STERICYCLE INC
Form 10-K
March 15, 2017

UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 2016

or

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

Commission File Number 1-37556

Stericycle, Inc.

(Exact name of registrant as specified in its charter)

Delaware	36-3640402
(State or other jurisdiction of incorporation or organization)	(IRS Employer Identification Number)

28161 North Keith Drive

Lake Forest, Illinois 60045

(Address of principal executive offices, including zip code)

(847) 367-5910

(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:

Common stock, par value $.01 per share	NASDAQ Global Select Market
Depositary Shares, each representing a 1/10th ownership interest in a share of 5.25% Mandatory Convertible Preferred Stock, Series A, par value $0.01 per share	NASDAQ Global Select Market
(Title of each class)	(Name of each exchange on which registered)

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

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

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Securities Act of 1934. YES NO

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). YES NO

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

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

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

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

State the aggregate market value of voting and non-voting common equity held by non-affiliates computed by reference to the price at which common equity was last sold as of the last business day of the registrant's most recently completed second fiscal quarter (June 30, 2016): $8,846,584,641.

On March 1, 2017, there were 85,247,156 shares of the Registrant's Common Stock outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Information required by Items 10, 11, 12 and 13 of Part III of this Report is incorporated by reference from the Registrant's definitive Proxy Statement for the 2017 Annual Meeting of Stockholders to be held on May 24, 2017.

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Item 1. Business

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

Overview

Services

Stericycle is a business-to-business services provider with a focus on regulated and compliance solutions for healthcare, retail, and commercial businesses. This includes the collection and processing of regulated and specialized waste for disposal and the collection of personal and confidential information for secure destruction, plus a variety of training, consulting, recall/return, communication, and compliance services. We operate integrated operations and customer service networks in the United States and 21 other countries. Our worldwide networks include a total of 252 processing facilities, 102 other service facilities, 340 transfer sites, and 3 landfills.

More specifically, our services and products include:

- Medical waste management services
- Reusable sharps disposal management services
- Pharmaceutical waste services
- Integrated Waste Stream Solutions ("IWSS") program
- Hazardous waste management services
- Sustainability and recycling services for expired or unused inventory
- Secure information destruction and hard drive destruction services
- Compliance programs under the Steri-Safe®, Clinical Services, SeguriMed and EnviroAssure brand names
- Regulated recall and returns management communication, logistics, and data management services for expired, withdrawn or recalled products
- Live voice and automated communication services including afterhours answering, appointment scheduling, appointment reminders, secure messaging, and event registration
- Mailback solutions for regulated medical waste, universal wastes, pharmaceutical wastes, and other specialty wastes

During 2016, we made certain changes to our organizational structure to integrate the domestic and international Shred-it operations. In Q2 2016, we changed the composition of our operating segments to further align our compliance and communication services. Due to this change, part of our Domestic Regulated Waste and Compliance Services operating segment was combined with the legacy Domestic Regulated Recall and Returns Management Services operating segment to form a new operating segment, Domestic Communication and Related Services (“Domestic CRS”).

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In Q4 2016, we made an additional change to our organizational structure and management reporting. As a result of these changes, our Domestic Regulated Waste and Compliance Services ("Domestic RCS") will now include our Canadian operations. The operations in Canada had previously been reported as part of the International RCS operating segment. As a result of these changes, our Domestic RCS operating segment will now become ("Domestic and Canada RCS").

Domestic CRS does not meet the quantitative criteria to be a separate reportable segment and therefore is included in All other. Beginning in Q4 2016, costs related to our corporate headquarter functions are also included in All other.

Our three operating segments are:

- Domestic and Canada RCS,
- Domestic CRS, and
- International RCS.

Customers

Our broad offering of services appeals to a wide range of small and large business customers. While the majority of our customers are healthcare businesses (hospitals, physician and dental practices, outpatient clinics, long-term care facilities, etc.), we also provide services to retailers, manufacturers, financial services providers, professional services providers, governmental entities, and other businesses.

In total, we serve more than 1,000,000 customers worldwide. No single customer accounts for more than 1.1% of our total revenues, and our top ten customers collectively account for approximately 7.1% of total revenues. We provide service to the majority of these customers through multi-year contracts. Although we have several standard contracts, terms vary depending upon the customer's service requirements.

Business Strategy

Focus on Regulated Business-to-Business Operations

We have a focus on business-to-business services in areas of operations that are highly regulated. By helping our customers maintain compliance with complex regulations, we protect people and brands, promote health, and safeguard the environment. Governmental legislation and regulation increasingly requires the proper handling and disposal of items such as medical waste, hazardous waste, pharmaceutical waste, and personal and confidential information. Regulated waste can be defined as any material with government-imposed guidelines for handling the material for transportation or disposal. Medical waste, such as needles, syringes, gloves, cultures and potentially infectious agents, blood and blood products, can potentially cause an infectious disease. Hazardous waste is designated and governed by federal and local environmental protection agencies but generally includes waste that is considered dangerous or potentially harmful to our health or the environment. Hazardous wastes can be liquids, solids, gases, or sludges. Pharmaceutical waste may be hazardous or nonhazardous and consists of expired, recalled, or otherwise unused pharmaceuticals. Personal and confidential information includes documents and e-media containing protected healthcare information, financial information, or other confidential information. Additionally, the regulatory environment related to promoting overall health and protecting consumers from unsafe products continues to increase.

Focus on the Small Customer with Recurring Service Needs

Our business strategy recognizes that smaller businesses have an even greater need for support with compliance matters since they tend to lack the specialized staff that is found at larger businesses. With a small business,

regulatory and compliance matters are often managed by a business owner, office manager, or facility supervisor who manage multiple functions for the organization and often lack the time and resources to properly investigate and comply with a wide range of regulations that may impact their operations. In response to this need of small businesses, we developed comprehensive and customized packages to accommodate varying customer requirements. This business strategy has guided us as we have expanded into additional service offerings including hazardous or pharmaceutical waste management, communication services, and secure information destruction.

Organic Growth

As a leading provider in regulated and compliance solutions, we continue to focus on enhancing our service offerings and platforms to exceed customer expectations. We have developed a strong and loyal customer base, with a revenue retention rate exceeding 90%, and have been able to leverage these customer relationships to provide additional services. Our growth strategy focuses on selling additional services to existing customers as well as securing new customer relationships.

Growth through Acquisition

The various regulated waste and compliance services that we provide tend to be in highly fragmented industries. We have proved that acquisitions are a rapid and efficient way to scale operations, build critical customer density for transportation and treatment operations, and enter new markets or geographies, as well as an opportunity to introduce our additional services to the acquired customers. In our early history, acquisitions were a key strategy to building our customer base and route density in the United States. We have been able to expand internationally through acquisition and now operate in 21 different markets outside the U.S. Over our history, Stericycle has completed 466 acquisitions, with 251 in the United States and 215 internationally. During 2016, we completed 31 acquisitions. We expect to continue our acquisition strategy, remaining focused on small, highly accretive, tuck in acquisitions that broaden our various service capabilities while creating value for our shareholders.

Market Size and Growth Potential

We provide a wide range of services across multiple market segments and industries. We believe the size of the global market for the services we provide, in the geographies we currently operate in, is expected to be approximately $37 billion in 2017. Industry growth is driven by a number of factors. These factors include:

- Aging Population: The average age of the population in the countries where we operate is rising. As people age, they typically require more medical attention and a wider variety of tests, procedures and medications, leading to an increase in the quantity of regulated medical waste, hazardous waste, and pharmaceutical waste, as well as an increase in confidential healthcare records requiring secure destruction.
- Pressure to Reduce Healthcare Costs While Improving Outcomes: The healthcare industry is under pressure to reduce costs and at the same time improve healthcare outcomes for patients served. By outsourcing services not directly tied to the delivery of healthcare services, these organizations can potentially reduce costs and improve staff efficiencies. By leveraging third party experts, healthcare organizations may also limit their potential liability for regulatory compliance.
- Enforcement of Regulations: Enforcement of regulations relating to the management of regulated waste and protected information is increasing. Penalties for violations can be costly as well as high profile thereby impacting a business' overall reputation. Greater enforcement combined with higher penalties results in more compliance and a corresponding increase in potential customers.
- Safety and Security Regulation: We believe that many businesses that are not currently using third party regulated waste management, secure information destruction, or recall and communication services are unaware either of the

need for proper training of employees or of the regulatory requirements. Similarly, many businesses find the proper handling of expired or recalled products requires an expertise and efficient processes that they lack.

- Increased Business Focus on Sustainability: Businesses large and small are continuing to realize that the focus on sustainability is now essential to operating efficiently and meeting the increasing demands of customers for environmental responsibility. Such pressures are driving proper disposal of pharmaceuticals, recycling efforts, creative disposal efforts for unused inventory, shred-all policies for paper, and other initiatives supported by our services.
- Regulation of Privacy and Information Security and Concerns over Data Breaches: The continued development and growth of the secure information destruction industry has been driven, in part, by the need for compliance with increasing government regulation with respect to privacy and information security. These regulations take different forms, with some requiring organizations to establish reasonable measures to protect against loss, theft and unauthorized access, use and disclosure, and others imposing data retention requirements that require businesses to destroy or render anonymous personal information when it's no longer required for a legal or legitimate business purpose. Secure information destruction services are increasingly a standard measure that organizations take to meet their legal safeguarding and retention requirements.
- Fragmented Markets: The industries in which we operate are highly fragmented with numerous small competitors operating within a limited geographic area and with a narrow focus on a specific service. Opportunities exist to drive efficiencies by consolidating operations.
- International Market Development: The medical waste, hazardous waste, and secure information destruction regulations in certain international markets are at an early stage of development relative to North America and Europe. As emerging markets continue to advance their healthcare practices, environmental controls, and data privacy regulations, we expect to see further demand for our services on a global scale.

Competitive Strengths

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

- Broad Range of Services: We offer our customers a broad range of services. We work with businesses across a number of industries such as healthcare, manufacturing, and retail to safely and efficiently dispose of regulated materials, ensure regulatory compliance, improve employee and customer safety, protect their brands, improve communications with patients, and manage corporate and personal risk.
- Strong Service Relationships with Customers: We offer our customers necessary services which require access to their facilities, operating information, or customer data. This relationship, supported by a history of strong service, allows us access to decision makers to offer additional opportunities.
- Long-term Contracts: The majority of services we provide involve long-term contracts.
- Established Network of Processing and Transportation Locations in Each Country: We believe that our infrastructure network results in a very efficient operation with alternate treatment or destruction options for our customers. The network also provides redundancy so that we can quickly redirect services or operations to another location should such needs exist due to severe weather, power outages, or other similar situations.
- Routing Logistics: We maintain a vast transportation network that is focused on route efficiency. This advantage has been built over more than two decades with a deliberate focus on building route density as well as continuous technological investments to optimize routing at both the individual truck and geographic market level.

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- Industry Leadership and Expertise: We maintain a global leadership position across our various services lines, including regulated medical waste, retail and healthcare hazardous waste, secure information destruction, and product recalls and returns. We attract and retain highly experienced team members who have a deep understanding of the industries they serve, the regulatory climate, and the evolving needs of the customers we serve.
- Volume-based Leverage for Disposal, Treatment or Recycling: As a leading service provider for regulated medical waste, hazardous waste, and secure information destruction, we can leverage large volumes of waste, recyclables, and paper to obtain better pricing on final treatment, disposal and/or recycling.
- Secure Management of Information for Destruction: With the acquisition of Shred-it, Stericycle is now the global leader in secure information destruction. Our processes for managing information for destruction meet or exceed the requirements of the National Association for Information Destruction (“NAID”) AAA Certification and support our customers’ requirements to comply with the Gramm-Leach-Bliley Act (“GLBA”), the Fair and Accurate Credit Transaction Act (“FACTA”), and Health Insurance Portability and Accountability Act (“HIPAA”) Privacy Rules in the U.S. and other data security regulations abroad.
- Ability to Integrate Acquisitions: Since 1993 we have completed 466 acquisitions in the United States and internationally and have demonstrated a consistent ability to successfully integrate our acquisitions.
- Experienced Senior Management Team: We have experienced leadership. Our senior management team has over 120 years of management experience in the health care and specialty waste management industries.

Regulated Waste and Secure Information Destruction Operations

Collection and Transportation

Logistics is a key element of our business, especially in regard to managing regulated waste and secure information destruction. Efficiency of collection and transportation is critical to our operations because it represents the largest component of our operating costs.

For medical waste, hazardous waste, pharmaceutical waste, or secure information destruction, the collection process begins at the customer location with segregation. To assure regulatory compliance, we will not accept material from customers unless it complies with our waste acceptance protocols and is properly stored or packaged in containers that we have either supplied or approved.

Our fleet of transportation vehicles then collects containers at the customer location. The majority of collected waste is then transported directly to one of our processing facilities or to one of our transfer stations until it’s transported to a processing facility. Our use of transfer stations in a "hub and spoke" configuration improves the efficiency of our collection and transportation operations by expanding the geographic area that a particular processing facility can serve thereby increasing the utilization of the facility and the volume of waste that it processes.

