

STERICYCLE INC
Form 10-Q
May 08, 2014
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended March 31, 2014 or

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

For the transition period from _____ to _____
Commission File Number 0-21229

Stericycle, Inc.
(Exact name of registrant as specified in its charter)

| | |
|--|--|
| Delaware (State or other jurisdiction of incorporation or organization) | 36-3640402 (IRS Employer Identification Number) |
| 28161 North Keith Drive Lake Forest, Illinois 60045 (Address of principal executive offices, including zip code) | |
| (847) 367-5910 (Registrant's telephone number, including area code) | |

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). YES NO

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

| | |
|---|--|
| Large accelerated filer <input checked="" type="checkbox"/> | Accelerated filer <input type="checkbox"/> |
| Non-accelerated filer <input type="checkbox"/> | Smaller reporting company <input type="checkbox"/> |

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

As of May 2, 2014 there were 84,690,834 shares of the registrant's Common Stock outstanding.

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PART I. – FINANCIAL INFORMATION
 ITEM 1. FINANCIAL STATEMENTS
 STERICYCLE, INC. AND SUBSIDIARIES
 CONDENSED CONSOLIDATED BALANCE SHEETS
 (Unaudited)

In thousands, except share and per share data

| | March 31, 2014 | December 31, 2013 |
|--|-------------------|----------------------|
| ASSETS | | |
| Current Assets: | | |
| Cash and cash equivalents | \$43,058 | \$61,991 |
| Short-term investments | 353 | 413 |
| Accounts receivable, less allowance for doubtful accounts of \$18,687 in 2014 and \$19,134 in 2013 | 383,304 | 388,996 |
| Deferred income taxes | 14,401 | 18,031 |
| Prepaid expenses | 25,807 | 28,379 |
| Other current assets | 35,963 | 37,279 |
| Total Current Assets | 502,886 | 535,089 |
| Property, plant and equipment, net | 359,329 | 358,967 |
| Goodwill | 2,240,597 | 2,231,582 |
| Intangible assets, less accumulated amortization of \$95,451 in 2014 and \$88,098 in 2013 | 724,978 | 720,035 |
| Other assets | 37,789 | 37,124 |
| Total Assets | \$3,865,579 | \$3,882,797 |
| LIABILITIES AND EQUITY | | |
| Current liabilities: | | |
| Current portion of long-term debt | \$124,307 | \$150,380 |
| Accounts payable | 94,118 | 89,146 |
| Accrued liabilities | 118,606 | 107,445 |
| Deferred revenues | 21,998 | 18,826 |
| Other current liabilities | 44,152 | 45,211 |
| Total Current Liabilities | 403,181 | 411,008 |
| Long-term debt, net of current portion | 1,246,071 | 1,280,663 |
| Deferred income taxes | 398,909 | 396,119 |
| Other liabilities | 31,871 | 27,469 |
| Equity: | | |
| Common stock (par value \$.01 per share, 120,000,000 shares authorized, 85,008,833 issued and outstanding in 2014 and 85,500,037 issued and outstanding in 2013) | 850 | 855 |
| Additional paid-in capital | 212,847 | 195,110 |
| Accumulated other comprehensive loss | (57,128) | (56,468) |
| Retained earnings | 1,611,780 | 1,610,964 |
| Total Stericycle, Inc.'s Equity | 1,768,349 | 1,750,461 |
| Noncontrolling interest | 17,198 | 17,077 |
| Total Equity | 1,785,547 | 1,767,538 |
| Total Liabilities and Equity | \$3,865,579 | \$3,882,797 |

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

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

In thousands, except share and per share data

| | Three Months Ended March 31, | |
|---|------------------------------|-------------|
| | 2014 | 2013 |
| Revenues | \$569,955 | \$513,804 |
| Costs and Expenses: | | |
| Cost of revenues (exclusive of depreciation shown below) | 301,760 | 269,673 |
| Depreciation - cost of revenues | 12,726 | 12,037 |
| Selling, general and administrative expenses (exclusive of depreciation and amortization shown below) | 112,180 | 91,046 |
| Depreciation – selling, general and administrative expenses | 3,315 | 2,809 |
| Amortization | 7,315 | 6,642 |
| Total Costs and Expenses | 437,296 | 382,207 |
| Income from Operations | 132,659 | 131,597 |
| Other Income (Expense): | | |
| Interest income | 20 | 167 |
| Interest expense | (14,918) |) (13,546) |
| Other expense, net | (700) |) (1,013) |
| Total Other Expense | (15,598) |) (14,392) |
| Income Before Income Taxes | 117,061 | 117,205 |
| Income Tax Expense | 37,291 | 41,983 |
| Net Income | \$79,770 | \$75,222 |
| Less: Net Income Attributable to Noncontrolling Interests | 621 | 605 |
| Net Income Attributable to Stericycle, Inc. | \$79,149 | \$74,617 |
| Earnings Per Common Share Attributable to Stericycle, Inc. Common Shareholders: | | |
| Basic | \$0.93 | \$0.87 |
| Diluted | \$0.91 | \$0.85 |
| Weighted Average Number of Common Shares Outstanding: | | |
| Basic | 85,270,046 | 86,093,301 |
| Diluted | 86,613,843 | 87,459,497 |

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

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

In thousands

| | Three Months Ended March 31, | |
|---|------------------------------|-----------|
| | 2014 | 2013 |
| Net Income | \$ 79,770 | \$ 75,222 |
| Other Comprehensive Income/ (Loss): | | |
| Foreign currency translation adjustments | (1,109 |) (22,955 |
| Amortization of cash flow hedge into income, net of tax (\$50 and \$50) for the three-months ended March 31, 2014 and 2013, respectively) | 79 | 79 |
| Total Other Comprehensive Income/ (Loss) | (1,030 |) (22,876 |
| Comprehensive Income | 78,740 | 52,346 |
| Less: Comprehensive Income Attributable to Noncontrolling Interests | 251 | 734 |
| Comprehensive Income Attributable to Stericycle, Inc. | \$ 78,489 | \$ 51,612 |

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

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

(Unaudited)

In thousands

| | Three Months Ended March 31, | |
|--|------------------------------|-----------|
| | 2014 | 2013 |
| OPERATING ACTIVITIES: | | |
| Net income | \$79,770 | \$75,222 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Stock compensation expense | 4,672 | 4,047 |
| Excess tax benefit of stock options exercised | (3,734) | (4,203) |
| Depreciation | 16,041 | 14,846 |
| Amortization | 7,315 | 6,642 |
| Deferred income taxes | 6,175 | 10,407 |
| Change in fair value of contingent consideration | 4,789 | — |
| Changes in operating assets and liabilities, net of effect of acquisitions and divestitures: | | |
| Accounts receivable | 4,529 | (19,769) |
| Accounts payable | 5,279 | 1,169 |
| Accrued liabilities | 14,189 | 7,412 |
| Deferred revenues | 2,642 | (1,345) |
| Other assets and liabilities | 2,808 | 3,742 |
| Net cash provided by operating activities | 144,475 | 98,170 |
| INVESTING ACTIVITIES: | | |
| Payments for acquisitions, net of cash acquired | (12,262) | (18,899) |
| (Purchases of)/ proceeds from investments | (1,947) | 20 |
| Capital expenditures | (16,420) | (16,480) |
| Net cash used in investing activities | (30,629) | (35,359) |
| FINANCING ACTIVITIES: | | |
| Repayments of long-term debt and other obligations | (12,430) | (9,996) |
| Borrowings on foreign bank debt | 36,640 | 27,651 |
| Repayments on foreign bank debt | (37,157) | (62,027) |
| Borrowings on senior credit facility | 149,000 | 291,132 |
| Repayments on senior credit facility | (203,377) | (337,683) |
| Payments on capital lease obligations | (876) | (837) |
| Purchases and cancellations of treasury stock | (76,914) | (7,160) |
| Proceeds from issuance of common stock | 8,655 | 13,915 |
| Excess tax benefit of stock options exercised | 3,734 | 4,203 |
| Payments to noncontrolling interests | (97) | — |
| Net cash used in financing activities | (132,822) | (80,802) |
| Effect of exchange rate changes on cash and cash equivalents | 43 | (611) |
| Net decrease in cash and cash equivalents | (18,933) | (18,602) |
| Cash and cash equivalents at beginning of period | 61,991 | 31,324 |
| Cash and cash equivalents at end of period | \$43,058 | \$12,722 |

