California transfer station.
10.12*	Master Lease Agreement dated February 11, 1994 between the Registrant and Ziegler Leasing Corporation, relating to the machinery and equipment at the Registrant's Yorkville, Wisconsin treatment facility
10.13*	Master Lease Agreement dated March 14, 1991 between the Registrant and LINC Venture Lease Partners II, L.P., and related Equipment Schedule dated January 1, 1996, relating to the machinery and equipment at the Registrant's West Memphis, Arkansas recycling and research development facility, its San Leandro, California transfer station, and its Morton, Washington treatment facility.
10.14*	State of Rhode Island and Providence Plantations Consent Agreement dated August 22, 1995 between the Registrant and the Rhode Island Department of Environmental Management.

EXHIBIT NO.	DESCRIPTION
10.15*+	Interim Agreement dated June 28, 1996 between the Registrant and a Brazilian company.
11	Statement Re Computation of Per Share Earnings.
21.1*	Subsidiaries.
23.1	Consent of Ernst & Young LLP.
23.2**	Consent of Johnson and Colmar (to be filed as part of Exhibit 5.1).
24.1*	Power of Attorney.

- ------------------------

* Previously filed.

** To be filed by amendment.

\+ Confidential treatment requested.

Stericycle, Inc.
3,000,000 Shares

Common Stock
($0.01 Par Value)

UNDERWRITING AGREEMENT

, 1996

UNDERWRITING AGREEMENT

, 1996

DILLON, READ & CO. INC.
Salomon Brothers Inc,
William Blair & Company L.L.C.
as Managing Underwriters
c/o Dillon, Read & Co. Inc.
535 Madison Avenue
New York, New York 10022

Ladies and Gentlemen:

Stericycle, Inc., a Delaware corporation (the "Company"), proposes to issue and sell to the underwriters named in Schedule A annexed hereto (the "Underwriters") an aggregate of 3,000,000 shares (the "Firm Shares") of Common Stock, $0.01 par value (the "Common Stock"), of the Company. In addition, solely for the purpose of covering over-allotments, the Company proposes to grant to the Underwriters the option to purchase from the Company up to an additional 450,000 shares of Common Stock (the "Additional Shares"). The Firm Shares and the Additional Shares are hereinafter collectively sometimes referred to as the "Shares". The Shares are described in the Prospectus which is referred to below.

The Company has filed, in accordance with the provisions of the Securities Act of 1933, as amended, and the rules and regulations thereunder (collectively called the "Act"), with the Securities and Exchange Commission (the "Commission") a registration statement on Form S-1, including a prospectus, relating to the Shares. The Company has furnished to you, for use by the Underwriters and by dealers, copies of one or more preliminary prospectuses (each thereof being herein called a "Preliminary Prospectus") relating to the Shares. Except where the context otherwise requires, the registration statement, as amended when it becomes effective (together with any registration statement filed pursuant to Rule 462(b) under the Act increasing the size of the offering registered under the Act), including all documents filed as a part thereof, and including any information contained in a prospectus subsequently filed with the Commission pursuant to Rule 424(b) under the Act and deemed to be part of the registration statement at the time of effectiveness pursuant to Rule 430(A) under the Act, is herein called the "Registration Statement",

and the prospectus, in the form filed by the Company with the Commission pursuant to Rule 424(b) under the Act or, if no such filing is required, the form of final prospectus included in the Registration Statement at the time it became effective, is herein called the "Prospectus".

The Company and the Underwriters agree as follows:

1. Sale and Purchase. Upon the basis of the warranties and representations and the other terms and conditions herein set forth, the Company agrees to sell to the respective Underwriters and each of the Underwriters, severally and not jointly, agrees to purchase from the Company the aggregate number of Firm Shares set forth opposite the name of such Underwriter in Schedule A attached hereto in each case at a purchase price of $ per Share. You shall release the Firm Shares for public sale promptly after this Agreement becomes effective. You may from time to time increase or decrease the public offering price after the initial public offering to such extent as you may determine.

In addition, the Company hereby grants to the several Underwriters the option to purchase, and upon the basis of the warranties and representations and the other terms and conditions herein set forth, the Underwriters shall have the right to purchase, severally and not jointly, from the Company, ratably in accordance with the number of Firm Shares to be purchased by each of them, all or a portion of the Additional Shares as may be necessary to cover over-allotments made in connection with the offering of the Firm Shares, at the same purchase price per share to be paid by the Underwriters to the Company for the Firm Shares. This option may be exercised at any time (but not more than once) on or before the thirtieth day following the date hereof, by written notice from Dillon, Read & Co. Inc. to the Company. Such notice shall set forth the aggregate number of Additional Shares as to which the option is being exercised, and the date and time when the Additional Shares are to be delivered (such date and time being herein referred to as the "additional time of purchase"); provided, however, that the additional time of purchase shall not be earlier than the time of purchase (as defined below) nor earlier than the second business day1 after the date on which the option shall have been exercised nor later than the eighth business day after the date on which the option shall have been exercised. The number of Additional Shares to be sold to each Underwriter shall be the number which bears the same proportion to the aggregate number of Additional Shares being purchased as the number of Firm Shares set forth opposite the name of such Underwriter on Schedule A hereto bears to the total number of

---

1 As used herein "business day" shall mean a day on which the New York Stock Exchange is open for trading.

Firm Shares (subject, in each case, to such adjustment as you may determine to eliminate fractional shares).

2. Payment and Delivery. Payment of the purchase price for the Firm Shares shall be made to the Company by wire transfer of immediately available funds, against delivery of the certificates for the Firm Shares to you for the respective accounts of the Underwriters. Such payment and delivery shall be made at 10:00 A.M., New York City time, on , 1996 (unless another time shall be agreed to by you and the Company or unless postponed in accordance with the provisions of Section 8 hereof). The time at which such payment and delivery are actually made is hereinafter sometimes called the "time of purchase". Certificates for the Firm Shares shall be delivered to you in definitive form in such names and in such denominations as you shall specify on the second business day preceding the time of purchase. For the purpose of expediting the checking of the certificates for the Firm Shares by you, the Company agrees to make such certificates available to you for such purpose at least one full business day preceding the time of purchase.

Payment of the purchase price for the Additional Shares shall be made at the additional time of purchase in the same manner as the payment for the Firm Shares. Certificates for the Additional Shares shall be delivered to you in definitive form in such names and in such denominations as you shall specify on the second business day preceding the additional time of purchase. For the purpose of expediting the checking of the certificates for the Additional Shares by you, the Company agrees to make such certificates available to you for such purpose at least one full business day preceding the additional time of purchase.

3. Representations and Warranties of the Company. The Company represents and warrants to each of the Underwriters that:

(a) each Preliminary Prospectus filed as a part of the Registration Statement as originally filed or as part of any amendment thereto, or filed pursuant to Rule 424 under the Act fully complied when so filed in all material respects with the Act, and when the Registration Statement becomes or became effective and at all times subsequent thereto up to the time of purchase, the Registration Statement and the Prospectus and any amendments or supplements thereto, fully complied and will fully comply in all material respects with the provisions of the Act, and the Registration Statement at all such times did not and will not contain an untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary to make the statements therein not misleading, and the Prospectus at all such times did not and will not contain an untrue statement of a material

fact or omit to state a material fact required to be stated therein or necessary to make the statements therein, in light of the circumstances under which they were made, not misleading; provided, however, that the Company makes no warranty or representation with respect to any statement contained in the Registration Statement or the Prospectus in reliance upon and in conformity with information concerning the Underwriters and furnished in writing by or on behalf of any Underwriter through you to the Company expressly for use in the Registration Statement or the Prospectus;

(b) as of the date of this Agreement, the Company has an authorized capitalization as set forth under the heading entitled "Actual" in the section of the Registration Statement and the Prospectus entitled "Capitalization" and, as of the time of purchase and the additional time of purchase, as the case may be, the Company shall have an authorized capitalization as set forth under the heading entitled "Pro Forma, As Adjusted" in the section of the Registration Statement and the Prospectus entitled "Capitalization"; all of the issued and outstanding shares of capital stock including Common Stock of the Company have been duly and validly authorized and issued and are fully paid and non-assessable; the Company has been duly incorporated and is validly existing as a corporation in good standing under the laws of the State of Delaware, with full power and authority to own its properties and conduct its business as described in the Registration Statement and the Prospectus, to execute and deliver this Agreement and to issue and sell the Shares as herein contemplated; each of the Subsidiaries has been duly organized and is validly existing as a corporation in good standing under the laws of its jurisdiction of its incorporation with full corporate power and authority to own its property and conduct the business in which it is presently engaged;

(c) all of the issued and outstanding shares of the capital stock of each of the Company's subsidiaries, all of which are listed on Exhibit 21.1 of the Registration Statement (the "Subsidiaries"), have been duly and validly authorized and issued and are fully paid and non-assessable and are owned by the Company free and clear of any pledge, lien, encumbrance, security interest, preemptive rights or other claim; except as described in the Registration Statement and the Prospectus there are no outstanding rights subscriptions, warrants, calls, options or other agreements of any kind with respect to the capital stock of the Company or of the Subsidiaries; the Company does not own, directly or indirectly, shares of capital stock of or other equity interest in any corporation or other entity other than the Subsidiaries;

(d) the Company and each of its Subsidiaries are duly qualified to do business and in good standing in each jurisdiction in which they conduct their respective businesses; and the Company and each of its Subsidiaries are in compliance in all material respects with the laws, orders, rules, regulations and directives issued or administered by such jurisdictions;

(e) neither the Company nor any of its Subsidiaries is in breach of, or in default under (nor has any event occurred which with notice, lapse of time, or both would constitute a breach of, or default under), its respective charter or by-laws or in the performance or observance of any obligation, agreement, covenant or condition contained in any material indenture, mortgage, deed of trust, bank loan or credit agreement or other agreement or instrument to which the Company or any of its Subsidiaries is a party or by which any of them or their respective properties are bound; and the execution, delivery and performance of this Agreement, the incurrence of the obligations set forth herein and the consummation of the transactions contemplated hereby will not conflict with, or result in any breach of or constitute a default under (nor constitute any event which with notice, lapse of time, or both would constitute a breach of, or default under), any provisions of the charter or by-laws, of the Company or any of its Subsidiaries or under any provision of any license, indenture, mortgage, deed of trust, bank loan or credit agreement or other agreement or instrument to which the Company or any of its Subsidiaries is a party or by which any of them or their respective properties may be bound or affected, or under any federal, state, local or foreign law, regulation or rule or any decree, judgment or order applicable to the Company or any of its Subsidiaries;

(f) neither the Company nor any of its Subsidiaries is a party to any litigation, and there is no such litigation pending or to the best knowledge of the Company or any of its Subsidiaries, threatened or contemplated, which seeks to enjoin or restrain the execution, delivery and performance of this Agreement, the incurrence of the obligations set forth herein or the consummation of the transactions contemplated hereby;

(g) this Agreement has been duly authorized, executed and delivered by the Company and is a legal, valid and binding agreement of the Company enforceable in accordance with its terms (except as enforcement may be limited by applicable bankruptcy, insolvency or similar laws affecting the enforcement of creditors' rights generally or by legal or equitable limitations on the availability of specific remedies); the Board of Directors of the Company or a committee thereof duly authorized by

the Board of Directors of the Company has duly adopted resolutions authorizing the issuance and sale of the Shares by the Company; the Shares to be sold by the Company, when issued and delivered to the Underwriters as contemplated hereby, will be duly and validly authorized and fully paid and non-assessable, and free and clear of any pledge, lien, charge, encumbrance, security interest, preemptive right or other claim;

(h) the capital stock of the Company, including the Shares, conforms in all material respects to the description thereof contained in the Registration Statement and Prospectus and the certificates for the Shares are in due and proper form and the holders of the Shares will not be subject to personal liability for the debts or other liabilities or obligations of the Company by reason of being such holders;

(i) no approval, authorization, consent or order of or filing with any national, state or local governmental or regulatory commission, board, body, authority or agency is required in connection with the issuance and sale of the Shares as contemplated hereby other than registration of the Shares under the Act, clearance of the offering of such Shares with the National Association of Securities Dealers, Inc. (the "NASD") and any necessary qualification under the securities or blue sky laws of the various jurisdictions in which the Shares are being offered by the Underwriters;

(j) except for rights which have been waived pursuant to waivers (true and accurate copies of which have been provided to the Underwriters prior to the date of this Agreement) which are in full force and effect on the date of this Agreement, as of the time of purchase and as of the additional time of purchase, no person has the right, contractual or otherwise, to cause the Company to issue to it, or register pursuant to the Act, any shares of capital stock of the Company upon the issue and sale of the Shares to the Underwriters hereunder; no person has preemptive rights, rights of first refusal or other rights to purchase any of the Shares; no person has any right to have securities included in or registered pursuant to the Registration Statement;

(k) Ernst & Young LLP, whose reports on the consolidated financial statements of the Company and its Subsidiaries are filed with the Commission as part of the Registration Statement and Prospectus, are independent public accountants as required by the Act;