Processing and Disposal of Regulated Medical Waste

Stericycle was founded on the belief that there was a need for safe, secure and environmentally responsible management of regulated medical waste. From our beginning, we have encouraged the use of non-incineration treatment technologies. While we recognize that some state regulations currently mandate that some types of regulated waste must be incinerated, we also know from years of experience working with our customers that there are ways to reduce the amount of regulated waste that is ultimately incinerated. The most effective strategy that we have seen involves comprehensive education of our customers in waste minimization and segregation.

Upon arrival at a processing facility, containers or boxes of regulated waste undergo a quality control process to verify that they do not contain any unacceptable substances. Any container or box that is discovered to contain unacceptable waste goes through a corrective action process which could include redirecting the waste, returning the waste to the customer, and/or notifying the appropriate regulatory authorities. From there, regulated medical waste is processed using one of several treatments or processing technologies, predominantly at one of our wholly-owned facilities.

- Autoclaving: Autoclaving treats regulated waste with steam at high temperature and pressure to kill pathogens.
- Incineration: Incineration burns regulated waste at elevated temperatures and reduces it to ash. Incineration reduces the volume of waste, and it is the recommended treatment and disposal option for some types of regulated waste such as anatomical waste, residues from chemotherapy procedures and non-hazardous pharmaceutical waste. Air emissions from incinerators can contain certain byproducts that are subject to federal, state, and in some cases, local regulation. In some circumstances, the ash byproduct of incineration may be regulated.

Upon completion of the particular process, the resulting waste or incinerator ash is transported for disposal in a landfill owned by unaffiliated third parties.

Processing and Disposal of Hazardous Wastes

Our technicians receive hazardous wastes either as expired goods requiring deconstruction or as defined hazardous wastes. Expired goods are deconstructed to recover metals and plastics for recycling thereby minimizing the total volume of waste disposed of as hazardous waste. Materials that are predefined as hazardous upon collection are bulked together or consolidated at treatment storage and disposal facilities for more efficient transport to the final disposal or processing destination. Whenever possible, we seek sustainable solutions for managing materials including alternative uses, recovery processes, recycling options, fuel blending, or energy recovery. When sustainable options do not exist, these wastes are sent to third parties for incineration, landfill and water treatment.

Destruction and Recycling of Secure Information

If not sorted on site in a proprietary Shred-it information destruction truck, documents are sent to a shredding facility for secure destruction. Documents are cross-cut shredded and then baled to be sold as office paper (SOP) for recycling.

Communication Solutions and Expert Solutions Business Overview

Our Communication Solutions service line provides a broad range of live voice or automated services to help our customers keep in touch with their patients and clients. Our team serves as a client representative providing answering services, appointment scheduling or reminders, event registration, and other activities. Providing these solutions requires sophisticated information management systems to redirect calls, store and quickly retrieve live voice protocols or client data, send automated communications, or provide easily accessible reporting and activity details to our customers. Beyond the information management system infrastructure, call center staffing and education levels are critical to success. We leverage sophisticated workflow analysis and staffing tools to ensure redundancies are in place in order to handle call volumes quickly and consistently across our multiple call centers during peak volumes.

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Our Expert Solutions service line acts as a business partner to automotive, food/beverage, medical device, pharmaceutical, consumer goods manufacturers and retailers to guide them through critical recalls, retrievals, or audit processes to ensure brand protection. Services could include notification services to impacted customers, call center services to support a recall or retrieval, removing impacted product from distribution, processing recalled product and supporting remedy requirements, and compliance reporting. These solutions are highly customized based on the product being recalled or retrieved and the specific needs of the client.

Competition

The industries and markets in which we operate are highly competitive, and barriers to entry are low. Our competitors consist of many different types of service providers, including national, regional and local companies. In the regulated waste and secure information destruction industries, another major source of competition is on-site treatment. For regulated medical waste, some large-quantity generators, particularly hospitals may choose an onsite autoclave or other treatment process. For secure information destruction, many businesses may choose to use small, on-site shredders for their documents. Similarly, customers could handle recalls or communication needs internally.

In addition, we face potential competition from businesses that are attempting to commercialize a wide range of technologies that directly or indirectly reduce the need for regulated medical waste, hazardous waste or secure information destruction services.

Governmental Regulation

The regulated medical waste, hazardous waste, secure information destruction, and recall industries are subject to numerous regulations. In many countries there are multiple regulatory agencies at the local and national level that affect our customers or our services. This statutory and regulatory framework imposes a variety of compliance requirements, including requirements to obtain and maintain government permits. We maintain numerous governmental permits, registrations, and licenses to conduct our business in the jurisdictions in which we operate. Our permits vary by jurisdiction based upon our activities within that jurisdiction and on the applicable laws and regulations of that jurisdiction. These permits grant us the authority, among other things:

- to construct and operate collection, transfer and processing facilities;
- to transport regulated waste within and between relevant jurisdictions; and
- to handle particular regulated substances.

Our permits must be periodically renewed and are subject to modification or revocation by the issuing authority. Periodic renewals are subject to public participation and can lead to additional regulatory oversight. We are also subject to regulations that govern the definition, generation, segregation, handling, packaging, transportation, treatment, storage and disposal of regulated waste. In addition, we are subject to extensive regulations to ensure public and employee health and safety at the federal, state and local levels.

U.S. Federal and Foreign Regulation

We are subject to substantial regulations enacted and enforced by the U.S. government and by the governments of the foreign jurisdictions in which we conduct regulated waste and secure information destruction operations. The specific statutory and regulatory requirements we must comply with vary from jurisdiction to jurisdiction. The laws governing our domestic and international operations generally consist of statutes, legislation and regulations concerning environmental protection, employee health and welfare, transportation, the use of the mail, and

proper handling and management of regulated waste streams, controlled substances and personal and confidential information.

Environmental Protection

Certain service lines within our business are subject to extensive and evolving environmental regulations in all of the geographies in which we operate. Generally, the environmental laws we are subject to regulate the handling, transporting, and disposing of hazardous and non-hazardous waste, the release or threatened release of hazardous substances into the environment, the discharge of pollutants into streams, rivers, groundwater and other surface waters, and the emission of pollutants into the air. The principal environmental laws that govern our operations in the U.S. are state environmental regulatory agencies as they provide the specific legislative and or regulatory frameworks which require the management and treatment of regulated medical waste. Additionally, the Resource Conservation and Recovery Act of 1976 ("RCRA"), the Comprehensive Environmental Response, Compensation and Liability Act of 1980 ("CERCLA"), and the Clean Air Act of 1970 are the federal regulations that affect management of certain aspects of regulated medical waste and all RCRA hazardous wastes. CERCLA and state laws similar to it may impose strict, joint and severe liabilities on the current and former owners and operators of facilities from which release of hazardous substances has occurred and on the generators and transporters of the hazardous substances that come to be located at these facilities. The ten incinerators at seven facilities we currently operate in the U.S. must comply with the emissions standards imposed by the applicable states permitting authorities pursuant to regulations promulgated under the Clean Air Act as well as state and/or municipal waste permit requirements.

Examples of environmental laws applicable to our international operations include the Waste Framework Directive, Environmental Liabilities Directive, Industrial Emissions Directive and the Shipments of Waste Regulations in the European Union ("EU"), Ley 154 (Residuos Patogenicos) in Argentina, Lei 12.305/2010 (Lei Ordinária) Institui A Política Nacional De Resíduos Sólidos in Brazil, and the Canadian Environmental Protection Act and related regulations in Canada.

Employee Health and Welfare

We are also subject to numerous regulations promulgated to protect and promote worker health and welfare through the implementation and enforcement of standards designed to prevent illness, injury and death in the workplace. The primary federal laws relating to employee health and welfare applicable to our business in the U.S. are in the Occupational Safety and Health Act of 1970 ("OSHA"), which establishes specific employer responsibilities including engineering controls, administrative controls, training, policies and programs complying with the regulations and ultimately recordkeeping and reporting, all in an effort to ensure a safe workplace. Various OSHA standards apply to almost all aspects of our operations and govern such matters as exposure to blood borne pathogens, hazard communication, personal protective equipment, etc.

Employee health and welfare laws governing our business in global jurisdictions include examples such as the Workplace Health and Safety Directive and the directive concerning ionizing radiation in the EU, and various provisions of the Canada Labour Code and related occupational safety and health regulations in the provinces and territories of Canada.

Transportation

Various laws regulating the transportation of waste and other potentially hazardous materials also apply to the services we provide. In the U.S., the Department of Transportation ("DOT") has promulgated regulations which deal with two different aspects of transportation: hazardous materials transport and safety in transportation. These regulations are defined within the Pipeline Hazardous Materials Safety Administration ("PHMSA") and the Federal Motor Carrier Safety Administration ("FMCSA"). These federal requirements plus additional state requirements are closely monitored internally. Due to our fleet size we are regularly subject to road side inspections. These inspections have a cumulative effect on our compliance history and require us to remain in good standing so as not to jeopardize our permits.

Examples of transportation laws we must comply with internationally include the Directive on the Inland Transportation of Dangerous Goods in the EU and the Transport of Dangerous Goods Act and related regulations in Canada, and globally the International Maritime Dangerous Goods Code and the IATA Dangerous Goods Regulations.

Document Management

Numerous laws and regulations require proper protection of confidential customer information by business parties that have access to such information. In the U.S., the most commonly cited regulations include the FACTA Final Disposal Rule, the FACTA Red Flag Rule, the HIPAA Privacy Rule, and the GLBA.

For the transportation of secure information for destruction, we are regulated by the U.S. Department of Transportation as a commercial motor carrier. The processes for the destruction of secure information destruction processes are not regulated by any government agency. However, the NAID maintains a certification to ensure that destruction processes support the needs of organizations to meet laws and regulations relating to the protection of confidential information. We currently hold the NAID AAA Certification. Further, Payment Card Industry ("PCI") Security Standards Council has developed Data Security Standards which are imposed upon merchants utilizing credit cards and require destruction of documents and media in accordance with their standards.

Use of the Mail

United States Postal Service ("USPS") has its own set of specific regulations defined in Publication 52 which governs the use of the postal system for mailing of hazardous, restricted and perishable materials. More specifically, mailback management offerings for sharps, medical waste, and pharmaceutical wastes, require us to obtain and maintain authorization permits from the USPS. We have obtained permits from the USPS to conduct our "mail-back" programs which provide a convenient service for customers who need such a service with approved containers for "sharps" (needles, knives, broken glass and the like) or other regulated wastes to be sent directly to a treatment facility.

Controlled Substances

Our service offerings for the recall, return and destruction of controlled substance pharmaceuticals are subject to numerous laws and regulations under various international federal agencies, such as the Drug Enforcement Administration ("DEA") in the US. These regulations apply to both the closed loop management of controlled substances as well as the return of unused controlled substances from consumers. These regulations typically require facilities to obtain a registration of license and meet certain criteria in order to collect, process, and dispose of controlled substances. The regulations have very strict requirements for the management of employees, the type of security within facilities, recordkeeping, and the reporting of all controlled substances managed at the facility. Much like permitting, the registration must be updated regularly and subjects us to inspection and enforcement.

U.S. and Foreign Local Regulation

We conduct business in all 50 states and Puerto Rico. Because the federal EPA did not promulgate regulations for regulated medical waste at a national level, each state has its own regulations related to the handling, treatment and storage of regulated medical waste. Many states have followed requirements similar to the Medical Waste Tracking Act of 1988 or have placed medical waste regulations under solid waste regulations. Hazardous waste in the U.S. is regulated under the RCRA. In addition, certain states may have their own regulations for handling, treatment and storage of hazardous wastes. Regulated garbage (sometimes referred to as “APHIS waste” taken from the Animal Plant and Health Inspection Service) is another area of regulatory requirements we are subject to pursuant to regulations promulgated by the United States Department of Agriculture ("USDA") and Customers and Border Patrol. The USDA typically inspects our facilities receiving such APHIS waste on a quarterly basis.

In each state where we operate a processing facility or a transfer station, we are required to comply with varying state and local laws and regulations which may also require a specific operating plan. In addition, many local governments have ordinances and regulations, such as zoning or wastewater regulations that affect our operations. Similarly, our international operations are subject to regulations enacted and enforced at the provincial, municipal, and local levels of government in addition to the national regulations with which we must comply.

Patents and Proprietary Rights

With the acquisition of Shred-it, we hold patents in the U.S. for a two-staged shredder with patents pending in Canada and Europe. We also hold patents in the U.S., Canada, and Europe for Securshield, propriety locks for shredding containers.

We own federal registrations for a number of trademarks/servicemarks including Stericycle®, Steri-Safe®, Stericycle ExpertRECALL®, Sustainable Solutions®, Bio Systems®, LiveAnswer®, Shred-it®, Securit®, Community Shred-it®, Making Sure it’s Secure®, and our company logo service mark consisting of a nine-circle design. We also hold international registrations for Stericycle, the nine-circle design used in our logo, and the Shred-it name and design.

Potential Liability and Insurance

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

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

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

We carry $75 million in general liability insurance (including umbrella coverage), and under separate policies, $25 million in aggregate of pollution legal liability insurance and contractor’s operations and professional services environmental insurance ($10 million per incident and $15 million excess per incident under each respective policy). We carry comprehensive policies that include: privacy liability, security liability, event management, cyber-liability and miscellaneous professional services errors and omissions coverages with the total of $15 million in coverage ($5 million primary and two excess follow form policies with $10 million in coverage). We consider this insurance sufficient to meet regulatory and customer requirements and to protect our employees, assets and operations.