NON-CASH ACTIVITIES:

| | | |
|---|----------|----------|
| Issuances of obligations for acquisitions | \$13,095 | \$10,454 |
|---|----------|----------|

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

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STERICYCLE, INC. AND SUBSIDIARIES
 CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
 Three Months Ended March 31, 2014 and
 Year Ended December 31, 2013
 (Unaudited)

In thousands

| | Stericycle, Inc. Equity | | | Retained Earnings | Accumulated Other Comprehensive Income (Loss) | | Noncontrolling Interest | Total Equity |
|---|-------------------------------|--------------|----------------------------|-------------------|---|-----------|-------------------------|--------------|
| | Issued and Outstanding Shares | Common Stock | Additional Paid-In Capital | | | | | |
| Balance at January 1, 2013 | 85,988 | \$ 860 | \$ 116,720 | \$ 1,463,277 | \$ (39,064) | \$ 15,530 | \$ 1,557,323 | |
| Net income | | | | 311,372 | | 1,712 | 313,084 | |
| Currency translation adjustment | | | | | (17,718) | (1,442) | (19,160) | |
| Change in qualifying cash flow hedge, net of tax | | | | | 314 | | 314 | |
| Issuance of common stock for exercise of options, restricted stock units and employee stock purchases | 973 | 10 | 47,991 | | | | 48,001 | |
| Purchase/ cancellation of treasury stock | (1,461) | (15) | — | (163,685) | | | (163,700) | |
| Stock compensation expense | | | 17,457 | | | | 17,457 | |
| Excess tax benefit of stock options exercised | | | 17,153 | | | | 17,153 | |
| Noncontrolling interests attributable to acquisitions | | | | | | 4,211 | 4,211 | |
| Reduction to noncontrolling interests due to additional ownership | | | (4,211) | | | (2,926) | (7,137) | |
| Payments to noncontrolling interests | | | | | | (8) | (8) | |
| Balance at December 31, 2013 | 85,500 | \$ 855 | \$ 195,110 | \$ 1,610,964 | \$ (56,468) | \$ 17,077 | \$ 1,767,538 | |
| Net income | | | | 79,149 | | 621 | 79,770 | |
| Currency translation adjustment | | | | | (739) | (370) | (1,109) | |
| Change in qualifying cash flow hedge, net of tax | | | | | 79 | | 79 | |
| Issuance of common stock for exercise of options, restricted stock units and employee stock purchases | 195 | 2 | 9,331 | | | | 9,333 | |
| Purchase/ cancellation of treasury stock | (686) | (7) | — | (78,333) | | | (78,340) | |

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| | | | | | | |
|---|--------|--------|-----------|-------------|--------------|-------------|
| Stock compensation expense | 4,672 | | | | | 4,672 |
| Excess tax benefit of stock options exercised | 3,734 | | | | | 3,734 |
| Reduction to noncontrolling interests due to additional ownership | | | | (130 |) | (130) |
| Balance at March 31, 2014 | 85,009 | \$ 850 | \$212,847 | \$1,611,780 | \$ (57,128) | \$ 17,198 |
| | | | | | | \$1,785,547 |

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

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STERICYCLE, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

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

NOTE 1 – BASIS OF PRESENTATION

The accompanying condensed consolidated financial statements have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission. Certain information and footnote disclosures normally included in annual consolidated financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted pursuant to such rules and regulations. However, the Company believes the disclosures included in the accompanying condensed consolidated financial statements are adequate to make the information presented not misleading. In our opinion, all adjustments necessary for a fair presentation for the periods presented have been reflected and are of a normal recurring nature. These condensed consolidated financial statements should be read in conjunction with the Stericycle, Inc. and Subsidiaries Consolidated Financial Statements and notes thereto for the year ended December 31, 2013, as filed with our Annual Report on Form 10-K for the year ended December 31, 2013. The results of operations for the three months ended March 31, 2014 are not necessarily indicative of the results that may be achieved for the entire year ending December 31, 2014.

There were no material changes in the Company’s critical accounting policies since the filing of its 2013 Form 10-K. As discussed in the 2013 Form 10-K, the preparation of the consolidated financial statements in conformity with accounting principles generally accepted in the United States requires management to make certain estimates and assumptions that affect the amount of reported assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and revenues and expenses during the periods reported. Actual results may differ from those estimates.

We have evaluated subsequent events through the date of filing this quarterly report on Form 10-Q. No events have occurred that would require adjustment to or disclosure in the condensed consolidated financial statements.

NOTE 2 – ACQUISITIONS AND DIVESTITURES

The following table summarizes the locations of our acquisitions for the three months ended March 31, 2014:

| Acquisition Locations | 2014 |
|-----------------------|------|
| United States | 2 |
| Portugal | 3 |
| Total | 5 |

During the quarter ended March 31, 2014, we completed five acquisitions. Domestically, we acquired selected assets of one regulated waste business and selected assets of one communication solutions business. Internationally, in Portugal, we acquired 100% of the stock of three regulated waste businesses.

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The following table summarizes the aggregate purchase price paid for acquisitions and other adjustments of consideration to be paid for acquisitions during the three months ended March 31:

In thousands

| | Three Months Ended March 31 | |
|--------------------------|-----------------------------|----------|
| | 2014 | 2013 |
| Cash | \$12,262 | \$18,899 |
| Promissory notes | 12,654 | 7,310 |
| Deferred consideration | 441 | 2,189 |
| Contingent consideration | — | 955 |
| Total purchase price | \$25,357 | \$29,353 |

For financial reporting purposes, our 2014 and 2013 acquisitions were accounted for using the acquisition method of accounting. These acquisitions resulted in recognition of goodwill in our financial statements reflecting the premium paid to acquire businesses that we believe are complementary to our existing operations and fit our growth strategy. During the three months ended March 31, 2014, we recognized a net increase in goodwill of \$10.8 million excluding the effect of foreign currency translation (see Note 9 – Goodwill and Other Intangible Assets, in the Notes to the Condensed Consolidated Financial Statements). A net increase of \$12.3 million was assigned to our United States reportable segment, and a net decrease of \$1.5 million was assigned to our International reportable segment. Approximately \$9.0 million of the goodwill recognized during the three months ended March 31, 2014 will be deductible for income taxes.

During the three months ended March 31, 2014, we recognized a net increase in intangible assets from acquisitions of \$14.3 million, excluding the effect of foreign currency translation. The changes include \$8.9 million in the estimated fair value of acquired customer relationships with amortizable lives of 10 to 40 years, and \$5.4 million in permits with indefinite lives.