(l) each of the Company and its Subsidiaries has all necessary licenses, authorizations, consents and approvals and has made all necessary filings required under any

federal, state, local or foreign law, regulation or rule, and has obtained all necessary authorizations, consents and approvals from other persons, in order to conduct its respective business; neither the Company nor any of its Subsidiaries is in violation of, or in default under, any such license, authorization, consent or approval or any federal, state, local or foreign law, regulation or rule or any decree, order or judgment applicable to the Company or any of its Subsidiaries the effect of which, individually or in the aggregate, could have a material adverse effect on the properties, assets, liabilities, prospects, results of operations, business or condition (financial or otherwise) of the Company and its Subsidiaries taken as a whole (a "Material Adverse Effect");

(m) all legal or governmental proceedings, contracts or documents of a character required to be described in the Registration Statement or the Prospectus or to be filed as an exhibit to the Registration Statement have been so described or filed as required;

(n) there are no actions, suits or proceedings pending or, to the best knowledge of the Company, threatened against the Company or any of its Subsidiaries or any of their respective properties or affiliates, at law or in equity, or before or by any federal, state, local or foreign governmental or regulatory commission, board, body, authority or agency which, individually or in the aggregate, could result in a judgment, decree or order having a Material Adverse Effect;

(o) the audited financial statements included in the Registration Statement and the Prospectus present fairly the consolidated financial position of the Company and its Subsidiaries as of the dates indicated and the consolidated results of operations and changes in financial position of the Company and its Subsidiaries for the periods specified; such financial statements have been prepared in conformity with generally accepted accounting principles applied on a consistent basis during the periods involved [additional representation to be inserted re: pro formas, if required];

(p) subsequent to the respective dates as of which information is given in the Registration Statement and Prospectus, and except as may be otherwise stated in the Registration Statement or Prospectus, there has not been (A) any material and unfavorable change, financial or otherwise, in the business, properties, assets, prospects, regulatory environment, results of operations or condition (financial or otherwise), present or prospective, of the Company and its Subsidiaries taken as a whole, (B) any transaction, which is material to the business,

properties, assets, prospects, regulatory environment, results of operations or condition (financial or otherwise), present or prospective, of the Company and its Subsidiaries taken as a whole, contemplated or entered into by the Company or any of its Subsidiaries or (C) any obligation, contingent or otherwise, directly or indirectly incurred by the Company or any of its Subsidiaries which is material to the business, properties, assets, prospects, regulatory environment, results of operations or condition (financial or otherwise), present or prospective, of the Company and its Subsidiaries taken as a whole;

(q) the Company and its Subsidiaries have good title to all properties and assets owned or leased by them, in each case, except as set forth in the Registration Statement and the Prospectus, free and clear of all pledges, liens, encumbrances, security interests, charges, mortgages and defects of title other than liens for taxes which taxes are not yet due and payable;

(r) each issuance of securities referred to in Item 15 of the Registration Statement (i) was effected in reliance upon a valid exemption from the registration requirements of the Act and (ii) was effected in compliance with the securities or blue sky laws of each jurisdiction in which such securities were offered or sold;

(s) except for possible violations of which the Company is unaware which, individually or in the aggregate, would not have a Material Adverse Effect, the business, operations and facilities of the Company and each of its Subsidiaries have been and are being conducted in compliance with all applicable federal, state, local, and foreign laws, ordinances, rules, regulations, licenses, permits, approvals, plans, authorizations, orders, judgments, directives, decrees, requirements and common law relating to occupational safety and health, or pollution, or protection of health or the environment as now or previously in effect (including, without limitation, those relating to, regulating, or imposing liability or standards of conduct concerning emissions, discharges, releases or threatened releases of pollutants, contaminants or hazardous, dangerous, or toxic substances, materials constituents or wastes or toxins, viruses, infectious disease agents, or pathogens, into ambient air, surface water, groundwater or land, or relating to the generation, manufacture, processing, distribution, use, treatment, storage, disposal, transport or handling of chemical substances, pollutants, contaminants or hazardous or toxic substances, materials or wastes, including medical waste, whether solid, gaseous or liquid in nature) or otherwise relating to remediating real property or

concerning protection of the outdoor or indoor environment ("Environmental Laws); and neither the Company nor any of its Subsidiaries has received any notice which is pending from a governmental instrumentality or any third party alleging any violation thereof or liability thereunder (including, without limitation, liability for costs of investigating or remediating sites containing hazardous substances and/or damages to natural resources) and all violations for which the Company or any of its Subsidiaries has previously received notice have been remedied;

(t) there is no claim pending or, to the best knowledge of the Company or any of its Subsidiaries, threatened or contemplated under any Environmental Laws against the Company or any of its Subsidiaries which, if adversely determined, individually or in the aggregate, would have a Material Adverse Effect; there are no past or present actions or conditions, including, without limitation, the release of any hazardous substance or waste regulated under any Environmental Law that are likely to form the basis of any such claim against the Company or any of its Subsidiaries which, if adversely determined, individually or in the aggregate would have a Material Adverse Effect;

(u) the Company and each of its Subsidiaries have filed all federal or state income and franchise tax returns required to be filed and have paid all taxes shown thereon as due, and there is no material tax deficiency which has been or might be asserted against the Company or any of its Subsidiaries; all material tax liabilities of the Company and its Subsidiaries are adequately provided for on the books of the Company and its Subsidiaries;

(v) neither the Company nor any of its affiliates has incurred any liability for any finder's fees or similar payments in connection with the transactions herein contemplated;

(w) the Company and each of its Subsidiaries has in effect, with financially sound and reputable insurers, insurance with respect to its business and properties and the business and properties of its Subsidiaries against loss or damage of the kind customarily insured against by corporations of established reputation engaged in the same or similar businesses and similarly situated, of such type and in such amounts as are customarily carried under similar circumstances by such other corporations;

(x) the Company owns each of the patents described in the Registration Statement and the Prospectus as owned by the Company (the "Patents") and, except as disclosed in the Registration Statement and the Prospectus, owns or

possesses adequate and enforceable rights to use all other patents, patent applications, trademarks, trademark applications, service marks, copyrights, copywrite applications, licenses and other similar rights (collectively with the Patents, "Intangibles") necessary for the conduct of the businesses of the Company and its Subsidiaries as now being conducted and as described in the Registration Statement and the Prospectus. Neither the Company nor any of its Subsidiaries has infringed, is infringing, or has received any notice of infringement of any Intangible of any other person and neither the Company nor any of its Subsidiaries knows of any basis therefor;

(y) the Company has obtained the agreement of each of its directors and officers and certain of its stockholders designated by you not to sell, contract to sell, grant any option to sell or otherwise dispose of, directly or indirectly, any shares of Common Stock or securities convertible into or exchangeable for Common Stock or warrants or other rights to purchase Common Stock for a period of 180 days after the date of this Agreement; and

(z) none of the Company or its Subsidiaries is, or after application of the proceeds as described under the caption "Use of Proceeds" in the Registration Statement and the Prospectus, will be an "investment company" or an affiliated person of, or "promoter" or "principal underwriter" for, an "investment company," as such terms are defined in the Investment Company Act of 1940, as amended, and the rules and regulations thereunder.

4. Certain Covenants of the Company. The Company hereby agrees:

(a) to furnish such information as may be required and otherwise to cooperate in qualifying the Shares for offering and sale under the securities or blue sky laws of such states as you may designate and to maintain such qualifications in effect so long as required for the distribution of the Shares, provided that the Company shall not be required to qualify as a foreign corporation or to consent to the service of process under the laws of any such state (except service of process with respect to the offering and sale of the Shares); and to promptly advise you of the receipt by the Company of any notification with respect to the suspension of the qualification of the Shares for sale in any jurisdiction or the initiation or threatening of any proceeding for such purpose; and to make every reasonable effort to obtain the withdrawal of any order or suspension as soon as practicable;

(b) to make available to you in New York City, as soon as practicable after the Registration Statement becomes effective, and thereafter from time to time to furnish to the Underwriters, as many copies of the Prospectus (or of the Prospectus as amended or supplemented if the Company shall have made any amendments or supplements thereto after the effective date of the Registration Statement) as the Underwriters may reasonably request for the purposes contemplated by the Act;

(c) to advise you promptly and (if requested by you) to confirm such advice in writing, (i) when the Registration Statement has become effective and when any post-effective amendment thereto becomes effective and (ii) if Rule 430A under the Act is used, when the Prospectus is filed with the Commission pursuant to Rule 424(b) under the Act (which the Company agrees to file in a timely manner under such Rules);

(d) to advise you promptly, confirming such advice in writing, of any request by the Commission for amendments or supplements to the Registration Statement or Prospectus or for additional information with respect thereto, or of notice of institution of proceedings for, or the entry of a stop order suspending the effectiveness of the Registration Statement and, if the Commission should enter a stop order suspending the effectiveness of the Registration Statement, to make every reasonable effort to obtain the lifting or removal of such order as soon as possible; to advise you promptly of any proposal to amend or supplement the Registration Statement or Prospectus and to file no such amendment or supplement to which you shall object in writing;

(e) to furnish to you and, upon request, to each of the other Underwriters for a period of five years from the date of this Agreement (i) copies of any reports or other communications which the Company shall send to its stockholders or shall from time to time publish or publicly disseminate, (ii) copies of all annual, quarterly and current reports filed with the Commission on Forms 10-K, 10-Q and 8-K, or such other similar form as may be designated by the Commission, and (iii) such other information as you may reasonably request regarding the Company or its Subsidiaries;

(f) to advise the Underwriters promptly of the happening of any event known to the Company within the time during which a prospectus relating to the Shares is required to be delivered under the Act which, in the judgment of the Company, would require the making of any change in the Prospectus then being used so that the Prospectus would not include an untrue statement of material fact or omit to state a material fact necessary

to make the statements therein, in the light of the circumstances under which they are made, not misleading, and, during such time, to prepare and furnish, at the Company's expense, to the Underwriters promptly such amendments or supplements to such Prospectus as may be necessary to reflect any such change and to furnish you a copy of such proposed amendment or supplement before filing any such amendment or supplement with the Commission;

(g) to make generally available to its security holders, and to deliver to you, an earnings statement of the Company (which will satisfy the provisions of Section 11(a) of the Act) covering a period of twelve months beginning after the effective date of the Registration Statement but not later than , 1996, as soon as is reasonably practicable after the termination of such twelve-month period;

(h) to furnish to you four signed copies of the Registration Statement, as initially filed with the Commission, and of all amendments thereto (including all exhibits thereto) and sufficient conformed copies of the foregoing (other than exhibits) for distribution of a copy to each of the other Underwriters;

(i) to furnish to you as early as practicable prior to the time of purchase and the additional time of purchase, as the case may be, but not later than two business days prior thereto, a copy of the latest available unaudited interim consolidated financial statements, if any, of the Company and its Subsidiaries which have been read by the Company's independent certified public accountants, as stated in their letter to be furnished pursuant to Section 6(d) of this Agreement;

(j) to apply the net proceeds from the sale of the Shares in the manner set forth under the caption "Use of Proceeds" in the Registration Statement and the Prospectus;

(k) whether or not the transactions contemplated by this Agreement are consummated or this Agreement otherwise becomes effective or is terminated, to pay all expenses, fees and taxes (other than any transfer taxes and fees and disbursements of counsel for the Underwriters except as set forth under Section 5 hereof and clauses (iii) and (iv) below) in connection with (i) the preparation and filing of the Registration Statement, each Preliminary Prospectus, the Prospectus, and any amendments or supplements thereto, and the printing and furnishing of copies of each thereof to the Underwriters and to dealers (including costs of mailing and shipment), (ii) the preparation, issuance, sale and delivery of the Shares,

(iii) the word processing and/or printing of this Agreement, any Agreement Among Underwriters, any dealer agreements, any Statements of Information and Powers of Attorney and the reproduction and/or printing and furnishing of copies of each thereof to the Underwriters and to dealers (including costs of mailing and shipment), (iv) the qualification of the Shares for offering and sale under state laws and the determination of their eligibility for investment under state law as aforesaid (including the legal fees and filing fees and other disbursements of counsel for the Underwriters) and the printing and furnishing of copies of any blue sky surveys or legal investment surveys to the Underwriters and to dealers, (v) any listing of the Shares on any securities exchange or qualification of the Shares for quotation on NASDAQ National Market and any registration thereof under the Securities Exchange Act of 1934 (the "Exchange Act"), (vi) any filing for review of the public offering of the Shares by the NASD and (vii) the performance of the Company's other obligations hereunder;

(l) to furnish to you, before filing with the Commission subsequent to the effective date of the Registration Statement and during the period referred to in paragraph (f) above, a copy of any document proposed to be filed pursuant to Sections 13, 14 or 15(d) of the Exchange Act;

(m) not to sell, contract to sell, grant any option to sell or otherwise dispose of, directly or indirectly, any shares of Common Stock or securities convertible into or exchangeable for Common Stock or warrants or other rights to purchase Common Stock or permit the registration under the Act of any shares of Common Stock, except for the registration of the Shares and the sales to the Underwriters pursuant to this Agreement and except for issuances of Common Stock upon the exercise of outstanding options, warrants and debentures, for a period of 180 days after the date hereof, without the prior written consent of Dillon, Read & Co. Inc. acting on behalf of the Managing Underwriters;

(n) to use its best efforts to cause the Shares to be listed on the NASDAQ National Market; and

(o) not to take, directly or indirectly, any action designed to cause or to result in, or that might constitute the stabilization or manipulation of the Common Stock to facilitate the sale or resale of the Shares.