PART I

Executive Officers of the Registrant

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

Name	Position	Age
Charles A. Alutto	President and Chief Executive Officer	51
Brent Arnold	Executive Vice President and Chief Operating Officer	48
Daniel V. Ginnetti	Executive Vice President and Chief Financial Officer	48
Ruth Abdulmassih	Executive Vice President and President, Communication & Related Services	55
John P. Schetz	Executive Vice President and General Counsel	40
Brenda Frank	Executive Vice President and Chief People Officer	47

Charlie Alutto has served as President and Chief Executive Officer since January 2013 and as a Director since November 2012. He joined us in May 1997 following our acquisition of the company where he was then employed. He became an executive officer in February 2011 and served as President, Stericycle USA. He previously held various management positions with us, including vice president and managing director of SRCL Europe and corporate vice president of our large quantity generator business unit. Mr. Alutto received a B.S. degree in finance from Providence College and a M.B.A. degree in finance from St. John's University.

Brent Arnold was named as Chief Operating Officer during 2015. He joined Stericycle in April 2005 and has worked in various leadership positions including Senior Vice President of Operations, Senior Vice President of Sales & Marketing for the US, Corporate Vice President of our large and small quantity business units, and Executive Vice President and President, Stericycle USA. He has more than 24 years of experience primarily focused in the healthcare industry. Prior to joining Stericycle, he held various leadership roles at Baxter International Inc. and Cardinal Health, Inc. Mr. Arnold received a B.S. degree in marketing from Indiana University.

Daniel Ginnetti was named as Chief Financial Officer during 2014. He joined Stericycle as Area Vice President of Finance in 2003. In 2004 he was promoted to Area Vice President for Stericycle's Western, and later, Midwestern business units. Following that, he was promoted to Senior Vice President of Operations for the United States and Canada. He returned to financial management in 2013 becoming Vice President of Corporate Finance and then CFO in August 2014. Prior to joining Stericycle, Mr. Ginnetti held various finance and accounting positions with The Ralph M. Parsons Company, a worldwide engineering firm, and Ryan Herco Products Corp., a national industrial plastics distributor. Mr. Ginnetti has a B.S. degree in Business Economics from the University of California, Santa Barbara.

Ruth-Ellen Abdulmassih was named Executive Vice President, Communication & Related Services during February of 2017. She joined Stericycle in November 2006 and has worked in various leadership positions in the Expert Solutions, Environmental Solutions and Communication Solutions businesses. Prior to her appointment, Ms. Abdulmassih was General Manager of the Communication & Related Services Business. She has 30 years of experience including working in various leadership roles in multiple businesses of Abbott Laboratories. Ms. Abdulmassih received a B.S. degree in Business/Marketing from Northwood Institute.

John Schetz has served as Executive Vice President and General Counsel since April 2015. Mr. Schetz previously served as Vice President and Senior Counsel from January 2013. He joined us in June 2009 as Senior Counsel, Mergers and Acquisitions. Prior to joining Stericycle, Mr. Schetz was a partner at McDermott Will & Emery LLP in

Chicago. Mr. Schetz received a B.A. degree from the University of Michigan and a J.D. degree from the University of Michigan Law School.

Brenda Frank has served as Executive Vice President and Chief People Officer since January 2016. Brenda joined Stericycle with our acquisition of Shred-it in October 2015 where she spent six years as General Counsel and

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Executive Vice President of Human Resources and Franchise Relations. Ms. Frank has spent the last 20 years focusing on people, labor and employment, holding senior human resources and legal roles at global services companies such as ITOCHU INTERNATIONAL and Pitney Bowes. She started her career as a labor and employment attorney and litigator at Wilson Sonsini Goodrich & Rosati and Proskauer Rose. Ms. Frank received her B.S. in Accounting from S.U.N.Y Albany and her J.D. from New York University Law School.

Website Access

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

Item 1A. Risk Factors

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

The regulated waste management and secure information destruction industries are subject to extensive federal, state and local laws and regulations relating to the collection, transportation, packaging, labeling, handling, documentation, reporting, treatment and disposal of regulated waste and the proper handling and protection of personal and confidential information. Our business requires us to obtain many permits, authorizations, approvals, certificates, and other types of governmental permissions and to comply with various regulations in every jurisdiction in which we operate. Federal, state and local regulations change often, and new regulations are frequently adopted. Changes in the regulations could require us to obtain new permits or to change the way in which we operate our business. We might be unable to obtain the new permits that we require, and the cost of compliance with new or changed regulations could be significant.

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

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

We believe that strict enforcement of laws and regulations relating to regulated waste collection and treatment and the proper handling and protection of personal and confidential information by governmental authorities can have a positive effect on our business. These laws and regulations increase the demand for our services. Relaxation of enforcement or other changes in governmental regulation of regulated waste and personal and confidential information could increase the number of competitors we face or reduce the need for our services.

Unfavorable market conditions, including those driven by economic or social trends, may impact the volume of regulated wastes or personal and confidential information we collect from customers.

The compliance-based services we provide rely on the generation of regulated wastes or personal and confidential information by our customers. The amount of material generated by our customers may be impacted by macro-economic trends associated with manufacturing and industrial markets, healthcare market dynamics, and trends associated with electronic and digital record keeping. Many of our services are provided on a subscription basis with a monthly fee to minimize short-term or cyclical variability associated with these factors. However, some of our services are provided on a transactional basis, and long-term trends resulting from these factors could reduce the demand for our services, whether we provide them on a subscription or transactional basis.

The amount of our indebtedness could adversely affect our business.

As of December 31, 2016, we had a total of $3.0 billion of outstanding indebtedness, including long-term debt and short-term debt. We also have the ability to incur a substantial amount of additional indebtedness, including up to an additional $654.9 million under our revolving credit facility.

Currently, our annual cash obligations to service our indebtedness are approximately $308 million. In addition, the aggregate amount of dividends currently payable on our depositary shares is approximately $37 million on an annual basis. If we are unable to generate sufficient cash to repay or to refinance our debt as it comes due or to pay dividends on our depositary shares, this would have a material adverse effect on our business and the market price of our common stock and depositary shares. Our leverage could have adverse consequences on our business, including the following:

- we may be required to dedicate a substantial portion of our available cash to payments of principal and interest on our indebtedness;
- our ability to access credit markets on terms we deem acceptable may be impaired; and
- our leverage may limit our flexibility to adjust to changing market conditions.

Servicing debt and funding other obligations requires a significant amount of cash, and our ability to generate sufficient cash depends on many factors, some of which are beyond our control.

Our ability to make payments on and refinance our indebtedness and to fund our operations and capital expenditures depends on our ability to generate cash flow and secure financing in the future. Our ability to generate future cash flow depends, among other things, upon:

- future operating performance;
- general economic conditions;
- competition; and
- legislative and regulatory factors affecting our operations and business.

Some of these factors are beyond our control. There is no assurance that our business will generate cash flow from operations or that future debt or equity financings will be available to us to enable us to pay our indebtedness or to fund other needs. As a result, we may need to refinance all or a portion of our indebtedness on or before maturity. There is no assurance that we will be able to refinance any of our indebtedness on favorable terms, or at all. Any inability to generate sufficient cash flow or refinance our indebtedness on favorable terms could have an adverse effect on our financial condition.

Restrictions in our private placement notes, the Term Loan Credit Facility and the Revolving Credit Facility could adversely affect our business, financial condition, results of operations, ability to make distributions and value of our securities.

The terms of our private placement notes require that we comply with certain covenants and will include events of default and other terms similar to those in certain of our existing private placement notes. Each of the Term Loan Credit Facility and Revolving Credit Facility also contains customary affirmative covenants, including, among others, covenants pertaining to the delivery of financial statements; notices of default and certain other material events; payment of obligations; preservation of corporate existence, rights, privileges, permits, licenses, franchises

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and intellectual property; maintenance of property and insurance and compliance with laws, as well as customary negative covenants for facilities of this type, including, among others, limitations on the incurrence of liens, investments and indebtedness; mergers and certain other fundamental changes; dispositions of assets; restricted payments; changes in our line of business; transactions with affiliates and burdensome agreements. Each facility contains a financial covenant requiring maintenance of a minimum consolidated interest coverage ratio of 3.00 to 1.00 as of the end of any quarter and a financial covenant requiring maintenance of a maximum consolidated leverage ratio of between 3.75 and 4.00 to 1.00, depending on factors determined in accordance with the terms of the applicable facility. These covenants could affect our ability to operate our business and may limit our ability to take advantage of potential business opportunities as they arise.

Our ability to comply with the covenants and restrictions contained in the private placement notes, the Term Loan Credit Facility and the Revolving Credit Facility may be affected by events beyond our control, including prevailing economic, financial, and industry conditions. If market or other economic conditions deteriorate, our ability to comply with these covenants may be impaired. A failure to comply with these provisions could result in a default or an event of default. Upon an event of default, unless waived, the lenders could elect to terminate its commitments, cease making further loans, require cash collateralization of letters of credit, cause its loans to become due and payable in full and force us and our subsidiaries into bankruptcy or liquidation. If the payment of our debt is accelerated, our assets may be insufficient to repay such debt in full, and the holders of our units could experience a partial or total loss of their investment.

We will incur integration costs in connection with our acquisition strategy.

Our business strategy includes growth through acquisition. Each acquisition includes a detailed execution plan to integrate the acquired operations into Stericycle’s existing infrastructure to achieve synergies. We expect to incur costs to implement such cost savings measures. We anticipate that we will incur certain non-recurring charges in connection with this integration, including costs and charges associated with integrating operations, processes and systems. We cannot identify the timing, nature and amount of all such charges. The significant acquisition-related integration costs could adversely affect our results of operations in the period in which such charges are recorded or our cash flow in the period in which any related costs are actually paid. We believe that synergies will come from the elimination of duplicative costs such as selling, general and administrative expenses, as well as the realization of other efficiencies related to the integration of the businesses such as the optimization of logistics, truck and plant utilization, improvements in route density and facility optimization, and contact center efficiencies. We also believe such synergies will offset incremental acquisition-related costs over time, but this net benefit may not be achieved in the near term, or at all.

We may not realize the synergies and growth opportunities that are anticipated from acquisitions.

The benefits we expect to achieve as a result of acquisitions that we complete will depend, in part, on our ability to realize targeted synergies and anticipated growth opportunities. Our success in realizing these synergies and growth opportunities, and the timing of this realization, depends on the successful integration of other business and operations with our pre-existing business and operations. Even if we are able to integrate these businesses and operations successfully, this integration may not result in the realization of the full benefits of the synergies and growth opportunities we currently expect within the anticipated time frame or at all. While we anticipate that certain expenses will be incurred, such expenses.

We may incur significant charges as a result of our portfolio optimization strategy.

As part of our long-term strategy for improving our profitability and return on invested capital, we continue to evaluate the performance of our entire portfolio of assets and businesses. Based on this evaluation, we may sell certain assets or businesses or exit particular markets. Any divestitures resulting from this strategy may cause us to record significant write-offs, including those related to goodwill and other intangible assets. In addition, divestitures we complete may not yield the targeted improvements in our business. Any charges that we are required to record or the failure to achieve the intended financial results associated with our portfolio optimization strategy could have a material adverse effect on our business, financial condition or results of operations.

If we are unable to acquire regulated waste, secure information destruction and other businesses, our revenue and profit growth may be slowed.

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

- identify suitable businesses to buy;
- complete the purchase of those businesses on terms acceptable to us; and
- avoid or overcome any concerns expressed by regulators.

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

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

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

We may become subject to inquiries and investigations by federal or state antitrust regulators from time to time in the course of completing acquisitions of other regulated waste and secure information destruction businesses. In order to obtain regulatory clearance for a particular acquisition, we could be required to modify certain operating practices of the acquired business or to divest ourselves of one or more assets of the acquired business. Changes in the terms of our acquisitions required by regulators or agreed to by us in order to settle regulatory investigations could impede our acquisition strategy or reduce the anticipated synergies or profitability of our acquisitions. The likelihood and outcome of inquiries and investigations from federal or state regulators in the course of completing acquisitions cannot be predicted.

Changing market conditions in the healthcare industry, including healthcare consolidation and healthcare reform, could drive down our profits and slow our growth.

Within the United States, the healthcare industry is evolving to meet competing demands for increased healthcare coverage of a growing and aging population and economic pressures to reduce healthcare costs. As a result of these dynamics, hospital networks are consolidating physician practices into their networks, independent practices are consolidating together, and all healthcare providers are focused on cutting costs within their businesses. These changes exert downward pricing pressure on services that we provide to healthcare customers which could adversely affect our profitability and growth.

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

The industries in which we participate are very competitive because of low barriers to entry, among other reasons. This competition has required us in the past to reduce our prices to our customers and may require us to reduce our prices in the future. Substantial price reductions could significantly reduce our earnings.

We face direct competition from a large number of small, local competitors. Because it requires very little financial investment to compete in the collection and transportation of regulated wastes or the secure destruction of personal and confidential information, there are many regional and local companies in these industries. We face competition from these businesses, and competition from them is likely to exist in new locations to which we may expand in the future. In addition, large national companies with substantial resources operate in the markets we serve. For example, in the United States, Waste Management, Inc., Clean Harbors, and Iron Mountain all offer competing services.

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

Risks from our international operations could adversely affect our business, financial condition and results of operations.