The purchase prices for these acquisitions in excess of acquired tangible assets have been primarily allocated to goodwill and other intangibles and are preliminary, pending completion of certain intangible asset valuations and completion accounts. The following table summarizes the preliminary purchase price allocation for current period acquisitions and other adjustments to purchase price allocations during the three months ended March 31, 2014:

In thousands

| | | |
|---------------------------------|----------|---|
| Fixed assets | \$1,184 | |
| Intangibles | 14,277 | |
| Goodwill | 10,850 | |
| Net other assets/ (liabilities) | (460 |) |
| Debt | 321 | |
| Net deferred tax liabilities | (815 |) |
| Total purchase price allocation | \$25,357 | |

During the three months ended March 31, 2014 and 2013, the Company incurred \$3.2 million and \$1.8 million, respectively, of acquisition related expenses. These expenses are included with "Selling, general and administrative expenses" ("SG&A") on our Condensed Consolidated Statements of Income.

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NOTE 3 – NEW ACCOUNTING STANDARDS

Accounting Standards Recently Adopted

Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists

On January 1, 2014, we adopted guidance on the presentation of unrecognized tax benefits when a net operating loss carryforward, a similar tax loss, or a tax credit carryforward exists at the reporting date. An unrecognized tax benefit, or a portion of an unrecognized tax benefit, should be presented in the financial statements as a reduction to a deferred tax asset for a net operating loss carryforward, a similar tax loss, or a tax credit carryforward, except in certain circumstances. To the extent a net operating loss carryforward, a similar tax loss, or a tax credit carryforward is not available at the reporting date under the tax law of the applicable jurisdiction to settle any additional income taxes that would result from the disallowance of a tax position or the tax law of the applicable jurisdiction does not require the entity to use, and the entity does not intend to use, the deferred tax asset for such purpose, the unrecognized tax benefit should be presented in the financial statements as a liability and should not be combined with deferred tax assets. The assessment of whether a deferred tax asset is available is based on the unrecognized tax benefit and deferred tax asset that exist at the reporting date and should be made presuming disallowance of the tax position at the reporting date. For example, an entity should not evaluate whether the deferred tax asset expires before the statute of limitations on the tax position or whether the deferred tax asset may be used prior to the unrecognized tax benefit being settled. We are applying this guidance on a prospective basis. The implementation of this guidance did not affect our results of operations or financial liquidity.

NOTE 4 – FAIR VALUE MEASUREMENTS

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value hierarchy distinguishes between (1) market participant assumptions developed based on market data obtained from independent sources (observable inputs) and (2) an entity's own assumptions about market participant assumptions developed based on the best information available in the circumstances (unobservable inputs). The fair value hierarchy consists of three broad levels, which gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). The three levels of the fair value hierarchy are described below:

Level 1 – Quoted prices in active markets for identical assets or liabilities.

Level 2 – Observable inputs other than quoted prices in active markets for identical assets and liabilities, quoted prices for identical or similar assets or liabilities in inactive markets, or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.

Level 3 – Inputs that are generally unobservable and typically reflect management's estimate of assumptions that market participants would use in pricing the asset or liability.

Financial assets and liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurement. Our assessment of the significance of a particular input to the fair value measurement requires judgment, and may affect the valuation of assets and liabilities and their placement within the fair value hierarchy levels. The impact of our creditworthiness has been considered in the fair value measurements noted below. In addition, the fair value measurement of a liability must reflect the nonperformance risk of an entity.

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In thousands

| | Total as of March 31, 2014 | Fair Value Measurements Using | | |
|---------------------------|-------------------------------|-------------------------------|-------------------|-------------------|
| | | Level 1 Inputs | Level 2 Inputs | Level 3 Inputs |
| Assets: | | | | |
| Cash and cash equivalents | \$43,058 | \$43,058 | \$— | \$— |
| Short-term investments | 353 | 353 | — | — |
| Total assets | \$43,411 | \$43,411 | \$— | \$— |
| Liabilities: | | | | |
| Contingent consideration | \$17,482 | \$— | \$— | \$17,482 |
| Total liabilities | \$17,482 | \$— | \$— | \$17,482 |

In thousands

| | Total as of December 31, 2013 | Fair Value Measurements Using | | |
|---------------------------|----------------------------------|-------------------------------|-------------------|-------------------|
| | | Level 1 Inputs | Level 2 Inputs | Level 3 Inputs |
| Assets: | | | | |
| Cash and cash equivalents | \$61,991 | \$61,991 | \$— | \$— |
| Short-term investments | 413 | 413 | — | — |
| Total assets | \$62,404 | \$62,404 | \$— | \$— |
| Liabilities: | | | | |
| Contingent consideration | \$12,527 | \$— | \$— | \$12,527 |
| Total liabilities | \$12,527 | \$— | \$— | \$12,527 |

We had contingent consideration liabilities recorded using Level 3 inputs in the amount of \$17.5 million, of which \$14.2 million is classified as current liabilities at March 31, 2014. Contingent consideration liabilities were \$12.5 million at December 31, 2013. Contingent consideration represents amounts to be paid as part of acquisition consideration only if certain future events occur. These events are usually targets for revenues or earnings related to the business acquired. We arrive at the fair value of contingent consideration by applying a weighted probability of potential outcomes to the maximum possible payout. The calculation of these potential outcomes is dependent on both past financial performance and management assumptions about future performance. If the financial performance measures were all fully met, our maximum liability would be \$25.8 million at March 31, 2014. Contingent consideration liabilities are reassessed each quarter and are reflected in the Condensed Consolidated Balance Sheets as part of "Other current liabilities" or "Other liabilities". Changes to contingent consideration are reflected in the table below:

In thousands

| | |
|--|----------|
| Contingent consideration at December 31, 2013 | \$12,527 |
| Decrease due to payments | (17) |
| Changes due to foreign currency fluctuations | 183 |
| Changes in fair value reflected in Selling, general, and administrative expenses | 4,789 |
| Contingent consideration at March 31, 2014 | \$17,482 |

Fair Value of Debt: At March 31, 2014, the fair value of the Company's debt obligations was estimated, using Level 2 inputs, at \$1.37 billion compared to a carrying amount of \$1.37 billion. At December 31, 2013, the fair value of the Company's debt obligations was estimated, using Level 2 inputs, at \$1.41 billion compared to a carrying amount of \$1.43 billion. The fair values were estimated using an income approach by applying market interest rates for comparable instruments. The Company has no current plans to retire a significant amount of its debt prior to maturity. There were no movements of items between fair value hierarchies.

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NOTE 5 – INCOME TAXES

We file U.S. federal income tax returns and income tax returns in various states and foreign jurisdictions. The Company has recorded accruals to cover uncertain tax positions taken on previously filed tax returns. Such liabilities relate to additional taxes, interest and penalties the Company may be required to pay in various tax jurisdictions. During the course of examinations by various taxing authorities, proposed adjustments may be asserted. The Company evaluates such items on a case-by-case basis and adjusts the accrual for uncertain tax positions. During the quarter ended March 31, 2014 we had immaterial net increases to our accruals related to a reassessment of previous and current uncertain tax positions. The effective tax rates for the quarters ended March 31, 2014 and 2013 were approximately 31.9% and 35.8%, respectively. The decrease in the current quarter tax rate as compared to the corresponding period in the prior year and the statutory tax rate is primarily related to a benefit from the recognition of tax deductible goodwill associated with entity mergers in Brazil.

NOTE 6 – STOCK BASED COMPENSATION

At March 31, 2014, we had the following stock option and stock purchase plans:

- the 2011 Incentive Stock Plan, which our stockholders approved in May 2011;
- the 2008 Incentive Stock Plan, which our stockholders approved in May 2008;
- the 2005 Incentive Stock Plan, which our stockholders approved in April 2005;
- the 2000 Nonstatutory Stock Option Plan, which expired in February 2010;
- the 1997 Stock Option Plan, which expired in January 2007;
- the 1996 Directors Stock Option Plan, which expired in May 2006; and
- the Employee Stock Purchase Plan (“ESPP”), which our stockholders approved in May 2001.