5. Reimbursement of Underwriters' Expenses. If the Shares are not delivered for any reason other than the termination of this Agreement pursuant to the first two paragraphs of Section 8 hereof or the default by one or more of

the Underwriters in its or their respective obligations hereunder, the Company shall reimburse the Underwriters for all of their out-of-pocket expenses, including the fees and disbursements of their counsel.

6. Conditions of Underwriters' Obligations. The several obligations of the Underwriters hereunder are subject to the accuracy of the representations and warranties on the part of the Company on the date hereof and at the time of purchase (and the several obligations of the Underwriters at the additional time of purchase are subject to the accuracy of the representations and warranties on the part of the Company on the date hereof and at the time of purchase (unless previously waived) and at the additional time of purchase, as the case may be), the performance by the Company of its obligations hereunder and to the following conditions:

(a) The Company shall furnish to you at the time of purchase and at the additional time of purchase, as the case may be, an opinion of Johnson & Colmar, counsel for the Company, addressed to the Underwriters, and dated the time of purchase or the additional time of purchase, as the case may be, with reproduced copies for each of the other Underwriters and in form satisfactory to Cahill Gordon & Reindel, counsel for the Underwriters, stating that:

(i) the Company has been duly incorporated and is validly existing as a corporation in good standing under the laws of the State of Delaware, with full corporate power and authority to own its properties and conduct its business as described in the Registration Statement and the Prospectus, to execute and deliver this Agreement and to issue, sell and deliver the Shares as herein contemplated;

(ii) each of the Subsidiaries has been duly incorporated and is validly existing as a corporation in good standing under the laws of its respective jurisdiction of incorporation with full corporate power and authority to own its respective properties and to conduct its respective business;

(iii) the Company and its Subsidiaries are duly qualified to do business in and are in good standing in, each jurisdiction in which they conduct their respective businesses, own or lease real property or maintain an office and in which such qualification is necessary;

(iv) this Agreement has been duly authorized, executed and delivered by the Company; the Board of Directors of the Company or a committee thereof duly authorized by the Board of Directors of the Company

has duly adopted resolutions authorizing the issuance and sale of the Shares by the Company;

(v) the Shares, when issued and delivered to and paid for by the Underwriters in accordance with the terms hereof, will be duly and validly authorized and issued and will be fully paid and non-assessable;

(vi) the Company's authorized capital stock consists of 30,000,000 shares of Common Stock, par value $.01 per share, as set forth in the Registration Statement and the Prospectus; the outstanding shares of capital stock of the Company have been duly and validly authorized and issued and are fully paid, non-assessable and free of statutory and contractual preemptive rights; the Shares when issued will be free of statutory and contractual preemptive rights; the certificates for the Shares are in due and proper form and the holders of the Shares will not be subject to personal liability for the debts or other liabilities or obligations of the Company by reason of being such holders;

(vii) all of the issued and outstanding shares of the capital stock of each of the Company's Subsidiaries have been duly and validly authorized and issued and are fully paid and non-assessable and are owned by the Company free and clear of any pledge, lien, encumbrance, security interest, preemptive rights or other claim known to such counsel; to the best of such counsel's knowledge, except as described in the Registration Statement and the Prospectus there are no outstanding rights subscriptions, warrants, calls, options or other agreements of any kind with respect to the capital stock of the Company or its Subsidiaries; to the best of such counsel's knowledge, the Company does not own, directly or indirectly, shares of capital stock of or equity interest in any corporation or other entity other than its Subsidiaries;

(viii) the capital stock of the Company, including the Shares, conforms in all material respects to the description thereof contained in the Registration Statement and Prospectus;

(ix) the Registration Statement and the Prospectus (except as to the financial statements and schedules and other financial and statistical data contained or incorporated by reference therein, as to which such counsel need express no opinion) comply as to form in all material respects with the requirements of the Act;

(x) the Registration Statement has become effective under the Act and, to the best of such counsel's knowledge, no stop order proceedings with respect thereto are pending or threatened under the Act;

(xi) no approval, authorization, consent or order of or filing with any national, state or local governmental or regulatory commission, board, body, authority or agency is required in connection with the issuance and sale of the Shares as contemplated hereby other than registration of the Shares under the Act and the clearance of the offering of such shares with the NASD (except such counsel need express no opinion as to any necessary qualification under the state securities or blue sky laws of the various jurisdictions in which the Shares are being offered by the Underwriters);

(xii) the execution, delivery and performance of this Agreement by the Company and the consummation by the Company of the transactions contemplated hereby do not and will not conflict with, or result in any breach of, or constitute a default under (nor constitute any event which with notice, lapse of time, or both, would constitute a breach of or default under), any provisions of the charter or by-laws of the Company or any of its Subsidiaries or under any provision of any license, indenture, mortgage, deed of trust, bank loan, credit agreement or other agreement or instrument known to such counsel to which the Company or any of its Subsidiaries is a party or by which any of them or their respective properties may be bound or affected, or under any law, regulation or rule applicable to the Company or any of its Subsidiaries or under any decree, judgment or order known to such counsel applicable to the Company or any of its Subsidiaries;

(xiii) to the best of such counsel's knowledge, neither the Company nor any of its Subsidiaries is a party to any litigation, and there is no such litigation pending or threatened, which seeks to enjoin or restrain the execution, delivery and performance of this Agreement, the incurrence of the obligations set forth herein or the consummation of the transactions contemplated hereby;

(xiv) to the best of such counsel's knowledge, neither the Company nor any of its Subsidiaries is in breach of, or in default under (nor has any event occurred which with notice, lapse of time, or both would constitute a breach of, or default under), any license, indenture, mortgage, deed of trust, bank

loan or any other agreement or instrument known to such counsel to which the Company or any of its Subsidiaries is a party or by which any of them or their respective properties may be bound or affected or under any law, regulation or rule applicable to the Company or any of its Subsidiaries or under any decree, judgment or order known to such counsel applicable to the Company or any of its Subsidiaries;

(xv) to the best of such counsel's knowledge, there are no contracts, licenses, agreements, leases or documents of a character which are required to be filed as exhibits to the Registration Statement or to be summarized or described in the Prospectus which have not been so filed, summarized or described;

(xvi) to the best of such counsel's knowledge, there are no actions, suits or proceedings pending or threatened against the Company or any of its Subsidiaries or any of their respective properties, at law or in equity or before or by any commission, board, body, authority or agency which are required to be described in the Registration Statement and the Prospectus but are not so described;

(xvii) each issuance of securities referred to in Item 15 of the Registration Statement (i) was effected in reliance upon a valid exemption from the registration requirements of the Act and (ii) was effected in compliance with the securities or blue sky laws of each jurisdiction in which such securities were offered and sold;

(xviii) none of the Company or its Subsidiaries is, or after application of the proceeds as described under the caption "Use of Proceeds" in the Registration Statement and the Prospectus, will be an "investment company" or an affiliated person of, or "promoter" or "principal underwriter" for, an "investment company," as such terms are defined in the Investment Company Act of 1940, as amended, and the rules and regulations thereunder; and

(xix) such counsel have participated in conferences with officers and other representatives of the Company, representatives of the independent public accountants of the Company and representatives of the Underwriters at which the contents of the Registration Statement and Prospectus were discussed and, although such counsel is not passing upon and does not assume responsibility for the accuracy, completeness or fairness of the statements contained in the Registration Statement or Prospectus (except as and to the extent stated in subparagraphs (vi) and

(viii) above) and has not made any independent verification or check of such statements (except for purposes of subparagraphs (vi) and (viii) above), on the basis of the foregoing (relying as to materiality to a large extent upon the opinions of officers and other representatives of the Company) nothing has come to the attention of such counsel that causes them to believe that the Registration Statement or any amendment thereto at the time such Registration Statement or amendment became effective contained an untrue statement of a material fact or omitted to state a material fact required to be stated therein or necessary to make the statements therein not misleading, or that the Prospectus or any supplement thereto at the date of such Prospectus or such supplement, and at all times up to and including the time of purchase or additional time of purchase, as the case may be, contained an untrue statement of a material fact or omitted to state a material fact required to be stated therein or necessary to make the statements therein, in light of the circumstances under which they were made, not misleading (it being understood that such counsel need express no belief with respect to the financial statements and schedules and other financial and statistical data included in the Registration Statement or Prospectus).

(b) The Company shall furnish to you at the time of purchase and at the additional time of purchase, as the case may be, an opinion of Brinks Hofer Gilson & Lione, patent counsel for the Company, addressed to the Underwriters, and dated the time of purchase or the additional time of purchase, as the case may be, with reproduced copies for each of the other Underwriters and in form satisfactory to Cahill Gordon & Reindel, counsel for the Underwriters, stating that:

(i) the statements contained in the Registration Statement and the Prospectus, insofar as they relate to the Company's and its Subsidiaries' patent position, have been reviewed and approved by such counsel, are accurate in all material respects and fairly present the information set forth therein;

(ii) to the best of such counsel's knowledge, except as disclosed in the Registration Statement and the Prospectus, there are no pending or threatened legal or governmental proceedings relating to patents, trademarks, service marks or proprietary information owned or used by the Company or its Subsidiaries to which the Company or its Subsidiaries is a party or of which any property of the Company or its Subsidiaries is the subject;

(iii) to the best of such counsel's knowledge, neither the Company nor any of its Subsidiaries is currently in breach of, or in default under, any agreement or instrument of which such counsel has knowledge to which the Company or any of its Subsidiaries is a party or by which any of them or any of their property may be bound or affected;

(iv) such counsel has no reason to believe that either the Registration Statement or the Prospectus or any amendment thereof or supplement thereto contains any untrue statement of a material fact or omits to state any material fact required to be stated therein or necessary to make the statements therein not misleading;

(v) the Company owns of record all right, title and interest in and to the patents and patent applications described in the Registration Statement and the Prospectus free and clear of any adverse claim known by such counsel of any third party; to the best of such counsel's knowledge, the Company has not infringed, is not infringing and has not received any notice of infringement of any patents of any other person which individually or in the aggregate could have a Material Adverse Effect;

(vi) to the best of such counsel's knowledge, there is no litigation or governmental or other proceeding relating to the Patents, before any court or before or by any public body or board (other than the United States Patent and Trademark Office) pending to which the Company or any of its Subsidiaries is a party or threatened against the Company or any of its Subsidiaries which individually or in the aggregate could have a Material Adverse Effect; to the best of such counsel's knowledge, the Company has not given notice to any third party of any claim of infringement of its patents; and

(vii) the applications and other documents filed by the Company or any of its Subsidiaries with the United States Patent and Trademark Office have been duly and adequately filed and to the best of such counsel's knowledge, in connection with such applications, no fraud on such office was practiced or attempted and the duty of disclosure required by such office was not violated through bad faith or gross negligence, and except as specifically described in the Registration Statement and the Prospectus such counsel knows of no infringement or conflict with the existing enforceable rights of others (or of claims thereof) with respect to the products or processes covered by such applications or

documents or utilized by the Company or any of its Subsidiaries in their respective businesses which, individually or in the aggregate, if the subject of an unfavorable decision, ruling or finding, could have a Material Adverse Effect.

(c) The Company shall furnish to you at the time of purchase and at the additional time of purchase, as the case may be, an opinion of local counsel to the Company, in each of the jurisdictions identified on Schedule B hereto, addressed to the Underwriters, and dated the time of purchase or the additional time of purchase, as the case may be, with reproduced copies for each of the other Underwriters and in form satisfactory to Cahill Gordon & Reindel, counsel for the Underwriters, stating that:

(i) the business, operations and facilities of the Company and each of its Subsidiaries have been and are being conducted in compliance with all applicable federal, state, local, and foreign laws, ordinances, rules, regulations, licenses, permits, approvals, plans, authorizations, orders, judgments, directives, decrees, requirements and common law relating to occupational safety and health, or pollution, or protection of health or the environment as now or previously in effect (including, without limitation, those relating to, regulating, or imposing liability or standards of conduct concerning emissions, discharges, releases or threatened releases of pollutants, contaminants or hazardous, dangerous, or toxic substances, materials constituents or wastes or toxins, viruses, infectious disease agents, or pathogens, into ambient air, surface water, groundwater or land, or relating to the generation, manufacture, processing, distribution, use, treatment, storage, disposal, transport or handling of chemical substances, pollutants, contaminants or hazardous or toxic substances, materials or wastes, including medical waste, whether solid, gaseous or liquid in nature) or otherwise relating to remediating real property or concerning protection of the outdoor or indoor environment ("Environmental Laws"); and to the best knowledge of such counsel, neither the Company nor any of its Subsidiaries has received any notice which is pending from a governmental instrumentality or any third party alleging any violation thereof or liability thereunder (including, without limitation, liability for costs of investigating or remediating sites containing hazardous substances and/or damages to natural resources) and all violations for which the Company or any of its Subsidiaries has previously received notice have been remedied;

(ii) to the best knowledge of such counsel, there is no claim pending, threatened or contemplated under any Environmental Laws against the Company or any of its Subsidiaries which, if adversely determined, individually or in the aggregate, would have a Material Adverse Effect; there are no past or present actions or conditions including, without limitation, the release of any hazardous substance or waste regulated under any Environmental Law that are likely to form the basis of any such claim against the Company or any of its Subsidiaries which, if adversely determined, individually or in the aggregate would have a Material Adverse Effect; and

(iii) the Statements contained in the Registration Statement and the Prospectus relating to Environmental Laws have been reviewed and approved by such counsel, are accurate in all material respects and fairly present the information set forth therein.