We have established operations in the United States and 21 other countries. Foreign operations carry special risks including:

- exchange rate and interest rate fluctuations;
- dependence in certain markets on government entities as customers;
- delays in the collection of accounts receivable;
- government controls;
- import and export license requirements;
- political or economic instability;
- changes in or violations of U.S., local or other applicable laws and regulations, including laws and regulations concerning anticorruption, competition, privacy and data protection;
- trade restrictions;
- changes in tariffs and taxes;
- industry or macro-economic trends;
- permitting and regulatory standards;
- differences in local laws, regulations, practices, and business customs;
- restrictions on repatriating foreign profits back to the United States or movement of funds to other countries;
- difficulties in staffing and managing international operations; and
- increases and volatility in labor costs.

Any of the foregoing or other factors associated with doing business abroad could adversely affect our business, financial condition and results of operations.

We face risks associated with project work and services that are provided on a non-recurring basis.

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While the majority of our business is based on long-term contracts for regularly scheduled service, we do have a portion of revenue which is derived from short-term projects or services that we provide on a non-recurring basis. Product recall and retrieval events, one-time purge events for secure information destruction, and certain hazardous waste services that we provide on a project or non-recurring basis are not predictable in terms of frequency, size or duration. Our customers' need for these services could be influenced by regulatory changes, fluctuations in commodity market performance, natural disasters and acts of God, or other factors beyond our control. Variability in the demand for these services could adversely affect our business, financial condition and results of operations.

Fluctuations in the commodity market related to the demand and price for recycled paper may affect our business, financial condition and results of operations.

We sell nearly all of the shredded paper from our secure information destruction business to paper companies and recycled paper brokers. Sorted office paper is marketed as a commodity and is subject to significant demand and price fluctuations beyond our control. Historically, economic and market shifts, fluctuations in capacity and changes in foreign currency exchange rates have created cyclical changes in prices, sales volume and margins for pulp and paper products. The length and magnitude of industry cycles have varied over time and by product, but generally reflect changes in macroeconomic conditions and levels of industry capacity. The overall levels of demand for the pulp and paper products, and consequently its sales and profitability, reflect fluctuations in levels of end-user demand, which depend in part on general macroeconomic conditions in North America and worldwide, as well as the threat of digitization. As a result, the market demand for recycled paper can be volatile due to factors beyond our control. Lack of demand for our shredded paper material could adversely affect our business, financial condition and results of operations.

Our earnings could decline resulting in charges to impair intangible assets, such as goodwill.

As a result of our various acquisitions, the Consolidated Balance Sheet at December 31, 2016 contains goodwill of $3.59 billion and other intangible assets, net of accumulated amortization of $1.86 billion. In accordance with the FASB Accounting Standards Codification Topic 350, Intangibles - Goodwill and Other, we evaluate on an ongoing basis whether facts and circumstances indicate any impairment to the value of indefinite-lived intangible assets such as goodwill. As circumstances after an acquisition can change, we may not realize the value of these intangible assets. If we were to determine that a significant impairment has occurred, we would be required to incur non-cash charges for the impaired portion of goodwill or other unamortized intangible assets, which could have a material adverse effect on our results of operations in the period in which the impairment charge occurs.

We are subject to a number of pending lawsuits.

We are a defendant in a number of pending lawsuits and may be named as a defendant in future lawsuits. These current and future matters may result in significant liabilities and diversion of our management's time, attention and resources. Given the uncertain nature of litigation generally, we are not able in all cases to estimate the amount or range of loss that could result from an unfavorable outcome in these matters. In view of these uncertainties, the outcome of these matters may result in charges in excess of any established reserves and, to the extent available, liability insurance. Protracted litigation, including any adverse outcomes, may have an adverse impact on our business, financial condition or results of operations. In addition, any significant judgment or settlement amount may require us to incur additional indebtedness, adversely affect our liquidity and ability to service our indebtedness, or require us to restructure or amend the terms of our indebtedness. See Note 17 in Item 8 of this Annual Report on Form 10-K for more information regarding currently pending legal proceedings.

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

We depend on a small number of senior executives. Our future success will depend upon, among other things, our ability to keep these executives and to hire other highly qualified employees at all levels. We compete with other potential employers for employees, and we may not be successful in hiring and keeping the executives and other employees that we need. We do not have written employment agreements with any of our executive officers, and

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officers and other key employees could leave us with little or no prior notice, either individually or as part of a group. Our loss of, or inability to hire, key employees could impair our ability to manage our business and direct its growth.

We face risks relating to our size and scale.

We have more than 750 facilities and 25,000 employees worldwide. The sheer size of our operations exposes us to the risk that systems and practices will not be implemented uniformly throughout our Company and that information will not be shared across the locations and countries in a timely and appropriate manner. Any misalignment in strategic initiatives and/or difficulties or delays in transmission of information could adversely affect our business, financial condition and results of operations.

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

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

Examples of possible exposure to such materials include:

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

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

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

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

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

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

The handling of secure information for destruction exposes us to potential data security risks that could result in monetary damages against us and could otherwise damage our reputation, and adversely affect our business, financial condition and results of operations.

The protection of customer, employee, and company data is critical to our business. The regulatory environment in the United States and Canada surrounding information security and privacy is increasingly demanding, with the frequent imposition of new and constantly changing requirements. Certain legislation, including the FACTA, the HIPAA, the Economic Espionage Act in the United States, and the Personal Information Protection and Electronic Documents Act in Canada, require documents to be securely destroyed to avoid identity theft and inadvertent leakage of confidential and sensitive information. A significant breach of customer, employee, or company data could attract a substantial amount of media attention, damage our customer relationships and reputation, and result in lost sales, fines, or lawsuits. In addition, an increasing number of countries have introduced and/or increased enforcement of comprehensive privacy laws or are expected to do so. The continued emphasis on information security as well as increasing concerns about government surveillance may lead customers to request us to take additional measures to enhance security and/or assume higher liability under our contracts. As a result of legislative initiatives and customer demands, we may have to modify our operations to further improve data security. Any such modifications may result in increased expenses and operational complexity, and adversely affect our business financial condition and results of operations.

Attacks on our information technology systems could damage our reputation, harm our businesses and adversely affect our results of operations.

Our reputation for the secure handling of customer and other sensitive information is critical to the success of our business. We rely heavily on various proprietary and third party information systems. Although we have implemented safeguards and taken steps to prevent potential security breaches, our information technology and network infrastructure may be vulnerable to attacks by hackers or breaches due to employee error, malfeasance, cyber-attacks, computer viruses, power outages, natural disasters, acts of terrorism or other disruptions. Because techniques used to obtain unauthorized access or to sabotage systems change frequently and generally are not recognized until launched against a target, we may be unable to prevent these techniques or to implement adequate preventative measures. A successful breach of the security of our information systems could lead to theft or misuse of our customers' proprietary or confidential information and result in third party claims against us and reputational harm, all of which could adversely affect our businesses, financial condition or results of operations.

Our management depends on relevant and reliable information for decision making purposes, including key performance indicators and financial reporting. A lack of relevant and reliable information could preclude us from optimizing our overall performance. Any significant loss of data, failure to maintain reliable data, disruptions affecting our information systems, or delays or difficulties in transitioning to new systems could adversely affect our business, financial condition and results of operations. In addition, our ability to continue to operate our businesses without significant interruption in the event of a disaster or other disruption depends in part on the ability of our information systems to operate in accordance with our disaster recovery and business continuity plans. If our information systems fail and our redundant systems or disaster recovery plans are not adequate to address such failures, or if our business interruption insurance does not sufficiently compensate us for any losses that we may incur, our revenues and profits could be reduced and the reputation of our brands and our business could be adversely affected. In addition, remediation of such problems could result in significant, unplanned capital investments.

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Item 1B. Unresolved Staff Comments

None.

Item 2. Properties

We lease office space for our corporate offices in Lake Forest, Illinois. Domestically, we own or lease 111 processing facilities, which are primarily autoclaves for medical waste and shredders for secure information destruction. All of our processing facilities also serve as collection sites. We own or lease 209 additional transfer sites, 18 additional sales/administrative sites, and 59 other service facilities. Internationally, we own or lease 141 processing facilities, the majority of which use autoclave waste processing technology. We also own or lease 131 additional transfer sites, 50 additional sales/administrative sites, 43 other service facilities, and 3 landfills. We believe that these processing and other facilities are adequate for our present and anticipated future needs.

Item 3. Legal Proceedings

See Note 17 - Legal Proceedings in the Notes to the Consolidated Financial Statements (Item 8 of Part II).

Item 4. Mine Safety Disclosures

Not Applicable.

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Item 5. Market Price for the Registrant's Common Equity, Related Stockholder Matters, and Issuer Purchases of Equity Securities

The Company's common stock is listed on the NASDAQ Global Select Market under the ticker symbol "SRCL." There were 98 shareholders of record as of March 1, 2017.

We did not declare or pay any cash dividends during 2016 on our common stock. We currently expect that we will retain future earnings for use in the operation and expansion of our business and do not anticipate paying any cash dividends in the foreseeable future.

See Item 7 of Part II, "Management's Discussion and Analysis of Financial Condition and Results of Operations."

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

Quarter	High	Low
First quarter 2016	$126.19	$105.99
Second quarter 2016	128.20	93.27
Third quarter 2016	107.25	77.01
Fourth quarter 2016	80.09	71.61
First quarter 2015	$140.86	$130.10
Second quarter 2015	141.93	132.76
Third quarter 2015	148.26	132.33
Fourth quarter 2015	150.84	113.64

Under resolutions that our Board of Directors adopted, we have been authorized to purchase a cumulative total of 24,621,640 shares of our common stock on the open market. As of December 31, 2016, we had purchased a cumulative total of 21,251,733 shares.

The following table provides information about our purchases of shares of our common stock during the year ended December 31, 2016:

Issuer Purchases of Equity Securities

Period	Total Number of Shares Purchased	Average Price Paid per Share	Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number of Shares that May Yet Be Purchased Under the Plans or Programs
January 1 - January 31, 2016	277,952	$ 116.24	277,952	3,452,869

February 1 - February 28, 2016	50,000	107.69	50,000	3,402,869
March 1 - March 31, 2016	—	—	—	3,402,869
April 1 - April 30, 2016	14,387	94.75	14,387	3,388,482
May 1 - May 31, 2016	18,575	94.68	18,575	3,369,907
Total	360,914	$ 113.09	360,914	3,369,907

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Equity Compensation Plans

The following table summarizes information as of December 31, 2016 relating to our equity compensation plans pursuant to which stock option grants, restricted stock units ("RSUs") or other rights to acquire shares of our common stock may be made or issued:

Equity Compensation Plan Information

Plan Category	Number of Securities to be Issued Upon Exercise of Outstanding Options and Vesting of RSUs (a)	Weighted-Average Exercise Price of Outstanding Options (b)	Number of Securities Remaining Available for Future Issuance Under Equity Compensation Plans (Excluding Securities Reflected in Column (a)) (c)
Equity compensation plans approved by our security holders (1)	5,579,925	$ 97.14	2,524,588
Equity compensation plans not approved by our security holders (2)	3,645	$ 49.74	—

(1) These plans consist of our 2014 Incentive Compensation Plan, 2011 Incentive Compensation Plan, 2008 Incentive Stock Plan, 2005 Incentive Stock Plan, and the Employee Stock Purchase Plan.

(2) The only plan in this category is our 2000 Non-statutory Stock Option Plan. In 2000, our Board of Directors approved the 2000 Non-statutory Stock Option Plan (the "2000 Plan"), which authorized the granting of non-statutory stock options for 7,000,000 shares of our common stock to employees (but not to officers or directors). See Note 6 - Stock Based Compensation in the Notes to the Consolidated Financial Statements (Item 8 of Part II) for a description of this plan.

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Performance Graph

The following graph compares the cumulative total return (i.e., share price appreciation plus dividends) on our common stock over the five-year period ending December 31, 2016 with the cumulative total return for the same period on the NASDAQ National Market Composite Index, the S&P 500 Index, the Russell 3000 Index, and the Dow Jones US Waste & Disposal index. The graph assumes that $100 was invested on December 31, 2011 in our common stock and in the shares represented by each of the four indices, and that all dividends were reinvested.

The stock price performance of our common stock reflected in the following graph is not necessarily indicative of future performance.

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Item 6. Selected Financial Data

In thousands, except per share data

		Years Ended December 31,				
		2016	2015	2014	2013	2012
Statements of Income Data						
Revenues		$3,562,342	$2,985,908	$2,555,601	$2,142,807	$1,913,149
Depreciation and amortization		252,546	127,412	104,616	88,408	76,283
Income from operations		433,775	487,612	556,336	535,619	468,836
Mandatory convertible preferred stock dividend		39,414	10,106	—	—	—
Gain on repurchase of preferred stock		(11,285)	—	—	—	—
Net income attributable to Stericycle, Inc. common shareholders	(1)	178,230	256,940	326,456	311,372	267,996
Earnings per common share attributable to Stericycle, Inc. common shareholders - diluted	(1)	$2.08	$2.98	$3.79	$3.56	$3.08
Statements of Cash Flow Data						
Net cash flow provided by/(used for):						
Operating activities		$547,249	$390,328	$448,500	$405,307	$390,784
Investing activities		(195,606)	(2,533,904)	(462,774)	(234,972)	(288,928)
Financing activities		(363,255)	2,181,208	(30,049)	(136,019)	(91,526)
Balance Sheets Data						
Cash, cash equivalents and short-term investments		$44,251	$55,703	$22,616	$67,580	$35,163
Total assets	(2)	6,980,061	7,065,163	4,373,302	3,887,973	3,550,074
Long-term debt, net	(2)	2,877,315	3,040,352	1,527,246	1,280,663	1,268,303
Stericycle, Inc. equity		$2,805,737	$2,729,891	$1,895,012	$1,750,461	$1,541,793

(1) See Note 8 - Earnings per Common Share ("EPS") in the Notes to the Consolidated Financial Statements (Item 8 of Part II) for information concerning the computation of diluted EPS.