Stock-Based Compensation Expense:

The following table presents the total stock-based compensation expense resulting from stock option awards, restricted stock units (“RSUs”), and the ESPP included in the Condensed Consolidated Statements of Income:
In thousands

| | Three Months Ended March 31, | |
|---|------------------------------|---------|
| | 2014 | 2013 |
| Cost of revenues – stock option plan | \$7 | \$40 |
| Selling, general and administrative – stock option plan | 4,041 | 3,530 |
| Selling, general and administrative – RSUs | 315 | 195 |
| Selling, general and administrative – ESPP | 309 | 282 |
| Total pre-tax expense | \$4,672 | \$4,047 |

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

In thousands

| | Three Months Ended March 31, | |
|---|------------------------------|---------|
| | 2014 | 2013 |
| Tax benefit recognized in Statement of Income | \$909 | \$1,130 |
| Excess tax benefit realized | 3,734 | 4,203 |

Stock Options:

Stock option activity for the three months ended March 31, 2014, is summarized as follows:

| | Number of Options | Weighted Average Exercise Price per Share | Weighted Average Remaining Contractual Life (in years) | Total Aggregate Intrinsic Value (in thousands) |
|---|----------------------|---|--|--|
| Outstanding at beginning of year | 5,540,482 | \$70.29 | | |
| Granted | 854,778 | 115.70 | | |
| Exercised | (182,867) |) 51.61 | | |
| Forfeited | (28,088) |) 84.58 | | |
| Canceled or expired | (1,049) |) 65.11 | | |
| Outstanding at March 31, 2014 | 6,183,256 | \$77.06 | 6.59 | \$227,883 |
| Exercisable at March 31, 2014 | 3,417,439 | \$62.02 | 5.54 | \$176,414 |
| Vested and expected to vest at March 31, 2014 | 5,884,031 | \$75.89 | | |

As of March 31, 2014, there was \$42.0 million of total unrecognized compensation expense related to non-vested option awards, which is expected to be recognized over a weighted average period of 3.46 years.

The total exercise intrinsic value represents the total pre-tax value (the difference between the sales price on that trading day in the quarter ended March 31, and the exercise price associated with the respective option).

In thousands

| | Three Months Ended March 31, | |
|--|------------------------------|----------|
| | 2014 | 2013 |
| Total intrinsic value of options exercised | \$11,796 | \$14,562 |

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

| | Three Months Ended March 31, | | | |
|---|------------------------------|---------|--|---|
| | 2014 | 2013 | | |
| Stock options granted (shares) | 854,778 | 977,090 | | |
| Weighted average fair value at grant date | \$21.28 | \$21.57 | | |
| Assumptions: | | | | |
| Expected term (in years) | 4.78 | 6.00 | | |
| Expected volatility | 17.68 | % 27.10 | | % |
| Expected dividend yield | — | % — | | % |
| Risk free interest rate | 1.45 | % 0.99 | | % |

Restricted Stock Units:

Restricted stock units ("RSUs") vest at the end of three or five years. Our 2008 and 2011 Plans include a share reserve related to RSUs granted at a 2-1 ratio.

A summary of the status of our non-vested RSUs and changes during the three months ended March 31, 2014, are as follows:

| | Number of Units | Weighted Average Grant Date Fair Value | Total Aggregate Intrinsic Value (in thousands) |
|---------------------------------|--------------------|--|--|
| Non-vested at beginning of year | 70,457 | \$88.32 | |
| Granted | 16,084 | 115.69 | |
| Vested and released | (17,288 |) 85.00 | |
| Forfeited | (5,383 |) 88.10 | |
| Non-vested at March 31, 2014 | 63,870 | \$96.13 | \$7,257 |

As of March 31, 2014, there was \$5.1 million of total unrecognized compensation expense related to RSUs, which is expected to be recognized over a weighted average period of 3.62 years.

NOTE 7 – COMMON STOCK

The following table provides information about our repurchase of shares of our common stock during the three months ended March 31, 2014:

| | Number of Shares Repurchased and Canceled | Amount Paid for Repurchases (in thousands) | Average Price Paid per Share |
|-----------------------------------|---|---|------------------------------------|
| Three months ended March 31, 2014 | 685,990 | \$78,340 | \$114.20 |
| Three months ended March 31, 2013 | 74,820 | \$7,160 | \$95.70 |

Of the 685,990 shares repurchased during the three months ended March 31, 2014, 12,730 shares in the amount of approximately \$1.4 million were not settled. This amount is recognized as part of other accrued liabilities on our Condensed Consolidated Balance Sheet at March 31, 2014.

Table of Contents**NOTE 8 – EARNINGS PER COMMON SHARE**

Basic earnings per share is computed by dividing income available to common shareholders by the weighted-average number of shares of common stock outstanding during the period. Diluted earnings per share is computed by dividing income available to common shareholders by the weighted-average number of shares of common stock outstanding during the period increased to include the number of additional shares of common stock that would have been outstanding if the potentially dilutive securities had been issued. Potentially dilutive securities include outstanding stock options, shares to be purchased under the Company's employee stock purchase plan and RSUs. The dilutive effect of potentially dilutive securities is reflected in diluted earnings per share by application of the treasury stock method. Under the treasury stock method, an increase in the fair market value of the Company's common stock can result in a greater dilutive effect from potentially dilutive securities.

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

In thousands, except share and per share data

| | Three Months Ended March 31, | |
|---|------------------------------|------------|
| | 2014 | 2013 |
| Numerator: | | |
| Numerator for basic earnings per share net income attributable to Stericycle, Inc. | \$79,149 | \$74,617 |
| Denominator: | | |
| Denominator for basic earnings per share-weighted average shares | 85,270,046 | 86,093,301 |
| Effect of diluted securities: | | |
| Employee stock options | 1,343,797 | 1,366,196 |
| Denominator for diluted earnings per share-adjusted weighted average shares and after assumed exercises | 86,613,843 | 87,459,497 |
| Earnings per share – Basic | \$0.93 | \$0.87 |
| Earnings per share – Diluted | \$0.91 | \$0.85 |

NOTE 9 – GOODWILL AND OTHER INTANGIBLE ASSETS

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

Goodwill:

We have two geographical reportable segments, "United States" and "International", both of which have goodwill. The changes in the carrying amount of goodwill since January 1, 2013, by reportable segment, were as follows:

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In thousands

| | United States | International | Total |
|--|---------------|---------------|-------------|
| Balance as of January 1, 2013 | \$1,616,286 | \$448,817 | \$2,065,103 |
| Goodwill acquired during year | 57,250 | 116,534 | 173,784 |
| Goodwill allocation adjustments | 4,541 | 1,470 | 6,011 |
| Changes due to foreign currency fluctuations | — | (13,316) | (13,316) |
| Balance as of December 31, 2013 | 1,678,077 | 553,505 | 2,231,582 |
| Goodwill acquired during year | 12,600 | 4,125 | 16,725 |
| Goodwill allocation adjustments | (273) | (5,602) | (5,875) |
| Changes due to foreign currency fluctuations | — | (1,835) | (1,835) |
| Balance as of March 31, 2014 | \$1,690,404 | \$550,193 | \$2,240,597 |

Current year adjustments to goodwill for certain 2013 acquisitions are primarily due to the finalization of intangible asset valuations.

Other Intangible Assets:

As of March 31, 2014 and December 31, 2013, the values of other intangible assets were as follows:

In thousands

| | March 31, 2014 | | | December 31, 2013 | | |
|-------------------------------|-----------------------|--------------------------|-----------|-----------------------|--------------------------|-----------|
| | Gross Carrying Amount | Accumulated Amortization | Net Value | Gross Carrying Amount | Accumulated Amortization | Net Value |
| Amortizable intangibles: | | | | | | |
| Covenants not-to-compete | \$9,406 | \$5,693 | \$3,713 | \$9,405 | \$5,366 | \$4,039 |
| Customer relationships | 677,856 | 88,192 | 589,664 | 670,889 | 81,271 | 589,618 |
| Tradenames | 5,286 | 1,108 | 4,178 | 5,283 | 1,031 | 4,252 |
| License agreements | 611 | 442 | 169 | 611 | 416 | 195 |
| Other | 334 | 16 | 318 | 91 | 14 | 77 |
| Indefinite lived intangibles: | | | | | | |
| Operating permits | 121,136 | — | 121,136 | 116,054 | — | 116,054 |
| Tradenames | 5,800 | — | 5,800 | 5,800 | — | 5,800 |
| Total | \$820,429 | \$95,451 | \$724,978 | \$808,133 | \$88,098 | \$720,035 |

Our finite-lived intangible assets are amortized over their useful lives. We have determined that our customer relationships have useful lives from 10 to 40 years based upon the type of customer, with a weighted average remaining useful life of 25.3 years. We have covenants not-to-compete intangibles with useful lives from 3 to 14 years, with a weighted average remaining useful life of 3.7 years. We have tradename intangibles with useful lives from 10 to 40 years, with a weighted average remaining useful life of 15.4 years. We have license agreements with useful life of 5 years, with a weighted average remaining useful life of 1.5 years. We have determined that our permits have indefinite lives due to our ability to renew these permits with minimal additional cost, and therefore these are not amortized.

During the quarters ended March 31, 2014 and 2013, the aggregate amortization expense was \$7.3 million and \$6.6 million, respectively.

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The estimated amortization expense for each of the next five years, assuming no additional amortizable intangible assets, is as follows for the years ended December 31:

In thousands

| | |
|------|----------|
| 2014 | \$29,744 |
| 2015 | 29,445 |
| 2016 | 29,223 |
| 2017 | 29,038 |
| 2018 | 28,619 |

Future amortization expense may fluctuate depending on changes in foreign currency rates, future acquisitions, or changes to the estimated amortizable life of the intangibles. The estimates for amortization expense noted above are based upon foreign exchange rates as of March 31, 2014.

NOTE 10 – DEBT

Long-term debt consisted of the following:

In thousands

| | March 31, 2014 | December 31, 2013 |
|---|-------------------|----------------------|
| Obligations under capital leases | \$6,324 | \$7,343 |
| \$1 billion senior credit facility weighted average rate 1.82%, due in 2016 | 218,301 | 272,358 |
| \$100 million private placement notes 5.64%, due in 2015 | 100,000 | 100,000 |
| \$175 million private placement notes 3.89%, due in 2017 | 175,000 | 175,000 |
| \$125 million private placement notes 2.68%, due in 2019 | 125,000 | 125,000 |
| \$225 million private placement notes 4.47%, due in 2020 | 225,000 | 225,000 |
| \$125 million private placement notes 3.26%, due in 2022 | 125,000 | 125,000 |
| Acquisition notes weighted average rate of 2.28% and weighted average maturity of 3.6 years | 251,196 | 252,195 |
| Foreign bank debt weighted average rate 8.48% and weighted average maturity of 1.8 years | 144,557 | 149,147 |
| Total debt | 1,370,378 | 1,431,043 |
| Less: current portion of total debt | 124,307 | 150,380 |
| Long-term portion of total debt | \$1,246,071 | \$1,280,663 |

Our \$1.0 billion senior credit facility maturing in September 2016, our \$100.0 million private placement notes maturing April 2015, our \$175.0 million private placement notes maturing in October 2017, our \$125.0 million private placement notes maturing in December 2019, our \$225.0 million private placement notes maturing in October 2020, and our \$125.0 million private placement notes maturing in December 2022, all require us to comply with various financial, reporting and other covenants and restrictions, including a restriction on dividend payments. The financial debt covenants are the same for the senior credit facility and the private placement notes. At March 31, 2014, we were in compliance with all of our financial debt covenants.

As of March 31, 2014 and December 31, 2013 we had \$151.2 million and \$155.0 million, respectively, committed to outstanding letters of credit under our senior credit facility. The unused portion of the revolving credit facility as of March 31, 2014 and December 31, 2013 was \$630.5 million and \$572.6 million, respectively.

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Guarantees

Shiraishi-Sogyo Co. Ltd. ("Shiraishi") is an unrelated party in Japan that is expanding its medical waste management business. We have guaranteed Shiraishi's loan of \$4.8 million borrowed from JPMorganChase Bank N.A. which is currently due on May 31, 2014. Based on information currently available, we have concluded the guarantee is not probable of being called and, therefore, we have not recorded any contingent liability relating to this guarantee. We have also extended non-interest bearing loans to Shiraishi for approximately \$15.5 million due April 18, 2018, which are reflected in the Condensed Consolidated Balance Sheet as part of long term "Other assets" at March 31, 2014 and December 31, 2013. There is a collateral agreement in place on the assets of Shiraishi and related companies in support of amounts owed to the Company.

NOTE 11 – GEOGRAPHIC INFORMATION

Management has determined that we have two reportable segments: United States (which includes Puerto Rico) and International. Revenues are attributed to countries based on the location of customers. The same accounting principles and critical accounting policies are used in the preparation of the financial statements for both reportable segments. Detailed information for our United States reportable segment is as follows:

In thousands

| | Three Months Ended March 31, | |
|---|------------------------------|-----------|
| | 2014 | 2013 |
| Regulated and compliance solutions | \$368,990 | \$341,101 |
| Recall and returns solutions | 23,064 | 22,534 |
| Total revenues | 392,054 | 363,635 |
| Net interest expense | 10,668 | 10,731 |
| Income before income taxes | 104,313 | 95,956 |
| Income taxes | 37,039 | 36,450 |
| Net income attributable to Stericycle, Inc. | \$67,274 | \$59,506 |
| Depreciation and amortization | \$12,818 | \$12,575 |

Detailed information for our International reportable segment is as follows:

In thousands

| | Three Months Ended March 31, | |
|---|------------------------------|-----------|
| | 2014 | 2013 |
| Regulated and compliance solutions | \$177,901 | \$150,169 |
| Net interest expense | 4,230 | 2,648 |
| Income before income taxes | 12,748 | 21,249 |
| Income taxes | 252 | 5,533 |
| Net income | 12,496 | 15,716 |
| Less: net income attributable to noncontrolling interests | 621 | 605 |
| Net income attributable to Stericycle, Inc. | \$11,875 | \$15,111 |
| Depreciation and amortization | \$10,538 | \$8,913 |

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NOTE 12 – LEGAL PROCEEDINGS

We operate in a highly regulated industry and must deal with regulatory inquiries or investigations from time to time that may be instituted for a variety of reasons. We are also involved in a variety of civil litigation from time to time. As we have previously disclosed, we were served on March 12, 2013 with a class action complaint filed in the U.S. District Court for the Western District of Pennsylvania by an individual plaintiff for itself and on behalf of all other “similarly situated” customers of ours. The complaint alleges, among other things, that we imposed unauthorized or excessive price increases and other charges on our customers in breach of our contracts and in violation of the Illinois Consumer Fraud and Deceptive Business Practices Act. The complaint sought certification of the lawsuit as a class action and the award to class members of appropriate damages and injunctive relief.

The Pennsylvania class action complaint was filed in the wake of a settlement with the State of New York of an investigation under the New York False Claims Act (which the class action complaint describes at some length). The New York investigation arose out of a qui tam (or “whistle blower”) complaint under the federal False Claims Act and comparable state statutes which was filed under seal in the U.S. District Court for the Northern District of Illinois in April 2008 by a former employee of ours. The complaint was filed on behalf of the United States and 14 states and the District of Columbia. On September 4, 2013, we filed our answer to Plaintiff-Relator’s Second Amended Complaint, generally denying the allegations therein. Also, as previously disclosed, Tennessee, Massachusetts, Virginia and North Carolina have issued civil investigative demands to explore the allegations made on their behalf in the qui tam complaint but have not yet decided whether to join the Illinois action.

Following the filing of the Pennsylvania class action complaint, we were served with class action complaints filed in federal court in California, Florida, Illinois, Mississippi and Utah and in state court in California. These complaints asserted claims and allegations substantially similar to those made in the Pennsylvania class action complaint. All of these cases appear to be follow-on litigation to our settlement with the State of New York. On August 9, 2013, the Judicial Panel on Multidistrict Litigation (MDL) granted our Motion to Transfer these related actions to the Northern District of Illinois for centralized pretrial proceedings. On December 10, 2013, we filed our answer to the Amended Consolidated Class Action Complaint in the MDL action, generally denying the allegations therein.

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

On May 28, 2013, we received a notice of violation and order to comply from the State of Utah Division of Air Quality alleging violations of certain conditions of the operating permit for our incineration facility in North Salt Lake relating to emissions and emissions testing at the facility. We have subsequently completed testing, in accordance with protocols approved by the Division of Air Quality, that demonstrates that the facility is currently operating in compliance with applicable emissions standards and our permit conditions. We filed a formal response to the notice of violation on September 27, 2013 and remain in discussions with the Division of Air Quality regarding a resolution of this matter.

See Note 13 - Subsequent Events, in the Notes to the Condensed Consolidated Financial Statements (Item 1 of Part I).

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NOTE 13 – SUBSEQUENT EVENTS

On April 22, 2014, we completed the acquisition of PSC Environmental Services, LLC ("PSC Environmental"). The transaction was completed following clearance from the U.S. Department of Justice under the Hart-Scott-Rodino Antitrust Improvements Act of 1976. Upon closing, PSC Environmental became a wholly-owned subsidiary of ours. Subject to various adjustments, the total consideration for the PSC Environmental acquisition was \$275 million, of which \$245 million was paid in cash and \$30 million was paid by a two-year note. A portion of the cash payment was applied to pay PSC Environmental's indebtedness as of the closing date.

On April 2, 2014, we were served with a class action complaint filed in the U.S. District Court for the Northern District of Illinois (Case 1:14-cv-02070) by an individual plaintiff for himself and on behalf of all other "similarly situated" persons. The complaint alleges, among other things, that we sent facsimile transmissions of unsolicited advertisements to plaintiff and others similarly situated in violation of the Junk Fax Prevention Act of 2005. The complaint seeks certification of the lawsuit as a class action and the award to class members of appropriate damages and injunctive relief.

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

We are in the business of providing regulated and compliance solutions to healthcare and commercial businesses. This includes the collection and processing of specialized waste for disposal, and a variety of training, consulting, recall/return, communication, and compliance services. We were incorporated in 1989 and presently serve a diverse customer base of over 569,000 customers throughout the United States, Argentina, Brazil, Canada, Chile, Ireland, Japan, Mexico, Portugal, Romania, Spain, and the United Kingdom. The regulated solutions we provide include: medical waste disposal, our Steri-Safe® medical waste and compliance program, our Clinical Services program, our Sharps Management Service featuring Bio Systems® reusable sharps containers, pharmaceutical waste disposal, hazardous waste disposal, and medical safety products. Our compliance solutions include: training, consulting, inbound/outbound communications, data reporting, and other regulatory compliance services. In addition to our regulated and compliance solutions, we offer regulated recall and returns management solutions which encompass a number of services for a variety of businesses, but consist primarily of managing the recall, withdrawal, or return of expired or recalled products and pharmaceuticals.

There were no material changes in the Company's critical accounting policies since the filing of its 2013 Form 10-K. As discussed in the 2013 Form 10-K, the preparation of the consolidated financial statements in conformity with accounting principles generally accepted in the United States requires management to make certain estimates and assumptions that affect the amount of reported assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and revenues and expenses during the periods reported. Actual results may differ from those estimates.

Highlights of the three months ended March 31, 2014:

- revenues were \$570.0 million, up \$56.2 million or 10.9% from \$513.8 million in the first quarter last year;
- first quarter gross margins decreased to 44.8% from 45.2% in 2013;
- operating income was \$132.7 million, up \$1.1 million or 0.8% from \$131.6 million in the first quarter last year;
- we incurred \$12.0 million in pre-tax expenses related to acquisitions, integration expenses related to acquisitions, change in fair value of contingent consideration, and litigation related expenses;
- cash flow from operations was \$144.5 million.

Table of ContentsTHREE MONTHS ENDED MARCH 31, 2014 COMPARED TO
THREE MONTHS ENDED MARCH 31, 2013

The following summarizes the Company's operations:

In thousands, except per share data

| | Three Months Ended March 31, | | | |
|---|------------------------------|-------|-----------|-------|
| | 2014 | | 2013 | |
| | \$ | % | \$ | % |
| Revenues | \$569,955 | 100.0 | \$513,804 | 100.0 |
| Cost of revenues | 301,760 | 52.9 | 269,673 | 52.5 |
| Depreciation - cost of revenues | 12,726 | 2.2 | 12,037 | 2.3 |
| Total cost of revenues | 314,486 | 55.2 | 281,710 | 54.8 |
| Gross profit | 255,469 | 44.8 | 232,094 | 45.2 |
| Selling, general and administrative expenses (exclusive of items shown below) | 100,180 | 17.6 | 88,241 | 17.2 |
| Acquisition expenses | 3,221 | 0.6 | 1,803 | 0.4 |
| Integration expenses | 2,485 | 0.4 | 896 | 0.2 |
| Change in fair value of contingent consideration | 4,789 | 0.8 | — | — |
| Litigation expenses | 1,505 | 0.3 | 106 | — |
| Total SG&A expenses (exclusive of depreciation and amortization shown below) | 112,180 | 19.7 | 91,046 | 17.7 |
| Depreciation | 3,315 | 0.6 | 2,809 | 0.5 |
| Amortization | 7,315 | 1.3 | 6,642 | 1.3 |
| Income from operations | 132,659 | 23.3 | 131,597 | 25.6 |
| Net interest expense | 14,898 | 2.6 | 13,379 | 2.6 |
| Income tax expense | 37,291 | 6.5 | 41,983 | 8.2 |
| Net income | 79,770 | 14.0 | 75,222 | 14.6 |
| Less: net income attributable to noncontrolling interests | 621 | 0.1 | 605 | 0.1 |
| Net income attributable to Stericycle, Inc. | \$79,149 | 13.9 | \$74,617 | 14.5 |
| Earnings per share- diluted | \$0.91 | | \$0.85 | |

Revenues: Our revenues increased \$56.2 million, or 10.9%, in the first quarter of 2014 to \$570.0 million from \$513.8 million in the same period in 2013. Domestic revenues increased \$28.4 million, or 7.8%, to \$392.1 million from \$363.6 million in the same period in 2013. Organic revenue growth for domestic small account customers increased by \$15.8 million, or approximately 8%, driven by higher revenues from our Steri-Safe, StrongPak, and other regulated compliance services. Organic revenue from domestic large account customers increased by \$5.9 million, or approximately 5%, as we increased the total number of accounts and expanded our reusable sharps services, pharmaceutical waste, and regulated waste services for retailers. Organic revenues for recall and returns management services increased by \$0.5 million in 2014 driven by a higher quantity of recall events. Organic revenues exclude revenue growth attributed to businesses acquired within the preceding twelve months. Revenues from domestic acquisitions closed within the preceding twelve months contributed approximately \$6.2 million to the increase in revenues in the first quarter of 2014.

International revenues increased \$27.7 million, or 18.5%, in the first quarter of 2014, to \$177.9 million from \$150.2 million in the same period in 2013. Organic growth, currency rate fluctuations and acquisitions impact the comparison of 2014 and 2013. Organic growth in the international segment contributed \$9.1 million in revenues, or approximately 6%. Organic growth excludes the effect of foreign exchange and

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acquisitions and divestitures less than one year old. The effect of foreign exchange rates unfavorably impacted international revenues in 2014 by \$8.1 million as foreign currencies declined against the U.S. dollar. Revenue from international acquisitions, net of business divestitures, closed within the preceding twelve months contributed approximately \$26.7 million to the increase in revenues in the first quarter of 2014.

Cost of Revenues: Our cost of revenues increased \$32.8 million, or 11.6%, in the first quarter of 2014 to \$314.5 million from \$281.7 million in the same period in 2013. Our domestic cost of revenues increased \$12.4 million, or 6.7%, in the first quarter of 2014 to \$196.7 million from \$184.3 million in the same period in 2013 as a result of costs related to a proportional increase in revenues from acquisitions, organic growth, and the negative effect of inclement weather on our operations.

Our international cost of revenues increased \$20.4 million, or 20.9%, in the first quarter of 2014 to \$117.8 million from \$97.4 million in the same period in 2013 as a result of costs related to proportional increase in revenues from acquisitions and organic growth.

Our consolidated gross margin percentage decreased to 44.8% during the first quarter of 2014 from 45.2% during the same period in 2013. Domestic gross margin percentage increased to 49.8% during the first quarter of 2014 from 49.3% in the same period in 2013.

International gross margin decreased to 33.8% during the first quarter of 2014 from 35.1% during the same period in 2013. In general, international gross margins are lower than domestic gross margins because the international operations have fewer small account customers, which tend to provide higher gross margins. Historically, the international operations have had most of their revenues from large account customers, such as hospitals. As the international revenues increase, consolidated gross margins receive downward pressure due to this “business mix” shift, which may be offset by additional international small account market penetration, integration savings, and domestic business expansion.

Selling, General and Administrative Expenses: Excluding the effect of acquisition and integration expenses, and other items (collectively the “Acquisition-related and Other Non-Core Items”), depreciation, and amortization expenses, our selling, general and administrative (“SG&A”) expenses increased \$11.9 million, or 13.5%, in the first quarter of 2014 to \$100.2 million from \$88.2 million in the same period in 2013 primarily as investment spending supported the increase in revenues and acquired SG&A expenses. As a percentage of revenue, these costs increased to 17.6% in the first quarter of 2014 from 17.2% during the same period in 2013.

Domestically, first quarter SG&A expenses, excluding Acquisition-related and Other Non-Core Items, depreciation, and amortization expenses, increased \$4.0 million, or 6.2%, to \$68.9 million from \$64.9 million in the same period in 2013. As a percentage of revenues, SG&A was at 17.6% in the first quarter of 2014 and 17.8% in the same period in 2013. As a percentage of revenues, amortization expense of acquired intangible assets did not change.

Internationally, first quarter SG&A expenses, excluding Acquisition-related and Other Non-Core Items, depreciation, and amortization expenses, increased \$7.9 million, or 33.9%, to \$31.3 million from \$23.4 million in the same period in 2013. As a percentage of revenues, SG&A was at 17.6% in the first quarter of 2014 compared to 15.6% in the same period in 2013 in support of new business growth opportunities. As a percentage of revenues, amortization expense of acquired intangible assets did not change.

During the quarter ended March 31, 2014, we recognized \$3.2 million in acquisition expenses, \$2.5 million of expenses related to the integration of our acquisitions, \$4.8 million related to a change in the fair value of contingent consideration, and \$1.5 million in litigation expenses.

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During the quarter ended March 31, 2013, we recognized \$1.8 million in acquisition expenses, \$0.9 million of expenses related to the integration of our acquisitions, and \$0.1 million in litigation expenses.

Income from Operations: Income from operations increased \$1.1 million, or 0.8%, in the first quarter of 2014 to \$132.7 million from \$131.6 million in same period in 2013. Comparison of income from operations between the first quarter of 2014 and the same period of 2013 is affected by Acquisition-related and Other Non-Core Items described above in the SG&A section.

Domestically, our income from operations increased \$8.5 million, or 8.0%, to \$115.5 million in the first quarter of 2014 from \$107.0 million in the same period in 2013. Internationally, our income from operations decreased \$7.5 million, or 30.4%, to \$17.1 million in the first quarter of 2014 from \$24.6 million in the same period in 2013, primarily due to expense related to an increase in contingent consideration.

Net Interest Expense: Net interest expense increased to \$14.9 million during the first quarter of 2014 from \$13.4 million during the same period in 2013 due to increased borrowings and higher interest costs in Latin America.

Income Tax Expense: Income tax expense decreased to \$37.3 million in the first quarter of 2014 from \$42.0 million in the same period in 2013. The effective tax rates for the quarters ended March 31, 2014 and 2013 were 31.9% and 35.8%, respectively. The decrease in the current quarter tax rate as compared to the corresponding period in the prior year and the statutory tax rate is primarily related to a benefit from the recognition of tax deductible goodwill associated with entity mergers in Brazil.

LIQUIDITY AND CAPITAL RESOURCES

Our \$1.0 billion senior credit facility maturing in September 2016, our \$100.0 million private placement notes maturing April 2015, our \$175.0 million private placement notes maturing in October 2017, our \$125.0 million private placement notes maturing in December 2019, our \$225.0 million private placement notes maturing in October 2020, and our \$125.0 million private placement notes maturing in December 2022, all require us to comply with various financial, reporting and other covenants and restrictions, including a restriction on dividend payments. The financial debt covenants are the same for the senior credit facility and the private placement notes. At March 31, 2014, we were in compliance with all of our financial debt covenants.

As of March 31, 2014, we had \$218.3 million of borrowings outstanding under our \$1.0 billion senior unsecured credit facility, which includes foreign currency borrowings of \$107.8 million. We also had \$151.2 million committed to outstanding letters of credit under this facility. The unused portion of the revolving credit facility as of March 31, 2014 was \$630.5 million. At March 31, 2014, our interest rates on borrowings under our revolving credit facility were as follows:

▲ fee of 0.225% on our revolving credit facility.

✪ For borrowings less than two weeks, the higher of the following plus a spread of 0.025%

Federal funds rate plus 0.5%

Euro Currency rate plus 1.0% or the prime rate

✪ For borrowings greater than two weeks: LIBOR plus 1.025%.

The weighted average rate of interest on the unsecured revolving credit facility was 1.82% per annum, which includes the 0.225% facility fee at March 31, 2014.

As of March 31, 2014, we had outstanding \$100.0 million of seven-year 5.64% unsecured senior notes issued to nine institutional purchasers in a private placement completed in April 2008. Interest is payable in

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arrears semi-annually on April 15 and October 15 beginning on October 15, 2009, and principal is payable at the maturity of the notes on April 15, 2015.

As of March 31, 2014, we had outstanding \$175.0 million of seven-year 3.89% unsecured senior notes and \$225.0 million of 10-year 4.47% unsecured senior notes issued to 39 institutional purchasers in a private placement completed in October 2010. Interest is payable in arrears semi-annually on April 15 and October 15 beginning on April 15, 2011, and principal is payable at the maturity of the notes, October 15, 2017 in the case of the seven-year notes and October 15, 2020 in the case of the 10-year notes.

As of March 31, 2014, we had outstanding \$125.0 million of seven-year 2.68% unsecured senior notes and \$125.0 million of 10-year 3.26% unsecured senior notes issued to 46 institutional purchasers in a private placement completed in December 2012. Interest is payable in arrears semi-annually on June 12 and December 12 beginning on June 12, 2013, and principal is payable at the maturity of the notes, December 12, 2019 in the case of the seven-year notes and December 12, 2022 in the case of the 10-year notes.

As of March 31, 2014, we had \$251.2 million in promissory notes issued in connection with acquisitions during 2007 through 2014, \$144.6 million in foreign subsidiary bank debt outstanding, and \$6.3 million in capital lease obligations.

Working Capital: At March 31, 2014, our working capital decreased \$24.4 million to \$99.7 million compared to \$124.1 million at December 31, 2013.

Current assets decreased by \$32.2 million. Our cash and cash equivalents decreased by \$18.9 million primarily related to the cash used for recalled product reimbursement (offset by an equivalent amount in other current liabilities). Net accounts receivable decreased by \$5.7 million. Days sales outstanding (“DSO”) was calculated at 62 days at March 31, 2014 and 63 days at December 31, 2013 which was affected by strong collections in the first quarter of 2014. Current liabilities decreased by \$7.8 million, primarily related to a movement from current portion of bank debt to long-term portion due to debt refinancing and a decrease in product reimbursement liability, which was partially offset by increase in accounts payable and accrued liabilities.

Net Cash Provided or Used: Net cash provided by operating activities increased \$46.3 million, or 47.2%, to \$144.5 million during the three months ended March 31, 2014 compared to \$98.2 million for the comparable period in 2013. The increase is primarily related to stronger collections period over period. Cash provided by operations as a ratio to net income is 181% and 131% for the three months ended March 31, 2014 and 2013, respectively.

Net cash used in investing activities for the three months ended March 31, 2014 was \$30.6 million compared to \$35.4 million in the comparable period in 2013. We used \$6.6 million less in funds to acquire new businesses in 2014. Our capital expenditures, as a percentage of revenues, decreased to 2.9% in 2014 from 3.2% in the same period in 2013. Net cash used in financing activities was \$132.8 million during the three months ended March 31, 2014 compared to \$80.8 million in the comparable period in 2013. We had share repurchases of \$76.9 million in 2014 compared to \$7.2 million in 2013, an increase of \$69.8 million.

Guarantees: Shiraishi-Sogyo Co. Ltd. (“Shiraishi”) is an unrelated party in Japan that is expanding its medical waste management business. We have guaranteed Shiraishi’s loan of \$4.8 million borrowed from JPMorganChase Bank N.A. which is currently due on May 31, 2014. Based on information currently available, we have concluded the guarantee is not probable of being called and, therefore, we have not recorded any contingent liability relating to this guarantee. We have also extended non-interest bearing loans to Shiraishi for approximately \$15.5 million due April 18, 2018, which are reflected in the Condensed

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Consolidated Balance Sheet as part of long term "Other assets" at March 31, 2014 and December 31, 2013. There is a collateral agreement in place on the assets of Shiraishi and related companies in support of amounts owed to the Company.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

We are subject to market risks arising from changes in interest rates. Our potential additional interest expense over one year that would result from a hypothetical, instantaneous and unfavorable change of 100 basis points in the interest rate on all of our variable rate obligations would be approximately \$3.6 million on a pre-tax basis.

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

We have exposure to foreign currency fluctuations. We have subsidiaries in eleven foreign countries whose functional currency is the local currency. We have operations in Argentina that has seen an erosion of the value of the Argentine Peso when compared to the U.S. Dollar. We translate results of operations of our international operations using an average exchange rate. Changes in foreign currency exchange rates could unfavorably impact our consolidated results of operations.

ITEM 4. CONTROLS AND PROCEDURES

Disclosure Controls and Procedures

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

The term "disclosure controls and procedures" is defined in Rule 13a-15(e) of the Securities Exchange Act of 1934 as "controls and other procedures designed to ensure that information required to be disclosed by the issuer in the reports, files or submits under the Act is recorded, processed, summarized and reported, within the time periods specified in the Securities and Exchange Commission's rules and forms." Our disclosure controls and procedures are designed to ensure that material information relating to us and our consolidated subsidiaries is accumulated and communicated to our management, including our President and Chief Executive Officer and our Chief Financial Officer, as appropriate to allow timely decisions regarding our required disclosures.

Internal Control Over Financial Reporting

The term internal control over financial reporting is defined as a process designed by, or under the supervision of, the issuers' principal executive and principal financial officers, and effected by the issuer's Board of Directors, management, and other personnel, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. During the quarter ended March 31, 2014, there were no changes in our internal controls over financial reporting that have materially affected, or are reasonably likely to materially affect, our internal controls over financial reporting.

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

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

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PART II. – OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

See Note 12 - Legal Proceedings, in the Notes to the Condensed Consolidated Financial Statements (Item 1 of Part I).

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

In February 2014, at a time when we had purchased an additional 4,084,242 shares since the prior increase in authorization, our Board of Directors authorized us to purchase up to an additional 4,084,242 shares, thereby again giving the Company the authority to purchase up to a total of 6,000,000 additional shares.

Under resolutions that our Board of Directors has adopted, we have been authorized to purchase a cumulative total of 24,621,640 shares of our common stock on the open market. As of March 31, 2014, we had purchased a cumulative total of 18,895,910 shares.

The following table provides information about our purchases of shares of our common stock during the three months ended March 31, 2014:

Issuer Purchase of Equity Securities

| Period | Total Number of Share (or Units) Purchased * | Average Price Paid per Share (or Unit) | Total Number of Shares (or Units) Purchased as Part of Publicly Announced Plans or Programs | Maximum Number of Shares (or Units) that May Yet Be Purchased Under the Plans or Programs |
|--------------------------------|--|--|---|---|
| January 1 - January 31, 2014 | 193,172 | \$115.04 | 193,172 | 2,134,306 |
| February 1 - February 28, 2014 | 406,260 | 114.11 | 406,260 | 5,812,288 |
| March 1 - March 31, 2014 | 86,558 | 112.72 | 86,558 | 5,725,730 |

ITEM 6. EXHIBITS

| | |
|------|--|
| 31.1 | Rules 13a-14(a)/15d-14(a) Certification of Charles A. Alutto, President and Chief Executive Officer |
| 31.2 | Rule 13a-14(a)/15d-14(a) Certification of Frank J.M. ten Brink, Executive Vice President and Chief Financial Officer |
| 32 | Section 1350 Certification of Charles A. Alutto, President and Chief Executive Officer, and Frank J.M. ten Brink, Executive Vice President and Chief Financial Officer |

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

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SIGNATURES

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

Dated: May 8, 2014

STERICYCLE, INC.

(Registrant)

By: /s/ Frank J.M. ten Brink

Frank J.M. ten Brink

Executive Vice President and Chief Financial Officer (Principal Financial and Accounting Officer)