(d) You shall have received from Ernst & Young LLP, letters dated, respectively, the date of this Agreement and the time of purchase and additional time of purchase, as the case may be, and addressed to the Underwriters (with reproduced copies for each of the Underwriters) in the forms heretofore approved by the Managing Underwriters.

(e) You shall have received at the time of purchase and at the additional time of purchase, as the case may be, the favorable opinion of Cahill Gordon & Reindel, counsel for the Underwriters, dated the time of purchase or the additional time of purchase, as the case may be, in form and substance reasonably satisfactory to you.

(f) No amendment or supplement to the Registration Statement or Prospectus shall be filed prior to the time the Registration Statement becomes effective to which you object in writing.

(g) The Registration Statement shall become effective, or if Rule 430A under the Act is used, the Prospectus shall have been filed with the Commission pursuant to Rule 424(b) under the Act, at or before 5:00 P.M., New York City time, on the date of this Agreement, unless a later time (but not later than 5:00 P.M., New York City time, on the second full business day after the date of this Agreement) shall be agreed to by the Company and you in writing or by telephone, confirmed in writing; provided, however, that the Company and you and any group of Underwriters, including you, who have agreed hereunder to purchase in the aggregate at least 50% of the Firm Shares may from time to time agree on a later date.

(h) Prior to the time of purchase or the additional time of purchase, as the case may be, (i) no stop order with respect to the effectiveness of the Registration Statement shall have been issued under the Act or proceedings initiated under Section 8(d) or 8(e) of the Act; (ii) the Registration Statement and all amendments thereto, or modifications thereof, if any, shall not contain an untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary to make the statements therein not misleading; and (iii) the Prospectus and all amendments or supplements thereto, or modifications thereof, if any, shall not contain an untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary to make the statements therein, in the light of the circumstances under which they are made, not misleading.

(i) Between the time of execution of this Agreement and the time of purchase or the additional time of purchase, as the case may be, (i) no material and unfavorable change, financial or otherwise (other than as referred to in the Registration Statement and Prospectus), in the properties, assets, liabilities, results of operations, business, condition (financial or otherwise) or prospects of the Company and its Subsidiaries taken as a whole shall occur or become known and (ii) no transaction which is material and unfavorable to the Company shall have been entered into by the Company or any of its Subsidiaries.

(j) The Company will, at the time of purchase or additional time of purchase, as the case may be, deliver to you a certificate of its chief executive officer and chief financial officer to the effect that the representations and warranties of the Company as set forth in this Agreement and the conditions set forth in paragraph (h) and paragraph (i) have been met and that they are true and correct as of each such date.

(k) You shall have received signed letters from each of the directors and officers of the Company and certain stockholders of the Company designated by you to the effect that such persons shall not sell, contract to sell, grant any option to sell or otherwise dispose of, directly or indirectly, any shares of Common Stock of the Company or securities convertible into or exchangeable for Common Stock or warrants or other rights to purchase Common Stock for a period of 180 days after the date of this Agreement without the prior written consent of Dillon, Read & Co. Inc. acting on behalf of the Managing Underwriters.

(l) The Company shall have furnished to you such other documents and certificates as to the accuracy and

completeness of any statement in the Registration Statement and the Prospectus as of the time of purchase and the additional time of purchase, as the case may be, as you may reasonably request.

(m) The Company shall have performed such of its obligations under this Agreement as are to be performed by the terms hereof at or before the time of purchase and at or before the additional time of purchase, as the case may be.

(n) The Company shall have taken all actions necessary to effect a reverse stock split so that each 5.3089 shares of Class A common stock of the Company or Class B common stock of the Company become one share of Class A common stock of the Company or Class B common stock of the Company, as the case may be, and to redesignate all of the Company's outstanding shares of Class A common stock of the Company and Class B common stock of the Company as Common Stock.

(o) The Shares shall have been approved for listing on the NASDAQ National Market, subject only to notice of issuance at or prior to the time of purchase.

7. Effective Date of Agreement; Termination. This Agreement shall become effective (i) if Rule 430A under the Act is not used, when you shall have received notification of the effectiveness of the Registration Statement, or (ii) if Rule 430A under the Act is used, when the parties hereto have executed and delivered this Agreement.

The obligations of the several Underwriters hereunder shall be subject to termination in the absolute discretion of you or in the absolute discretion of Dillon, Read & Co. Inc., acting on your behalf, or any group of Underwriters (which may include you) which has agreed to purchase in the aggregate at least 50% of the Firm Shares, if, at any time prior to the time of purchase or, with respect to the purchase of any Additional Shares, the additional time of purchase, as the case may be, trading in securities on the New York Stock Exchange shall have been suspended or minimum prices shall have been established on the New York Stock Exchange, or if a banking moratorium shall have been declared either by the United States or New York State authorities, or if the United States shall have declared war in accordance with its constitutional processes or there shall have occurred any material outbreak or escalation of hostilities or other national or international calamity or crisis of such magnitude in its effect on the financial markets of the United States as, in your judgment or in the judgment of Dillon, Read & Co. Inc., acting on your behalf, or in the judgment of such group of Underwriters, to make it impracticable to market the Shares.

If you or Dillon, Read & Co. Inc., acting on your behalf, or any group of Underwriters elects to terminate this agreement as provided in this Section 7, the Company and each other Underwriter shall be notified promptly by letter or telegram.

If the sale to the Underwriters of the Shares, as contemplated by this Agreement, is not carried out by the Underwriters for any reason permitted under this Agreement or if such sale is not carried out because the Company shall be unable to comply with any of the terms of this Agreement, the Company shall not be under any obligation or liability under this Agreement (except to the extent provided in Sections 4(k), 5 and 9 hereof), and the Underwriters shall be under no obligation or liability to the Company under this Agreement (except to the extent provided in Section 9 hereof) or to one another hereunder.

8. Increase in Underwriters' Commitments. If any Underwriter shall default in its obligation to take up and pay for the Firm Shares to be purchased by it hereunder and if the number of Firm Shares which all Underwriters so defaulting shall have agreed but failed to take up and pay for does not exceed 10% of the total number of Firm Shares, the non-defaulting Underwriters shall take up and pay for (in addition to the aggregate principal amount of Firm Shares they are obligated to purchase pursuant to Section 1 hereof) the number of Firm Shares agreed to be purchased by all such defaulting Underwriters, as hereinafter provided. Such Shares shall be taken up and paid for by such non-defaulting Underwriter or Underwriters in such amount or amounts as you may designate with the consent of each Underwriter so designated or, in the event no such designation is made, such Shares shall be taken up and paid for by all non-defaulting Underwriters pro rata in proportion to the aggregate number of Firm Shares set opposite the names of such non-defaulting Underwriters in Schedule A.

Without relieving any defaulting Underwriter from its obligations hereunder, the Company agrees with the non-defaulting Underwriters that it will not sell any Firm Shares hereunder unless all of the Firm Shares are purchased by the Underwriters (or by substituted Underwriters selected by you with the approval of the Company or selected by the Company with your approval).

If a new Underwriter or Underwriters are substituted by the Underwriters or by the Company for a defaulting Underwriter or Underwriters in accordance with the foregoing provision, the Company or you shall have the right to postpone the time of purchase for a period not exceeding five business days in order that any necessary changes in the Registration Statement and Prospectus and other documents may be effected.

The term Underwriter as used in this agreement shall refer to and include any Underwriter substituted under this Section 8 with like effect as if such substituted Underwriter had originally been named in Schedule A.

9. Indemnity by the Company and the Underwriters.

(a) The Company agrees to indemnify, defend and hold harmless each Underwriter, any person who controls any Underwriter within the meaning of Section 15 of the Act or Section 20 of the Exchange Act, and their respective agents, representatives, employees, officers, partners and directors (collectively, the "Underwriter indemnified parties"), from and against any loss, expense, damage, judgment, liability or claim (including the costs of investigating, defending or settling such matters and fees and expenses of counsel in connection therewith) as they are incurred (and regardless of whether the Underwriter indemnified party is a party to the litigation, if any) which, jointly or severally, any such Underwriter indemnified party may incur under the Act, the Exchange Act or otherwise insofar as such loss, expense, damage, judgment, liability or claim arises out of or is based upon any untrue statement or alleged untrue statement of a material fact contained in the Registration Statement (or in the Registration Statement as amended by any post-effective amendment thereof by the Company) or in a Prospectus (the term Prospectus for the purpose of this Section 9 being deemed to include any Preliminary Prospectus, the Prospectus and the Prospectus as amended or supplemented by the Company), or arises out of or is based upon any omission or alleged omission to state a material fact required to be stated in either such Registration Statement or Prospectus or necessary to make the statements made therein not misleading, except insofar as any such loss, expense, damage, judgment, liability or claim arises out of or is based upon any untrue statement or alleged untrue statement of a material fact contained in and in conformity with information furnished in writing by any Underwriter through you to the Company expressly for use with reference to such Underwriter in such Registration Statement or such Prospectus or arises out of or is based upon any omission or alleged omission to state a material fact in connection with such information required to be stated in either such Registration Statement or Prospectus or necessary to make such information not misleading; provided, however, that the indemnity agreement contained in this subsection (a) with respect to any Preliminary Prospectus or amended Preliminary Prospectus shall not inure to the benefit of any Underwriter (or to the benefit of any person controlling such Underwriter) from whom the person asserting any such loss, expense, liability or claim purchased the Shares which is the subject thereof to the extent the Prospectus corrected any such alleged untrue statement or omission and if such Underwriter failed to send or give a copy of the Prospectus to such person at or prior to the written confirmation of the sale of such Shares to such person.

If any action or proceeding (including any governmental or regulatory investigation or proceeding) is brought or asserted against any Underwriter indemnified party in respect of which indemnity may be sought against the Company pursuant to the foregoing paragraph, such Underwriter indemnified party shall promptly notify the Company in writing of the institution of such action or proceeding and the Company shall assume the defense of such action or proceeding, including the employment of counsel satisfactory to the Underwriter indemnified party and payment of all fees and expenses; provided that the omission to so notify the Company shall not in any way relieve the Company from any liability it may have to an Underwriter indemnified party. An Underwriter indemnified party shall have the right to employ separate counsel in any such case, but the fees and expenses of such counsel shall be at the expense of such Underwriter indemnified party unless the employment of such counsel shall have been authorized in writing by the Company in connection with the defense of such action or the Company shall not have employed counsel to have charge of the defense of such action within a reasonable period of time or such Underwriter indemnified party or parties shall have reasonably concluded that there may be one or more defenses available to it or them which are different from or additional to those available to the Company (in which case the Company shall not have the right to direct the defense of such action on behalf of the Underwriter indemnified party or parties), in any of which events such fees and expenses shall be borne by the Company and paid as incurred (it being understood, however, that the Company shall not be liable for the expenses of more than one separate counsel (in addition to local counsel), which counsel shall be designated by Dillon, Read & Co. Inc., in any one action or series of related actions in the same jurisdiction representing the Underwriter indemnified parties who are parties to such action). Anything in this paragraph to the contrary notwithstanding, the Company shall not be liable for any settlement of any such claim or action effected without its written consent (which consent shall not be unreasonably withheld or delayed) unless the Company shall be in breach of its obligations to pay fees and expenses pursuant to this Agreement, but if settled with the written consent of the Company, or if there is a final judgment with respect thereto, the Company agrees to indemnify and hold harmless each Underwriter indemnified party from and against any loss or liability by reason of such settlement or judgment.

(b) Each Underwriter severally agrees to indemnify, defend and hold harmless the Company, its directors and officers, and any person who controls the Company within the meaning of Section 15 of the Act or Section 20 of the Exchange Act (each, a "Company Indemnitee") from and against any loss, expense, damage, judgment, liability or claim (including the costs of investigating, defending or settling such matters and fees and expenses of counsel in connection with therewith) as

they are incurred (and regardless of whether the Company Indemnitee is a party to the litigation if any) which, jointly or severally, such Company Indemnitee may incur under the Act or otherwise, insofar as such loss, expense, damage, judgment, liability or claim arises out of or is based upon any untrue statement or alleged untrue statement of a material fact contained in and in conformity with information furnished in writing by or on behalf of such Underwriter through you to the Company expressly for use with reference to such Underwriter in the Registration Statement (or in the Registration Statement as amended by any post-effective amendment thereof by the Company) or in a Prospectus, or arises out of or is based upon any omission or alleged omission to state a material fact in connection with such information required to be stated either in such Registration Statement or Prospectus or necessary to make such information not misleading.

If any action is brought against the Company or any such person in respect of which indemnity may be sought against any Underwriter pursuant to the foregoing paragraph, the Company or such person shall promptly notify such Underwriter in writing of the institution of such action and such Underwriter shall assume the defense of such action, including the employment of counsel and payment of expenses. The Company or such person shall have the right to employ its own counsel in any such case, but the fees and expenses of such counsel shall be at the expense of the Company or such person unless the employment of such counsel shall have been authorized in writing by such Underwriter in connection with the defense of such action or such Underwriter shall not have employed counsel to have charge of the defense of such action or such indemnified party or parties shall have reasonably concluded that there may be defenses available to it or them which are different from or additional to those available to such Underwriter (in which case such Underwriter shall not have the right to direct the defense of such action on behalf of the indemnified party or parties), in any of which events such fees and expenses shall be borne by such Underwriter and paid as incurred (it being understood, however, that such Underwriter shall not be liable for the expenses of more than one separate counsel in any one action or series of related actions in the same jurisdiction representing the indemnified parties who are parties to such action). Anything in this paragraph to the contrary notwithstanding, no Underwriter shall be liable for any settlement of any such claim or action effected without the written consent of such Underwriter.

(c) If the indemnification provided for in this Section 9 is unavailable to an indemnified party under subsections (a) and (b) of this Section 9 in respect of any losses, expenses, damages, judgments, liabilities or claims referred to therein, then each applicable indemnifying party, in lieu of indemnifying such indemnified party, shall contribute to the amount paid or payable by such indemnified

party as a result of such losses, expenses, liabilities or claims (if and only to the extent that indemnification of such indemnified party would be required under this Section 9 if the indemnification provided for in this Section 9 were available) (i) in such proportion as is appropriate to reflect the relative benefits received by the Company on the one hand and the Underwriters on the other hand from the offering of the Shares or (ii) if the allocation provided by clause (i) above is not permitted by applicable law, in such proportion as is appropriate to reflect not only the relative benefits referred to in clause (i) above but also the relative fault of the Company on the one hand and of the Underwriters on the other in connection with the statements or omissions which resulted in such losses, expenses, damages, judgments, liabilities or claims, as well as any other relevant equitable considerations. The relative benefits received by the Company on the one hand and the Underwriters on the other shall be deemed to be in the same proportion as the total proceeds from the offering (net of underwriting discounts and commissions but before deducting expenses) received by the Company bear to the total underwriting discounts and commissions received by the Underwriters, in each case as set forth in the table on the cover page of the Prospectus. The relative fault of the Company on the one hand and of the Underwriters on the other shall be determined by reference to, among other things, whether the untrue statement or alleged untrue statement of a material fact or omission or alleged omission relates to information supplied by the Company or by the Underwriters and the parties' relative intent, knowledge, access to information and opportunity to correct or prevent such statement or omission. The amount paid or payable by a party as a result of the losses, expenses, damages, judgments, liabilities and claims referred to above shall be deemed to include any legal or other fees or expenses reasonably incurred by such party in connection with investigating or defending any claim or action.

(d) The Company and the Underwriters agree that it would not be just and equitable if contribution pursuant to this Section 9 were determined by pro rata allocation (even if the Underwriters were treated as one entity for such purpose) or by any other method of allocation that does not take account of the equitable considerations referred to in subsection (c) above. Notwithstanding the provisions of this Section 9, no Underwriter shall be required to contribute any amount in excess of the amount by which the total price at which the Shares underwritten by such Underwriter and distributed to the public were offered to the public exceeds the amount of any damages which such Underwriter has otherwise been required to pay by reason of such untrue statement or alleged untrue statement or omission or alleged omission. No person guilty of fraudulent misrepresentation (within the meaning of Section 11(f) of the Act) shall be entitled to contribution from any person who was not guilty of such fraudulent misrepresentation. The Underwriter's obligations to contribute

pursuant to this Section 9 are several in proportion to their respective underwriting commitments and not joint.

(e) The indemnity and contribution agreements contained in this Section 9 and the covenants, warranties and representations of the Company contained in this Agreement shall remain in full force and effect regardless of any investigation made by or on behalf of any Underwriter indemnified party, or by or on behalf of any Company indemnified party, and shall survive any termination of this Agreement or the issuance and delivery of the Shares. The indemnity and contribution agreements contained in this Section 9 are in addition to any other remedies that the parties hereto may have in equity or at law. The Company and each Underwriter agree promptly to notify the others of the commencement of any litigation or proceeding against it and, in the case of the Company, against any of the Company's officers and directors in connection with the issuance and sale of the Shares, or in connection with the Registration Statement or Prospectus.

10. Notices. Except as otherwise herein provided, all statements, requests, notices and agreements shall be in writing or by telegram and, if to the Underwriters, shall be sufficient in all respects if delivered or sent to Dillon, Read & Co. Inc., 535 Madison Avenue, New York, N.Y. 10022, Attention: Syndicate Department and, if to the Company, shall be sufficient in all respects if delivered or sent to the Company at the offices of the Company at 1419 Lake Cook Road, Suite 410, Deerfield, IL 60015, Attention: President and Chief Executive Officer.

11. CONSTRUCTION. THIS AGREEMENT SHALL BE GOVERNED BY, AND CONSTRUED IN ACCORDANCE WITH, THE LAWS OF THE STATE OF NEW YORK WITHOUT REGARD TO PRINCIPLES OF CONFLICTS OF LAW. THE SECTION HEADINGS IN THIS AGREEMENT HAVE BEEN INSERTED AS A MATTER OF CONVENIENCE OF REFERENCE AND ARE NOT A PART OF THIS AGREEMENT.

12. Parties at Interest. The Agreement herein set forth has been and is made solely for the benefit of the Underwriters and the Company and the Underwriter indemnified parties and the Company indemnified parties referred to in Section 9 hereof, and their respective successors, assigns, executors and administrators. No other person, partnership, association or corporation (including a purchaser, as such purchaser, from any of the Underwriters) shall acquire or have any right under or by virtue of this Agreement.

13. Counterparts. This agreement may be signed by the parties in counterparts which together shall constitute one and the same agreement among the parties.

If the foregoing correctly sets forth the understanding among the Company and the Underwriters, please so indicate in the space provided below for the purpose, whereupon this letter and your acceptance shall constitute a binding agreement among the Company and the Underwriters, severally.

Very truly yours,

STERICYCLE, INC.

By:
Name:
Title:

Accepted and agreed to as of
the date first above written,
on behalf of themselves and
the other several Underwriters
named in Schedule A

DILLON, READ & CO. INC.
SALOMON BROTHERS INC
WILLIAM BLAIR & COMPANY L.L.C.

By: DILLON, READ & CO. INC.

By:_____
Name:
Title:

SCHEDULE A

Underwriter	Number of Firm Shares
DILLON, READ & CO. INC.	
SALOMON BROTHERS INC	
WILLIAM BLAIR & COMPANY L.L.C.	
Total	3,000,000

THE SECURITIES REPRESENTED BY THIS CERTIFICATE HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED, OR THE SECURITIES LAWS OF ANY STATE AND MAY NOT BE SOLD, TRANSFERRED, HYPOTHECATED OR OTHERWISE ASSIGNED EXCEPT PURSUANT TO A REGISTRATION STATEMENT WITH RESPECT TO SUCH SECURITIES WHICH IS EFFECTIVE UNDER SUCH ACT AND UNDER ANY APPLICABLE STATE SECURITIES LAWS UNLESS, IN THE OPINION OF COUNSEL REASONABLY SATISFACTORY TO STERICYCLE, INC., AN EXEMPTION FROM THE REGISTRATION REQUIREMENTS OF SUCH ACT AND STATE SECURITIES LAWS IS AVAILABLE.

STERICYCLE, INC.
COMMON STOCK PURCHASE WARRANT

VOID AFTER MAY , 2001

Stericycle, Inc., a Delaware corporation (the "Company"), hereby certifies that, for value received, ("Holder"), or assigns, are entitled, subject to the terms set forth below, to purchase from the Company at any time or from time to time before 5:00 p.m. Central time on May , 2001 (the "Expiration Date"), at the purchase price of $1.50 per share, subject to adjustment as set forth in Section 6, up to shares of Class A Common Stock of the Company.

As used herein the following terms, unless the context otherwise requires, have the following respective meanings:

(a) The term "Company" includes any corporation which shall succeed to or assume the obligations of the Company hereunder.

(b) The term "Stock" shall mean the Class A Common Stock and any other securities or property of the Company or of any other person (corporate or otherwise) which the Holder at any time shall be entitled to receive on the exercise hereof, in lieu of or in addition to the Class A Common Stock or which at any time shall be issuable in exchange for or in replacement of the Class A Common Stock.

1. INITIAL EXERCISE DATE; EXPIRATION. This Warrant may be exercised at any time or from time to time. It shall expire at 5:00 p.m. central time on May , 2001.

2. EXERCISE OF WARRANT; PARTIAL EXERCISE.

(a) This Warrant may be exercised in full or in part by the Holder by

surrender of this Warrant, with the form of subscription attached hereto duly executed by the Holder, to the Company at its principal office, accompanied by payment, (a) in cash or by certified or official bank check payable to the order of the Company, of the purchase price of the shares of Stock to be purchased hereunder, or (b) the cancellation by the Holder of indebtedness of the Company to the Holder in an amount equal to such purchase price. For any partial exercise hereof, the Holder shall designate in the subscription the number of shares of Stock that he or it wishes to purchase. On any such partial exercise, the Company at its expense shall forthwith issue and deliver to the Holder a new warrant of like tenor, in the name of the Holder, which shall be exercisable for such number of shares of Stock represented by this Warrant which have not been purchased or surrendered upon such exercise.

(b) At any time at or after the closing of the Company's initial registered firm commitment underwritten public offering of its common securities, in lieu of the payment of cash or the cancellation of indebtedness to the Holder set forth in paragraph 2(a) above, the Holder shall have the right ("Conversion Right") to convert this Warrant in its entirety (without payment of any kind) into that number of shares of Stock equal to the quotient obtained by dividing the Net Value (as defined below) of the Stock issuable upon exercise of the Warrant by the Fair Market Value (as defined below) of one share of Stock. As used herein, (A) the Net Value of the Stock means the aggregate Fair Market Value of all shares of Stock subject to this Warrant minus the aggregate purchase price of all such shares of Stock; and (B) the Fair Market Value of one share of Stock means:

(i) If the exercise is upon the closing of the Company's initial registered firm commitment underwritten public offering of its common securities, the Fair Market Value of one share of Stock means the initial "Price to Public" specified in the final prospectus with respect to the offering;

(ii) if the exercise occurs at a time during which the Company's common stock is traded on a national securities exchange or on the Nasdaq National Market, the Fair Market Value of one share of Stock means the average last reported or closing sale price for the Company's common stock on such exchange or market for the three trading days ending one business day before the exercise of this Warrant;

(iii) if the exercise is in connection with a merger, sale of assets or other reorganization transaction, the Fair Market Value of one share of Stock means the value received by the holders of the Stock pursuant to such transaction; and

(iv) in all other cases, the Fair Market Value of one share of Stock shall be determined in good faith by the Company's Board of Directors.

4. WHEN EXERCISE IS EFFECTIVE. The exercise of this Warrant shall be deemed to have been effected immediately prior to the close of business on the business day on which this Warrant is surrendered to the Company as provided in Section 3, and at such time the person

in whose name any certificate for shares of Stock are to be issued upon such exercise (as provided in Section 5) shall be deemed to be the record holder of such Stock for all purposes.

5. DELIVERY ON EXERCISE. As soon as practicable after the exercise of this Warrant in full or in part, and in any event within five business days thereafter, the Company at its expense (including the payment by it of any applicable issue taxes) will cause to be issued in the name of and delivered to the holder hereof, or as such holder may direct, a certificate or certificates for the number of fully paid and nonassessable full shares of Stock to which such holder shall be entitled on such exercise.

6. ADJUSTMENT OF PURCHASE PRICE AND NUMBER OF SHARES. The character of the shares of Stock issuable upon exercise of this Warrant (or any shares of stock or other securities at the time issuable upon exercise of this Warrant) and the purchase price therefor, are subject to adjustment upon the occurrence of the following events:

6.1 ADJUSTMENT FOR STOCK SPLITS, STOCK DIVIDENDS, RECAPITALIZATION, ETC. The exercise price of this Warrant and the number of shares of Stock issuable upon exercise of this Warrant (or any shares of stock or other securities at the time issuable upon exercise of this Warrant) shall be appropriately adjusted to reflect any stock dividend, stock split, combination of shares, reclassification, recapitalization or other similar event affecting the number of outstanding shares of Stock (or such other stock or securities). For example, if there should be a 2-for-1 stock split, the exercise price would be divided by two and such number of shares would be doubled.

6.2 ADJUSTMENT FOR OTHER DIVIDENDS AND DISTRIBUTIONS. In case the Company shall make or issue, or shall fix a record date for the determination of eligible holders entitled to receive, a dividend or other distribution with respect to the Stock (or any shares of stock or other securities at the time issuable upon exercise of the Warrant) payable in (i) securities of the Company (other than shares of Stock) or (ii) assets (excluding cash dividends paid or payable solely out of retained earnings), then in each case, the Holder on exercise hereof at any time after the consummation, effective date or record date of such event shall receive, in addition to the Stock (or such other stock or securities) issuable on such exercise prior to such date, the securities or such other assets of the Company to which the Holder would have been entitled upon such date if the Holder had exercised this Warrant immediately prior thereto (all subject to further adjustment as provided in this Warrant).

6.3 ADJUSTMENT FOR REORGANIZATION, CONSOLIDATION, MERGER, ETC. In case of any consolidation or merger of the Company with or into any other corporation, entity or person, or any other corporate reorganization, in which the Company shall not be the continuing or surviving entity of such consolidation, merger or reorganization, or any transaction in which in excess of 50% of the Company's voting power is transferred, or any sale of all or substantially all of the assets of the Company (any such transaction being hereinafter referred to as a "Reorganization"), then, in each case, the Holder, on exercise hereof at any time after the consummation or effective date of such

Reorganization (the "Effective Date"), shall receive, in lieu of the Stock issuable on such exercise prior to the Effective Date, the stock and other securities and property (including cash) to which the Holder would have been entitled upon the Effective Date if the Holder had exercised this Warrant immediately prior thereto (all subject to further adjustment as provided in this Warrant).

6.4 ADJUSTMENT UPON SALE OF STOCK If at any time prior to the first to occur of (i) the Company's initial firm commitment underwritten public offering of securities or (ii) the expiration or termination of this Warrant, the Company effects a sale of any of its Stock in exchange for cash equity for an aggregate purchase price of at least One Million Dollars ($1,000,000) where the per share purchase price of the Stock sold is less than the exercise price for purchase of Stock pursuant to this Warrant (an "Equity Raise"), then this Warrant shall, immediately and with no further action on the part of the holder hereof, become exercisable for the number of shares of Stock determined by dividing:

(X) the number of shares of Stock issuable upon exercise of this Warrant multiplied by the exercise price for one share of Stock pursuant to this Warrant; by

(Y) the issue price per share of the Stock issued pursuant to the Equity Raise.

In such event, the exercise price per share for the Stock purchasable pursuant to this Warrant shall be equal to the per share price at which Stock was issued pursuant to the Equity Raise.

6.5 CERTIFICATE AS TO ADJUSTMENTS. In case of any adjustment or readjustment in the price or kind of securities issuable on the exercise of this Warrant pursuant to the provisions of this Section 6, the Company will promptly give written notice thereof to the Holder in the form of a certificate, certified and confirmed by the Board of Directors of the Company, setting forth such adjustment or readjustment and showing in reasonable detail the facts upon which such adjustment or readjustment is based.

7. ADDITIONAL OBLIGATIONS. The Company (a) will not increase the par value of any shares of stock receivable on the exercise of this Warrant above the amount payable therefor on such exercise, (b) will at all times reserve and keep available a number of its authorized shares of Stock, free from all preemptive rights therein, which will be sufficient to permit the exercise of this Warrant, and (c) shall take all such action as may be necessary or appropriate in order that all shares of Stock as may be issued pursuant to the exercise of this Warrant will, upon issuance, be duly and validly issued, fully paid and non-assessable and free from all taxes, liens and charges with respect to the issue thereof.

8. NOTICES OF RECORD DATE, ETC. In the event of:

(a) any taking by the Company of a record of the holders of any class of

securities for the purpose of determining the holders thereof who are entitled to receive any dividend or other distribution, or any right to subscribe for, purchase or otherwise acquire any shares of stock of any class or any other securities or property, or to receive any other right, or

(b) any capital reorganization of the Company, any reclassification or recapitalization of the capital stock of the Company, or any transfer of all or substantially all the assets of the Company to, or consolidation or merger of the Company with, or into, any other person, or

(c) any voluntary or involuntary dissolution, liquidation or winding-up of the Company,

then and in each such event the Company will mail to the Holder a notice specifying (i) the date on which any such record is to be taken for the purpose of such dividend, distribution or right, and stating the amount and character of such dividend, distribution or right, or (ii) the date on which any such reorganization, reclassification, recapitalization, transfer, consolidation, merger, dissolution, liquidation or winding-up is to take place, and the time, if any is to be fixed, as of which the holders of record of Stock (or any shares of stock or other securities at the time issuable upon the exercise of this Warrant) shall be entitled to exchange their shares for securities or other property deliverable on such reorganization, reclassification, recapitalization, transfer, consolidation, merger, dissolution, liquidation or winding-up. Such notice shall be mailed at least 20 days prior to the date therein specified.

9. EXCHANGE OF WARRANTS. On surrender for exchange of this Warrant, properly endorsed, to the Company, the Company at its expense will issue and deliver to or on the order of the Holder a new Warrant of like tenor, in the name of the Holder or as the Holder may direct, calling in the aggregate on the face thereof for the number of shares of Stock called for on the face of the Warrant so surrendered.

10. REPLACEMENT OF WARRANTS. On receipt by the Company of evidence reasonably satisfactory to the Company of the loss, theft, destruction or mutilation of this Warrant and, in the case of any such loss, theft or destruction of this Warrant, on delivery of an indemnity agreement reasonably satisfactory in form and amount to the Company or, in the case of any such mutilation, on surrender and cancellation of such Warrant, the Company at its expense will execute and deliver, in lieu thereof, a new Warrant of like tenor.

11. TRANSFER. Subject to the transfer conditions referred to in the legend endorsed hereon, this Warrant and all rights hereunder are transferable, in whole or in part, without charge to the Holder upon surrender of this Warrant with a properly executed assignment at the principal office of the Company. Upon any partial transfer, the Company will at its expense issue and deliver to the Holder a new Warrant of like tenor, in the name of the Holder, which shall be exercisable for such number of shares of Stock which were not so transferred.

12. NO RIGHTS OR LIABILITY AS A STOCKHOLDER. This Warrant does not entitle the

Holder to any voting rights or other rights as a stockholder of the Company. No provisions hereof, in the absence of affirmative action by the Holder to purchase Stock, and no enumeration herein of the rights or privileges of the Holder shall give rise to any liability of the Holder as a stockholder of the Company.

13. DAMAGES. The Company recognizes and agrees that the Holder will not have an adequate remedy if the Company fails to comply with the terms of this Warrant and that damages will not be readily ascertainable, and the Company expressly agrees that, in the event of such failure, it shall not oppose an application by the Holder or any other person entitled to the benefits of this Warrant requiring specific performance of any and all provisions hereof or enjoining the Company from continuing to commit any such breach of the terms hereof.

14. NOTICES. All notices referred to in this Warrant shall be in writing and shall be delivered personally or by certified or registered mail, return receipt requested, postage prepaid and will be deemed to have been given when so delivered or mailed (i) to the Company, at its principal executive offices and (ii) to the Holder, at the Holder's address as it appears in the records of the Company (unless otherwise indicated by the Holder).

15. PAYMENT OF TAXES. All shares of Stock issued upon the exercise of this Warrant shall be validly issued, fully paid and non-assessable.

16. MISCELLANEOUS. This Warrant and any term hereof may be changed, waived, discharged or terminated only by an instrument in writing signed by the party against which enforcement of such change, waiver, discharge or termination is sought. This Warrant is being delivered in the State of Illinois and shall be governed by and construed and enforced in accordance with the internal laws of the State of Illinois (without reference to any principles of the conflicts of laws). The headings in this Warrant are for purposes of reference only, and shall not limit or otherwise affect any of the terms hereof.

FORM OF SUBSCRIPTION

To:

The undersigned, the Holder of the within Warrant, hereby irrevocably elects to exercise the purchase right represented by such Warrant for, and to purchase thereunder, shares of Class A Common Stock of Stericycle, Inc., and herewith makes payment of $1.50 per share therefor, and requests that the certificates for such shares be issued in the name of, and delivered to , whose address is .

(Signature must conform in all respects to name of Holder as specified on the face of the Warrant)

(Address)

Dated:

SECOND AMENDMENT TO

AMENDED AND RESTATED REGISTRATION AGREEMENT

This Amendment is entered into as of July 1, 1996 by Stericycle, Inc., a Delaware corporation (the "Company") and Baxter Healthcare Corporation, Marquette Venture Partners, L.P., State Farm Mutual Automobile Insurance Company and Jack W. Schuler (the "Investors").

PREAMBLE

A. The Company and the Investors are parties to an Amended and Restated Registration Agreement dated October 19, 1994, as amended by a First Amendment to Amended and Restated Registration Agreement, dated September 30, 1995 (as amended, the "Registration Agreement").

B. The Investors hold more than a majority of the Registrable Shares (as "Registrable Shares" is defined in Paragraph 8(e) of the Registration Agreement) and accordingly have the power and authority under Paragraph 9(d) of the Registration Agreement to consent to an amendment of the agreement.

C. The Company desires to amend the Registration Agreement as follows, and the Investors are willing to consent to this amendment.

Now, therefore, the Company and the Investors agree as follows:

1. AMENDMENT OF PARAGRAPH 2(a). Paragraph 2(a) of the Registration Agreement is amended to read as follows:

> (a) RIGHT TO PIGGYBACK. Whenever the Company proposes to register any of its securities under the Securities Act (other than pursuant to an initial public offering of its securities or pursuant to a Demand Registration) and the registration form to be used may be used for the registration of Registrable Securities (a "Piggyback Registration"), the Company will give prompt written notice to all holders of Registrable Securities of its intention to effect such a registration and will include in such registration (subject to the priorities set forth in paragraphs 2(c) and 2(d) below) all Registrable Securities with respect to which the Company has received written requests for inclusion therein within 20 days after receipt of the Company's notice.

2. AMENDMENT OF PARAGRAPH 3(a). Paragraph 3(a) of the Registration Agreement is amended to read as follows:

> (a) Each holder of Registrable Securities agrees not to effect any public sale or distribution of equity securities of the Company, or any securities convertible into or exchangeable or exercisable for such securities, during the 180-day period beginning on

the effective date of any underwritten public offering of equity securities of the Company (except as part of such underwritten registration), unless the underwriters managing the registered public offering otherwise agree.

3. MISCELLANEOUS. As amended by this Agreement, the Registration Agreement shall continue in full force and effect. This Agreement shall be governed by the laws of the State of Delaware, without regard to choice-of-law rules. This Amendment may be signed in any number of counterparts, any one of which need not contain the signature of more than one party, but all of which taken together shall constitute one and the same instrument.

In witness, the parties have signed this Amendment.

STERICYCLE, INC.

By: /s/ Mark C. Miller

Mark C. Miller
PRESIDENT AND CHIEF EXECUTIVE OFFICER

BAXTER HEALTHCARE CORPORATION

By: /s/ John F. Gaither, Jr.

Name: John F. Gaither, Jr.

Title: Corporate Vice President

MARQUETTE VENTURE PARTNERS, L.P.

By: Marquette Venture Associates, L.P.,
GENERAL PARTNER

By: Marquette Management Partners,
GENERAL PARTNER

By: /s/ Lloyd D. Ruth

Name: Lloyd D. Ruth

Title: General Partner

[Signatures continue on page 3.]

STATE FARM MUTUAL AUTOMOBILE INSURANCE COMPANY

By: /s/ John S. Concklin

Name: John S. Concklin

Title: Vice President-Fixed Income

Attest:

/s/ W. Thomas Gardner

Name: W. Thomas Gardner

Title: Investment Officer

/s/ Jack W. Schuler

Jack W. Schuler

STERICYCLE, INC.

AMENDED AND RESTATED
INCENTIVE COMPENSATION PLAN

The Stericycle, Inc. Incentive Compensation Plan, as amended, is amended and restated to read as follows, effective as of the closing of the initial public offering for which the Company has filed a registration statement on Form S-1 (Registration No. 333-05665).

ARTICLE 1

PURPOSE

The purpose of this Plan is to permit the Company to grant stock options and award restricted stock to selected officers, directors and employees of the Company and its Subsidiaries and to other eligible persons, in order to reward them for their efforts on the Company's behalf and to provide an additional incentive to contribute to the Company's attainment of its performance objectives.

ARTICLE 2

DEFINITIONS

BOARD means the Company's Board of Directors.

COMMON STOCK means the Company's Common Stock, $.01 par value.

CLOSING PRICE means the average of the closing bid and asked prices of a share of Common Stock on the Nasdaq National Market.

COMPANY means Stericycle, Inc., a Delaware corporation.

DIRECTOR means a director of the Company.

ELIGIBLE PERSON means a person or entity eligible under Article 6 to be granted an Option or awarded Restricted Stock.

EMPLOYEE means a full-time employee of the Company or any Subsidiary.

EXPIRATION DATE means (i) in the case of an Option which is or may become exercisable in full at one time, the last day on which the Option may be exercised, and (ii) in the case of an Installment, the last day on which the Installment may be exercised.

GRANT DATE means the date on which an Option is granted.

ISO is defined in Article 4.

INSTALLMENT means an installment of an Option which is or may become exercisable in installments.

NON-EMPLOYEE DIRECTOR means a Director who (i) is not currently an Officer or Employee, (ii) does not receive direct or indirect compensation from the Company or any Subsidiary for services rendered as a consultant, or in any capacity other than as a Director, in an amount for which disclosure would be required under Item 404(a) of Regulation S-K of the Securities and Exchange Commission, (iii) does not possess an interest in any other transaction for which disclosure would be required under Item 404(a) of Regulation S-K and (iv) is not engaged in a business relationship for which disclosure would be required under Item 404(a) of Regulation S-K.

NSO is defined in Article 4.

OFFICER means (i) the Company's President and Chief Executive Officer, (ii) any Vice President of the Company and (iii) any other person who is considered an "officer" of the Company for purposes of Rule 16a-1(f) under the Securities Exchange Act of 1934.

OFFICER OPTIONS COMMITTEE is defined in Paragraph 7.2.

OPTION means an option granted under this Plan to purchase shares of Common Stock.

OPTION AGREEMENT is defined in Paragraph 8.6.

PLAN means this plan, as amended and restated and as it may be further amended. The name of the Plan is the "Stericycle, Inc. Incentive Compensation Plan."

PLAN ADMINISTRATOR means, as the context requires, (i) the Board or the committee of the Board to which the Board has delegated its authority in accordance with Paragraph 7.1 (in the context of the administration of this Plan in respect of Eligible Persons other than Officers) or (ii) the Officer Options Committee (in the context of the administration of this Plan in respect of Officers).

OFFICER-EMPLOYEE means an Officer who is also an Employee.

RESTRICTED STOCK means shares of Common Stock awarded under the Plan.

RESTRICTED STOCK AGREEMENT is defined in Article 10.

10% STOCKHOLDER means an Officer or Employee who, at the time that he or she is granted an ISO, owns stock possessing more than 10% of the total combined voting power of all classes of stock of the Company.

SUBSIDIARY means a corporation in which the Company owns stock possessing at least 50% of the total combined voting power of all classes of stock.

TERMINATION DATE means the date of termination of an Employee's or Officer-Employee's employment by the Company or a Subsidiary.

UNDERLYING SHARES means the shares of Common Stock for which an Option or Installment is or may become exercisable.

ARTICLE 3

EFFECTIVE DATE AND TERM OF PLAN

This Plan became effective on August 1, 1995, subject to approval by the Company's stockholders, and has term of 10 years expiring on July 31, 2005. No Option may be granted and no Restricted Stock may be awarded under this Plan after its expiration.

ARTICLE 4

SHARES AVAILABLE UNDER THE PLAN

4.1 MAXIMUM NUMBER OF SHARES. The maximum combined total number of shares of Common Stock for which Options may be granted and Restricted Stock may be awarded under this Plan is 1,500,000 shares (subject to adjustment as provided in Paragraph 11.1).

4.2 SHARES ADDED BACK. If an Option or Installment expires unexercised or is surrendered prior to July 31, 2005, the number of Underlying Shares in respect of the Option or Installment shall be added back to the number of shares of Common Stock for which Options may be granted and shares of Restricted Stock may be awarded under this Plan. Similarly, if the Company repurchases any shares of Restricted Stock pursuant to a Restricted Stock Agreement (or otherwise), the number of shares repurchased shall be added back to the number of shares of Common Stock for which Options may be granted and shares of Restricted Stock may be awarded under this Plan.

ARTICLE 5

TYPES OF OPTIONS

Two types of Options may be granted under this Plan: (i) incentive stock options intended to satisfy the requirements of Section 422 of the Internal Revenue Code of 1986 ("ISOs") and (ii) nonstatutory stock options ("NSOs").

ARTICLE 6

ELIGIBILITY

NSOs may be granted, and Restricted Stock may be awarded, to Employees, Officers and Directors and to consultants to the Company (who also may be Directors). ISOs may be granted only to Employees and to Officer-Employees.

ARTICLE 7

ADMINISTRATION

7.1 BOARD. This Plan shall be administered by the Board in respect of all Eligible Persons other than Officers. The Board may delegate its authority to a standing committee of the Board or to a committee appointed by the Board for the purpose consisting of at least two Directors.

7.2 OFFICER OPTIONS COMMITTEE. The Plan shall be administered by a committee (the "Officer Options Committee") in respect of Officers. The Officer Options Committee shall be or consist of (i) the Compensation Committee of the Board, or (ii) if any member of the Compensation Committee is not a Non-Employee Director, the members of the Compensation Committee who are Non-Employee Directors, or (iii) if there are not at least two members of the Compensation Committee who are Non-Employee Directors, the full Board.

7.3 POWERS. The Board shall have sole authority to grant Options and to award Restricted Stock to Eligible Persons other than Officers, and the Officers Option Committee shall have sole authority to grant Options and to award Restricted Stock to Officers. Within the scope of their respective authority and subject to the express provisions of this Plan, the Board and the Officer Options Committee may (i) select the Eligible Persons to whom Options are granted or Restricted Stock is awarded, (ii) designate an Option as an ISO or NSO, (iii) determine the number of shares of Common Stock for which an Option is granted or Restricted Stock is awarded and (iv) determine the other terms, conditions, restrictions and limitations applicable to an Option or an award of Restricted Stock.

7.4 INTERPRETATION. Within the scope of their respective authority and subject to the express provisions of this Plan, the Board and the Officer Options Committee may interpret this Plan, adopt and revise policies and procedures to administer this Plan, and make all determinations required for this Plan's administration. The actions of the Board and the Officer Options Committee on matters within the scope of their respective authority shall be final and binding.

ARTICLE 8

STOCK OPTIONS

8.1 EXERCISE PRICE. The Plan Administrator shall determine the exercise price of each Option. The exercise price per share may not be less than the Closing Price on the Grant Date of the Option (or on the last trading day preceding the Grant Date if it is not a trading day).

8.2 TERM. The Plan Administrator shall determine (i) whether each Option shall be exercisable in full at one time or in Installments at different times and (ii) the time or times at which the Option or Installments shall become and remain exercisable. No Option or Installment may have an Expiration Date more than 10 years from the Grant Date. The Plan Administrator may accelerate the exercisability of any Option or Installment at any time.

8.3 TERMINATION OF EMPLOYMENT. Any Option or Installment held by an Employee or

Officer-Employee which is unexercisable as of his or her Termination Date shall expire on the Termination Date. Any Option or Installment held by an Employee or Officer-Employee which is exercisable as of his or her Termination Date shall expire on the Termination Date unless the expiration date is extended by the Plan Administrator. The Plan Administrator may extend the expiration of an exercisable NSO (or Installment of a NSO) to any date ending on or before the applicable Expiration Date. The Plan Administrator may extend the expiration of an exercisable ISO (or Installment of an ISO) to the earlier of (i) a date no later than 90 days after the Termination Date or (ii) the applicable Expiration Date, unless the Employee's or Officer-Employee's termination occurred as a result of his or her death. In that case, the Plan Administrator may extend the expiration to the earlier of (i) a date no later than the first anniversary of the Employee's or Officer-Employee's death or (ii) the applicable Expiration Date.

8.4 TRANSFERABILITY. No Option or Installment may be transferred, assigned or pledged (whether by operation of law or otherwise), except as provided by will or the applicable laws of intestacy, and no Option shall be subject to execution, attachment or similar process. An Option or Installment may be exercised only by the person to whom it was granted, except in the case of his or her death, when it may be exercised by the person or persons to whom it passes by will or inheritance.

8.5 ISO LIMITATIONS. Notwithstanding anything to the contrary in Paragraphs 8.1 and 8.2: (i) the exercise price per share of an ISO granted to a 10% Stockholder shall not be less than 110% of the Closing Price on the Grant Date (or on the last trading day preceding the Grant Date if it is not a trading day); (ii) no ISO granted to a 10% Stockholder may have an Expiration Date more than five years from the Grant Date; and (iii) the aggregate fair market value (determined in respect of each ISO on the basis of the Closing Price on the Grant Date, or on the last trading day preceding the Grant Date if it was not a trading day) of the Underlying Shares of all ISOs which become exercisable by an individual for the first time in any calendar year shall not exceed $100,000.

8.6 OPTION AGREEMENTS. Each Option shall be evidenced by a written agreement (an "Option Agreement"), in a form approved by the Plan Administrator, entered into by the Company and the person to whom the Option is granted. Each Option Agreement shall contain the terms, conditions, restrictions and limitations applicable to the Option and any other provisions that the Plan Administrator considers advisable to include.

ARTICLE 9

EXERCISE OF OPTIONS

9.1 MANNER OF EXERCISE. An exercisable Option or Installment may be exercised in full or in part (but only in respect of a whole number of Underlying Shares) by (i) written notice to the Plan Administrator (or its designee) stating the number of Underlying Shares in respect of which the Option or Installment is being exercised and (ii) full payment of the exercise price of those shares.

9.2 PAYMENT OF EXERCISE PRICE. Payment of the exercise price of an Option or Installment

shall be made by certified or bank cashier's check or, if permitted by the Plan Administrator (either in the applicable Option Agreement or at the time of exercise): (i) by delivering shares of Common Stock having a fair market value on the date of exercise equal to the exercise price; (ii) by directing the Company to withhold, from the Underlying Shares otherwise issuable upon exercise of the Option or Installment, Underlying Shares having a fair market value on the date of exercise equal to the exercise price; (iii) by surrendering exercisable Options or Installments having a fair market value on the date of exercise equal to the exercise price (measuring the fair market value of the Options or Installments surrendered by the excess of the aggregate fair market value on the date of exercise of the Underlying Shares over the aggregate exercise price); (iv) by any combination of the preceding methods of payment; or (v) by any other method of payment authorized by the Plan Administrator. For purposes of this Paragraph and Paragraph 9.3, "fair market value" shall be determined by the Closing Price on the Nasdaq National Market on the date in question (or on the last trading day preceding the date in question if it is not a trading day).

9.3 WITHHOLDING. Each person exercising a NSO or an Installment of a NSO shall remit to the Company an amount sufficient to satisfy its federal, state and local withholding tax obligation in connection with the exercise. Payment shall be made by certified or bank cashier's check or, if permitted by the Plan Administrator (either in the applicable Option Agreement or at the time of exercise): (i) by delivering shares of Common Stock having a fair market value on the date of exercise equal to the withholding obligation; (ii) by directing the Company to withhold, from the Underlying Shares otherwise issuable upon exercise of the Option or Installment, Underlying Shares having a fair market value on the date of exercise equal to the withholding obligation; (iii) by any combination of the preceding methods of payment; or (iv) by any other method of payment authorized by the Plan Administrator.

ARTICLE 10

RESTRICTED STOCK AGREEMENTS

Each Eligible Person to whom Restricted Stock is awarded shall enter into a written agreement with the Company (a "Restricted Stock Agreement"), in a form approved by the Plan Administrator. Each Restricted Stock Agreement shall contain the terms, conditions, restrictions and limitations applicable to the award of Restricted Stock and any other provisions that the Plan Administrator considers advisable to include.

ARTICLE 11

MISCELLANEOUS PROVISIONS

11.1 CAPITALIZATION ADJUSTMENTS. The aggregate number of shares of Common Stock for which Options may be granted and Restricted Stock may be awarded under this Plan, the aggregate number of Underlying Shares in respect of each outstanding Option, and the exercise price of each outstanding Option may be adjusted by the Board as it considers appropriate in the event of changes in the number of outstanding shares of Common Stock by reason of stock dividends, stock splits, recapitalizations, reorganizations and the like. Adjustments under this Paragraph 11.1 shall be made in the Board's discretion, and its decisions shall be final and

binding.

11.2 AMENDMENT AND TERMINATION. The Board may amend, suspend or terminate this Plan at any time. The Company's stockholders shall be required to approve any amendment which would increase the number of shares of Common Stock for which Incentive Stock Options may be granted (other than an amendment authorized under Paragraph 11.1). If this Plan is terminated, the provisions of this Plan shall continue to apply to Options granted or Restricted Stock awarded prior to termination, and no amendment, suspension or termination of the Plan shall adversely affect the rights of the holder of any outstanding Option or any shares of Restricted Stock without his or her consent.

11.3 NO RIGHT TO EMPLOYMENT. Nothing in this Plan or in any Option Agreement or Restricted Stock Agreement shall confer on any person the right to continue in the employ of the Company or any Subsidiary or limit the right of the Company or Subsidiary to terminate his or her employment.

11.4 NOTICES. Notices required or permitted under this Plan shall be considered to have been duly given if sent by certified or registered mail addressed to the Plan Administrator at the Company's principal office or to any other person at his or her address as it appears on the Company's payroll or other records.

11.5 SEVERABILITY. If any provision of this Plan is held illegal or invalid for any reason, the illegality or invalidity shall not affect the remaining provisions, and the Plan shall be construed and administered as if the illegal or invalid provision had not been included.

11.6 GOVERNING LAW. This Plan and all Option Agreements and Restricted Stock Agreements shall be governed in accordance with the laws of the State of Illinois.

STERICYCLE, INC.

DIRECTORS STOCK OPTION PLAN

ARTICLE 1

PURPOSE

The purpose of this Plan is to permit the Company to grant stock options to its outside directors to reward them for their efforts on the Company's behalf and to provide an additional incentive to contribute to the attainment of the Company's long-term plans and objectives.

ARTICLE 2

DEFINITIONS

ANNUAL MEETING means the annual meeting of the Company's stockholders.

BOARD means the Company's Board of Directors. If the Board delegates its authority to administer the Plan to a committee of the Board in accordance with Article 5, references to the "Board" shall be construed as references to the committee.

CLOSING PRICE means the average of the closing bid and asked prices of a share of Common Stock on the Nasdaq National Market.

COMMON STOCK means the Company's Common Stock, $.01 par value.

COMPANY means Stericycle, Inc., a Delaware corporation.

DIRECTOR means a director of the Company.

EFFECTIVE DATE means (i) the date of closing of the initial public offering for which the Company has filed a registration statement on Form S-1 (Registration No. 333-05665), if this Plan previously has been approved by the Company's stockholders or (ii) the date that this Plan is approved by the Company's stockholders, if the closing of the Company's initial public offering previously has occurred.

EXPIRATION DATE is defined in Paragraph 6.3.

FUNDAMENTAL CHANGE means (i) a sale or transfer of substantially all of the assets of the Company and its subsidiaries on a consolidated basis or (ii) any merger or consolidation to which the Company is a party other than a merger in which there is no change in control of the Company.

GRANT DATE means the date on which an Option is granted.

OFFICER means (i) the Company's President and Chief Executive Officer, (ii) any Vice President of the Company and (iii) any other person who is considered an "officer" of the Company for purposes of Rule 16a-1(f) under the Securities Exchange Act of 1934.

OPTION means an option granted under this Plan to purchase shares of Common Stock.

OPTION AGREEMENT is defined in Paragraph 6.6.

OUTSIDE DIRECTOR means a Director who is neither an Officer nor an employee of the Company or of any corporation in which the Company owns stock possessing at least 50% of the total combined voting power of all classes of stock.

PLAN means this stock option plan, as it may be amended. The name of this Plan is the "Stericycle, Inc. Directors Stock Option Plan."

UNDERLYING SHARES means the shares of Common Stock for which an Option is or may become exercisable.

ARTICLE 3

EFFECTIVE DATE AND TERM OF PLAN

This Plan shall become effective on the Effective Date and shall have a term of six years expiring on the sixth anniversary of the Effective Date. No Option may be granted under this Plan after its expiration.

ARTICLE 4

TYPE AND NUMBER OF OPTIONS

4.1 TYPE OF OPTIONS. The type of Options granted under this Plan are nonstatutory stock options.

4.2 MAXIMUM NUMBER OF OPTIONS. The maximum number of shares of Common Stock for which Options may be granted is 285,000 shares (subject to adjustment as provided in Paragraph 8.1). If an Option expires unexercised or is surrendered prior to the Plan's expiration, the number of Underlying Shares in respect of the Option shall be added back to the number of shares of Common Stock for which Options may be granted under the Plan. The Underlying Shares to be delivered upon the exercise of an Option may be either authorized but unissued shares or issued shares reacquired by the Company (or any combination of the two).

ARTICLE 5

ADMINISTRATION

This Plan shall be administered by the Board. Subject to the express provisions of the

Plan, the Board may interpret the Plan, adopt and revise policies and procedures to administer the Plan and make all determinations required for the Plan's administration. The actions of the Board shall be final and binding. Except for the Board's authority under Paragraph 6.2 to accelerate vesting in the event of an anticipated Fundamental Change and the Board's authority under Paragraph 8.1 to make capitalization adjustments, the Board may delegate its authority to a committee appointed by the Board consisting of at least two Directors.

ARTICLE 6

STOCK OPTIONS

6.1 OPTION GRANTS. The Company shall grant Options to Outside Directors as follows:

(a) on the Effective Date, the Company shall grant each incumbent Outside Director an Option for a number of shares of Common Stock determined by multiplying 7,000 shares by a fraction, the numerator of which is $12.00 and the denominator of which is the Closing Price on the Effective Date, subject to a minimum grant of 4,500 shares and a maximum grant of 9,500 shares;

(b) on the date of the Annual Meeting each year, the Company shall grant each incumbent Outside Director who is re-elected as a Director at the Annual Meeting an Option for a number of shares of Common Stock determined by multiplying 7,000 shares by a fraction, the numerator of which is $12.00 and the denominator of which is the Closing Price on the date of the Annual Meeting (or on the last trading day preceding the Annual Meeting if it is not a trading day), subject to a minimum grant of 4,500 shares and a maximum grant of 9,500 shares;

(c) on the date of the Annual Meeting each year, the Company shall grant each new Outside Director who is elected as a Director at the Annual Meeting an Option for a number of shares of Common Stock determined by multiplying 21,000 shares by a fraction, the numerator of which is $12.00 and the denominator of which is the Closing Price on the date of the Annual Meeting (or on the last trading day preceding the Annual Meeting if it is not a trading day), subject to a minimum grant of 13,500 shares and a maximum grant of 28,500 shares; and

(d) on the date of election of each new Outside Director who is elected as a Director other than at an Annual Meeting, the Company shall grant the new Outside Director an Option for a number of shares equal to three times the number of shares for which each incumbent Outside Director was granted an Option on the date of the Annual Meeting preceding the election of the new Outside Director (or on the Effective Date, if no Annual Meeting was held after the Effective Date and prior to the election of the new Outside Director).

The exercise price of each Option shall be the Closing Price on the Grant Date of the Option (or the last trading day preceding the Grant Date if it is not trading day)..

6.2 TERM. Each Option shall have a six-year term expiring on the sixth anniversary of

the date that it was granted (the "Expiration Date"), subject to early expiration as provided in Paragraph 6.3, and may be exercised in whole or in part at any time prior to its Expiration Date to the extent that it is vested. Each Option shall become vested in 16 equal quarterly installments beginning on the first day of the first January, April, July or October following the date that it was granted. An Option shall not continue to vest if the holder of the Option for any reason ceases to serve as an Outside Director. In the event that the Board determines that a Fundamental Change is likely to occur, the Board may accelerate the vesting of all outstanding Options held by incumbent Outside Directors as the Board considers appropriate in its discretion.

6.3 EARLY EXPIRATION. If the holder of an Option ceases to serve as an Outside Director for any reason (for example, his or her resignation, death, disability or removal from office or the expiration of his or her term of office without re-election), the vested portion, if any, of the Option shall expire 90 days after the date that the holder ceases to serve as an Outside Director (but in no event later than the Option's Expiration Date), unless the holder ceases to serve an Outside Director as a result of his or her death or disability. In either of these cases, the vested portion of the Option shall expire on the first anniversary of the date that the holder ceases to serve as an Outside Director (but in no event later than the Option's Expiration Date). The portion, if any, of the Option which was not vested as of the date that the holder ceases to serve as an Outsider Director shall expire as of that date.

6.4 TRANSFERABILITY. No Option may be transferred, assigned or pledged (whether by operation of law or otherwise), except as provided by will or the applicable intestacy laws, and no Option shall be subject to execution, attachment or similar process. An Option or Installment may be exercised only by Outside Director to whom it was granted, except in the case of his or her death, when it may be exercised by the person or persons to whom it passes by will or inheritance.

6.5 OPTION AGREEMENTS. Each Option shall be evidenced by a written agreement (an "Option Agreement"), in a form approved by the Board, entered into by the Company and the Outside Director to whom the Option is granted.

ARTICLE 7

EXERCISE OF OPTIONS

7.1 MANNER OF EXERCISE. The vested portion of an Option may be exercised in full or in part (but only in respect of a whole number of shares) by (i) written notice to the Board (or its designee) stating the number of shares of Common Stock in respect of which the Option is being exercised and (ii) full payment of the exercise price of those shares.

7.2 PAYMENT OF EXERCISE PRICE. Payment of the exercise price of the vested portion of an Option shall be made by certified or bank cashier's check or, if permitted by the Board (either in the applicable Option Agreement or at the time of exercise): (i) by delivering shares of Common Stock having a fair market value on the date of exercise equal to the exercise price; (ii) by directing the Company to withhold, from the shares of Common Stock otherwise issuable upon exercise of the Option, shares of Common Stock having a fair market value on the date of exercise equal to the exercise price; (iii) by surrendering exercisable Options which have a

fair market value on the date of exercise equal to the exercise price (measuring the fair market value of the Options surrendered by the excess of (A) the aggregate fair market value on the date of exercise of the shares of Common Stock issuable upon exercise of the Option over (B) the aggregate exercise price); (iv) by any combination of the preceding methods of payment; or (v) by any other method of payment authorized by the Board. For purposes of this Paragraph and Paragraph 7.3), "fair market value" shall be determined by the closing bid and asked prices of a share of Common Stock on the Nasdaq National Market on the date in question (or on the last trading day preceding the date in question if it is not a trading day).

7.3 WITHHOLDING. Each Outside Director exercising the vested portion of an Option shall remit to the Company an amount sufficient to satisfy the Company's federal, state and local withholding tax obligation in connection with the exercise. Payment shall be made by certified or bank cashier's check or, if permitted by the Board (either in the applicable Option Agreement or at the time of exercise), by either one or both of the following methods: (i) by delivering shares of Common Stock having a fair market value on the date of exercise equal to the Company's withholding obligation; or (ii) by directing the Company to withhold, from the shares of Common Stock otherwise issuable upon exercise of the Option, shares of Common Stock having a fair market value on the date of exercise equal to the Company's withholding obligation.

ARTICLE 8

MISCELLANEOUS PROVISIONS

8.1 CAPITALIZATION ADJUSTMENTS. The aggregate number of shares of Common Stock for which Options may be granted under the Plan, the aggregate number of Underlying Shares in respect of each outstanding Option, and the exercise price of each such Option may be adjusted by the Board as it considers appropriate in the event of changes in the number of outstanding shares of Common Stock by reason of stock dividends, stock splits, recapitalizations, reorganizations and the like. Adjustments under this Paragraph 8.1 shall be made in the Board's discretion, and its decisions shall be final and binding.

8.2 AMENDMENT AND TERMINATION. The Board may amend, suspend or terminate the Plan at any time; but except to comply with changes in the Internal Revenue Code of 1986 and the related regulations, the Board may not amend the Plan more once every six months to change: (i) the number of shares of Common Stock for which Options may be granted under the Plan; (ii) the benefits under the Plan; or (iii) the eligibility requirements of the Plan. The Company's stockholders shall be required to approve any such amendment (other than an amendment authorized under Paragraph 8.1) that would materially increase the number of shares, materially increase the benefits or materially change the eligibility requirements. If the Plan is terminated, the provisions of the Plan shall continue to apply to Options granted prior to termination, and no amendment, suspension or termination of the Plan shall adversely affect the rights of an Outside Director in respect of any Option held without his or her consent.

8.3 COMPLIANCE WITH SECTION 16(b). The Plan shall be interpreted and administered in a manner that satisfies the applicable requirements of Rule 16b-3 under the Securities Exchange Act so that Outside Directors will be entitled to the benefits of Rule 16b-3.

8.4 NO RIGHT TO NOMINATION. Nothing in the Plan or in any Option Agreement shall confer on any Outside Director the right to continue to be nominated for election as a Director.

8.5 NOTICES. Notices required or permitted under the Plan shall be considered to have been duly given if sent by certified or registered mail addressed to the Board at the Company's principal office or to any Outside Director at his or her address as it appears on the Company's records.

8.6 SEVERABILITY. If any provision of the Plan is held illegal or invalid for any reason, the illegality or invalidity shall not affect the remaining provisions, and the Plan shall be construed and administered as if the illegal or invalid provision had not been included.

8.7 GOVERNING LAW. The Plan and all Option Agreements shall be governed in accordance with the laws of the State of Illinois.

Exhibit 11 - Statement Re Computation of Per Share Earnings	Dec. 31, 1993	Dec. 31, 1994	Dec. 31, 1995	Mar. 31 1995	Mar. 31 1996
Average shares outstanding	369,380	369,756	5,582,385	369,756	5,616,651
Net effect of dilutive stock options and warrants based on the treasury stock method using the mid point of the offering	1,380,051	1,380,051	1,380,052	1,380,051	1,380,051
Other	98,001	98,001	98,001	98,001	98,001
	1,847,432	1,847,808	7,060,438	1,847,808	7,094,703
Net loss applicable to common stock	($9,761)	($10,293)	($4,544)	($3,164)	($347)
Net loss per common share	($5.28)	($5.57)	($0.64)	($1.71)	($0.05)

EXHIBIT 23.1

CONSENT OF INDEPENDENT AUDITORS

We consent to the reference to our firm under the caption "Experts" and to the use of our report dated March 20, 1996, except for the first paragraph of Note 7, as to which the date is in the Registration Statement on Form S-1 (No. 333-05665) for the registration of 3,450,000 shares of common stock.

Chicago, Illinois
July 26, 1996

The foregoing consent is in the form that will be signed when the reverse stock split, decrease in authorized common stock and redesignation of the Class A and Class B common stock as a like number of shares of common stock all become effective prior to completion of an initial public offering as described in the first paragraph of Note 7 to the financial statements.

ERNST & YOUNG LLP