- In 2016, net income included the following after-tax effects: $83.5 million of amortization expenses, $6.3 million of expenses related to acquisitions, $55.2 million of expenses related to the integration of our acquisitions, $3.2 million of restructuring and plant conversion expenses, $7.9 million of litigation and professional services expenses, $17.9 million of expenses related to exit certain of our patient transport services contracts in the United Kingdom ("UK"), $26.2 million of asset impairment charges, a $3.1 million gain as a result of insurance settlement, and a $2.0 million gain related to the change in fair value of contingent consideration. The net effect of these adjusting items negatively impacted diluted EPS by $2.28.
- In 2015, net income included the following after-tax effects: $29.8 million of amortization expenses, $29.0 million of expenses related to acquisitions, $33.3 million of expenses related to the integration of our acquisitions, $15.9 million of restructuring and plant conversion expenses, $39.8 million of litigation settlement expense, $1.8 million of expense related to the write-down of intangible assets, and a $0.6 million gain related to the change in fair value of contingent consideration. The net effect of these adjusting items negatively impacted diluted EPS by $1.73.
- In 2014, net income included the following after-tax effects: $12.5 million of expenses related to acquisitions, $16.8 million of expenses related to the integration of our acquisitions, $10.1 million of plant conversion and restructuring expenses, $4.0 million of expense related to litigation expenses, and a $1.5 million gain related to the change in fair value of contingent consideration. The net effect of these adjusting items negatively impacted diluted EPS by $0.48.

- In 2013, net income included the following after-tax effects: $10.2 million of expenses related to acquisitions, $4.3 million of expenses related to the integration of our acquisitions, $1.8 million of restructuring and plant closure costs, $1.4 million of expense related to a litigation settlement, $1.3 million of expense related to the write-down of intangible assets, and a $2.2 million gain related to the change in fair value of contingent consideration. The net effect of these adjusting items negatively impacted diluted EPS by $0.19.

- In 2012, net income included the following after-tax effects: $7.8 million of expenses related to acquisitions, $3.1 million of expenses related to the integration of our acquisitions, $3.3 million of restructuring and plant closure costs, $3.7 million related to litigation settlement expense, $3.7 million loss related to the U.K. divestiture, and $0.8 million loss related to the change in fair value of contingent consideration. The net effect of these adjusting items negatively impacted diluted EPS by $0.26.

(2) To conform to the current period balance sheet presentation, we reclassified $12.3 million of debt issuance costs from other assets to long-term debt on the Consolidated Balance Sheet at December 31, 2015. No changes in presentation were made at December 31, 2014, 2013 and 2012.

Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations

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

Introduction

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

More specifically, our services and products include:

- Medical waste management services
- Reusable sharps disposal management services
- Pharmaceutical waste services
- Integrated Waste Stream Solutions ("IWSS") program
- Hazardous waste management services
- Sustainability and recycling services for expired or unused inventory
- Secure information destruction and hard drive destruction services
    - Compliance programs under the Steri-Safe®, Clinical Services, SeguriMed and EnviroAssure brand names
- Regulated recall and returns management communication, logistics, and data management services for expired, withdrawn or recalled products

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- Live voice and automated communication services including afterhours answering, appointment scheduling, appointment reminders, secure messaging, and event registration
- Mailback solutions for regulated medical waste, universal wastes, pharmaceutical wastes, and other specialty wastes

During 2016, we made certain changes to our organizational structure to integrate the domestic and international Shred-it operations. In Q2 2016, we also changed the composition of our operating segments to further align our compliance and communication services. Due to this change, part of our Domestic Regulated Waste and Compliance Services operating segment was combined with the legacy Domestic Regulated Recall and Returns Management Services operating segment to form a new operating segment, Domestic CRS.

In Q4 2016, we made an additional change to our organizational structure and management reporting. As a result of these changes, our Domestic RCS segment manager will now be responsible for the operations in Canada. The operations in Canada had previously been reported as part of the International RCS operating segment. As a result of these changes our Domestic RCS operating segment will now become Domestic and Canada RCS.

Domestic CRS does not meet the quantitative criteria to be a separate reportable segment and therefore is included in All other. Beginning in Q4 2016, costs related to our corporate headquarter functions are also included in All other.

Our three operating segments are:

- Domestic and Canada RCS,
- Domestic CRS, and
- International RCS.

The segment information included herein is presented in accordance with the change in reporting structure for all periods presented.

Critical Accounting Policies and Estimates

Our discussion and analysis of our financial condition and results of operations are based upon our consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States. The preparation of these financial statements requires that we make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses, and the related disclosure of contingent assets and liabilities.

An accounting policy is deemed to be critical if it requires an accounting estimate to be made based on assumptions about matters that are highly uncertain at the time the estimate is made, and if different estimates that reasonably could have been used, or changes in the accounting estimates that are reasonably likely to occur periodically, could materially impact the consolidated financial statements. Management believes its critical accounting policies that reflect its more significant estimates and assumptions are as follows:

Revenue Recognition: Revenues for our regulated medical waste management services, other than our compliances services, and secure information destruction services are recognized at the time of waste collection. Our compliance service revenues are recognized evenly over the contractual service period. Payments received in advance are deferred and recognized as services are provided. Revenues from hazardous waste services are recorded at the time waste is received at our processing facility or delivered to a third party. Revenues from regulated recall and returns management services and communication solutions are recorded at the time services are performed. Revenues from product sales are recognized at the time the goods are shipped to the ordering

customer. Charges related to sales taxes and international value added tax ("VAT") and other similar pass through taxes are not included as revenue.

Intangible Asset Valuations: The methods commonly used to value intangible assets we acquire are the income, market and cost approaches. The nature and characteristics of the asset indicate which approach is most appropriate. Based on the analysis performed by the Company, the fair values of intangible assets are generally estimated using acceptable income approaches.

A multi-period excess earnings method (“MPEEM”) is generally used to determine the fair value of customer relationships. The fair value is derived by calculating the present value of the estimated after-tax earnings attributable to the respective intangible assets. Key inputs and assumptions to the valuation model are forecasted after-tax cash-flows, the identification of contributory assets and the quantification of appropriate returns on these assets, the discount rate applied to present value the cash-flows and attrition rates. Determining an accurate consumption of benefits from acquired customer relationships cannot be reliably determined because the services we provide to acquired customers change from the base-line revenues over an extended period of time due to factors such as volume increase, price increase, and complementary service offerings. Therefore, we amortize our finite-lived intangible assets using the straight-line method consistent with our valuation model.

A relief from royalty method is generally used to determine the fair value of trade names. Key inputs and assumptions to the valuation model are a reasonable approximation of the license rate for the trade name, forecasted revenues and the discount rate applied to present value the after-tax stream of estimated royalties avoided by acquiring the trade name.

Tangible Asset Valuation: Trucks, containers and equipment are some of the major asset classes subject to revaluation as a result of our acquisitions. The indirect and direct methods of the cost approach and the market approach are used by the Company to value tangible personal property assets. Following is a description of the methodologies for estimating the fair value of the major tangible fixed asset classes:

- The market approach is used for the valuation of trucks. The market approach is based on market conditions and transactions. In the market approach, the assets being valued are compared to recent sales and/or asking prices of comparable properties or assets. In using similar units of comparison, adjustments are made to the comparable assets to account for factors such as condition, capacity, and age.
- The direct method of the cost approach is used in the valuation of containers. In the direct method of the cost approach, replacement cost new (“RCN”) is determined through current cost information obtained from original equipment manufacturers, equipment dealers and vendors, and independent research.
- The cost of reproduction new (“CRN”) of equipment is calculated using the indirect method of the cost approach. Historical equipment costs and dates are used to calculate the current CRN. In the indirect method of the cost approach, trend factors are applied to the historical costs to estimate the CRN of the assets. Time-adjusted trend factors are applied to historical costs using asset category specific cost indices published by industry sources. The CRN is then adjusted for physical deterioration and functional and economic obsolescence.

Goodwill and Other Identifiable Intangible Assets: We have historically evaluated goodwill for impairment annually as of June 30, or when an indicator of impairment exists. During 2016, we changed the date of our annual goodwill impairment assessment for our reporting units to October 1st. In addition, we changed our annual impairment test date for other indefinite-lived intangibles from December 31 to October 1. This voluntary change in the annual indefinite-lived intangible testing dates is a change in accounting principle, which we believe is preferable as it better aligns the timing of the annual goodwill impairment test with the timing of the Company’s annual strategic planning and forecasting process which occurs in Q3. The change in the other indefinite-lived intangible testing date aligns the testing of all indefinite-lived impairment testing to be as of a consistent date. The voluntary change in accounting principle related to the annual testing dates did not delay, accelerate or avoid an impairment charge. This change is not applied retrospectively as it is impracticable to do so because retrospective application would require application of significant estimates and assumptions with the use of hindsight. Accordingly, the change will be applied prospectively.

As discussed above, we changed the composition of our operating segments in 2016. Due to these changes, part of our Domestic RCS operating segment was combined with the legacy Domestic Regulated Recall and Returns Management Services operating segment to form a new operating segment, Domestic CRS in Q2 2016 and the Domestic RCS is now Domestic and Canada RCS. The operations in Canada had previously been reported as part of the International RCS operating segment.

During Q4, we determined that our former International RCS reporting unit should be disaggregated into three new reporting units for goodwill impairment testing purposes which is one level below the operating segment (referred to as a "component"). In addition, the four components of the Domestic and Canada RCS operating segment will now be the reporting units. This was primarily a result of some of the business and economic challenges we have recently faced in M&I and internationally. As a result of the changes, goodwill from the former International RCS reporting unit was reallocated to the four new reporting units including Canada based on their relative fair values. We completed a similar reallocation of goodwill for the new Domestic and Canada RCS reporting units.

Due to the establishment of the new reporting units during Q4 2016 and the change in our annual goodwill impairment testing date discussed above, we performed a goodwill impairment evaluation for all reporting units as of October 1, 2016. There was no impairment of goodwill because the fair value of those reporting units exceeded their carrying values. We also tested the former reporting units for goodwill impairment immediately prior to the establishment of the new reporting units and there was no impairment of goodwill.

We calculate the fair value of each of our reporting units using the income approach (including discounted cash flows) and validate those results using a market approach. The income approach uses expected future cash flows of each reporting unit and discounts those cash flows to present value. Expected future cash flows are calculated using management assumptions of growth rates, including long-term growth rates, capital expenditures, and cost efficiencies. Future acquisitions are not included in the expected future cash flows. We use a discount rate based on a calculated weighted average cost of capital which is adjusted for each of our reporting units based on size, country and company specific risk premiums.

The market approach compares the valuation multiples of similar companies to that of the associated reporting unit. We then reconciled the calculated fair values to our market capitalization.

The results of our 2016 goodwill impairment test using the market approach corroborated the results of the impairment test under the income approach and indicated the fair value of our reporting units exceeded their respective book values.

We have determined that our permits and certain tradenames have indefinite lives due to our ability to renew them with minimal additional cost, and therefore they are not amortized. The calculated fair value of our indefinite-lived intangibles is based upon, among other things, certain assumptions about expected future operating performance, internal and external processing costs, and an appropriate discount rate determined by management.

Based on our impairment test as of October 1, 2016, we recognized an impairment charge of $1.4 million within Selling, general and administrative expenses on our Consolidated Statements of Income.

Future changes in our assumptions or the interrelationship of the assumptions described above may negatively impact future valuations. In future measurements of fair value, adverse changes in assumptions could result in impairments of goodwill or other intangible assets that would require non-cash charges and may have a material effect on our financial condition and operating results.

Our finite-lived intangible assets are amortized over their useful lives using the straight-line method. We have determined that our customer relationships have useful lives from 5 to 40 years based upon the type of customer. We have covenants not-to-compete intangibles with useful lives from 5 to 14 years. We have tradename intangibles with useful lives from 10 to 40 years. These assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may be less than its undiscounted estimated future cash flows.

Environmental Remediation Liabilities: Our environmental remediation liabilities primarily include costs associated with remediating air, groundwater, surface water, soil contamination, and applicable legal costs. To estimate our ultimate liability at these sites, we evaluate several factors, including the nature and extent of contamination at each identified site, the required remediation methods, timing of expenditures, and the apportionment of responsibility among the potentially responsible parties ("PRPs") and the financial viability of those parties. We routinely review and evaluate sites that require remediation, considering whether we were an owner, operator, transporter, or generator at the site, that amount and type of waste hauled to the site and the number of years we were connected with the site. Next, we review the same information with respect to other named and unnamed PRPs. Estimates of the cost for the likely remedy are then either developed using our internal resources or by third party environmental engineers or other service providers.

Income Taxes: We are subject to income taxes in both the U.S. and numerous foreign jurisdictions. We compute our provision for income taxes using the asset and liability method, under which deferred tax assets and liabilities are recognized for the expected future tax consequences of temporary differences between the financial reporting and tax basis of assets and liabilities and for operating loss and tax credit carry-forwards. Deferred tax assets and liabilities are measured using the currently enacted tax rates that are expected to apply to taxable income for the years in which those tax assets and liabilities are expected to be realized or settled. Significant judgments are required in order to determine the realizability of these deferred tax assets. In assessing the need for a valuation allowance, we evaluate all significant available positive and negative evidence, including historical operating results, estimates of future taxable income and the existence of prudent and feasible tax planning strategies. Changes in the expectations regarding the realization of deferred tax assets could materially impact income tax expense in future periods. Undistributed earnings of foreign subsidiaries are considered to be permanently reinvested, and therefore no deferred taxes are recorded on our outside basis differences. Tax liabilities are recorded when, in management's judgment, a tax position does not meet the more likely than not threshold for recognition. For tax positions that meet the more likely than not threshold, a tax liability may still be recorded depending on management's assessment of how the tax position will ultimately be settled. The Company records interest and penalties on unrecognized tax benefits in the provision for income taxes.

Year Ended December 31, 2016 Compared to Year Ended December 31, 2015

Highlights for the year ended December 31, 2016 included the following:

- revenues grew to $3.56 billion, a 19.3% increase over $2.99 billion in 2015;
- gross profit as a percentage of revenue decreased to 42.2% in 2016 from 42.4% in 2015;
- operating income decreased 11.0% to $433.8 million from $487.6 million in 2015;
    - we incurred $164.5 million in pre-tax expenses related to acquisitions and integration expenses, litigation and professional services expenses, plant conversion expenses, contract exit costs, asset impairment charges, and a favorable change in the fair value of contingent consideration;
- amortization expense increased to $129.3 million from $45.5 million in 2015, primarily due to the completion of intangible valuations for our Shred-it acquisition resulting in a true-up of amortization expense;
- cash flows from operations were $547.2 million; and

- dividends of $39.4 million were paid during 2016 to holders of our Series A Preferred Stock.

During 2016, we made certain changes to our organizational structure to integrate the domestic and international Shred-it operations into our Domestic Regulated Waste and Compliance Services and International Regulated Waste and Compliance Services operating segments, respectively.

Our Canadian operations were integrated with domestic operations and are now reviewed as a new combined segment. Management determined that Stericycle’s Regulated Waste and Compliance Services operating segment changed so that the Canadian and Domestic Regulated Waste and Compliance Services operations form one segment (“Domestic and Canada RCS”) and the International Regulated Waste and Compliance Services segment now excludes Canada (“International RCS”).

We also changed the composition of our operating segments to further align our compliance and communication services. Due to this change, part of our Domestic Regulated Waste and Compliance Services operating segment was combined with the legacy Domestic Regulated Recall and Returns Management Services operating segment to form a new operating segment, Domestic Communication and Related Services does not meet the quantitative criteria to be a separate reportable segment and therefore is included in All other. Additionally, costs related to other business activities, primarily corporate headquarter functions, are disclosed separately from the operating segments and is also included in All other.

Our sales organization was realigned to focus on growing our healthcare customer base, expanding national account relationships, converting the un-vended secure information destruction market and expanding our multiple services across new and existing customers.

We also established one field operations management organization for our regulated waste, compliance services and secure information destruction services. By having these operations aligned under one leadership team, we will drive best practices across the organization and provide best-in-class service to our customers. This will also enable us to drive long-term efficiencies and margin improvement. In addition, we have combined our recall and communication solutions services under one operating segment. Since a large portion of our recall services is call center related, we have consolidated the operations, sales and marketing and client service functions under one leadership team.

Finally, we are developing a long-term plan to expand our shared services model across all of our services. Some of these shared services include IT, financial support, human resources and strategic sourcing. When fully implemented, this plan will enable us to better leverage best practices and SG&A. We believe this will allow us to better serve our customers and provide long-term sustainable growth.

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The following summarizes the Company’s operations:

In thousands, except per share data

	Years Ended December 31,			
	2016		2015	
	$	%	$	%
Revenues	$3,562,342	100.0	$2,985,908	100.0
Cost of revenues	1,962,801	55.1	1,656,573	55.5
Depreciation - cost of revenues	88,546	2.5	61,642	2.1
Contract exit costs	8,281	0.2	—	0.0
Plant conversion expenses	760	0.0	1,508	0.1
Total cost of revenues	2,060,388	57.8	1,719,723	57.6
Gross profit	1,501,954	42.2	1,266,185	42.4
Selling, general and administrative expenses (exclusive of adjusting items shown below)	748,671	21.0	539,944	18.1
Acquisition expenses	9,646	0.3	39,138	1.3
Integration expenses	87,587	2.5	51,689	1.7
Litigation and professional services expenses	12,904	0.4	59,651	2.0
Change in fair value of contingent consideration	(2,051)	(0.1)	(640)	—
Restructuring and plant conversion expenses	3,226	0.1	21,240	0.7
Contract exit costs	15,724	0.4	—	0.0
Asset impairment charges	28,472	0.8	1,781	0.1
Total SG&A expenses (exclusive of depreciation and amortization shown below)	904,179	25.4	712,803	23.9
Depreciation	34,700	1.0	20,272	0.7
Amortization	129,300	3.6	45,498	1.5
Income from operations	433,775	12.2	487,612	16.3
Net interest expense	97,709	2.7	77,274	2.6
Other (income)/expense, net	7,921	0.2	(569)	—
Income tax expense	120,246	3.4	142,894	4.8
Net income	207,899	5.8	268,013	9.0
Less: net income attributable to noncontrolling interests	1,540	—	967	—
Net income attributable to Stericycle, Inc.	206,359	5.8	267,046	8.9
Mandatory convertible preferred stock dividend	39,414	1.1	10,106	0.3
Gain on repurchase of preferred stock	(11,285)	(0.3)	—	0.0
Net income attributable to Stericycle, Inc. common shareholders	$178,230	5.0	$256,940	8.6
Earnings per share- diluted	$2.08		$2.98	

Revenues: In analyzing our Company’s performance, it is necessary to understand that our various regulated services share a common infrastructure and customer base. We market our regulated and compliance services by offering various pricing options to meet our customers’ preferences, and customers move between these different billing paradigms. For example, our customers may contract with us for "Medical Waste Disposal" services that are billed based on the weight of waste collected, processed and disposed during a particular period, and in a subsequent period, the same customer could move to our standard service ("Steri-Safe OSHA Compliance Program"), which packages the same regulated medical waste services with some training and education services for a contracted subscription fee. Another example is a customer that purchases our "Medical Waste Disposal" and "Sharps Disposal Management" services which provides the customer with the same regulated services under a different pricing and billing arrangement. We do not track the movement of customers between the various types of regulated services we offer. Although we can identify directional trends in our services, because the regulated services are similar in nature and there are inherent inaccuracies in disaggregation, we believe that aggregating these revenues communicates the appropriate metric. We analyze our revenue growth by identifying changes related to organic growth, acquired growth, and changes due to currency exchange fluctuations.

Our consolidated revenues increased $576.4 million, or 19.3%, to $3.56 billion from $2.99 billion in 2015. Overall organic revenue growth contributed $94.6 million, or 3.2% in revenues. Organic growth excludes the effect of foreign exchange and acquisitions and divestitures with less than a full year of revenues in the comparative period. Revenues from acquisitions contributed $570.1 million to the increase in revenues in 2016. Divestitures negatively impacted current year revenues by $0.2 million. The effect of foreign exchange rates unfavorably impacted total revenues in 2016 by $88.0 million, or 2.9%, as foreign currencies declined against the U.S. dollar.

Domestic and Canada Regulated Waste and Compliance Services (“Domestic and Canada RCS”) revenues increased $509.7 million, or 25.5%, to $2.51 billion from $2.00 billion in 2015. Acquisitions contributed $476.1 million, and organic growth contributed $35.8 million, or 1.8% in revenues. The Canadian dollar weakened and negatively affected 2016 revenue by $2.3 million. Services related to Manufacturing and Industrial (“M&I”) waste experienced a reduction of $15.0 million negatively impacting overall organic growth by 1.7%. This reduction was due to fewer on call services (project work) and softness in the U.S. M&I market. In addition, we have experienced pricing pressure on our small quantity regulated waste and compliance customers resulting from hospital consolidation of physician practices and increased competitive activities in the market.

International Regulated Waste and Compliance Services (“International RCS”) revenues increased $34.9 million, or 4.9%, to $751.7 million from $716.8 million in 2015. Organic growth, currency rate fluctuations and acquisitions impact the comparison of 2016 and 2015. Organic growth in the International RCS segment contributed $33.1 million in revenues, or 4.6%. The costs we incurred to exit certain of our patient transport services contracts in the UK negatively impacted our organic growth in 2016. Organic growth excludes the effect of foreign exchange and acquisitions and divestitures with less than a full year of revenues in the comparative period. The effect of foreign exchange rates unfavorably impacted international revenues in 2016 by $85.7 million, or 12.0%, as foreign currencies declined against the U.S. dollar. Revenue from international acquisitions contributed $87.8 million to the increase in revenues in 2016. Divestitures negatively impacted current year revenues by $0.2 million.

Other revenues related to Domestic Communication and Related Services increased $31.9 million, or 11.8%, to $301.8 million from $269.9 million in 2015, primarily driven by a significant recall event in Q4 2016.

Cost of Revenues: Our consolidated 2016 cost of revenues increased $340.7 million, or 19.8%, to $2.06 billion from $1.72 billion in 2015. As a percentage of revenues, consolidated gross profit was 42.2% in 2016 as compared to 42.4% in 2015. We incurred $0.8 million and $1.5 million in plant conversion expenses during the years ended December 31, 2016 and 2015, respectively. In 2016, we also incurred $8.3 million in costs to exit certain of our patient transport services contracts in the UK. In general, international gross profit is lower than domestic gross profits because the international operations have fewer small account customers, which tend to provide higher gross profits. Historically, our international operations generate most of their revenues from large account customers, such as hospitals. As our international revenues increase as a percentage of consolidated revenues, consolidated gross profit experiences downward pressure due to this "business mix" shift, which may be offset by additional international small account market penetration, integration savings, and domestic business expansion.

Domestic and Canada RCS cost of revenues increased $297.1 million, or 27.3%, to $1.38 billion from $1.09 billion in 2015. Gross profit as a percentage of revenues decreased to 44.8% in 2016 from 45.6% in 2015 primarily due to less than anticipated revenues from our M&I customers, which have a higher fixed cost structure. Additionally, higher disposal costs for some of our industrial waste project work in the year unfavorably impacted domestic gross profit.

International RCS cost of revenues increased $36.7 million, or 7.6%, to $523.2 million from $486.4 million in 2015. International gross profit as a percentage of revenues decreased to 30.4% in 2016 from 32.1% in 2015 due to the negative impact of higher costs related to servicing certain government contracts and charges incurred to exit some of the contracts in our UK patient transport services business, partially offset by the inclusion of the 2015 Shred-it acquisition, which has a higher average gross profit. In addition, our international gross profit was negatively impacted by the inability to pass full costs on to customers in areas of high inflation.

Selling, General and Administrative Expenses Exclusive of Adjusting Items, Depreciation and Amortization ("SG&A"): Our consolidated SG&A expenses increased $208.7 million, or 38.7%, to $748.7 million from $539.9 million in 2015 to support our increase in revenues and the inclusion of the 2015 Shred-it acquisition. During the Q4 2016, we increased our allowance for doubtful accounts due to market and economic conditions as we continued to experience challenges internationally and in our M&I waste services.

Domestic and Canada RCS SG&A expenses increased $147.3 million, or 53.7%, to $421.4 million from $274.2 million in 2015 primarily related to the inclusion of the 2015 Shred-it acquisition, increased compensation and marketing expenses, and an increase in our allowance for doubtful accounts based on our historical collection experience. As a percentage of revenues, SG&A increased to 16.8% in 2016 as compared to 13.7% in 2015.

International RCS SG&A expenses increased $34.7 million, or 25.0%, to $173.4 million from $138.7 million in 2015. As a percentage of revenues, SG&A increased to 23.1% in 2016 as compared to 19.3% in 2015. The following factors negatively impacted our international SG&A during 2016: the inclusion of the 2015 Shred-it acquisition, increased compensation expense in support of new business growth opportunities, and an increase in our allowance for doubtful accounts driven by market and economic conditions as we continued to experience challenges in International RCS.

Income from Operations: Consolidated income from operations decreased by $53.8 million, or 11.0%, to $433.8 million from $487.6 million in 2015. Comparison of income from operations between 2016 and 2015 was affected by the Adjusting Items described below.

During the year ended December 31, 2016, we recognized $9.6 million in acquisition expenses, $87.6 million of expenses related to the integration of our acquisitions, mainly Shred-it, $12.9 million in litigation and professional services expenses, $4.0 million in plant conversion expense, $24.0 million of costs to exit certain of our patient transport services contracts in the UK, $28.5 million of asset impairment charges mostly from write-down of certain assets in the UK either sold for a loss or classified as assets held for sale as of December 31, 2016, and a $2.1 million favorable change in fair value of contingent consideration.

During the year ended December 31, 2015, we recognized $39.1 million in acquisition expenses, most of which related to the acquisition of Shred-it, $51.7 million of expenses related to the integration of our acquisitions, $59.7 million in litigation expenses (mostly due to the $28.5 million settlement of the Qui Tam Action and the $28.2 million settlement of the Junk Fax Lawsuit), $22.7 million in restructuring and plant conversion expenses, $1.8 million of intangible asset impairment, and a $0.6 million favorable change in the fair value of contingent consideration.

Consolidated depreciation and amortization expense increased to $252.5 million in 2016 compared to $127.4 million in 2015, primarily due to the inclusion of the Shred-it acquisition, which has a higher level of depreciation expense, and to the completion of the customer relationships intangible valuation related to the Shred-it acquisition resulting in a true-up of amortization expense. As a percentage of revenue, depreciation and amortization expense increased to 7.1% as compared to 4.3% in 2015.

Domestic and Canada RCS income from operations increased $31.9 million, or 6.3%, to $536.6 million from $504.7 million in 2015.

During the year ended December 31, 2016, we recognized $56.0 million in acquisition, integration, and plant conversion expenses.

During the year ended December 31, 2015, we recognized $104.0 million in acquisition, integration, restructuring, litigation expense, and intangible asset impairment charges.

Domestic and Canada RCS depreciation and amortization expense increased to $169.4 million in 2016 compared to $65.8 million in 2015, primarily due to the inclusion of the Shred-it acquisition, which has a higher level of depreciation expense, and to the completion of the customer relationships intangible valuation related to the Shred-it acquisition resulting in a true-up of amortization expense. As a percentage of revenue, depreciation and amortization expense increased to 6.8% as compared to 3.3% in 2015.

International RCS income from operations decreased $77.2 million to $28.0 million loss from $49.2 million income in 2015.

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During the year ended December 31, 2016, we recognized $51.2 million in acquisition, integration, plant conversion expenses, costs to exit certain of our UK patient transport services contracts, asset impairments charges mostly from the write-down of certain assets in the UK either sold for a loss or classified as assets held for sale as of December 31, 2016, and a favorable change in the fair value of contingent consideration.

During the year ended December 31, 2015, we recognized $23.4 million in acquisition, integration, restructuring and plant conversion expenses, a favorable adjustment to litigation expenses, and a favorable change in the fair value of contingent consideration.

International RCS depreciation and amortization expense increased to $60.8 million in 2016 compared to $42.3 million in 2015, primarily due to the inclusion of the Shred-it acquisition, which has a higher level of depreciation expense, and to the completion of the customer relationships intangible valuation related to the Shred-it acquisition resulting in a true-up of amortization expense. As a percentage of revenues, depreciation and amortization expense increased to 8.1% in 2016 as compared to 5.9% in 2015.

Net Interest Expense: Net interest expense increased to $97.7 million during 2016 from $77.3 million in 2015, due to increased borrowings to fund the acquisition of Shred-it in Q4 2015.

Income Tax Expense: Income tax expense decreased to $120.2 million during 2016 from $142.9 million during 2015. The effective tax rates for the years 2016 and 2015 were 36.6% and 34.8%, respectively. The increase in the current year tax rate, when compared to the prior year, is primarily related to the recognition of tax benefits in 2015 as well as a higher proportion of pre-tax income in the United States which has a higher statutory tax rate, compared to international operations.

Year Ended December 31, 2015 Compared to Year Ended December 31, 2014

We have revised our 2015 10-K disclosure to align with the 2016 change in segments.

Highlights for the year ended December 31, 2015 included the following:

- revenues grew to $2.99 billion, a 16.8% increase over $2.56 billion in 2014;
- gross margins decreased to 42.4% in 2015 from 42.8% in 2014;
- operating income decreased 12.4% to $487.6 million from $556.3 million in 2014;
- we incurred $174.4 million in pre-tax expenses related to acquisitions, integration expenses related to acquisitions, restructuring and plant conversion expenses, litigation settlement expense, impairment of intangible assets, and a favorable change in the fair value of contingent consideration;
- cash flows from operations were $390.3 million;
- the acquisition of Shred-it, the largest acquisition in Stericycle's history, was completed on October 1, 2015. The aggregate purchase price was $2.3 billion in cash and funded as follows:
  - o we borrowed $1.30 billion under a Term Loan Credit Facility on October 1, 2015 to fund a portion of the purchase price paid for Shred-it
  - o net proceeds of $746.9 million were received from a registered public offering of Series A mandatory convertible preferred stock completed on September 15, 2015 to fund a portion of the purchase price paid for Shred-it
  - o we issued and sold $300 million of our new six-year and eight-year unsecured senior notes
- dividends of $10.1 million were paid on December 15, 2015 to holders of our Series A Preferred Stock.

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The following summarizes the Company’s operations:

In thousands, except per share data

	Years Ended December 31,			
	2015		2014	
	$	%	$	%
Revenues	$2,985,908	100.0	$2,555,601	100.0
Cost of revenues	1,656,573	55.5	1,401,797	54.9
Depreciation - cost of revenues	61,642	2.1	56,478	2.2
Plant conversion expenses	1,508	0.1	2,915	0.1
Total cost of revenues	1,719,723	57.6	1,461,190	57.2
Gross profit	1,266,185	42.4	1,094,411	42.8
Selling, general and administrative expenses (exclusive of adjusting items shown below)	539,944	18.1	433,865	17.0
Acquisition expenses	39,138	1.3	13,333	0.5
Integration expenses	51,689	1.7	25,968	1.0
Litigation and professional services expenses	59,651	2.0	6,574	0.3
Change in fair value of contingent consideration	(640)	—	(1,452)	(0.1)
Restructuring and plant conversion expenses	21,240	0.7	11,649	0.5
Asset impairment charges	1,781	0.1	—	0.0
Total SG&A expenses (exclusive of depreciation and amortization shown below)	712,803	23.9	489,937	19.2
Depreciation	20,272	0.7	15,446	0.6
Amortization	45,498	1.5	32,692	1.3
Income from operations	487,612	16.3	556,336	21.8
Net interest expense	77,274	2.6	66,022	2.6
Other (income)/expense, net	(569)	—	2,746	0.1
Income tax expense	142,894	4.8	159,422	6.2
Net income	268,013	9.0	328,146	12.8
Less: net income attributable to noncontrolling interests	967	—	1,690	0.1
Net income attributable to Stericycle, Inc.	267,046	8.9	326,456	12.8
Mandatory convertible preferred stock dividend	10,106	0.3	—	—
Net income attributable to Stericycle, Inc. common shareholders	$256,940	8.6	$326,456	12.8
Earnings per share- diluted	2.98		3.79	

Revenues: Our consolidated revenues increased $430.3 million, or 16.8%, to $2.99 billion from $2.56 billion in 2014. Overall organic revenue growth contributed $162.0 million, or 6.5% in revenues. Revenues from acquisitions contributed $378.5 million to the increase in revenues in 2015. The effect of foreign exchange rates unfavorably impacted total revenues in 2015 by $110.2 million, or 4.3%, as foreign currencies declined against the U.S. dollar.

Domestic and Canada RCS revenues increased $331.8 million, or 19.9%, to $2.00 billion from $1.67 billion in 2014. Acquisitions contributed $265.8 million, and organic growth contributed $82.5 million, or 4.9% in revenues. Canadian dollar weakened and negatively affected 2015 revenue by $16.5 million. Services related to M&I waste experienced a reduction of $13.5 million negatively impacting overall organic growth by 0.8%. This reduction was due lower fuel surcharges as well as lower hazardous waste volume from our industrial customers.

International RCS revenues increased $52.9 million, or 8.0%, to $716.8 million from $663.9 million in 2014. Organic growth, currency rate fluctuations and acquisitions impact the comparison of 2015 and 2014. Organic growth in the International RCS segment contributed $59.9 million in revenues, or 9.0%. The effect of foreign exchange rates unfavorably impacted international revenues in 2015 by $93.7 million, or 14.1%, as foreign currencies declined against the U.S. dollar. Revenue from international acquisitions contributed $86.7 million to the increase in revenues in 2015.

Other revenues related to Domestic Communication and Related Services increased $45.6 million, or 20.3%, to $269.9 million from $224.4 million in 2014.

Cost of Revenues: Our consolidated 2015 cost of revenues increased $258.5 million, or 17.7%, to $1.72 billion from $1.46 billion in 2014. As a percentage of revenues, consolidated gross profit was 42.4% in 2015 as compared to

42.8% in 2014. We incurred $1.5 million and $2.9 million in plant conversion expenses during the years ended December 31, 2015 and 2014, respectively.

Domestic and Canada RCS cost of revenues increased $192.1 million, or 21.5%, to $1.09 billion from $894.8 million in 2014. Gross profit as a percentage of revenues decreased to 45.6% in 2015 from 46.3% in 2014 primarily due to higher operating costs related to the current and more stringent compliance requirements for medical waste incinerators under Title V. Additionally, less than anticipated revenues from our industrial customers, which have a higher fixed cost structure, unfavorably impacted gross margins.

International RCS cost of revenues increased $38.9 million, or 8.7%, to $486.4 million from $447.5 million in 2014. Gross profit as a percentage of revenues decreased to 32.1% in 2015 from 32.6% in 2014 due to a foreign exchange impact on a profitability mix as we experienced unfavorable foreign exchange impact primarily in areas with higher profitability. Similarly, we experienced higher compensation costs in areas of high inflation.

SG&A: Our consolidated SG&A expenses increased $106.0 million, or 24.4%, to $539.9 million from $433.9 million in 2014 to support our increase in revenues and the inclusion of our 2015 acquisitions, mainly Shred-it. As a percentage of revenues, these costs increased to 18.1% in 2015 as compared to 17.0% in 2014.

Domestic and Canada RCS SG&A expenses increased $96.0 million, or 53.8%, to $274.2 million from $178.2 million in 2014 primarily related to increased healthcare benefit costs, higher professional fees, and increased investments for growth and the inclusion of the Shred-it acquisition in 2015. As a percentage of revenues, SG&A increased to 13.7% in 2015 as compared to 10.7% in 2014.

International RCS SG&A expenses increased $23.5 million, or 17.0%, to $138.7 million from $115.2 million in 2014. As a percentage of revenues, SG&A increased to 19.3% in 2015 as compared to 17.3% in 2014 primarily related to compensation expenses in support of new business growth opportunities and the inclusion of the Shred-it acquisition in 2015.

Income from Operations: Consolidated income from operations decreased by $68.7 million, or 12.4%, to $487.6 million from $556.3 million in 2014. Comparison of income from operations between 2015 and 2014 was affected by the Adjusting Items described below.

In Q1 2015, management began executing a realignment of our operations to reduce labor redundancies and facility costs. As part of this realignment, the Company recorded charges related to severance, fixed asset impairment, intangible asset impairment, and recognition of lease expense for properties no longer used but for which we have a contractual obligation.

During the year ended December 31, 2015, we recognized $59.7 million in litigation expenses (mostly due to the $28.5 million settlement of the Qui Tam Action and the $28.2 million settlement of the Junk Fax Lawsuit), $39.1 million in acquisition expenses, most of which related to the 2015 acquisition of Shred-it, $51.7 million of expenses related to the integration of our acquisitions, most of which relates to the acquisition of Shred-it, $22.7 million in restructuring and plant conversion expenses, $1.8 million of impairment charges on intangible assets, and a $0.6 million favorable change in the fair value of contingent consideration.

During the year ended December 31, 2014, we recognized $13.3 million in acquisition expenses, $26.0 million of expenses related to the integration of our acquisitions, $14.6 million in plant conversion and restructuring expenses related to the impairment of permit intangibles in support of plant rationalization and new plant startup costs, $6.6 million in litigation expenses, partially offset by a $1.5 million gain related to a change in the fair value of contingent consideration.

Consolidated depreciation and amortization expense increased to $127.4 million in 2015 compare to $104.6 million in 2014, primarily due to the inclusion of the Shred-it acquisition in the last quarter of 2015. As a percentage of revenue, depreciation and amortization expense increased to 4.3% as compared to 4.1% in 2014.

Domestic and Canada RCS income from operations decreased $53.9 million, or 9.7%, to $504.7 million from $558.6 million in 2014.

During the year ended December 31, 2015, we recognized $104.0 million in acquisition, integration, restructuring, litigation expense, and intangible asset impairment charges.

During the year ended December 31, 2014, we recognized $20.0 million in acquisition, integration, restructuring and plant conversion expenses.

Domestic and Canada RCS depreciation and amortization expense increased to $65.8 million in 2015 compare to $44.9 million in 2014, primarily due to the inclusion of the Shred-it acquisition in the last quarter of 2015. As a percentage of revenue, depreciation and amortization expense increased to 3.3% as compared to 2.2% in 2014.

International RCS income from operations decreased $17.4 million, or 26.2%, to $49.2 million from $66.6 million in 2014.

During the year ended December 31, 2015, we recognized $23.4 million in acquisition, integration, restructuring and plant conversion expense, a favorable adjustment to litigation expenses, and a favorable change in the fair value of contingent consideration.

During the year ended December 31, 2014, we recognized $18.6 million in acquisition, integration, restructuring and plant conversion expenses, and a favorable change in the fair value of contingent consideration.

International RCS depreciation and amortization expense increased to $42.3 million in 2015 compare to $41.5 million in 2014, primarily due to the inclusion of the Shred-it acquisition in the last quarter of 2015. As a percentage of revenue, depreciation and amortization expense increased to 5.9% as compared to 5.8% in 2014.

Net Interest Expense: Net interest expense increased to $77.3 million during 2015 from $66.0 million in 2014, due to increased borrowings to fund the acquisition of Shred-it in Q4 2015, as well as higher interest costs in Latin America.

Income Tax Expense: Income tax expense decreased to $142.9 million during 2015 from $159.4 million during 2014. The reported tax rates for the years 2015 and 2014 were 34.8% and 32.7%, respectively. The increase in the current year tax rate when compared to the prior year, is primarily related to an increase in the state tax rate, partially offset by a benefit from the recognition of tax deductible goodwill associated with entity mergers in Spain, Brazil, and Chile in the prior year.

Liquidity and Capital Resources:

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

$1.2 billion senior credit facility weighted average rate 2.14%, due in 2019
$1.0 billion term loan weighted average rate 2.07%, due in 2020
$175 million private placement notes 3.89%, due in 2017
$125 million private placement notes 2.68%, due in 2019
$225 million private placement notes 4.47%, due in 2020

$150 million private placement notes 2.89%, due in 2021
$125 million private placement notes 3.26%, due in 2022
$200 million private placement notes 2.72%, due in 2022
$100 million private placement notes 2.79%, due in 2023
$150 million private placement notes 3.18%, due in 2023

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

At December 31, 2016, we had $407.1 million of borrowings outstanding under our $1.20 billion senior unsecured credit facility, which includes foreign currency borrowings of $120.9 million. We also had $138.0 million outstanding letters of credit under this facility. The unused portion of the revolving credit facility at December 31, 2016 was $654.9 million. At December 31, 2016, our interest rates on borrowings under our revolving credit facility were as follows:

- A fee of 0.2% on our revolving credit facility
- For borrowings less than one month, prime rate plus 0.3%
- For borrowings greater than one month: LIBOR plus 1.3%

The weighted average rate of interest on the unsecured revolving credit facility was 2.14% per annum, which includes the 0.2% facility fee at December 31, 2016.

As of December 31, 2016, we had $1.0 billion outstanding under our term loan credit facility. The weighted average rate of interest on the unsecured term loan facility was 2.07% per annum.

As of December 31, 2016, we had $175.0 million of seven-year 3.89% unsecured senior notes and $225.0 million of 10-year 4.47% unsecured senior notes outstanding issued to 39 institutional purchasers in a private placement completed in October 2010. Interest is payable in arrears semi-annually on April 15 and October 15 beginning on April 15, 2011, and principal is payable on October 15, 2017 for the seven-year notes and October 15, 2020 for the 10-year notes. We have classified our $175.0 million private placement notes that mature in October 2017 as long-term debt due to our intent to settle this obligation by borrowing on our $1.2 billion senior credit facility due in 2019.

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

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

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

As of December 31, 2016, we had $191.6 million in promissory notes outstanding issued in connection with acquisitions during 2008 through 2016, $99.4 million in foreign subsidiary bank debt outstanding, and $11.1 million in capital lease obligations.

Working Capital: At December 31, 2016, our working capital increased $56.3 million to $230.8 million compared to $174.5 million at December 31, 2015.

Current assets increased by $11.8 million, driven by a $20.4 million increase in accounts receivable, offset by an $11.4 million reduction in cash. Days sales outstanding ("DSO") was 64 days at December 31, 2016 and 2015.

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Current liabilities decreased by $44.5 million in 2016, primarily related to an $88.6 million decrease in the current debt, offset by a $31.2 million increase in accrued liabilities.

Net Cash Provided or Used: Net cash provided by operating activities increased $156.9 million, or 40.2%, to $547.2 million during 2016 from $390.3 million in 2015. Cash provided by operations as a ratio to net income in 2016 and 2015 was 263% and 146%, respectively.

On January 1, 2016, the Company adopted the guidance in Accounting Standards Update ("ASU") No. 2016-09, "Compensation - Stock Compensation (Topic 718) - Improvements to Employee Share-Based Payment Accounting." ASU 2016-09 requires that all income tax-related cash flows resulting from share-based payments be reported as operating activities in the statement of cash flows. Previously, income tax benefits at settlement of an award were reported as a reduction to operating cash flows and an increase to financing cash flows to the extent that those benefits exceeded the income tax benefits reported in earnings during the award's vesting period. The Company has elected to apply that change in cash flow classification on a prospective basis, leaving previously reported net cash provided by operating activities and net cash used in financing activities in the accompanying Consolidated Statements of Cash Flows for the period ended December 31, 2015 unchanged.

Net cash used in investing activities during 2016 was $195.6 million compared to $2.53 billion in 2015. We used $2.3 billion to acquire Shred-it in October 2015. Our capital expenditures increased by $21.4 million in 2016 and, as percentage of revenues, were at 3.8% in 2016 and 2015.

Net cash used in financing activities was $363.3 million during 2016 compared to $2.18 billion net cash provided by financing activities in 2015. In September 2015, we completed a registered public offering of Series A mandatory convertible preferred stock for total gross proceeds of $770.0 million, or $746.9 million net of $23.1 million for underwriting discounts, commissions and expenses. We used the net proceeds from this offering to fund a portion of the purchase price paid for our acquisition of Shred-it. In 2016, we repaid $178.4 million, net, of our senior credit facility and term loan facility. This compares to $1.25 billion of net proceeds from our new term loan and $500.0 million of net proceeds from our private placement notes, which were used to fund our 2015 acquisitions including Shred-it in October 2015. We had common and preferred share repurchases of $71.7 million in 2016 compared to $130.6 million in 2015. Dividends of $39.4 million were paid during 2016 to holders of our Series A Preferred Stock.

Contractual Obligations

The following table summarizes our significant contractual obligations and cash commitments at December 31, 2016:

Payments due by period (dollars in thousands)

	Total	2017	2018-2019	2020-2021	2022 and After
Recorded Obligations:					
Covenants not-to-compete agreements	$750	$—	$375	$375	$—
Expected environmental liabilities (1)	30,857	2,448	5,822	4,473	18,114
Total debt (2)	2,959,316	72,822	1,257,265	1,043,359	585,870
Unrecorded Obligations:	—				
Interest on debt and capital leases (3)	304,724	83,981	137,023	63,087	20,633
Non-cancelable operating lease obligations (4)	458,087	116,473	174,802	103,429	63,383
Unconditional purchase obligations (5)	80,054	31,840	32,359	15,855	—

Total contractual cash obligations	$3,833,788	$307,564	$1,607,646	$1,230,578	$688,000

(1) Environmental liabilities are presented above on an undiscounted basis and are associated with identified sites where an assessment has indicated that cleanup costs are probable and can be reasonably estimated but the timing of such payments is not fixed and determinable.

(2) These amounts represent the scheduled principal payments related to our long-term debt and capital leases, excluding interest.

(3) Interest on our fixed-rate debt was calculated based on contractual rates. Interest on debt with floating interest rates requires the use of management judgment to estimate the future rates of interest.
(4) Operating lease obligations include various plant equipment, office furniture and equipment, motor vehicles, office and warehouse space, and landfill leasing arrangements. Operating lease obligations expire at various dates with the latest maturity in 2035.
(5) Purchase obligations primarily represent noncancelable contractual obligations related to information technology products and services that we generally incur in the ordinary course of our business.

Payments for unrecognized tax benefits are excluded from contractual obligations. Based on the uncertain nature of our liability for unrecognized tax benefits, we are unable to make an estimate of the period of potential settlement, if any, with the applicable taxing authorities.

At December 31, 2016, we had $138.0 million of outstanding stand-by letters of credit.

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

Item 7A. Quantitative and Qualitative Disclosures about Market Risk

We are subject to market risks arising from changes in interest rates. Our potential additional interest expense over one year that would result from a hypothetical, instantaneous and unfavorable change of 100 basis points in the interest rate on all of our variable rate obligations would be approximately $15.1 million on a pre-tax basis.

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

We have exposure to foreign currency fluctuations. We have subsidiaries in twelve foreign countries whose functional currency is the local currency. Our international subsidiaries use local currency denominated lines of credit for their funding needs. We translate results of operations of our international operations using an average exchange rate. Changes in foreign currency exchange rates could unfavorably impact our consolidated results of operations.

PART II

Item 8. Financial Statements and Supplementary Data

Report of Independent Registered Public Accounting Firm

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

We have audited the accompanying consolidated balance sheets of Stericycle, Inc. and Subsidiaries as of December 31, 2016 and 2015, and the related consolidated statements of income, comprehensive income, changes in equity, and cash flows for each of the three years in the period ended December 31, 2016. Our audits also included the financial statement schedule listed in the Index at Item 15(a). These financial statements and schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and schedule based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Stericycle, Inc. and Subsidiaries at December 31, 2016 and 2015, and the consolidated results of their operations and their cash flows for each of the three years in the period ended December 31, 2016, in conformity with U.S. generally accepted accounting principles. Also, in our opinion, the related financial statement schedule, when considered in relation to the basic financial statements taken as a whole, presents fairly in all material respects the information set forth therein.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), Stericycle Inc. and Subsidiaries' internal control over financial reporting as of December 31, 2016, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) and our report dated March 14, 2017 expressed an adverse opinion thereon.

/s/ Ernst & Young LLP

Chicago, Illinois

March 14, 2017

PART II

STERICYCLE, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

In thousands, except share and per share data

	December 31, 2016	December 31, 2015
ASSETS		
Current Assets:		
Cash and cash equivalents	$44,189	$55,634
Short-term investments	62	69
Accounts receivable, less allowance for doubtful accounts of $49,645 in 2016 and $22,329 in 2015	634,902	614,494
Prepaid expenses	46,214	46,740
Assets held for sale	9,134	—
Other current assets	39,117	44,891
Total Current Assets	773,618	761,828
Property, plant and equipment, less accumulated depreciation of $495,215 in 2016 and $426,019 in 2015	723,894	665,602
Goodwill	3,591,020	3,758,177
Intangible assets, less accumulated amortization of $271,568 in 2016 and $151,025 in 2015	1,861,973	1,842,561
Other assets	29,556	36,995
Total Assets	$6,980,061	$7,065,163
LIABILITIES AND EQUITY		
Current Liabilities:		
Current portion of long-term debt	$72,822	$161,409
Accounts payable	152,881	149,202
Accrued liabilities	228,526	197,329
Deferred revenues	17,902	16,989
Liabilities held for sale	2,858	—
Other current liabilities	67,864	62,420
Total Current Liabilities	542,853	587,349
Long-term debt, net	2,877,315	3,040,352
Deferred income taxes	645,371	608,272
Other liabilities	98,136	81,352
Equity:		
Preferred stock (par value $0.01 per share, 1,000,000 shares authorized), mandatory convertible preferred stock, Series A, 726,500 issued and outstanding in 2016 and 770,000 issued and outstanding in 2015	7	8
Common stock (par value $.01 per share, 120,000,000 shares authorized, 85,152,700 issued and outstanding in 2016 and 84,852,584 issued and outstanding in 2015)	852	849
Additional paid-in capital	1,166,457	1,143,020
Accumulated other comprehensive loss	(367,643)	(282,631)
Retained earnings	2,006,064	1,868,645
Total Stericycle, Inc.'s Equity	2,805,737	2,729,891
Noncontrolling interests	10,649	17,947

Total Equity	2,816,386	2,747,838
Total Liabilities and Equity	$6,980,061	$7,065,163

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

PART II

STERICYCLE, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME

In thousands, except share and per share data

	Years Ended December 31,		
	2016	2015	2014
Revenues	$3,562,342	$2,985,908	$2,555,601
Costs and Expenses:			
Cost of revenues (exclusive of depreciation shown below)	1,971,842	1,658,081	1,404,712
Depreciation - cost of revenues	88,546	61,642	56,478
Selling, general and administrative expenses (exclusive of depreciation and amortization shown below)	904,179	712,803	489,937
Depreciation – SG&A	34,700	20,272	15,446
Amortization	129,300	45,498	32,692
Total Costs and Expenses	3,128,567	2,498,296	1,999,265
Income from Operations	433,775	487,612	556,336
Other Income (Expense):			
Interest income	78	224	120
Interest expense	(97,787)	(77,498)	(66,142)
Other (expense)/income, net	(7,921)	569	(2,746)
Total Other Expense	(105,630)	(76,705)	(68,768)
Income Before Income Taxes	328,145	410,907	487,568
Income tax expense	120,246	142,894	159,422
Net Income	207,899	268,013	328,146
Less: net income attributable to noncontrolling interests	1,540	967	1,690
Net Income Attributable to Stericycle, Inc.	206,359	267,046	326,456
Mandatory convertible preferred stock dividend	39,414	10,106	—
Gain on repurchase of preferred stock	(11,285)	—	—
Net Income Attributable to Stericycle, Inc. Common Shareholders	$178,230	$256,940	$326,456
Earnings Per Common Share Attributable to Stericycle, Inc. Common Shareholders:			
Basic	$2.10	$3.02	$3.84
Diluted	$2.08	$2.98	$3.79
Weighted Average Number of Common Shares			

Outstanding: