FIRST INTERSTATE BANCSYSTEM INC
Form PRE 14A
January 22, 2010

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington D.C. 20549
SCHEDULE 14A INFORMATION

Proxy Statement Pursuant to Section 14(a) of the Securities Exchange Act of 1934 (Amendment No. ____)

Filed by the Registrant þ
Filed by a Party other than the Registrant o
Check the appropriate box:

- þ Preliminary Proxy Statement
- o **Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))**
- o Definitive Proxy Statement
- o Definitive Additional Materials
- o Soliciting Material Pursuant to §240.14a-12

FIRST INTERSTATE BANCSYSTEM, INC.

(Name of Registrant as Specified in its Charter)
N/A

(Name of Person(s) Filing Proxy Statement, if Other Than the Registrant)

Payment of Filing Fee (Check the appropriate box):

- þ No fee required.
- o Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.
  1) Title of each class of securities to which transaction applies:
  2) Aggregate number of securities to which transaction applies:
  3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (set forth the amount on which the filing fee is calculated and state how it was determined):
  4) Proposed maximum aggregate value of transaction:
  5) Total fee paid:
- o Fee paid previously with preliminary materials.
- o

Check box if any part of the fee is offset as provided by Exchange Act Rule 0-11(a)(2) and identify the filing for which the offsetting fee was paid previously. Identify the previous filing by registration statement number, or the form or schedule and the date of its filing.

1) Amount Previously Paid:

2) Form, Schedule or Registration Statement No.:

3) Filing Party:

4) Date Filed:

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FIRST INTERSTATE BANCSYSTEM, INC.
401 North 31st Street
P.O. Box 30918
Billings, Montana 59116-0918
(406) 255-5390

NOTICE OF SPECIAL MEETING OF SHAREHOLDERS

Date: , February , 2010

Time: a.m., Mountain Standard Time

Place: First Interstate Bank, Lower Level Conference Room
401 North 31st Street
Billings, Montana 59101

Purposes: To approve our Amended and Restated Articles of Incorporation, which will effect the following proposed amendments to our existing Restated Articles of Incorporation, or

Existing Articles:

Proposal No. 1. To approve an amendment to our Existing Articles to recapitalize our common stock as follows: (i) redesignate our existing common stock as Class B common stock, with five votes per share, which upon transfer, except for certain permitted transfers, would automatically convert into shares of Class A common stock; (ii) increase the number of authorized shares of Class B common stock to 100,000,000 shares; (iii) provide for a forward stock split ranging from 3:1 to 5:1 shares of Class B common stock; and (iv) create a new class of common stock designated as Class A common stock, with one vote per share, consisting of 100,000,000 shares.

Proposal No. 2. To approve an amendment to our Existing Articles to require the approval of the greater of (a) a majority of the voting power of the issued and outstanding shares of capital stock then entitled to vote on such transaction, voting together as a single class, and (b) 66 2/3% of the voting power of the shares of capital stock present in person or represented by proxy at a shareholder meeting called to consider such transaction, and entitled to vote thereon, voting together as a single class, to effect any change of control transaction.

Proposal No. 3. To approve an amendment to our Existing Articles, consistent with other public companies, to limit the personal liability of directors to the fullest extent permitted by Montana law.

Proposal No. 4. To approve an amendment to our Existing Articles to provide for indemnification of our directors and officers to the fullest extent permitted by Montana law.

Proposal No. 5. To approve an amendment to our Existing Articles to provide that special meetings of shareholders may only be called by our Board of Directors, our Chief Executive Officer, or holders of more than 20% of the total voting power of our outstanding shares of common stock.

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Who Can Vote: Holders of record of our common stock at the close of business on , 2010.

How You Can Vote: You may vote by attending the meeting in person, or you may vote by marking, signing, and mailing a proxy to us.

Whether or not you plan to attend the special meeting, please complete, sign, date and return a proxy to us. You may return by mail the proxy included with this Notice of Special Meeting and accompanying Proxy Statement or you may download a proxy from the website referred to in the accompanying Notice of Internet Availability of Proxy Materials.

BY ORDER OF THE BOARD OF DIRECTORS

/s/ THOMAS W. SCOTT

Thomas W. Scott

Chairman of the Board of Directors

Billings, Montana

February , 2010

YOUR VOTE IS IMPORTANT. TO VOTE YOUR SHARES, PLEASE MARK, SIGN AND DATE THE PROXY THAT IS ENCLOSED HEREWITH OR THAT YOU MAY DOWNLOAD FROM THE WEBSITE REFERRED TO IN THE NOTICE OF INTERNET AVAILABILITY OF PROXY MATERIALS.

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PROXY STATEMENT
FOR
A SPECIAL MEETING OF SHAREHOLDERS
OF
FIRST INTERSTATE BANCSYSTEM, INC.

Solicitation Information

This Proxy Statement and the accompanying proxy are being mailed to our shareholders and also being made available to shareholders on the Internet at www.mimics.com/FirstInterstate on or about February , 2010. Our Board of Directors is soliciting your proxy to vote your shares at a special meeting of shareholders to be held on February , 2010. The Board of Directors is soliciting your proxy to give all shareholders the opportunity to vote on matters that will be presented at the special meeting. This proxy statement provides you with information on these matters to assist you in voting your shares.

In addition to mailing our proxy materials to shareholders, we are posting these materials on the Internet in accordance with the Securities and Exchange Commission, or SEC, e-proxy rules, as explained in the accompanying Notice of Internet Availability of Proxy Materials, or Notice. All shareholders will have the ability to access the proxy materials on the website referred to above and in the Notice in addition to receiving hard copies. Instructions on how to access the proxy materials on the Internet may be found in the Notice. Instructions on how to download a proxy for voting at the special meeting is also contained in the Notice.

When we refer to we, our, and us in this proxy statement, we mean First Interstate BancSystem, Inc. and our consolidated subsidiaries, unless the context indicates that we refer only to the parent company, First Interstate BancSystem, Inc.

What is a proxy?

A proxy is your legal designation of another person to vote on your behalf. By completing and returning the enclosed form of proxy, you are giving the persons designated in the proxy the authority to vote your shares in the manner you indicate on the form of proxy.

Why did I receive more than one form of proxy?

You will receive multiple proxies if you hold your shares in different ways (e.g., joint tenancy, trusts, and custodial accounts) or in multiple accounts. If your shares are held by a broker or trustee, you will receive your proxy card or other voting information from your broker or trustee, and you should return your proxy card to your broker or trustee. You should vote on and sign each proxy card you receive.

Who pays the cost of this proxy solicitation?

We pay the costs of soliciting proxies. Upon request, we will reimburse brokers, banks, trusts and other nominees for reasonable expenses incurred by them in forwarding proxy materials to beneficial owners of our common stock.

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Is this proxy statement the only way that proxies are being solicited?

In addition to these proxy materials, certain of our directors, officers and employees may solicit proxies by telephone, facsimile, e-mail or personal contact. They will not be specifically compensated for doing so.

Voting Information

Who is qualified to vote?

You are qualified to receive notice of and to vote at the special meeting if you own shares of our common stock at the close of business on our record date of , 2010.

How many shares of common stock may vote at the special meeting?

As of the record date, there were shares of our common stock outstanding and entitled to vote. Each share of common stock is entitled to one vote on each matter presented.

Is there a quorum requirement?

For the special meeting to be valid, there must be a quorum present. A quorum requires that more than 50% of the outstanding shares of our common stock be represented at the meeting, whether in person or by proxy.

What is the difference between a shareholder of record and other beneficial holders?

These terms describe how your shares are held. If your shares are registered directly in your name, you are a shareholder of record. If your shares are held in the name of a broker, bank, trust or other nominee as a custodian, you are a beneficial holder.

How do I vote my shares?

If you are a shareholder of record, you can vote your proxy:

by mailing in the form of proxy that is enclosed herewith or that you may download from the website referred to in the Notice; or

by designating another person to vote your shares with your own form of proxy.

Please refer to the specific instructions set forth on the proxy.

If you are a beneficial holder, your broker, bank, trust or other nominee will provide you with materials and instructions for voting your shares.

Can I vote my shares in person at the special meeting?

If you are a shareholder of record, you may vote your shares in person at the special meeting. If you are a beneficial holder, you must obtain a proxy from your broker, bank, trust or other nominee giving you the right to vote the shares at the special meeting.

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What is the Board of Directors recommendation on how I should vote my shares?

Proposal 1 The Board of Directors recommends that you vote your shares FOR the approval of the proposal to amend our Existing Articles to recapitalize our common stock as follows: (i) redesignate our existing common stock as Class B common stock, with five votes per share, which upon transfer, except for certain permitted transfers, would automatically convert into shares of Class A common stock; (ii) increase the number of authorized shares of Class B common stock to 100,000,000 shares; (iii) provide for a forward stock split ranging from 3:1 to 5:1 shares of Class B common stock; and (iv) create a new class of common stock designated as Class A common stock, with one vote per share, consisting of 100,000,000 shares.

Proposal 2 The Board of Directors recommends that you vote your shares FOR the approval of the proposal to amend our Existing Articles to require the approval of the greater of (a) a majority of the voting power of the issued and outstanding shares of capital stock then entitled to vote on such transaction, voting together as a single class, and (b) 66 2/3% of the voting power of the shares of capital stock present in person or represented by proxy at a shareholder meeting called to consider such transaction, and entitled to vote thereon, voting together as a single class, to effect any change of control transaction.

Proposal 3 The Board of Directors recommends that you vote your shares FOR the approval of the proposal to amend our Existing Articles, consistent with other public companies, to limit the personal liability of directors to the fullest extent permitted by Montana law.

Proposal 4 The Board of Directors recommends that you vote your shares FOR the approval of the proposal to amend our Existing Articles to provide for indemnification of our directors and officers to the fullest extent permitted by Montana law.

Proposal 5 The Board of Directors recommends that you vote your shares FOR the approval of the proposal to amend our Existing Articles to provide that special meetings of shareholders may only be called by our Board of Directors, our Chief Executive Officer, or holders of more than 20% of the total voting power of the outstanding common stock.

What are my choices when voting?

You may cast your vote in favor of approving all or any of the proposals that will amend our Existing Articles or you may vote against approving all or any of the proposals that will amend our Existing Articles.

How would my shares be voted if I do not specify how they should be voted?

If you sign and return your proxy without indicating how you want your shares to be voted, the proxies appointed by the Board of Directors will vote your shares FOR approval of all the proposals to amend our Existing Articles.

How are votes withheld, abstentions and broker non-votes treated?

Votes withheld and abstentions are deemed as present at the special meeting, are counted for quorum purposes, and will have the same effect as a vote against a matter. Broker non-votes, if any, while counted for general quorum purposes, are not deemed to be present with respect to any matter for which a broker does not have authority to vote.

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Can I change my vote after I have mailed in my proxy?

You may revoke your proxy by doing one of the following:

sending a written notice of revocation to our secretary that is received prior to the special meeting, stating that you revoke your proxy;

signing a later-dated proxy and submitting it so that it is received prior to the special meeting in accordance with the instructions included in the proxy(s); or

attending the special meeting and voting your shares in person (attendance alone will not revoke a proxy).

What vote is required?

To be approved by our shareholders, the proposals to amend our Existing Articles must receive the affirmative vote of a majority of the outstanding shares of our common stock.

Who will count the votes?

Representatives from First Interstate Bank s audit department will count the votes and serve as our inspectors of election. The inspectors of election will be present at the special meeting.

What if I have further questions?

If you have any further questions about voting your shares or attending the special meeting, please contact our secretary, Carol Stephens Donaldson, at (406) 255-5378, or e-mail: carol.donaldson@fib.com.

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PROPOSED AMENDMENTS TO OUR RESTATED ARTICLES OF INCORPORATION

If approved, the following Proposals No. 1 through 5 will each result in an amendment to our Existing Articles. The adoption of one proposal is not conditioned on the adoption of any other proposal. If all six proposals are approved by our shareholders, then we will adopt the proposed Amended and Restated Articles of Incorporation in their entirety, in the form attached hereto as Annex A. If less than all of the six proposals are approved by our shareholders, then we will adopt only those amendments to our Existing Articles that have been approved. If any of the following proposals are approved by our shareholders, either in addition to the other proposed amendments or by itself, we will file Amended and Restated Articles of Incorporation with the Montana Secretary of State, which will include only the amendments approved by our shareholders at the special meeting, promptly after the special meeting. Such Amended and Restated Articles of Incorporation will become effective upon filing with the Montana Secretary of State and the occurrence of the effective time specified at the time of such filing.

Contemplated Initial Public Offering

On January 15, 2010, we filed a registration statement with the SEC for a proposed initial public offering of shares of Class A common stock. We intend to use the net proceeds from the offering to support our long-term growth, repay variable rate term notes issued under our syndicated credit agreement and for general corporate purposes, including potential strategic acquisitions. We intend to list the Class A common stock on the NASDAQ Stock Market under the symbol FIBK.

Our Board of Directors has determined that the amendments to the Existing Articles included in Proposals No. 1 through 5 are necessary and appropriate in connection with the proposed initial public offering. Certain members of the Scott family, who collectively hold more than a majority of our existing common stock, have indicated they intend to vote for Proposals No. 1 through 5, thereby assuring approval and adoption of such proposals by the shareholders. Even if all of the proposed amendments to our Existing Articles are approved and adopted, however, there can be no assurance that we will be successful in consummating the initial public offering.

The proposed initial public offering will be made by means of a prospectus. The securities to be included in the offering may not be sold nor may offers to buy be accepted prior to the time the registration statement filed with the SEC becomes effective. Nothing contained in this proxy statement constitutes an offer to sell or the solicitation of an offer to buy nor shall there be any sale of securities in any state or jurisdiction in which such offer, solicitation or sale would be unlawful prior to registration or qualification under the securities laws of any such state or jurisdiction.

This proxy statement contains forward-looking statements regarding our proposed initial public offering. These statements involve known and unknown risks that are difficult to predict, including future market conditions and other factors. Therefore, actual events may differ materially from those expressed in or implied by these forward-looking statements. Forward-looking statements speak only as of the date they are made and we do not undertake or assume any obligation to update publicly any of these statements to reflect actual results, new information or future events, changes in assumptions or changes in other factors affecting forward-looking statements, except to the extent required by applicable laws. If we update one or more forward-looking statements, no inference should be drawn that we will make additional updates with respect to those or other forward-looking statements.

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1. Proposal No. 1: Amendment to our Existing Articles to recapitalize our common stock.

Purpose and Effects of Proposal No. 1

Redesignation of our common stock; Creation of Class A common stock and dual class structure

Our Existing Articles currently provide for one class of common stock. If we proceed with the initial public offering, the ownership of our company by existing shareholders, including the Scott family, will be diluted and, depending on the number of shares sold in the offering by us and the selling shareholders to be named in the registration statement, it is possible the Scott family could own less than a majority of the outstanding shares of common stock.

Our Board of Directors has determined that maintaining current control by existing shareholders and the Scott family is critical in retaining our community banking model and practices, our existing corporate values, principles and strategic vision, and our commitment to the communities we serve. Thus, on January 12, 2010, our Board of Directors approved the proposed recapitalization of our common stock to include a dual class structure that provides for two classes of common stock. As discussed below, this structure would allow existing shareholders, including members of the Scott family, to retain more than 50% voting control of our company (through ownership of high vote shares of Class B common stock) even though their economic ownership may be less than 50%.

Under the proposed recapitalization of our common stock, we intend to amend our Existing Articles to provide for two classes of common stock: Class A common stock, which will have one vote per share; and Class B common stock, which will have five votes per share. If our shareholders approve Proposal No. 1, our existing common stock will be redesignated as Class B common stock, and current holders of our common stock will automatically become holders of the Class B common stock.

The proposed recapitalization also includes an increase in the number of authorized shares of Class B common stock to 100,000,000 shares and the authorization of 100,000,000 shares of Class A common stock. We are proposing to create the Class A common stock in order to have sufficient shares to effect the contemplated initial public offering of our Class A common stock and any subsequent public offerings of such stock. We are proposing the recapitalization and dual class structure in order to ensure that upon the successful completion of the offering, our principal shareholders, including members of the Scott family, will be able to retain voting control of our company and be able to determine virtually all matters submitted to shareholders, including potential change in control transactions.

As noted above, we intend to list the Class A common stock for trading on the NASDAQ Stock Market upon completion of the offering. The Class B common stock will not be listed on the NASDAQ Stock Market or any other exchange. At any time, a holder of Class B common stock may convert his or her shares into shares of Class A common stock on a share-for-share basis. The shares of Class B common stock will be automatically converted into shares of Class A common stock on a share-for-share basis upon any transfer of the Class B common stock, except for certain permitted transfers discussed below. The shares of Class B common stock will also be automatically converted into shares of Class A common stock on a share-for-share basis when the aggregate number of shares of Class B common stock is less than 20% of the aggregate number of shares of our then outstanding Class A common stock and Class B common stock combined.

Except for the voting and conversion rights identified above, the rights of the two classes of our common stock will be identical. The rights of the Class A common stock and Class B common stock are discussed in greater detail below.

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In the proposed initial public offering, a number of shareholders will be required to enter into lock-up agreements containing certain transfer restrictions. These agreements will generally prevent such shareholders, consisting of the seventeen directors and five executive officers of First Interstate BancSystem, Inc., together with certain members of the Scott family and other holders of sizeable positions of our common stock, from selling any shares of Class A common stock, including those resulting from conversion of their shares of Class B common stock, in the public market for a period of six (6) months following the closing of the offering. These shareholders will, however, be given the opportunity to sell shares of their Class A common stock in the offering as selling shareholders if they desire to do so.

Holders of our existing common stock are generally required to enter into shareholder agreements that contain transfer restrictions with respect to the common stock. If Proposal No. 1 is approved by our shareholders and we successfully complete the proposed initial public offering, future holders of our common stock will not be required to enter into existing or similar shareholder agreements. Except for the shareholder agreement that exists among Scott family members, which agreement may be amended or replaced in contemplation of the initial public offering, all existing shareholder agreements will, by their own terms, terminate upon the successful completion of the proposed initial public offering.

Dividends. The holders of our Class A common stock and Class B common stock will be entitled to share equally in any dividends that the Board of Directors may declare from time to time from legally available funds, subject to limitations under applicable law and the preferential rights of holders of any outstanding shares of preferred stock. In addition, we must be in compliance with the covenants in our various debt agreements in order to pay dividends. If a dividend is paid in the form of shares of common stock or rights to acquire shares of common stock, the holders of Class A common stock will be entitled to receive Class A common stock, or rights to acquire Class A common stock, as the case may be, and the holders of Class B common stock will be entitled to receive Class B common stock, or rights to acquire Class B common stock, as the case may be.

Liquidation. Upon any voluntary or involuntary liquidation, dissolution, distribution of assets or winding up of our company, the holders of our Class A common stock and Class B common stock are entitled to share equally, on a per share basis, in all our assets available for distribution, after payment to creditors and subject to any prior distribution rights granted to holders of any outstanding shares of preferred stock.

Voting. The holders of our Class A common stock will be entitled to one vote per share and the holders of our Class B common stock will be entitled to five votes per share on any matter to be voted upon by the shareholders. Holders of Class A common stock and Class B common stock will vote together as a single class on all matters (including the election of directors) submitted to a vote of shareholders, unless otherwise required by law. The holders of common stock will not be entitled to cumulative voting rights with respect to the election of directors, which means that the holders of a majority of the voting power of the shares voted can elect all of the directors then standing for election.

Conversion. Our Class A common stock will not be convertible into any other shares of our capital stock. Each share of Class B common stock will be convertible at any time, at the option of the holder, into one share of Class A common stock. Each share of Class B common stock will automatically be converted on a share-for-share basis upon any sale, assignment or other transfer, except for permitted transfers as set forth in our proposed Amended and Restated Articles of Incorporation. In general, permitted transfers consist of transfers to the holder s spouse, certain of the holder s relatives, the trustees of certain trusts established for their benefit, corporations, limited liability companies and partnerships wholly-owned by the holders and their relatives, the holder s estate and other holders of Class B common stock who are members of the Scott family. Furthermore, the Class B common stock will not be listed on the NASDAQ

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Stock Market or any other exchange. Therefore, no trading market is expected to develop in the Class B common stock.

All shares of Class B common stock will convert automatically into shares of Class A common stock if, on any record date for determining the shareholders entitled to vote at an annual or special meeting of shareholders, the total number of shares of Class B common stock is less than 20% of the aggregate number of shares of our then outstanding Class A common stock and Class B common stock combined.

Once converted into Class A common stock, the Class B common stock cannot be reissued. No class of common stock may be subdivided or combined unless the other class of common stock concurrently is subdivided or combined in the same proportion and in the same manner.

Other than in certain situations discussed below under the heading *Other Provisions*, we will not be authorized to issue additional shares of Class B common stock following the recapitalization.

Preferred Stock. Our Board of Directors is authorized, without approval of the holders of common stock, to provide for the issuance of preferred stock from time to time in one or more series in such number and with such designations, preferences, powers and other special rights as may be stated in the resolution or resolutions providing for such preferred stock. Our Board of Directors may cause us to issue preferred stock with voting, conversion and other rights that could adversely affect the holders of the common stock or make it more difficult to effect a change in control.

In connection with the acquisition of First Western Bank in January 2008, our Board of Directors authorized the issuance of the Series A Preferred Stock, which ranks senior to our common stock and to all equity securities issued by us with respect to dividend and liquidation rights. The Series A Preferred Stock has no voting rights, other than with respect to (i) the creation or issuance of equity securities on a parity with or senior to the Series A Preferred Stock, (ii) any amendment to our articles of incorporation that materially and adversely affects any right of the Series A Preferred Stock, or (iii) the right to elect directors in the limited situation described below. Holders of the Series A Preferred Stock are entitled to receive, when and if declared by the Board of Directors, noncumulative cash dividends at an annual rate of $675 per share (based on a 360 day year). In the event dividends are not paid for three consecutive quarters, the Series A Preferred Stock holders are entitled to elect two members to our Board of Directors, but do not otherwise have the right to elect directors. The Series A Preferred Stock is subject to indemnification obligations and set-off rights pursuant to the purchase agreement entered into at the time of the First Western acquisition. We may, at our option, redeem all or any part of the outstanding Series A Preferred Stock at any time after January 10, 2013, subject to certain conditions, at a price of $10,000 per share plus accrued but unpaid dividends at the date fixed for redemption. The Series A Preferred Stock may be redeemed prior to January 10, 2013 only in the event we are entitled to exercise our set-off rights pursuant to the First Western purchase agreement. After January 10, 2018, the Series A Preferred Stock may be converted, at the option of the holder, into shares of our common stock (or Class B common stock if the proposed Amended and Restated Articles of Incorporation are approved) at a ratio of 80 shares (prior to giving effect to the forward stock split discussed below) of common stock (or Class B common stock if the proposed Amended and Restated Articles of Incorporation are approved) for every one share of Series A Preferred Stock.

Anti-Takeover Effects

The recapitalization of our common stock and creation of a dual class structure could have the effect of delaying or preventing a change of control of the company. These measures could discourage persons from attempting to gain control because of the ability of the holders of the Class B common stock to

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maintain voting control provided the outstanding shares of Class B common stock constitute 20% or more of the total outstanding shares of Class A common stock and Class B common stock combined.

The increase in the authorized number of shares of common stock and the subsequent issuance of such shares could also have the effect of delaying or preventing a change of control of the company without further action by the shareholders. Shares of authorized and unissued common stock could (within the limits imposed by applicable law) be issued in one or more transactions that would make a change of control more difficult, and therefore less likely. The additional authorized shares could be used to discourage persons from attempting to gain control by diluting the voting power of shares then outstanding or increasing the voting power of persons who would support the Board of Directors in a potential takeover scenario.

In addition, the increased number of shares authorized by the proposed amendment could permit the Board of Directors to issue common stock to persons supportive of management s position. Such persons might then be in a position to vote to prevent or delay a proposed business combination that is deemed unacceptable to the Board of Directors, although perceived to be desirable by some shareholders. Any such issuance could provide management with a means to block any vote that might be used to effect a business combination in accordance with the Amended and Restated Articles of Incorporation. The amendment to our Existing Articles included in Proposal No. 2 may also have anti-takeover effects, if approved. See Purpose and Effects of Proposal No. 2 Anti-takeover Effects.

Other Provisions

Our proposed Amended and Restated Articles of Incorporation prohibit the issuance of any additional shares of Class B common stock following the recapitalization, unless we first obtain the approval of the holders of a majority of the shares of Class A common stock and Class B common stock, each voting as a separate class, except as follows: (i) shares of Class B common stock issued or issuable to officers, directors, consultants or employees of the company pursuant to outstanding awards granted under our existing stock option, restricted stock and similar plans, (ii) shares of Class B common stock issued or issuable upon conversion of our existing Series A Preferred Stock, and (iii) in connection with dividends and distributions, subdivisions or combinations, or mergers, consolidations, reorganizations or other business combinations involving stock consideration as provided for in our Amended and Restated Articles of Incorporation.

Stock Split

If Proposal No. 1 is approved, we will effect a forward stock split ranging from 3:1 to 5:1 shares of our newly designated Class B common stock (currently designated as our common stock). The definitive stock split, within the foregoing range, will be determined by a special committee of our Board of Directors, consisting of Thomas W. Scott, James R. Scott and Lyle R. Knight. This committee will make its determination immediately following the special meeting and prior to the filing of the Amended and Restated Articles of Incorporation. Our shareholders will not pay, and we will not receive, any payment or other consideration for the additional shares that will be issued in the stock split. A shareholder s equity interest in First Interstate BancSystem, Inc. will not increase or decrease as a result of the stock split.

Tax Effects of the Recapitalization

We have been advised that the proposed recapitalization, including the stock split, will result in no gain or loss or realization of taxable income to owners of common stock under existing United States federal income tax laws. The tax basis of each share of common stock held immediately before the

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recapitalization, including the stock split, will be allocated pro rata to the new shares of Class B common stock distributed with respect to the original share. Each new share will be deemed to have been acquired at the same time as the original share with respect to which the new share was issued. The laws of jurisdictions other than the United States may impose income taxes on the issuance of the additional shares, and shareholders are urged to consult their own tax advisers.

Additional Effects of the Recapitalization

The recapitalization will institute a new class of common stock, Class B common stock, which will permit existing shareholders, including members of the Scott Family, to retain voting control of the company while having their economic ownership percentage diluted by the contemplated initial public offering and sale of our Class A common stock. The stock split will reduce the per share price of our Class A common stock to a more acceptable level for an initial listing on a national securities exchange.

Upon the effectiveness of the recapitalization, including the stock split, appropriate adjustments will be made to stock options awarded and to be awarded under the company s stock options program. Under Montana law, the company s shareholders are not entitled to dissenters rights with respect to the proposed amendment to the Existing Articles. Furthermore, our shareholders do not have preemptive rights, which means they do not have the right to purchase shares in any future issuance of common stock in order to maintain their proportionate equity interests in the company.

Although the Board of Directors will authorize the further issuance of common stock after the recapitalization only when it considers such issuance to be in the best interests of the Company, shareholders should recognize that any such issuance of additional stock, including in the proposed initial public offering, could have the effect of diluting the earnings per share and book value per share of outstanding shares of common stock and the equity rights of holders of shares of common stock.

Issuance of New Stock Certificates or Book Entries

If Proposal No. 1 is approved and adopted, our shareholders will receive a letter of instruction from us following the special meeting of shareholders regarding replacing existing stock certificate(s). In lieu of issuing new replacement stock certificates, however, we are considering whether to adopt a book-entry system that does not require the issuance of physical stock certificates. A book-entry system has certain advantages over physical certificates to both the company and our shareholders, particularly as we prepare for the contemplated initial public offering. The letter of instruction will either provide information for exchanging certificates or information regarding book-entries, if we decide to adopt such a system. The letter will also notify shareholders of the definitive stock split amount within the range described above.

If Proposal No. 1 is approved, your existing shares of common stock will be replaced with the number of shares of Class B common stock you are entitled to receive, after giving effect to the forward stock split, either in certificated or book-entry form. Please do not destroy your existing stock certificate, and do not return such certificate to us at this time.

Recommendation of the Board of Directors

The Board of Directors has unanimously approved the recapitalization of our common stock as proposed pursuant to Proposal No. 1 and has determined that the recapitalization is in the best interests of the company and its shareholders. The Board of Directors has examined numerous financing alternatives and after due consideration has determined that a public offering and the subsequent listing of our common stock on a national securities exchange is the preferred alternative and that the recapitalization, dual class

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structure and stock split are necessary steps in our preparations for an initial public offering. There can be no assurances that we will be successful in completing our contemplated initial public offering or that we will decide to move forward with a public offering.

THE BOARD OF DIRECTORS RECOMMENDS
THAT SHAREHOLDERS VOTE FOR PROPOSAL NO. 1

Holders of shares of existing common stock representing a majority of the voting power, present in person or represented by proxy, shall constitute a quorum. The inspector of elections appointed by the company will count all votes cast, in person or by proxy, before the closing of the polls at the meeting.

The affirmative vote of the holders of a majority of the outstanding shares of common stock entitled to vote at the meeting is required to approve the proposed amendment. Any shares not voted (whether the votes are withheld or by abstention or broker non-votes) will have the effect of a vote against the proposed amendment. We expect that certain members of the Scott Family, who own more than a majority of the outstanding common stock, will vote for Proposal No. 1, thereby assuring approval of such proposal.

The foregoing is only a summary of certain amendments to our Existing Articles. Shareholders are encouraged to read the full text of the Amended and Restated Articles of Incorporation set forth in Annex A.

2. Proposal No. 2: Amendment to our Existing Articles to require the approval of the greater of (a) a majority of the voting power of the issued and outstanding shares of capital stock then entitled to vote on such transaction, voting together as a single class, and (b) 66 2/3% of the voting power of the shares of capital stock present in person or represented by proxy at a shareholder meeting called to consider such transaction, and entitled to vote thereon, voting together as a single class, to effect any change of control transaction.

Purpose and Effects of Proposal No. 2

Proposal No. 2 will amend our Existing Articles to increase the votes required to consummate a change in control transaction. Pursuant to Proposal No. 2, we will not be able to consummate a change in control transaction without obtaining the greater of (a) a majority of the voting power of the issued and outstanding shares of capital stock then entitled to vote on such transaction, voting together as a single class, and (b) 66 2/3% of the voting power of the shares of capital stock present in person or represented by proxy at a shareholder meeting called to consider such transaction, and entitled to vote thereon, voting together as a single class.

As defined in the amendment proposed pursuant to Proposal No. 2, a change in control transaction includes (a) the sale, encumbrance or disposition of all or substantially all of our assets, (b) a merger or consolidation, other than a merger or consolidation which would result in our voting securities outstanding immediately prior to the transaction continuing to represent more than 50% of the total voting power represented by the voting securities immediately after such transaction, or (c) our issuance of voting securities representing more than 2% of the total voting power before such issuance, to any person or persons acting as a group, such that following such transactions, such group would hold more than 50% of our total voting power. Our Existing Articles do not require us to obtain super-majority shareholder approval in order to consummate a change in control transaction.

Anti-takeover Effects

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The proposed amendment to our Existing Articles to increase the votes required to consummate a change in control transaction will have anti-takeover effects and could have the effect of delaying or preventing a change of control of the company. The higher voting threshold could also allow a group of minority shareholders to have veto power over a change in control transaction that may be desirable to other shareholders. The Board of Directors is not proposing this amendment in connection with any specific effort to obtain control of us. The proposed amendments would also require a sixty-six and two-third percent vote to amend the change in control supermajority voting requirement. The amendments to our Existing Articles included in Proposal No. 1 may also have anti-takeover effects, if approved. See Purpose and Effects of Proposal No. 1 Anti-takeover Effects.

Recommendation of the Board of Directors

The Board of Directors has unanimously approved the amendment proposed pursuant to Proposal No. 2 and has determined that increasing the votes required to effect a change in control transaction is in the best interests of the company and its shareholders. The Board of Directors believes that the super majority standard will encourage bidders in a change in control transaction to negotiate directly with our Board of Directors and give our Board of Directors substantial bargaining leverage that will inure to the benefit of all shareholders.

THE BOARD OF DIRECTORS RECOMMENDS
THAT SHAREHOLDERS VOTE FOR PROPOSAL NO. 2

Holders of shares of common stock representing a majority of the voting power, present in person or represented by proxy, shall constitute a quorum. The inspector of elections appointed by the company will count all votes cast, in person or by proxy, before the closing of the polls at the meeting.

The affirmative vote of the holders of a majority of the outstanding shares of common stock entitled to vote at the meeting is required to approve the proposed amendment. Any shares not voted (whether the votes are withheld or by abstention or broker non-votes) will have the effect of a vote against the proposed amendment. We expect that certain members of the Scott Family, who own more than a majority of the outstanding common stock, will vote for Proposal No. 2, thereby assuring approval of such proposal.

The foregoing is only a summary of certain amendments to our Existing Articles. Shareholders are encouraged to read the full text of the Amended and Restated Articles of Incorporation set forth in Annex A.

3. Proposal No. 3: Amendment to our Existing Articles, consistent with other public companies, to limit the personal liability of directors to the fullest extent permitted by Montana law.

Purpose and Effects of Proposal No. 3

Proposal No. 3 will amend our Existing Articles to enable us to limit the personal liability of directors to the fullest extent permitted by the Montana Business Corporation Act, or the Montana Act, including any amendments to the Montana Act that further eliminates or limits the personal liability of directors. Our Existing Articles do not limit our directors from personal liability.

Pursuant to the Montana Act, a corporation may eliminate or limit the liability of a director to the corporation or its shareholders for money damages for any actions taken, or any failure to take any action, as a director, except for liability for a financial benefit by a director, to which the director is not entitled,

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an intentional infliction of harm on the corporation or the shareholders, a director s vote for an unlawful distribution or an intentional violation of criminal law. If the proposed amendment is adopted, a director would not be liable to us or our shareholders in monetary damages for negligent or grossly negligent actions in the discharge of a director s fiduciary duty. However, the director s duty of care and duty of loyalty to us still remains, and we, and our shareholders, would retain the right to pursue equitable remedies such as an injunction or rescission of contract, although certain equitable remedies may not, as a practical matter, be available if our Board of Directors has already taken action. The proposed amendment will only apply to claims that arise against the director due to his or her role as a director, and would not apply to claims against a director in his role as an officer or employee. Furthermore, the amendment will not relieve a director from liabilities imposed on him or her under the federal securities laws.

Although we have been able to obtain insurance coverage for directors, we have generally experienced the increase in premiums and decrease in total coverage which we believe have been and are being experienced by many other corporations. Upon renewal of our insurance policies, we are exposed to renegotiation of premiums and coverage, as well as possible cancellation, in the future. The proposed amendment is designed to preserve at least a portion of the protection that our directors have had in the past if insurance coverage continues to decrease or becomes unavailable. If and to the extent that we are unable to obtain liability insurance protection at an acceptable cost, our assets and equity would be fully exposed, without benefit of insurance protection, to liabilities resulting from claims against directors formerly covered by insurance.

We have not experienced any difficulty in attracting and retaining qualified candidates to serve as directors, and the present members of the Board of Directors have been willing to serve as directors prior to the adoption of the proposed amendment regarding director liability. They have not expressed their intent to resign if this proposal is not approved by the shareholders. Nevertheless, inadequate liability protection and the uncertain availability of liability insurance poses the dangers that in the future we will be unable to attract the highly qualified directors for whom corporations compete and exposure to personal liability may adversely affect the ability of incumbent directors to make the difficult entrepreneurial decisions which are necessary in today s highly competitive business environment.

The Board of Directors will benefit directly from the proposed amendment since it would eliminate directors liability to us and our shareholders for monetary damages for breaches of their fiduciary duties (subject to the limitations described above), at the potential expense of shareholders rights to bring actions against the directors for negligence or gross negligence in their business decisions involving the company. However, the Board of Directors believes that such protection provided by the Montana Act is a significant factor in the competition among corporations for qualified directors and is necessary in order for the company to attract qualified directors, particularly if we are successful in completing our contemplated initial public offering. Additionally, the Board of Directors believes that the diligence exercised by the directors stems primarily from their desire to act in our best interest and the best interest of our shareholders and not from a concern about monetary damage awards. Consequently, the Board of Directors believes that the level of scrutiny and care exercised by the directors will not be lessened by the amendment.

Recommendation of the Board of Directors

The Board of Directors has unanimously approved the amendment proposed pursuant to Proposal No. 3 and has determined that limiting our directors from personal liability for monetary damages from breaches of fiduciary duty is in the best interests of the company and its shareholders. The Board of Directors believes that the proposed amendment to eliminate the personal liability of directors in certain instances is necessary in order to continue to attract and retain the best directors and will ensure that we are able to adequately insure our directors at a reasonable cost. The Board of Directors has determined

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that it is in the best interests of the company to provide protections for such directors who, in connection with performing their duties for the company, become subject to certain actions, suits or proceedings.

THE BOARD OF DIRECTORS RECOMMENDS
THAT SHAREHOLDERS VOTE FOR PROPOSAL NO. 3

Holders of shares of common stock representing a majority of the voting power, present in person or represented by proxy, shall constitute a quorum. The inspector of elections appointed by the company will count all votes cast, in person or by proxy, before the closing of the polls at the meeting.

The affirmative vote of the holders of a majority of the outstanding shares of common stock entitled to vote at the meeting is required to approve the proposed amendment. Any shares not voted (whether the votes are withheld or by abstention or broker non-votes) will have the effect of a vote against the proposed amendment. We expect that certain members of the Scott Family, who own more than a majority of the outstanding common stock, will vote for Proposal No. 3, thereby assuring approval of such proposal.

The foregoing is only a summary of certain amendments to our Existing Articles. Shareholders are encouraged to read the full text of the Amended and Restated Articles of Incorporation set forth in Annex A.

4. Proposal No. 4: Amendment to our Existing Articles to provide for indemnification of our directors and officers to the fullest extent permitted by Montana law.

Purpose and Effects of Proposal No. 4

Proposal No. 4 will amend our Existing Articles to provide for indemnification, to the fullest extent permitted by the Montana Act, of any director or officer made or threatened to be made a party to an action or proceeding, whether criminal, civil, administrative or investigative, by reason of the fact that such person is our director, officer, employee or agent at our request, or serves at any other enterprise in such capacity, at our request.

Our Existing Articles do not provide for indemnification of our directors and officers. Our Restated Bylaws, however, provide for the indemnification of directors and officers, including (a) the mandatory indemnification of a director or officer who was wholly successful, on the merits or otherwise, in the defense of any proceeding, (b) the permissible indemnification of directors and officers if a determination to indemnify such person has been made as prescribed by the Montana Act, and (c) for the reimbursement of reasonable expenses incurred by a director or officer who is party to a proceeding in advance of final disposition of the proceeding, if the determination to indemnify has been made pursuant to the Montana Act. The proposed amendment to our Existing Articles regarding indemnification of directors and officers will be in addition to the provisions contained in our Restated Bylaws.

The Montana Act provides that a corporation may indemnify its directors and officers. In general, the Montana Act provides that a corporation must indemnify a director or officer who is wholly successful in his defense of a proceeding to which he is a party because of his status as a director or officer, unless limited by the articles of incorporation. Pursuant to the Montana Act, a corporation may indemnify a director or officer, if it is determined that the director engaged in good faith and meets certain standards of conduct. A corporation may not indemnify a director or officer under the Montana Act when a director is adjudged liable to the corporation, or when such person is adjudged liable on the basis that a personal benefit was improperly received. The Montana Act also permits a director or officer of a corporation, who is a party to a proceeding, to apply to the courts for indemnification or advancement of expenses,

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unless the articles of incorporation provide otherwise and the court may order indemnification or advancement of expenses under certain circumstances.

Recommendation of the Board of Directors

The Board of Directors has unanimously approved the amendment proposed pursuant to Proposal No. 4 and has determined that providing for indemnification of our directors and officers is in the best interests of the company and its shareholders. The Board of Directors believes that the proposed amendment is necessary in order to continue to attract and retain qualified and talented directors and officers. The Board of Directors also believes that adding indemnification provisions to our Articles of Incorporation, as opposed to relying solely on the provisions of our Restated Bylaws, which may be amended by action of our Board of Directors, is desirable, as such a change will require approval of our Board of Directors and shareholders in the future to modify or remove such indemnification provisions. The Board of Directors has determined that it is in the best interests of the company to provide indemnification for such directors and officers who, in connection with performing their duties for the company, become subject to certain actions, suits or proceedings. The Board of Directors believes that our directors and officers should be provided with the maximum indemnification permitted under the Montana Act.

THE BOARD OF DIRECTORS RECOMMENDS
THAT SHAREHOLDERS VOTE FOR PROPOSAL NO. 4

Holders of shares of common stock representing a majority of the voting power, present in person or represented by proxy, shall constitute a quorum. The inspector of elections appointed by the company will count all votes cast, in person or by proxy, before the closing of the polls at the meeting.

The affirmative vote of the holders of a majority of the outstanding shares of common stock entitled to vote at the meeting is required to approve the proposed amendment. Any shares not voted (whether the votes are withheld or by abstention or broker non-votes) will have the effect of a vote against the proposed amendment. We expect that certain members of the Scott Family, who own more than a majority of the outstanding common stock, will vote for Proposal No. 4, thereby assuring approval of such proposal.

The foregoing is only a summary of certain amendments to our Existing Articles. Shareholders are encouraged to read the full text of the Amended and Restated Articles of Incorporation set forth in Annex A.

5. Proposal No. 5 Amendment to our Existing Articles to provide that special meetings of shareholders may only be called by our Board of Directors, our Chief Executive Officer, or holders of more than 20% of the total voting power of our outstanding common stock.

Purpose and Effects of Proposal No. 5

Proposal No. 5 will amend our Existing Articles to provide that, unless otherwise required by law, special meetings of shareholders may only be called by our Board, the Chairman of our Board, our Chief Executive Officer (or in the absence of the Chief Executive Officer, the President), or holders of more than 20% of the total voting power of our outstanding common stock. Our Existing Articles do not contain provisions regarding special meetings of shareholders. However, our current Bylaws provide that special meetings of shareholders may be called by our Board of Directors, the Chairman of our Board of Directors, and upon the written demand by holders of not less than 10% of all our outstanding shares entitled to vote at the meeting.

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Recommendation of the Board of Directors

The Board of Directors has unanimously approved the amendment proposed pursuant to Proposal No. 5 and has determined that amending our Existing Articles to provide that special meetings of shareholders may only be called by our Board, the Chairman of the Board, our Chief Executive Officer, or holders of more than 20% of the total voting power of our outstanding common stock is in the best interests of the company and its shareholders. The Board of Directors believes that the proposed amendment to our Existing Articles regarding the calling of special meetings of shareholders is necessary to provide flexibility, simplicity and convenience. The Board of Directors believes that the proposed amendment to permit holders of more than 20% of the total voting power of the outstanding common stock to call a special meeting of shareholders is necessary in order to ensure accountability to shareholders while enabling the Board and management to manage and run the company in an effective manner.

THE BOARD OF DIRECTORS RECOMMENDS
THAT SHAREHOLDERS VOTE FOR PROPOSAL NO. 5

Holders of shares of common stock representing a majority of the voting power, present in person or represented by proxy, shall constitute a quorum. The inspector of elections appointed by the company will count all votes cast, in person or by proxy, before the closing of the polls at the meeting.

The affirmative vote of the holders of a majority of the outstanding shares of common stock entitled to vote at the meeting is required to approve the proposed amendment. Any shares not voted (whether the votes are withheld or by abstention or broker non-votes) will have the effect of a vote against the proposed amendment. We expect that certain members of the Scott Family, who own more than a majority of the outstanding common stock, will vote for Proposal No. 5, thereby assuring approval of such proposal.

The foregoing is only a summary of certain amendments to our Existing Articles. Shareholders are encouraged to read the full text of the Amended and Restated Articles of Incorporation set forth in Annex A.

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SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The following table sets forth information as of December 31, 2009 with respect to the beneficial ownership of our common stock for (i) each person who is known by us to own beneficially more than 5% of our common stock, (ii) each of our directors, (iii) each of the executive officers named in the summary compensation table of our most recent annual proxy statement, and (iv) all directors and executive officers as a group.

Beneficial Owner[1]	Number of Shares Beneficially Owned	Percent of Class Beneficially Owned
James R. Scott[2]	1,270,605	16.21%
P.O. Box 7113 Billings, Montana 59103		
Randall I. Scott[3]	1,110,603	14.17%
P.O. Box 30918 Billings, Montana 59116		
First Interstate Bank[4]	1,107,816	14.14%
401 North 31st Street Billings, Montana 59101		
Thomas W. Scott[5]	734,387	9.33%
P.O. Box 30918 Billings, Montana 59116		
Homer A. Scott, Jr.[6]	700,991	8.94%
P.O. Box 2007 Sheridan, Wyoming 82801		
John M. Heyneman, Jr.[7]	430,789	5.50%
5000 North Weatherford Road Flagstaff, Arizona 85001		
Julie A. Scott[8]	254,242	3.24%
Jonathan R. Scott[9]	237,051	3.02%
Lyle R. Knight[10]	180,175	2.27%
Sandra A. Scott Suzor[11]	76,758	*
Terrill R. Moore[12]	48,815	*

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Beneficial Owner[1]	Number of Shares Beneficially Owned	Percent of Class Beneficially Owned
Edward Garding[13]	45,652	*
Terry W. Payne[14]	43,274	*
Charles M. Heyneman[15]	36,887	*
William B. Ebzery[16]	34,465	*
David H. Crum[17]	14,513	*
James W. Haugh[18]	12,725	*
Julie G. Castle[19]	9,044	*
Michael J. Sullivan[20]	8,852	*
Martin A. White[21]	6,539	*
Gregory A. Duncan[22]	5,310	*
Ross E. Leckie[23]	4,358	*
Steven J. Corning [24]	3,802	*
Charles E. Hart, M.D., M.S.[25]	2,711	*
All directors and executive officers as a group (21 persons)[26]	4,410,768	51.24%

* Less than 1% of the common stock outstanding.

(1) Beneficial ownership is determined in accordance with the rules of the SEC and generally includes voting or investment power with respect to the securities owned. Shares of common stock subject to options currently exercisable or exercisable within 60 days of December 31, 2009 are

deemed outstanding for purposes of computing the percentage owned by the person or entity holding such securities, but are not deemed outstanding for purposes of computing the percentage owned by any other person or entity.

(2) Includes 552,759 shares owned beneficially as managing partner of J.S. Investments Limited Partnership, 8,810 shares owned beneficially as President of the James R. and Christine M. Scott Family Foundation, 18,963 shares owned beneficially as conservator for a Scott family member, 94,619 shares owned beneficially as a board member of Foundation for Community Vitality, a non-profit organization, and 4,014 shares issuable under

stock options.

(3) Includes 948,919 shares owned beneficially as managing general partner of Nbar5 Limited Partnership, 11,272 shares owned beneficially as general partner of Nbar5 A Limited Partnership,

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107,295 shares owned beneficially as trustee for Scott family members, and 3,959 shares issuable under stock options.

(4) Includes 481,110 shares owned beneficially as trustee of the Savings and Profit Sharing Plan for Employees of First Interstate BancSystem, Inc., 602,270 shares owned beneficially as trustee for Scott family members, and 24,436 shares owned beneficially as trustee for others.

(5) Includes 36,952 shares issuable under stock options.

(6) Includes 4,014 shares issuable under stock options.

(7) Includes 288,948 shares owned beneficially as managing general partner

of Towanda Investments, Limited Partnership and 107,295 shares owned beneficially as trustee for Scott family members.

(8) Includes 6,851 shares owned beneficially as co-trustee for Scott family members, and 7,130 shares issuable under stock options.

(9) Includes 16,797 shares owned beneficially as co-trustee for Scott family members and 4,155 shares issuable under stock options.

(10) Includes 90,175 shares issuable under stock options.

(11) Includes 1,596 shares issuable under stock options.

(12) Includes 28,875 shares issuable under stock options.

(13) Includes 20,175 shares issuable under stock options.

(14) Includes 8,274 shares issuable under stock options.

(15) Includes 3,286 shares issuable under stock options.

(16) Includes 8,506 shares issuable under stock options.

(17) Includes 9,199 shares held in trust for Crum family members and 5,314 shares issuable under stock options.

(18) Includes 3,959 shares issuable under stock options.

(19) Includes 6,000 shares issuable under stock options.

(20) Includes 3,959 shares issuable under stock options.

(21) Includes 2,686 shares issuable under stock options.

(22) Includes 2,500 shares issuable under stock options.

(23) Includes 490 shares issuable under stock

options.

(24) Includes 1,116 shares issuable under stock options.

(25) Includes 1,116 shares issuable under stock options.

(26) Includes an aggregate of 244,237 shares issuable under stock options.

SHAREHOLDER PROPOSALS

The rules of the SEC permit shareholders of a company, after timely notice to the company, to present proposals for shareholder action in the company s proxy statement where such proposals are consistent with applicable law, pertain to matters appropriate for shareholder action and are not properly omitted by company action in accordance with the SEC s proxy rules. Our 2010 annual meeting of shareholders is expected to be held on or about May 7, 2010, and proxy materials in connection with that meeting are

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expected to be mailed on or about March 31, 2010. The deadline for submission of shareholder proposals pursuant to Rule 14a-8 under the exchange act for inclusion in our proxy statement for our 2010 annual meeting of shareholders was December 4, 2009. Additionally, if we receive notice of a shareholder proposal after February 12, 2010, such proposal will be considered untimely pursuant to Rules 14a-4 and 14a-5(e) and the persons named in proxies solicited by the Board for our 2010 annual meeting of shareholders may exercise discretionary voting power with respect to such proposal.

INFORMATION INCORPORATED BY REFERENCE

We incorporate by reference in this proxy statement the information contained under Items 7, 7A, 8, and 9 of our Annual Report on Form 10-K for the fiscal year ended December 31, 2008 and other information contained under Items 1, 2, and 3 of our Quarterly Report on Form 10-Q for the quarter ended September 30, 2009, each as filed with the SEC.

The audit committee of our Board of Directors appointed McGladrey & Pullen LLP as our independent auditor for the fiscal year ended December 31, 2009. Representatives of McGladrey & Pullen LLP are not expected to be present at the special meeting and, therefore, will not have an opportunity to make a statement if they desire to do so or be available to respond to appropriate questions.

Copies of such Annual Report on Form 10-K and Quarterly Report on Form 10-Q are enclosed with this proxy statement. You may also read and copy any document we file at the SEC s public reference room at 100 F Street, N.E., Washington, D.C. 20002. Please call the SEC at 1-800-SEC-0330 for further information on the public reference room. In addition, our SEC filings are available to the public at the SEC s Internet site at http://www.sec.gov. Additionally, you may request a copy of any of these filings at no cost, by writing to or calling us at the following address: First Interstate BancSystem, Inc., 401 North 31st Street, Billings, Montana 59101, Attention: Laura Bailey, or by telephone at (406) 255-5319. We undertake to provide by first class mail, within one business day of receipt of such a request, a copy of any and all information that has been incorporated by reference in this proxy statement.

BY ORDER OF THE BOARD OF DIRECTORS

Carol Stephens Donaldson
Secretary
Billings, Montana
February 1, 2010

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ANNEX A
FORM OF AMENDED AND RESTATED ARTICLES OF INCORPORATION
(reflecting all proposals assuming their approval)
[SEE ATTACHED]

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AMENDED AND RESTATED
ARTICLES OF INCORPORATION
OF FIRST INTERSTATE BANCSYSTEM, INC.
a Montana corporation

FIRST INTERSTATE BANCSYSTEM, INC., a corporation organized and existing under the laws of the State of Montana (the Corporation), hereby certifies as follows:

A. The name of the Corporation is First Interstate BancSystem, Inc. The Corporation s original Articles of Incorporation were filed with the Secretary of State of the State of Montana on February 19, 1986.

B. The Amended and Restated Articles of Incorporation were duly adopted by the Corporation s shareholders and directors in accordance with Sections 35-1-227 and 35-1-231 of the Business Corporation Act of the State of Montana, and restate, integrate and further amend the provisions of the Corporation s Articles of Incorporation.

C. The text of the Articles of Incorporation of this Corporation is hereby amended and restated in its entirety as set forth in Exhibit A attached hereto.

IN WITNESS WHEREOF, First Interstate BancSystem, Inc. has caused these Amended and Restated Articles of Incorporation to be executed by the undersigned officer, thereunto duly authorized, this ___day of ___, 2010.

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Conditions to Completion of the Merger (page 60)

Completion of the merger depends on a number of conditions being satisfied or waived. These conditions include the following:

- adoption of the merger agreement by the holders of at least a majority of the outstanding MedSolutions shares entitled to vote at the MedSolutions special meeting;
- continued effectiveness of the registration statement of which this proxy statement/prospectus is a part, the absence of a stop order by the Securities and Exchange Commission suspending the effectiveness of the registration statement and the absence of any continuing action, suit, proceeding or investigation by the SEC to suspend such effectiveness;
- absence of any temporary restraining order, preliminary or permanent injunction or other order issued by a court or other governmental authority making the merger illegal or otherwise prohibiting the consummation of the merger;
- absence of MedSolutions shareholders exercising their appraisal and dissenters rights with respect to greater than 7.5% of the outstanding shares of MedSolutions common stock immediately prior to the effective time of the merger;
- entry by Stericycle into consulting agreements and/or noncompetition agreements with certain of the officers, directors, employees and shareholders of MedSolutions;
- accuracy as of the closing of the merger of the representations and warranties made by each of MedSolutions, Stericycle and Merger Sub to the extent specified in the merger agreement; and
- MedSolutions , Stericycle s and Merger Sub s performance in all material respects of their respective obligations, agreements and conditions under the merger agreement.

Termination of the Merger Agreement (page 61)

Before the effective time of the merger, the merger agreement may be terminated:

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by mutual written consent of Stericycle, Merger Sub and MedSolutions;

by either Stericycle or MedSolutions, if:

adoption of the merger agreement and approval of the merger by the MedSolutions shareholders is not obtained;

the parties fail to consummate the merger on or before September 30, 2007, unless the failure is the result of a breach of the merger agreement by the party seeking the termination; or

any governmental authority has issued a final and nonappealable order, decree or ruling or has taken any other final and nonappealable action that restrains, enjoins or otherwise prohibits the merger, unless the party seeking the termination has not used its reasonable best efforts to oppose such order or decision or to have such order or decision vacated or made inapplicable to the merger;

by Stericycle, if:

MedSolutions materially breaches any of its representations, warranties, covenants or agreements set forth in the merger agreement, and MedSolutions has not cured such breach within 15 business days of receiving written notice from Stericycle of such breach;

one or more of Stericycle s conditions precedent to closing the merger are not satisfied or capable of being satisfied on or before September 30, 2007 as a result of MedSolutions failure to comply with its obligations under the merger agreement;

MedSolutions Board of Directors withdraws or materially and adversely to Stericycle modifies its approval of the merger agreement and the merger, other than (i) as a result of a material breach by Stericycle or Merger Sub of a representation, warranty or covenant under the merger agreement which remains uncured for a period of two business days after receipt of notice from MedSolutions of such breach, or (ii) as a result of the failure of any of MedSolutions conditions precedent to closing the merger not being met; or

MedSolutions enters into a definitive agreement (other than the merger agreement) to implement:

an investment in MedSolutions representing (on a post-investment basis) more than 25% of MedSolutions capital stock or a purchase from MedSolutions of more than 25% of the shares of its capital stock or any debt securities convertible into or exchangeable for more than 25% of the shares of its capital stock;

a merger, consolidation, share exchange, recapitalization, business combination or other similar transaction involving all of MedSolutions equity interests or all shares of the MedSolutions common stock;

the sale, lease, exchange, mortgage, pledge, transfer or other disposition of all or substantially all of MedSolutions assets in a single transaction or a series of related transactions;

a tender offer or exchange offer for 25% or more of the outstanding shares of MedSolutions capital stock or the filing of a registration statement under the Securities Act of 1933, as amended, in connection with such a tender offer or exchange offer; or

any public announcement of a proposal, plan or intention to do so, or any agreement to engage in, any of the matters described immediately above;

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adoption of the merger agreement and approval of the merger by the MedSolutions shareholders is not obtained by reason of the violation of the voting agreement by one or more of MedSolutions shareholders who are party to the voting agreement;

by MedSolutions, if:

either Stericycle or Merger Sub materially breaches any of its representations, warranties, covenants or agreements set forth in the merger agreement, and Stericycle or Merger Sub, as the case may be, has not cured such breach within 15 business days of receiving written notice from MedSolutions of such breach;

one or more of MedSolutions conditions precedent to closing the merger are not satisfied or capable of being satisfied on or before September 30, 2007 as a result of either Stericycle s or Merger Sub s failure to comply with its obligations under the merger agreement; or

MedSolutions enters into a definitive agreement providing for the implementation of a superior proposal, which is defined as the acquisition by a third party of more than 50% of the voting power of MedSolutions equity securities or more than 50% of MedSolutions assets, pursuant to a tender or exchange offer, merger, consolidation, liquidation or dissolution, recapitalization, sale of assets or otherwise, if MedSolutions Board of Directors has determined in its good faith judgment, after consultation with MedSolutions valuation advisor and after considering the likelihood and timing of the consummation of such third party transaction and any amendments or modifications to the merger agreement that Stericycle has offered or proposed within five days of learning of such proposed transaction, that such transaction is more favorable from a financial point of view to MedSolutions shareholders than the merger with Stericycle.

If the merger agreement is validly terminated, the merger agreement will become void without any liability on the part of any party unless that party is in breach. However, certain provisions of the merger agreement, including, among others, those provisions relating to expenses and termination fees, will continue in effect notwithstanding termination of the merger agreement.

Fees and Expenses (page 63)

MedSolutions must pay to Stericycle a termination fee of $2,500,000 in the following circumstances:

if MedSolutions terminates the merger agreement because MedSolutions enters into a definitive agreement providing for the implementation of a superior proposal, which is defined as the acquisition by a third party of more than 50% of the voting power of MedSolutions equity securities or more than 50% of MedSolutions assets, pursuant to a tender or exchange offer, merger, consolidation, liquidation or dissolution, recapitalization, sale of assets or otherwise, if MedSolutions Board of Directors has determined in its good faith judgment, after consultation with MedSolutions valuation advisor and after considering the likelihood and timing of the consummation of such third party transaction and any amendments or modifications to the merger agreement that Stericycle has offered or proposed within five days of learning of such proposed transaction, that such transaction is more favorable from a financial point of view to MedSolutions shareholders than the merger with Stericycle; or

if Stericycle terminates the merger agreement because:

MedSolutions Board of Directors withdraws or materially and adversely to Stericycle modifies its approval of the merger agreement and the merger, other than (i) as a result of a material breach by Stericycle or Merger Sub of a representation, warranty or covenant under

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the merger agreement which remains uncured for a period of two business days after receipt of notice from MedSolutions of such breach, or (ii) as a result of the failure of any of MedSolutions conditions precedent to closing the merger not being met;

MedSolutions enters into a definitive agreement (other than the merger agreement) to implement:

an investment in MedSolutions representing (on a post-investment basis) more than 25% of MedSolutions capital stock or a purchase from MedSolutions of more than 25% of the shares of its capital stock or any debt securities convertible into or exchangeable for more than 25% of the shares of its capital stock;

a merger, consolidation, share exchange, recapitalization, business combination or other similar transaction involving all of MedSolutions equity interests or all shares of the MedSolutions common stock;

the sale, lease, exchange, mortgage, pledge, transfer or other disposition of all or substantially all of MedSolutions assets in a single transaction or a series of related transactions;

a tender offer or exchange offer for 25% or more of the outstanding shares of MedSolutions capital stock or the filing of a registration statement under the Securities Act of 1933, as amended, in connection with such a tender offer or exchange offer; or

any public announcement of a proposal, plan or intention to do so, or any agreement to engage in, any of the matters described immediately above; or

adoption of the merger agreement and approval of the merger by the MedSolutions shareholders is not obtained by reason of the violation of the voting agreement by one or more of MedSolutions shareholders who are party to the voting agreement.

In general, each of Stericycle, Merger Sub and MedSolutions will bear its own expenses in connection with the merger agreement and the related transactions. If the merger is consummated, the surviving corporation to the merger will pay MedSolutions transaction expenses up to $100,000. If the merger is not consummated, all expenses incurred in connection with the merger agreement and the related transactions will be paid by the party incurring them. If the merger is consummated, Stericycle will pay the fees and expenses of the payment agent selected to distribute the merger consideration and the fees and expenses of the indenture trustee in respect of the promissory notes, up to $80,000 in the aggregate. Any reasonable fees and expenses of the payment agent and indenture trustee in excess of $80,000 in the aggregate will be paid by Stericycle and reimbursed by reducing the principal amount of the promissory notes by the amount of such expenses.

No Solicitation by MedSolutions (page 58)

The merger agreement restricts the ability of MedSolutions to solicit or engage in discussions or negotiations with a third party regarding a proposal to merge with or acquire a significant interest in MedSolutions. However, if MedSolutions receives an acquisition proposal from a third party that is more favorable to MedSolutions shareholders than the terms of the merger agreement and MedSolutions complies with specified procedures contained in the merger agreement, MedSolutions may furnish nonpublic information to that third party and engage in negotiations regarding an acquisition proposal with that third party, subject to specified conditions.

Accounting Treatment (page 41)

Stericycle will account for the merger using the purchase method of accounting.

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RISK FACTORS

In addition to the other information included and incorporated by reference into this proxy statement/prospectus, including the matters addressed under the caption Cautionary Statement Regarding Forward-Looking Statements beginning on page 23, you should carefully read and consider the following risk factors in evaluating the proposals to be voted on at the special meeting of MedSolutions shareholders and in determining whether to vote for approval and adoption of the merger agreement. Please also refer to the additional risk factors identified in the periodic reports and other documents incorporated by reference into this proxy statement/prospectus and see Where You Can Find More Information beginning on page 202.

Risks Relating to the Merger

The merger is subject to certain conditions to closing that, if not satisfied or waived, will result in the merger not being completed.

The merger is subject to customary conditions to closing, as set forth in the merger agreement. The conditions to the merger include, among others, the receipt of the required approval of MedSolutions shareholders. If any of the conditions to the merger are not satisfied or, if waiver is permissible, not waived, the merger will not be completed. In addition, under circumstances specified in the merger agreement, Stericycle or MedSolutions may terminate the merger agreement. As a result, we cannot assure you that we will complete the merger. See The Merger Agreement Conditions Precedent beginning on page 60 for a discussion of the conditions to the completion of the merger.

Certain directors and executive officers of MedSolutions have interests and arrangements that are different from, or in addition to, those of MedSolutions shareholders and that may influence or have influenced their decision to support or approve the merger.

When considering the recommendation of MedSolutions Board of Directors with respect to the merger, holders of MedSolutions common stock should be aware that certain of MedSolutions directors and executive officers have interests in the merger that are different from, or in addition to, their interests as MedSolutions shareholders and the interests of MedSolutions shareholders generally. These interests include, among other things, the following:

- One or more officers of MedSolutions will enter into consulting agreements with Stericycle upon effectiveness of the merger;
- pursuant to the merger agreement, all employment agreements entered into between MedSolutions and its officers will be terminated at or prior to closing, and such officers will be paid all severance benefits payable in connection with such terminations;
- the merger agreement provides for the cashless exercise of all MedSolutions stock options held by directors and officers as of the effective time of the merger;
- all debt owed by MedSolutions to its officers and directors will be paid in full within 30 days of the effective time of the merger; and
- certain officers and directors of MedSolutions will be indemnified by Stericycle as of the effective time of the merger and released from their personal guarantees of MedSolutions debt no later than 30 days after the effective time.

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As a result, these directors and executive officers may be more likely to support and to vote to approve the merger than if they did not have these interests. Holders of MedSolutions common stock should consider whether these interests may have influenced these directors and officers to support or recommend approval of the merger. As of the close of business on the record date for the MedSolutions special meeting, these directors and executive officers and their affiliates beneficially owned approximately 13.6% of the shares of MedSolutions common stock outstanding on that date. These and additional interests of certain directors and executive officers of MedSolutions are more fully described in the sections entitled Interests of MedSolutions Directors and Executive Officers in the Merger beginning on page 45 of this proxy statement/prospectus.

We may face difficulties in achieving the expected benefits of the merger.

Stericycle and MedSolutions currently operate as separate companies. Stericycle s management has no experience running the combined business, and Stericycle may not be able to realize the operating efficiencies, synergies, cost savings or other benefits expected from the merger. In addition, the costs Stericycle incurs in implementing synergies, including its ability to amend, renegotiate or terminate prior contractual commitments of MedSolutions, may be greater than expected. Stericycle also may suffer a loss of customers or suppliers, a loss of revenues, or an increase in operating or other costs or other difficulties relating to the merger.

MedSolutions will be subject to business uncertainties and contractual restrictions while the merger is pending.

Uncertainty about the effect of the merger on employees, suppliers, partners, regulators and customers may have an adverse effect on MedSolutions and potentially on Stericycle. These uncertainties may impair MedSolutions ability to attract, retain and motivate key personnel until the merger is consummated, and could cause suppliers, customers and others that deal with MedSolutions to defer purchases or other decisions concerning MedSolutions, or to seek to change existing business relationships with MedSolutions. Employee retention may be particularly challenging during the pendency of the merger, as employees may experience uncertainty about their future roles with Stericycle. If key employees depart because of issues relating to the uncertainty and difficulty of integration or a desire not to remain with Stericycle, Stericycle s business following the merger could be harmed. In addition, the merger agreement restricts MedSolutions from making certain acquisitions and taking other specified actions until the merger occurs. These restrictions may prevent MedSolutions from pursuing attractive business opportunities that may arise prior to the completion of the merger. See The Merger Agreement Covenants and Agreements beginning on page 58 for a description of the restrictive covenants applicable to MedSolutions.

The merger agreement limits MedSolutions ability to pursue alternatives to the merger.

The merger agreement contains provisions that could adversely impact competing proposals to acquire MedSolutions. These provisions include the prohibition on MedSolutions generally from soliciting any acquisition proposal or offer for a competing transaction and the requirement that MedSolutions pay to Stericycle $2.5 million if the merger agreement is terminated in specified circumstances in connection with an alternative transaction. In addition, even if the Board of Directors of MedSolutions determines that a competing proposal to acquire MedSolutions is superior, MedSolutions may not exercise its right to terminate the merger agreement unless it notifies Stericycle of its intention to do so and gives Stericycle at least five days to propose revisions to the terms of the merger agreement or to make another proposal in response to the competing proposal. See The Merger Agreement Covenants and Agreements beginning on page 58 and The Merger Agreement Termination beginning on page 61.

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Stericycle required MedSolutions to agree to these provisions as a condition to Stericycle s willingness to enter into the merger agreement. These provisions, however, might discourage a third party that might have an interest in acquiring all or a significant part of MedSolutions from considering or proposing that acquisition, even if that party were prepared to pay consideration with a higher value than the current proposed merger consideration. Furthermore, the termination fee may result in a potential competing acquirer proposing to pay a lower per share price to acquire MedSolutions than it might otherwise have proposed to pay.

Failure to complete the merger could negatively impact the stock value and the future business and financial results of MedSolutions.

Although MedSolutions has agreed that its Board of Directors will, subject to fiduciary exceptions, recommend that its shareholders approve and adopt the merger agreement, there is no assurance that the merger agreement and the merger will be approved, and there is no assurance that the other conditions to the completion of the merger will be satisfied. If the merger is not completed, MedSolutions will be subject to several risks, including the following:

- MedSolutions may be required to pay Stericycle $2.5 million if the merger agreement is terminated under certain circumstances and MedSolutions enters into or completes an alternative transaction;
- Certain costs relating to the merger (such as legal, accounting and valuation advisory fees) are payable by MedSolutions whether or not the merger is completed;
- There may be substantial disruption to the business of MedSolutions and a distraction of its management and employees from day-to-day operations, because matters related to the merger may require substantial commitments of time and resources, which could otherwise have been devoted to other opportunities that could have been beneficial to MedSolutions;
- MedSolutions business could be adversely affected if it is unable to retain key employees or attract qualified replacements; and
- MedSolutions would continue to face the risks that it currently faces, as described below in the section entitled Information About MedSolutions beginning on page 72 of this proxy statement/prospectus.

In addition, MedSolutions would not realize any of the expected benefits of having completed the merger. If the merger is not completed, these risks may materialize and materially adversely affect MedSolutions business, financial results, financial condition and stock value.

The opinion obtained by MedSolutions from its valuation advisor does not reflect changes in circumstances between signing the merger agreement and the completion of the merger.

Van Amburgh, MedSolutions valuation advisor, delivered a fairness opinion to the MedSolutions Board of Directors. The opinion states that, as of June 30, 2007, the consideration to be received by MedSolutions shareholders pursuant to the merger agreement was fair from a financial point of view to MedSolutions shareholders. The opinion does not reflect changes that may occur or may have occurred after June 30, 2007, including changes to the operations and prospects of MedSolutions or Stericycle, changes in general market and economic conditions or other factors. Any such changes, or other factors on which the opinion is based, may significantly alter the value of MedSolutions or Stericycle by the time the merger is completed. The opinion does not speak as of the time the merger will be completed or as of any date other than the date of such opinion. For a description of the opinion that MedSolutions received

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from its valuation advisor, see The Merger Opinion of MedSolutions Valuation Advisor beginning on page 37. For a description of the other factors considered by MedSolutions Board of Directors in determining to approve the merger, see The Merger MedSolutions Reasons for the Merger beginning on page 35 and The Merger Recommendation of the MedSolutions Board of Directors beginning on page 36.

Risks Relating to the Promissory Notes

The promissory notes are not secured obligations of Stericycle. The 3.5% notes are supported by a letter of credit, however.

The promissory notes are not secured by any assets of Stericycle and thus are general unsecured obligations. They do not have priority over any of Stericycle s other indebtedness, and in the event of any bankruptcy proceedings, holders of the promissory notes would be in the same position as all of Stericycle s other unsecured creditors.

Stericycle s obligations under the 3.5% notes are supported by a letter of credit to the indenture trustee. In the event of any default by Stericycle in payment of the 3.5% notes, the indenture trustee, either on the trustee s own initiative or at the direction of the shareholder representative, may declare all of the indebtedness represented by the 3.5% notes to be due and draw on the letter of credit for full payment of the amount owed. Accordingly, payment of the 3.5% notes is not ultimately dependent on Stericycle s ability to make the payments due on the promissory notes.

Stericycle may not be able to generate sufficient cash to make the payments due on the promissory notes and its other indebtedness.

Stericycle s ability to make the payments due on the promissory notes depends on its financial and operating performance, which is subject to prevailing economic and competitive conditions and certain financial, business and other factors beyond Stericycle s control. Stericycle cannot assure you that its cash flows from operations and other sources of liquidity will be sufficient to permit it to make the payments due on the promissory notes and the payments due on its other indebtedness.

Stericycle may incur substantial additional debt, which could increase its difficulty in making the payments due on the promissory notes.

The promissory notes and the indentures under which they will be issued do not contain any restrictions preventing Stericycle from incurring additional debt. To the extent that Stericycle does so, Stericycle may find it more difficult, and may be unable, to make the payments due on the promissory notes and the payments due on its other indebtedness.

You may find it difficult to sell your promissory notes, on favorable terms or at all.

There will be no public market for the promissory notes, and thus you may be unable to sell your promissory notes.

If you are able to sell your promissory notes in a privately negotiated transaction, the purchaser may be expected to require a discount from the face amount of the promissory notes. This discount is likely to be very substantial because of:

the interest rate on the promissory notes, which may be less than prevailing market rates;

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the maturity date of the promissory notes, which is not for seven years after the closing of the merger;

the potential reduction in the principal of the promissory notes, in one case retroactive to the date of issuance, by reason of a merger consideration principal reduction or litigation payment principal reduction; or

the potential reduction in the interest payments on the promissory notes (and possibly even the principal of the promissory notes), by reason of an indemnification claim payment reduction.

See Merger Agreement Adjustments to Merger Consideration beginning on page 54 of this proxy statement/prospectus.

Payments under the promissory notes are subject to reduction

Payments under the promissory notes are subject to reduction by reason of an indemnification claim payment reduction. This reduction is in the nature of a dollar-for-dollar offset. See The Merger Agreement Representations and Warranties and Indemnification on page 52 of this proxy statement/prospectus.

The principal amount of the promissory notes is subject to reduction

The principal amount of the promissory notes is subject to reduction, retroactive to the date of issuance of the promissory notes, by reason of a merger consideration principal reduction. The principal amount of the promissory notes is also subject to reduction, effective as of the date of payment, by reason of a litigation payment principal reduction and by an expense payment principal reduction. See The Merger Agreement Adjustments to Merger Consideration, The Merger Agreement Payment Procedures, Adjustments to Merger Consideration Application of Closing Balance Sheet and Revenue Adjustments and Litigation Adjustment on pages 54, 51, 55 and 56 of this proxy statement/prospectus.

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Risks Relating to MedSolutions in the Event the Merger Does Not Occur

MedSolutions has historically had a history of losses.

MedSolutions expenses have historically exceeded its revenues and MedSolutions has had losses in all previous fiscal years of operation except for 2005. MedSolutions has been a developing company concentrating on the development of its products and business plan. In the event that the merger does not occur, MedSolutions management believes that MedSolutions can be profitable and that its business plan will be successful; however, there is no assurance that MedSolutions will be successful in implementing its business plan or that it will be profitable now or in the future.

Future governmental actions, including the issuance of new regulations, could significantly affect MedSolutions business.

Governmental authorities may take future actions that could pose obstacles in the waste disposal industry and require methods or technology different from the methods currently developed or utilized by MedSolutions. MedSolutions is not able to predict the outcome of any such actions, controls, regulations or laws on its operations and any significant reduction in revenues due to such changes could result in operating income becoming insufficient to cover operating expenses.

MedSolutions faces significant competition in its industry.

The medical/special waste disposal, document destruction, reusable sharps management and OSHA compliance services industries are extremely competitive. MedSolutions competes with a number of competitors offering similar technologies or services for the treatment of medical waste as well as those using similar or dissimilar technologies or products. Some of these competitors have significantly greater financial, advertising and marketing resources than MedSolutions.

The development of new technologies may make MedSolutions current waste treatment technologies obsolescent.

Development of new, improved waste destruction devices or methods may make MedSolutions devices and/or methods obsolete, less competitive or require substantial capital outlays by MedSolutions to purchase or license such new technologies, if available.

MedSolutions business is subject to significant uninsured business and environmental risks.

MedSolutions business plan is to engage in business opportunities that involve the handling of infectious medical and related waste. As insurance is available and within the financial means of MedSolutions, MedSolutions intends to insure itself from risks related to its business. However, if insurance is not available, is available and beyond the financial means of MedSolutions, or insurance is purchased but loss limits are not adequate to cover all liabilities, then MedSolutions would not be financially capable of paying a substantial judgment or claim against MedSolutions, thereby placing MedSolutions in a financially adverse position or forcing its closure.

MedSolutions business is dependent upon the effectiveness of governmental permits.

MedSolutions is subject to extensive and frequently changing federal, state and local laws and regulations. This statutory and regulatory framework imposes compliance burdens and risks on MedSolutions, including requirements to obtain and maintain government permits. These permits grant MedSolutions the authority, among other things, to construct and operate treatment and transfer facilities, transport medical waste within and between relevant jurisdictions, and to handle particular regulated substances. MedSolutions permits must be periodically renewed and are subject to modification or revocation by the regulatory authorities. The loss of any of these permits could have a material adverse effect on MedSolutions operations.

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Risks Relating to Stericycle

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

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

Many of the permits that Stericycle requires, 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 Stericycle s ability to operate efficiently, and they may not be issued as quickly as Stericycle needs them (or at all). If Stericycle cannot obtain the permits that it needs when it needs them, or if they contain unfavorable conditions, it could substantially impair Stericycle s operations and reduce its revenues.

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

Stericycle s business requires it to handle materials that may be infectious or hazardous to life and property. While Stericycle tries 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 Stericycle is 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 Stericycle is found liable for such injuries, and substantial damages could be awarded against Stericycle.

While Stericycle carries 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 Stericycle s profitability and reduce Stericycle s liquidity.

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

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

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

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

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

If Stericycle is unable to acquire other regulated waste businesses, its revenue and profit growth may be slowed.

Historically Stericycle s growth strategy has been based in substantial part on its ability to acquire other regulated waste businesses. Stericycle does not know whether in the future it will be able to:

identify suitable businesses to buy;

complete the purchase of those businesses on terms acceptable to Stericycle;

improve the operations of the businesses that Stericycle does buy and successfully integrate their operations into Stericycle s; or

avoid or overcome any concerns expressed by regulators.

Stericycle competes with other potential buyers for the acquisition of other regulated waste companies. This competition may result in fewer opportunities to purchase companies that are for sale. It may also result in higher purchase prices for the businesses that Stericycle wants to purchase.

Stericycle also does not know whether its growth strategy will continue to be effective. Stericycle s business is significantly larger than before, and new acquisitions may not have the desired benefits that it has obtained in the past.

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

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

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

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

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

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

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

Stericycle s senior unsecured credit facility contains covenants that restrict its ability to make distributions to stockholders or other payments unless it satisfies certain financial tests and complies with various financial ratios.

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

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The loss of Stericycle s senior executives could affect its ability to manage its business profitably.

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

Stericycle s expansion into foreign countries exposes it to unfamiliar regulations and may expose it to new obstacles to growth.

Stericycle plans to grow both in the United States and in foreign countries. It has established substantial operations in Canada, Mexico and the United Kingdom. Foreign operations carry special risks. Although Stericycle s business in foreign countries has not yet been affected, its business in the countries in which it currently operates and those in which it may operate in the future could be limited or disrupted by:

government controls;

import and export license requirements;

political or economic insecurity;

trade restrictions;

changes in tariffs and taxes;

exchange rate fluctuations;

Stericycle s unfamiliarity with local laws, regulations, practices and customs;

restrictions on repatriating foreign profits back to the United States; or

difficulties in staffing and managing international operations.

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

Stericycle s earnings could decline if it writes off intangible assets, such as goodwill.

As a result of purchase accounting for its various acquisitions, Stericycle s balance sheet at December 31, 2006 contains goodwill of $814.0 million and other intangible assets, net of accumulated amortization, of $115.9 million (including indefinite lived intangibles of $32.2 million). In accordance with Statement of Financial Accounting Standards No.142 Goodwill and Other Intangible Assets , Stericycle evaluates on an ongoing basis, using the fair value of reporting units, whether facts and circumstances indicate any impairment of the value of indefinite-lived intangible assets such as goodwill. As circumstances after an acquisition can change, Stericycle may not realize the value of these intangible assets. If Stericycle were to determine that a significant impairment has occurred, it would be required to incur non-cash write-offs of the impaired portion of goodwill and other unamortized intangible assets, which could have a material adverse effect on its results of operations in the period in which the write-off occurs.

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CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS

This proxy statement/prospectus, including the documents incorporated by reference, contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. Forward-looking statements are generally accompanied by words such as anticipate, expect, intend, plan, believe, seek, could, should, will, project, estimate, look fo expressions which convey uncertainty of future events or outcomes.

The expectations set forth in this proxy statement/prospectus and the documents incorporated by reference regarding, among other things, accretion, returns on invested capital, achievement of annual savings and synergies, achievement of strong cash flow, sufficiency of cash flow to fund capital expenditures and achievement of debt reduction targets are only the parties expectations regarding these matters. Actual results could differ materially from these expectations depending on factors such as:

- the factors described under Risk Factors beginning on page 14 of this proxy statement/prospectus;

- the factors that generally affect Stericycle s and MedSolutions businesses as further outlined in Management s Discussion and Analysis of Financial Condition and Results of Operations included elsewhere in this proxy statement/prospectus with respect to MedSolutions and included in Stericycle s 2006 Form 10-K and 2007 First Quarter Form 10-Q in respect of Stericycle, including the performance of contracts by suppliers, customers and partners; employee management issues; and complexities of global political and economic developments; and

- the fact that, following the merger, the actual results of the combined company could differ materially from the expectations set forth in this proxy statement/prospectus and the documents incorporated by reference depending on additional factors such as:
  - the combined company s cost of capital;

  - the ability of the combined company to identify and implement cost savings, synergies and efficiencies in the time frame needed to achieve these expectations;

  - the combined company s actual capital needs, the absence of any material incident of property damage or other hazard that could affect the need to effect capital expenditures and any currently unforeseen merger or acquisition opportunities that could affect capital needs; and

  - the costs incurred in implementing synergies including, but not limited to, our ability to terminate, amend or renegotiate prior contractual commitments of MedSolutions.

Actual actions that the combined company may take may differ from time to time as the combined company may deem necessary or advisable in the best interest of the combined company and its shareholders to attempt to achieve the successful integration of the companies, the synergies needed to make the transaction a financial success and to react to the economy and the combined company s customer market.

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STATEMENT REGARDING RATIO OF EARNINGS TO FIXED CHARGES

The following table shows the ratio of Stericycle s earnings to fixed charges for the periods shown.

	Year Ended December 31,					Three Months Ended March 31,
	2006	2005	2004	2003	2002	2007
Ratio of earnings to fixed charges[1]	6.57	8.40	10.64	8.60	4.33	6.78

(1) For the purpose of calculating the ratio of earnings to fixed charges, earnings consist of income before income taxes plus fixed charges. Fixed charges consist of (i) interest on all indebtedness (including capital leases) and amortization of debt discount and deferred financing fees, (ii) the interest factor attributable to rentals and (iii) interest on liabilities associated with Financial Accounting Standards Board Interpretation No. 48 (FIN 48), Accounting for Uncertainty in Income Taxes.

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SELECTED HISTORICAL FINANCIAL INFORMATION

Selected Stericycle Historical Financial Data

Stericycle derived the following historical information from its audited consolidated financial statements for the years ended December 31, 2002, 2003, 2004, 2005 and 2006, and from its unaudited condensed consolidated financial statements for the three months ended March 31, 2007 and 2006. The unaudited condensed consolidated financial statements have been prepared by Stericycle on a basis consistent with the audited financial statements and include, in the opinion of Stericycle s management, all adjustments, consisting of normal recurring adjustments, necessary for a fair presentation of the information. Operating results for the three months ended March 31, 2007 are not necessarily indicative of the results that may be expected for the entire year ending December 31, 2007. You should read this information in conjunction with (i) Stericycle s Management s Discussion and Analysis of Financial Condition and Results of Operations and the audited consolidated financial statements and accompanying notes included in its 2006 Form 10-K and (ii) Stericycle s Management s Discussion and Analysis of Financial Condition and Results of Operations and the unaudited condensed consolidated financial statements and accompanying notes included in 2007 First Quarter Form 10-Q. Both Stericycle s 2006 Form 10-K and its 2007 First Quarter Form 10-Q are incorporated by reference in this proxy statement/prospectus.

	Year Ended December 31,					Three Months Ended March 31	
	2006(3)	2005	2004	2003	2002	2007	2006
	(In thousands except per share data)					Unaudited	
Statements of Income Data(1)							
Revenues	$ 789,637	$ 609,457	$ 516,228	$453,225	$401,519	$ 211,049	$ 179,279
Income from operations	201,762	166,532	145,655	126,397	100,832	55,449	44,756
Net income	105,270	67,154	78,178	65,781	45,724	29,387	23,525
Net income applicable to common stock	105,270	67,154	78,178	65,781	45,037	29,387	23,525
Diluted net income per share of common stock(2)(5)	1.17	0.74	0.85	0.72	0.51	0.33	0.26
Depreciation and amortization	27,036	21,431	21,803	17,255	14,981	7,138	6,295
Other Data							
Cash provided by operating activities	$ 160,162	$ 94,327	$ 114,611	$123,887	$ 98,731	$ 52,890	$ 31,182
Cash provided by/(used in) investing activities	(201,425)	(156,001)	(105,093)	(57,635)	(49,470)	2,246	(134,031)
Cash (used in) provided by financing activities	52,547	59,500	(6,941)	(66,820)	(53,705)	(47,852)	101,961
Balance Sheet Data(1)(4)							
Cash, cash equivalents and short-term investments	$ 16,040	$ 8,545	$ 7,949	$ 7,881	$ 8,887	$ 19,953	$ 10,756
Total assets	1,327,906	1,047,660	834,141	707,462	667,095	1,325,309	1,212,411
Long-term debt, net of current maturities	443,115	348,841	190,431	163,016	224,124	448,547	473,930
Convertible redeemable preferred stock				20,944	28,049		
Shareholders equity	$ 625,081	$ 521,634	$ 495,372	$407,820	$326,729	$ 613,820	$ 543,818

(1) See Note 4 to Stericycle s

consolidated financial statements included in its 2006 Form 10-K for information concerning Stericycle s acquisitions during the three years ended December 31, 2006.

(2) See Note 10 to Stericycle s consolidated financial statements included in its 2006 Form 10-K for information concerning the computation of net income per common share. In 2006, net income includes costs (net of tax) related to a fixed asset write-down of equipment of $0.2 million, a write-down of an investment in securities of $0.6 million and acquisition-related

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costs of $2.1 million, partially offset by income recorded from insurance proceeds related to the settlement of the 3CI Complete Compliance Corporation class action litigation (3CI litigation) of $0.6 million, which negatively impacted earnings per share (EPS) by $0.09 per share. Of the total of $8.8 million of such items, $7.3 million were non-cash items. In 2005, net income includes costs (net of tax) related to the preliminary settlement of the 3CI litigation of $23.4 million, a write-down of a note receivable of $1.5 million, fixed asset impairments of $0.5 million, acquisition-related costs of $0.5 million, settlement of licensing litigation of $1.1 million and items related to debt restructuring of $0.3 million, which negatively impacted EPS by $0.30 per share. Of the total of $27.3 million of such items, $3.4

million were non-cash items. In 2004, net income includes acquisition-related costs of $0.5 million, fixed asset write-offs of $0.7 million and items related to debt restructuring and redemption of senior subordinated debt of $2.8 million, which negatively impacted EPS by $0.05 per share. Of the total of $4.0 million of such items, $1.4 million were non-cash items. In 2003, net income includes acquisition-related costs (net of tax) of $0.4 million and items related to debt restructuring and subordinated debt repurchases of $2.0 million, which negatively impacted EPS by $0.02 per share. Of the total of $2.4 million of such items, $0.5 million were non-cash items. In 2002, net income includes acquisition-related costs (net of tax) of $0.2 million, fixed asset write-offs of $1.8 million and items related to debt restructuring and subordinated

debt repurchases of $1.4 million, which negatively impacted EPS by $0.04 per share. Of the total of $3.4 million of such items, $2.0 million were non-cash items.

(3) On January 1, 2006, Stericycle adopted the provisions of Statement of Financial Accounting Standards No. 123R, Share-Based Payment (SFAS No. 123R) using the modified prospective method to account for stock compensation costs. SFAS No. 123R requires the measurement and recognition of compensation expense for all stock-based payment awards made to Stericycle s employees and directors. During the year ended December 31, 2006, Stericycle recognized stock compensation expense of $6.5 million, net of tax. See Note 11 to Stericycle s consolidated financial

statements included in its 2006 Form 10-K for additional information related to its stock compensation expense.

(4) Balance sheet data is as of December 31 of the year in question or as of March 31 for the three months ended March 31, 2007 and 2006.

(5) Per share data adjusted to reflect a 2-for-1 stock split effective May 31, 2007.

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COMPARATIVE HISTORICAL AND PRO FORMA PER SHARE INFORMATION

The following table sets forth selected historical per share data for Stericycle, selected historical data for MedSolutions, and pro forma combined data giving effect to the merger, as if the merger had taken place on January 1, 2006 and as if the merger had taken place on January 1, 2007.

The data presented below should be read in conjunction with the historical financial statements and related notes of Stericycle and MedSolutions that have been included in this proxy statement/prospectus or incorporated by reference. The pro forma combined data below is for illustrative purposes only. The pro forma combined per share data may not be indicative of the operating results or financial position that would have occurred if the merger had been consummated at the beginning of the periods indicated, and may not be indicative of future operating results or financial position.

	Three Months Ended March 31, 2007 (in thousands except share and per share data)			Year Ended December 31, 2006 (in thousands except share and per share data)		
	Stericycle historical	MedSolutions historical	Pro Forma	Stericycle historical	MedSolutions historical	Pro Forma
Net Income	$ 29,387	$ 60	$ 29,447	$ 105,270	$ (807)	$ 104,499 (2)
Weighted Average Number of Common Shares Outstanding: (1)						
Basic	88,284,526	23,530,785	88,284,526	88,150,072	22,875,017	88,150,072
Diluted	90,436,694	23,802,651	90,436,694	90,213,080	22,875,017	90,213,080
Earning Per Common Share:						
Basic	$ 0.33	$ 0.00	$ 0.33	$ 1.19	$ (0.04)	$ 1.19
Diluted:	$ 0.33	$ 0.00	$ 0.33	$ 1.17	$ (0.04)	$ 1.16
Assets	$ 1,325,309	$ 10,532	$ 1,335,841	$ 1,327,906	$ 10,837	$ 1,338,743
Total Debt	472,024	4,017	476,041	465,796	4,738	470,534
Owner s Equity Book Value	$ 613,820	$ 4,607	$ 618,427	$ 625,081	$ 3,311	$ 628,392
Book Value Per Common Share	$ 7.01	$ 0.18	$ 7.07	$ 7.06	$ 0.14	$ 7.10
Common Stock cash dividends declared	$	$	$	$	$	$
Preferred Stock cash dividend declared (3)	$	$	$	$	$ 35.50	$
	$	$	$	$	$ 0.37	$

Dividends declared per share						
Common Shares outstanding (1)	87,528,922	26,002,619	87,528,922	88,503,930	23,780,785	88,503,930
Preferred Shares outstanding (3)	0	0	0	0	96,667	0

Note (1): Shares adjusted to reflect a Stericycle 2-for-1 stock split effective May 31, 2007.

Note (2): Net income less preferred stock dividends paid of $35,500 as those shares would be canceled.

Note (3): Pro forma assumption that preferred stock would be canceled and no dividends would be declared consistent with Stericycle history.

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COMPARATIVE MARKET VALUE INFORMATION

Stericycle

As of July 6, 2007, Stericycle had approximately 180 stockholders of record. Its common stock trades on the NASDAQ National Market under the ticker symbol SRCL. The closing price of a share of Stericycle common stock on July 5, 2007, the day prior to the date that the merger agreement was signed, was $44.93.

MedSolutions

There were approximately 750 holders of MedSolutions common stock on July 6, 2007. There is no established trading market for MedSolutions common stock. In the opinion of MedSolutions, due to the lack of an active market for the MedSolutions common stock, transactions in the MedSolutions common stock of which MedSolutions is aware are not significant enough to produce representative prices.

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INFORMATION ABOUT THE SPECIAL MEETING AND VOTING

This proxy statement/prospectus is being furnished to MedSolutions shareholders by MedSolutions Board of Directors in connection with the solicitation of proxies from the holders of MedSolutions common stock for use at the special meeting of MedSolutions shareholders and any adjournments or postponements of the special meeting. This proxy statement/prospectus also is being furnished to MedSolutions shareholders as a prospectus from Stericycle in connection with its issuance of the promissory notes to MedSolutions shareholders in connection with the merger.

Date, Time and Place

The special meeting of shareholders of MedSolutions will be held on [___], 2007 at **[10:00]** a.m., Dallas, Texas time, at MedSolutions corporate headquarters located at 12750 Merit Drive, Park Central VII, Suite 770, Dallas, Texas 75251.

Matters to Be Considered

At the special meeting, MedSolutions shareholders will be asked:

to consider and vote upon a proposal to approve and adopt the merger agreement;

to consider and vote upon a proposal to adjourn or postpone the special meeting, if necessary, to solicit additional proxies in favor of the approval and adoption of the merger agreement; and

to consider and transact any other business as may properly be brought before the special meeting or any adjournments or postponements thereof.

At this time, the MedSolutions Board of Directors is unaware of any matters, other than those set forth in the preceding sentence, that may properly come before the special meeting.

Shareholders Entitled to Vote

The close of business on [___], 2007 has been fixed by MedSolutions board as the record date for the determination of those holders of MedSolutions common stock who are entitled to notice of, and to vote at, the special meeting and at any adjournments or postponements thereof.

At the close of business on the record date, there were 26,470,646 shares of MedSolutions common stock outstanding and entitled to vote, held by approximately 750 holders of record. A list of the shareholders of record entitled to vote at the special meeting will be available for examination by MedSolutions shareholders for any purpose germane to the meeting. The list will be available at the meeting and for 10 days prior to the meeting during ordinary business hours by contacting MedSolutions Corporate Secretary at 12750 Merit Drive, Park Central VII, Suite 770, Dallas, Texas 75251.

Quorum and Required Vote

Each holder of record of shares of MedSolutions common stock as of the record date is entitled to cast one vote per share at the special meeting on each proposal. The presence, in person or by proxy, of the holders of one-third of the issued and outstanding shares of MedSolutions common stock outstanding as of the record date constitutes a quorum for the transaction of business at the special meeting. The affirmative vote of the holders of a majority of the shares of MedSolutions common stock entitled to vote at the special meeting is required to approve and adopt the merger agreement.

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In conjunction with the execution of the merger agreement, 50 MedSolutions shareholders entered into a voting agreement with Stericycle and Merger Sub which obligates them to vote their shares of common stock **FOR** the merger agreement. As of the record date, the shareholders subject to the voting agreement with Stericycle and Merger Sub were entitled to vote an aggregate of 15,102,594 shares of MedSolutions, which represented approximately 57.1% of the MedSolutions common stock outstanding and entitled to vote as of the record date.

As of the record date for the special meeting, directors and executive officers of MedSolutions and their affiliates beneficially owned an aggregate of 3,718,662 shares of MedSolutions common stock entitled to vote at the special meeting. These shares represent approximately 13.6% of the MedSolutions common stock outstanding and entitled to vote as of the record date. Certain of the directors and executive officers of MedSolutions are party to the voting agreement with Stericycle and Merger Sub pursuant to which they have agreed to vote in favor of the approval and adoption of the merger agreement. Although the remaining directors and executive officers of MedSolutions are not party to any such voting agreements with Stericycle or Merger Sub and do not have any obligations to vote in favor of the approval and adoption of the merger agreement, they have indicated their intention to vote their outstanding shares of MedSolutions common stock in favor of the approval and adoption of the merger agreement.

As of July 6, 2007, Stericycle and its directors, executive officers and their affiliates did not own any of the outstanding shares of MedSolutions common stock.

How Shares Will Be Voted at the Special Meeting

All shares of MedSolutions common stock represented by properly executed proxies received before or at the special meeting, and not properly revoked, will be voted as specified in the proxies. Properly executed proxies that do not contain voting instructions will be voted FOR the approval and adoption of the merger agreement and any adjournment or postponement of the special meeting.

A properly executed proxy marked Abstain with respect to any proposal will be counted as present for purposes of determining whether there is a quorum at the special meeting. However, because the approval and adoption of the merger agreement requires the affirmative vote of the holders of a majority of the outstanding shares entitled to vote at the special meeting, an abstention will have the same effect as a vote AGAINST approval and adoption of the merger agreement.

If you hold shares of MedSolutions common stock in street name through a bank, broker or other nominee, the bank, broker or nominee may vote your shares only in accordance with your instructions. If you do not give specific instructions to your bank, broker or nominee as to how you want your shares voted, your bank, broker or nominee will indicate that it does not have authority to vote on the proposal, which will result in what is called a broker non-vote. Broker non-votes will be counted for purposes of determining whether there is a quorum present at the special meeting, but because approval and adoption of the merger agreement requires the affirmative vote of the holders of a majority of the outstanding shares entitled to vote at the special meeting, broker non-votes will have the same effect as a vote AGAINST the merger agreement.

If any other matters are properly brought before the special meeting, the proxies named in the proxy card will have discretion to vote the shares represented by duly executed proxies in their sole discretion.

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How To Vote Your Shares

You may vote in person at the special meeting or by proxy. We recommend you vote by proxy even if you plan to attend the special meeting. You can always change your vote at the special meeting.

You may vote by proxy card by completing and mailing the enclosed proxy card. If you properly submit your proxy card in time to vote, one of the individuals named as your proxy will vote your shares of common stock as you have directed. You may vote for or against the proposals submitted at the special meeting or you may abstain from voting.

If you hold shares of MedSolutions common stock through a broker or other custodian, please follow the voting instructions provided by that firm. If you do not return your proxy card, or if your shares are held in a stock brokerage account or held by a bank, broker or nominee, or, in other words, in street name and you do not instruct your bank, broker or nominee on how to vote those shares, those shares will not be voted at the special meeting.

If you submit your proxy but do not make specific choices, your proxy will be voted FOR each of the proposals presented.

How To Change Your Vote

If you are a registered shareholder, you may revoke your proxy at any time before the shares are voted at the special meeting by:

completing, signing and timely submitting a new proxy to Ms. Beverly Fleeger, Corporate Secretary, at 12750 Merit Drive, Park Central VII, Suite 770, Dallas, Texas 75251 to arrive by the close of business on ___, 2007; the latest dated and signed proxy actually received by such addressee before the special meeting will be counted, and any earlier proxies will be considered revoked;

notifying MedSolutions Corporate Secretary, at 12750 Merit Drive, Park Central VII, Suite 770, Dallas, Texas 75251, in writing, by the close of business on [___], 2007, that you have revoked your earlier proxy; or

voting in person at the special meeting.

Merely attending the special meeting will not revoke any prior votes or proxies; you must vote at the special meeting to revoke a prior proxy.

If you hold shares of MedSolutions common stock through a broker or other custodian and you vote by proxy, you may later revoke your proxy instructions by informing the holder of record in accordance with that entity s procedures.

Solicitation of Proxies

In addition to solicitation by mail, directors, officers and employees of MedSolutions may solicit proxies for the special meeting from MedSolutions shareholders personally or by telephone, facsimile and other electronic means without compensation other than reimbursement for their actual expenses.

The expenses incurred in connection with the filing of this document will be paid for by Stericycle. The expenses incurred in connection with the printing and mailing this proxy statement/prospectus will be paid for by MedSolutions. Arrangements also will be made with brokerage firms and other custodians, nominees and fiduciaries for the forwarding of solicitation material to the beneficial owners of shares of

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MedSolutions stock held of record by those persons, and MedSolutions will, if requested, reimburse the record holders for their reasonable out-of-pocket expenses in so doing.

Recommendation of the MedSolutions Board of Directors

The MedSolutions Board of Directors has unanimously approved the merger agreement and the transactions it contemplates, including the merger. The MedSolutions Board of Directors determined that the merger is advisable and in the best interests of MedSolutions and its shareholders and unanimously recommends that you vote FOR approval and adoption of the merger agreement. See The Merger MedSolutions Reasons for the Merger beginning on page 35 and The Merger Recommendation of the MedSolutions Board of Directors beginning on page 36 for a more detailed discussion of the MedSolutions Board of Directors recommendation.

Special Meeting Admission

If you wish to attend the special meeting in person, you must present either an admission ticket or appropriate proof of ownership of MedSolutions stock, as well as a form of personal identification. If you are a registered shareholder and plan to attend the meeting in person, please mark the attendance box on your proxy card and bring the tear-off admission ticket with you to the meeting. If you are a beneficial owner of MedSolutions common stock that is held by a bank, broker or other nominee, you will need proof of ownership to be admitted to the meeting. A recent brokerage statement or a letter from your bank or broker are examples of proof of ownership.

No cameras, recording equipment, electronic devices, large bags, briefcases or packages will be permitted in the meeting.

PLEASE DO NOT SEND IN ANY MEDSOLUTIONS STOCK CERTIFICATES WITH YOUR PROXY CARD. After the merger is completed, you will receive written instructions from the payment agent informing you how to surrender your stock certificates to receive the merger consideration.

Adjournment and Postponements

The special meeting may be adjourned from time to time, to reconvene at the same or some other place, by approval of the holders of common stock representing a majority of the votes present in person or by proxy at the special meeting, whether or not a quorum exists, without further notice other than by an announcement made at the special meeting, so long as the new time and place for the special meeting are announced at that time. If the adjournment is for more than 30 days, or if after the adjournment a new record date is determined for the adjourned special meeting, a notice of the adjourned special meeting must be given to each shareholder of record entitled to vote at the special meeting. If a quorum is not present at the MedSolutions special meeting, holders of MedSolutions common stock may be asked to vote on a proposal to adjourn or postpone the MedSolutions special meeting to solicit additional proxies. If a quorum is not present at the MedSolutions special meeting, the holders of a majority of the shares entitled to vote who are present in person or by proxy may adjourn the meeting. If a quorum is present at the MedSolutions special meeting but there are not sufficient votes at the time of the special meeting to approve the merger agreement, holders of MedSolutions common stock may also be asked to vote on a proposal to approve the adjournment or postponement of the special meeting to permit further solicitation of proxies.

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THE MERGER

General

MedSolutions Board of Directors is using this document to solicit proxies from the holders of MedSolutions common stock for use at the MedSolutions special meeting, at which holders of MedSolutions common stock will be asked to vote upon approval and adoption of the merger agreement. In addition, Stericycle is sending this document to MedSolutions shareholders as a prospectus in connection with its issuance of the promissory notes in exchange for shares of MedSolutions common stock in the merger.

The respective Boards of Directors of MedSolutions and Stericycle have unanimously approved the merger agreement providing for the merger of Merger Sub into MedSolutions. MedSolutions will be the surviving corporation in the merger, and upon completion of the merger, the separate corporate existence of Merger Sub will terminate. We expect to complete the merger in the third quarter of 2007.

Background of the Merger

During the month of March 2006, Mr. Jim Karls, Stericycle s Vice President Corporate Mergers & Acquisitions, contacted Mr. Matthew H. Fleeger, MedSolutions President and Chief Executive Officer, by telephone to arrange a meeting at the Waste Expo conference to be held in Las Vegas, Nevada in April 2006. Mr. Fleeger agreed to meet with Stericycle s representatives at such conference.

On April 6, 2006, Mr. Fleeger met with Mr. Frank J.M. ten Brink, Stericycle s Executive Vice President and Chief Financial Officer, Mr. Karls and two additional Stericycle representatives at the Waste Expo conference in Las Vegas, Nevada to discuss the possibility of a business combination between MedSolutions and Stericycle. Mr. Fleeger informed Stericycle that MedSolutions was not currently for sale but that he would be amenable to further discussions in the future.

On May 1, 2006, Mr. ten Brink sent a letter to Mr. Fleeger reaffirming Stericycle s interest in pursuing a potential business combination between MedSolutions and Stericycle.

Prior to traveling to Chicago, Illinois on other business in October 2006, Mr. Fleeger contacted Mr. ten Brink to arrange a meeting to further discuss the possibility of a business combination between MedSolutions and Stericycle. Mr. Fleeger and Mr. ten Brink agreed to meet at Stericycle s offices in Lake Forest, Illinois on October 4, 2006. Mr. ten Brink stated that, to formulate a proposal, Stericycle needed to review and evaluate certain non-public MedSolutions operational and financial data, and requested that Mr. Fleeger provide such information at the October 4th meeting. Mr. Fleeger stated that he would provide such information if Stericycle entered into a confidentiality agreement with MedSolutions.

On October 4, 2006, Mr. ten Brink and Mr. Karls met with Mr. Fleeger and Mr. Alan Larosee, MedSolutions Vice President, Operations, at Stericycle s office in Lake Forest, Illinois. Stericycle and MedSolutions entered into a confidentiality agreement at this meeting, and Mr. Fleeger provided to Mr. ten Brink the information regarding MedSolutions that had been requested. During the meeting, Mr. ten Brink expressed an interest in a business combination between MedSolutions and Stericycle. Mr. ten Brink suggested that Stericycle would be willing to pay a yet-to-be determined premium for the common stock of MedSolutions. Mr. Fleeger responded that he would discuss with the MedSolutions Board of Directors Stericycle s indication of interest.

On or about October 19, 2006, the Board of Directors of MedSolutions met by telephonic conference and Mr. Fleeger reported to the directors the discussions with Mr. ten Brink at the October 4, 2006

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meeting. Following a discussion of the matter, the MedSolutions Board of Directors authorized MedSolutions to conduct exploratory communications with Stericycle s management regarding a possible business combination.

On October 12, 2006, Mr. Fleeger and Mr. J. Steven Evans, MedSolutions Vice President Finance, received a letter from Mr. Karls requesting additional information regarding MedSolutions. MedSolutions subsequently provided additional information responsive to Mr. Karl s request to Stericycle.

On December 18, 2006, Mr. ten Brink sent proposed terms for a business combination between Stericycle and MedSolutions to Mr. Fleeger by facsimile. The proposed terms provided for a price per share of approximately $1.56, to be paid approximately 50% in cash and 50% in promissory notes.

On December 19, 2006, a regulary scheduled meeting of the Board of Directors of MedSolutions was held, during which Mr. Fleeger updated the directors on the conversations to date with Stericycle. The directors discussed the Stericycle level of interest and concluded that the tentative indication of value at approximately $1.56 per share of MedSolutions common stock warranted continued dialogue with Stericycle. Upon deliberation, the MedSolutions Board of Directors determined that MedSolutions management should continue discussions with Stericycle and that MedSolutions and its advisors should seek an increase in the consideration to be paid by Stericycle. The MedSolutions Board of Directors also authorized MedSolutions management to conduct discussions with a third party that had expressed interest in a potential business combination with MedSolutions. On December 23, 2006, Mr. Fleeger communicated to Mr. ten Brink that MedSolutions Board of Directors had reviewed Stericycle s tentative proposal but had not reached a conclusion on it.

During January 2007, MedSolutions management conducted negotiations with a third party that had expressed an interest in either acquiring MedSolutions by way of merger or purchasing substantially all of the assets and assuming certain of the liabilities of MedSolutions. The third party s management initially proposed to pay approximately $45,000,000 (approximately $1.66 per share of MedSolutions common stock) in either a merger transaction or an asset transaction, approximately 70% of which would be in the form of cash and 30% of which would be in the form of notes payable over five years. However, after failing to obtain the approval of its board of directors for the proposed transaction terms, the third party s management lowered its proposed purchase price for MedSolutions. After consultation with MedSolutions Board of Directors, MedSolutions management informed the third party that the newly proposed terms were unacceptable and terminated negotiations with such third party.

On February 19, 2007, Mr. ten Brink sent revised proposed terms for a business combination between Stericycle and MedSolutions to Mr. Fleeger by email. The proposed terms provided for a price per share of approximately $2.00, to be paid 25% in cash and 75% in promissory notes. After receipt of such proposal, the Board of Directors of MedSolutions met by telephonic conference in order to consider Stericycle s revised proposal. After deliberation, the MedSolutions Board of Directors directed Mr. Fleeger to continue to negotiate the terms for a proposed business combination with Stericycle.

Several drafts of the proposed terms for the business combination were negotiated and revised by Stericycle, MedSolutions and their respective legal counsel between February 19 and March 7, 2007. In a telephone conversation regarding such revised drafts, Mr. ten Brink requested that Stericycle and MedSolutions enter into an additional confidentiality agreement permitting Stericycle to conduct additional due diligence, and an exclusivity agreement providing for an exclusivity period of 75 days during which MedSolutions would not seek or consider alternative business combination transactions. Stericycle s legal counsel provided drafts of the proposed confidentiality agreement and exclusivity agreement to legal counsel for MedSolutions on March 7, 2007. Additional revisions were made by legal

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counsel for each of Stericycle and MedSolutions to the proposed terms for the business combination, the confidentiality agreement and the exclusivity agreement on March 7 and March 8, 2007.

On March 7, 2007, the MedSolutions Board of Directors met by telephonic conference to discuss the proposed terms for the business combination, the confidentiality agreement and the exclusivity agreement. After deliberation, the MedSolutions Board of Directors authorized Mr. Fleeger to execute the confidentiality agreement and the exclusivity agreement on behalf of MedSolutions, subject to review of the definitive confidentiality agreement and exclusivity agreement by outside legal counsel to MedSolutions.

During the week of March 12, 2007, Mr. Karls and a team of Stericycle representatives met with Mr. Fleeger, Mr. Evans, Mr. Larosee and other MedSolutions representatives at MedSolutions offices in Dallas, Texas to conduct due diligence on MedSolutions and further discuss the prospect of a merger between the companies. During March and April 2007, Stericycle completed its due diligence of MedSolutions.

On April 16, 2007, MedSolutions engaged Van Amburgh to render a written opinion to the Board of Directors of MedSolutions regarding the fairness of the merger consideration to be received in connection with the merger by the holders of MedSolutions common stock from a financial point of view.

On April 4, 2007, Stericycle distributed a draft merger agreement and a draft voting agreement prepared by Johnson and Colmar, Stericycle s outside legal counsel, to MedSolutions and its outside legal counsel at that time, Fish & Richardson P.C. Over the following three months, the managements of MedSolutions and Stericycle and their respective financial advisors and outside legal counsel engaged in negotiations with respect to the merger agreement.

MedSolutions Board of Directors held a telephonic meeting on July 5, 2007 to review the proposed transaction. MedSolutions valuation advisor and Block & Garden, LLP, MedSolutions new outside legal counsel, also attended the meeting. At the meeting, MedSolutions Board of Directors discussed various aspects of the proposed transaction, including the proposed merger consideration, the terms of the merger agreement, and the written fairness opinion rendered by Van Amburgh that, as of the date of the opinion and based on and subject to the matters described in the opinion, the merger consideration to be received in the merger by the holders of MedSolutions common stock was fair, from a financial point of view, to such holders. MedSolutions outside legal counsel presented a summary of the terms of the merger agreement and discussed various legal issues with MedSolutions directors, including without limitation their fiduciary duties to MedSolutions shareholders. After further discussion on certain aspects of the proposed transaction, MedSolutions Board of Directors unanimously approved the merger, the terms of the merger agreement and the transactions contemplated by the merger agreement, and determined to recommend adoption of the merger agreement to the shareholders of MedSolutions.

The Board of Directors of Stericycle approved the merger agreement in its then current form and the transaction contemplated by the merger agreement by the directors unanimous written consent as of June 14, 2007. The directors consent authorized Stericycle s executive officers to enter into a merger agreement in a form and on terms substantially consistent with the form and terms approved by the directors.

On July 6, 2007, following the approval by the boards of directors of both companies, Stericycle and MedSolutions executed the merger agreement. On July 6, 2007, MedSolutions publicly announced the execution of the merger agreement.

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MedSolutions Reasons for the Merger

The MedSolutions Board of Directors, at a special meeting held on July 5, 2007, unanimously determined that the merger and the merger agreement are advisable, fair to and in the best interests of MedSolutions and its shareholders. The MedSolutions Board of Directors has approved the merger agreement and unanimously recommends MedSolutions shareholders vote FOR approval and adoption of the merger agreement and the merger.

In reaching its decision, the MedSolutions Board of Directors consulted with MedSolutions management and its valuation and legal advisors in this transaction. In concluding that the merger is in the best interests of MedSolutions and its shareholders, the MedSolutions Board of Directors considered a variety of factors, including the following:

- the financial presentation of Van Amburgh, including its opinion dated June 30, 2007, to the MedSolutions Board of Directors as to the fairness, from a financial point of view and as of the date of the opinion, of the merger consideration, as more fully described below under Opinion of MedSolutions Valuation Advisor ;

- the MedSolutions Board of Directors familiarity with, and understanding of, MedSolutions business, financial condition, results of operations, current business strategy, earnings and prospects, and its understanding of Stericycle s business, financial condition, results of operations, business strategy and earnings;

- the possible alternatives to the merger, including:
  - other acquisition or combination possibilities for MedSolutions; and
  - the possibility of continuing to operate as an independent regulated medical waste management company under its current model focused in the southern and northeastern United States; and

- the range of possible benefits to MedSolutions shareholders of those alternatives and the timing and likelihood of accomplishing the goal of any of those alternatives, and the Board s assessment that the merger with Stericycle presents an opportunity superior to those alternatives;

- the fact that MedSolutions shareholders will receive substantial and adequate total consideration for their shares;

- the MedSolutions Board of Directors understanding, following its review together with MedSolutions management and valuation advisors, of overall market conditions, and the Board s determination that, in light of these factors, the timing of a potential transaction was favorable to MedSolutions and its shareholders; and

- the consideration by the MedSolutions Board of Directors, with the assistance of its advisors, of the general terms and conditions of the merger agreement, including the parties representations, warranties and covenants, the conditions to their respective obligations as well as the likelihood of consummation of the merger, the proposed transaction structure, the termination provisions of the agreement and the MedSolutions Board of Directors evaluation of the likely time period necessary to close the transaction.

The MedSolutions Board of Directors also considered potential risks associated with the merger in connection with its evaluation of the proposed transaction, including:

- the risks of the type and nature described under Risk Factors beginning on page 14;

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the risk, which is common in transactions of this type, that the terms of the merger agreement, including provisions relating to Stericycle s right to obtain information with respect to any alternative proposals and to a five-day negotiating period after receipt by MedSolutions of a superior proposal and MedSolutions payment of a termination fee under specified circumstances, might discourage other parties that could otherwise have an interest in a business combination with, or an acquisition of, MedSolutions from proposing such a transaction;

the interests of certain of MedSolutions executive officers and directors described under Interests of MedSolutions Directors and Executive Officers in the Merger beginning on page 45;

the restrictions on the conduct of MedSolutions business prior to the consummation of the merger, requiring MedSolutions to conduct its business in the ordinary course consistent with past practices subject to specific limitations, which may delay or prevent MedSolutions from undertaking business opportunities that may arise pending completion of the merger; and

the risks and contingencies related to the announcement and pendency of the merger, the possibility that the merger will not be consummated and the potential negative effect of public announcement of the merger on MedSolutions business and relations with customers and service providers, and operating results and MedSolutions ability to retain key management and personnel.

The foregoing discussion of the information and factors discussed by the MedSolutions Board of Directors is not exhaustive but does include material factors considered by the MedSolutions Board of Directors. The MedSolutions Board of Directors did not quantify or assign any relative or specific weight to the various factors that it considered. Rather, the MedSolutions Board of Directors based its recommendation on the totality of the information presented to and considered by it. In addition, individual members of the MedSolutions Board of Directors may have given different weight to different factors.

Recommendation of the MedSolutions Board of Directors

After careful consideration of the matters discussed above, the MedSolutions Board of Directors concluded that the proposed merger is in the best interest of the shareholders of MedSolutions.

FOR THE REASONS SET FORTH ABOVE, THE BOARD OF DIRECTORS OF MEDSOLUTIONS HAS UNANIMOUSLY ADOPTED THE MERGER AGREEMENT AS IN THE BEST INTERESTS OF MEDSOLUTIONS AND ITS SHAREHOLDERS, AND UNANIMOUSLY RECOMMENDS THAT MEDSOLUTIONS SHAREHOLDERS VOTE FOR THE ADOPTION OF THE MERGER AGREEMENT.

Stericycle s Reasons for the Merger

Stericycle anticipates that the acquisition of MedSolutions will increase Stericycle s revenues and improve its operating margins by increasing route densities and expanding the geographic areas that it is able to serve efficiently. Because Stericycle uses a hub and spoke configuration of treatment facilities and transfer stations, the addition of MedSolutions customers and facilities will increase the number of customers that can be served by Stericycle s existing routes or by new routes resulting from a realignment as appropriate of Stericycle s and MedSolutions routes, thereby reducing per-stop collection costs, and the addition of MedSolutions facilities will shorten travel distances, thereby reducing overall transportation costs.

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Opinion of MedSolutions Valuation Advisor

Van Amburgh has rendered its written opinion, dated June 30, 2007, to the Board of Directors of MedSolutions to the effect that, as of that date and subject to the assumptions, limitations, qualifications and other matters described in its opinion, the merger consideration to be received in connection with the merger by the holders of MedSolutions common stock was fair, from a financial point of view, to such holders.

The full text of Van Amburgh s written opinion to MedSolutions Board of Directors, which sets forth the procedures followed, the assumptions made, qualifications and limitations on the review undertaken and other matters, is attached to this proxy statement/prospectus as Annex B. The summary of Van Amburgh s opinion in this proxy statement/prospectus is qualified in its entirety by reference to the full text of the opinion, which is incorporated by reference into this proxy statement/prospectus. Holders of MedSolutions common stock are encouraged to read the opinion in its entirety.

The opinion of Van Amburgh does not constitute a recommendation as to how any shareholder should vote on the merger or any matter relevant to the merger agreement.

General

Van Amburgh was selected by MedSolutions Board of Directors based on Van Amburgh s qualifications, expertise and reputation. Van Amburgh is a nationally recognized valuation firm, and is regularly engaged in the evaluation of capital structures, valuation of businesses and their securities in connection with mergers and acquisitions, negotiated underwritings, competitive biddings, secondary distributions of listed and unlisted securities, private placements, financial restructurings and other financial services.

In the past, Van Amburgh and its affiliates have provided financial advisory services to MedSolutions unrelated to the merger for which they have received compensation, and Van Amburgh or its affiliates may, in the future, provide investment banking and financial advisory services to Stericycle for which they would expect to receive compensation.

Pursuant to an engagement letter between MedSolutions and Van Amburgh dated April 16, 2007, Van Amburgh was retained to render a written opinion to the Board of Directors of MedSolutions regarding the fairness of the merger consideration to be received in connection with the merger by the holders of MedSolutions common stock from a financial point of view. On June 30, 2007, Van Amburgh rendered its written opinion to the Board of Directors of MedSolutions that, as of that date and subject to the assumptions, limitations, qualifications and other matters described in its opinion, the merger consideration to be received in connection with the merger by the holders of MedSolutions common stock was fair, from a financial point of view, to such holders. Van Amburgh received a fee of $17,500 for rendering such opinion, which was not contingent upon the completion of the merger. MedSolutions and Van Amburgh mutually determined the amount of the fee payable to Van Amburgh for rendering such opinion.

The opinion of Van Amburgh was one of many factors taken into consideration by MedSolutions Board of Directors in making its determination to approve the merger and should not be considered determinative of the views of MedSolutions Board of Directors or management with respect to the merger or the merger consideration.

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Van Amburgh did not establish the amount of cash or the principal amount of the promissory note that will be received in exchange for each share of MedSolutions common stock as consideration for the merger. These amounts were determined pursuant to negotiations between MedSolutions and Stericycle and were approved by the Board of Directors of MedSolutions.

Procedures Followed

In connection with rendering its opinion, Van Amburgh has, among other things:

- reviewed a draft of the merger agreement and discussed with the officers of MedSolutions the course of other negotiations with Stericycle;
- reviewed certain financial and other information about MedSolutions that was publicly available and that Van Amburgh deemed relevant;
- reviewed certain internal financial and operating information, including financial projections relating to MedSolutions that were provided to Van Amburgh by MedSolutions, taking into account (a) the growth prospects of MedSolutions, (b) MedSolutions historical and current fiscal year financial performance and track record of meeting its forecasts, and (c) MedSolutions forecasts going forward and its ability to meet them;
- met with MedSolutions management regarding the business prospects, financial outlook and operating plans of MedSolutions, and held discussions concerning the impact on MedSolutions and its prospects of the economy and the conditions in MedSolutions industry;
- compared the valuation in the public market of companies Van Amburgh deemed similar to that of MedSolutions in market, services offered, and size;
- reviewed public information concerning the financial terms of certain recent transactions that Van Amburgh deemed comparable to the merger; and
- performed a discounted cash flow analysis to analyze the present value of the future cash flow streams that MedSolutions has indicated it expects to generate.

In addition, Van Amburgh conducted such other studies, analyses and investigations and considered such other financial, economic and market factors and criteria as they considered appropriate in arriving at their opinion. Van Amburgh s analyses must be considered as a whole. Considering any portion of such analyses or factors, without considering all analyses and factors, could create a misleading or incomplete view of the process underlying the conclusions expressed in the opinion delivered by Van Amburgh.

Assumptions Made and Qualifications and Limitations on Review Undertaken

In rendering its opinion, Van Amburgh assumed and relied upon the accuracy and completeness of all of the financial information, forecasts and other information provided to or otherwise made available to Van Amburgh by MedSolutions or that was publicly available to Van Amburgh, and did not attempt, or assume any responsibility, to independently verify any of such information. The opinion of Van Amburgh is expressly conditioned upon such information, whether written or oral, being complete and accurate. In addition, in rendering its opinion, Van Amburgh assumed that the forecasts provided by MedSolutions had been reasonably prepared on bases reflecting the best currently available information, estimates and judgments of MedSolutions management as to the future financial performances of MedSolutions.

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Van Amburgh assumed that the merger will be consummated in accordance with the merger agreement. In addition, Van Amburgh s opinion noted that:

they have not conducted a physical inspection of MedSolutions properties and facilities;

they have not made nor obtained any evaluations or appraisals of the assets or liabilities (including without limitation any potential environmental liabilities) of MedSolutions;

their opinion is based upon market, economic and other conditions as they exist on, and can be evaluated as of, the date of the opinion;

they assumed that there were no significant events impacting MedSolutions historical profitability between March 31, 2007 and June 30, 2007; and

their opinion does not address the relative merits of the merger as compared to other transactions or business strategies that might be available to MedSolutions, nor does it address MedSolutions underlying business decision to proceed with the merger.

Summary of Financial and Other Analyses

The following is a summary of the material financial and other analyses presented by Van Amburgh to MedSolutions Board of Directors in connection with Van Amburgh s opinion dated June 30, 2007. The financial and other analyses summarized below include information presented in tabular format. In order to fully understand Van Amburgh s analyses, the tables must be read together with the text of each summary. The tables alone do not constitute a complete description of the analyses. Considering the data in the tables below without considering the full narrative description of the financial and other analyses, including the methodologies underlying and the assumptions, qualifications and limitations affecting each analysis, could create a misleading or incomplete view of Van Amburgh s analyses.

Overview

Van Amburgh analyzed the value of MedSolutions in accordance with the following methodologies, each of which is described in more detail below:

Discounted Cash Flow Analysis;

Guideline Company Analysis; and

Adjusted Book Value Analysis.

These methodologies were used to determine an implied price range per share of MedSolutions common stock, which was then compared to the merger consideration. The following table summarizes the results of the analyses and should be read together with the more detailed descriptions set forth below:

Methodology	**Fair Market Value Estimate Range**
Discounted Debt-Free Net Cash Flow (Income) Approach to Value	$ 37,100,000 to $45,400,000
Guideline Company (Market) Approach to Value	$ 38,600,000 to $41,700,000
Adjusted Book Value (Cost) Approach to Value	N/A
Total Range	$ 37,100,000 to $45,400,000

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Discounted Cash Flow Analysis

Van Amburgh s first valuation analysis was based upon the Discounted Debt-Free Net Cash Flow (Income) Approach to Value. This approach involved a projection of future revenues and expenses based upon present operations and expectations. The calculated earnings stream was discounted back to present value at discount rates ranging from 14% to 16%, a weighted average cost of capital (discount rate) range believed by Van Amburgh to balance the potential risks with the potential rewards as viewed by an objective investor. Values in a range from $37,100,000 (using a 16% discount rate) to $45,400,000 (using a 14% discount rate) were determined using this approach.

Guideline Company Analysis

Van Amburgh s second analysis was based upon the Guideline Company (Market) Approach to Value. Values determined from recent minority public guideline company trades, private sale transactions, possible transaction indicators, planned trades, and/or trades of equivalent assets were considered under this approach. Fair market value estimates in a range from $38,600,000 to $41,700,000 were determined using this approach.

The selected companies used by Van Amburgh in the Guideline Company Analysis were:

Donno Compant;

SteriLogic Waste Systems, Inc.;

Miners Group;

A&J Cartage, Inc.;

Waste Stream Environmental, Inc.;

Romic Environmental Technologies Corporation;

Bonham Management Group, Inc.;

Liberty Disposal, Inc.;

Incendere, Inc.;

7-7, Inc.;

Stericycle, Inc.;

American Ecology Corporation;

Microtek Medical Holdings, Inc.; and

Steris Corporation.

Adjusted Book Value Analysis

Van Amburgh s third analysis was based upon the Adjusted Book Value (Cost) Approach to Value. This analysis required adjusting each asset and each actual and potential liability of MedSolutions to present fair market value in order to establish the present estimated cost of duplicating the assets and liabilities of its business. The value indicated by this analysis often understates the fair market value of the subject company because it does not consider goodwill and other elements of intangible value. Due to the earnings potential of MedSolutions and the presence of significant intangible asset value, the Adjusted Book Value (Cost) Approach to Value was calculated more for informational purposes than for value

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indication purposes. The book value of MedSolutions shareholders equity was $4,606,561 as of the date of Van Amburgh s opinion. Van Amburgh disregarded this valuation method because it did not believe it accurately reflected MedSolutions value.

After these three approaches to value were considered, the applicability and practical application of each were examined by Van Amburgh and other relevant factors were weighted. Based upon Van Amburgh s personnel s experience in valuing closely-held companies, the most representative value of 100% of MedSolutions common stock, as of the date of their opinion, was in a range from $37,100,000 to $45,400,000. The total amount to be paid by Stericycle to MedSolutions shareholders pursuant to the merger agreement is $54,348,270.

Conclusion

Van Amburgh determined and issued its written opinion to the Board of Directors of MedSolutions to the effect that as of June 30, 2007, and subject to the assumptions, limitations, qualifications and other matters described in its opinion, the merger consideration to be received in connection with the merger by the holders of MedSolutions common stock was fair, from a financial point of view, to such holders.

Accounting Treatment

Stericycle will account for the merger using the purchase method of accounting.

Regulatory Matters

Other than as we describe in this document, the merger does not require the approval of any other U.S. federal or state or foreign agency.

Appraisal and Dissenters Rights

Under the Texas Business Corporation Act (the TBCA), you have the right to demand appraisal in connection with the merger and to receive, in lieu of the merger consideration, payment in cash, without interest, for the fair value of your shares of MedSolutions common stock as determined by an appraiser selected in a Texas state court proceeding. Holders of MedSolutions common stock electing to exercise appraisal rights must comply with the provisions of Article 5.12 of the TBCA in order to perfect their rights. MedSolutions will require strict compliance with the statutory procedures.

The following is intended as a brief summary of the material provisions of the Texas statutory procedures required to be followed by a MedSolutions shareholder in order to demand and perfect appraisal rights. This summary, however, is not a complete statement of all applicable requirements and is qualified in its entirety by reference to Article 5.12 of the TBCA, the full text of which appears in Annex C to this proxy statement/prospectus.

This proxy statement/prospectus constitutes MedSolutions notice to its shareholders of the availability of appraisal rights in connection with the merger in compliance with the requirements of Article 5.12 of the TBCA. If you wish to consider exercising your appraisal rights, you should carefully review the text of Article 5.12 contained in Annex C since failure to timely and properly comply with the requirements of Article 5.12 will result in the loss of your appraisal rights under Texas law.

If you elect to demand appraisal of your shares of MedSolutions common stock, you must satisfy each of the following conditions:

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prior to the special meeting you must deliver to MedSolutions a written objection to the merger and your intention to exercise your right to dissent in the event that the merger is effected and setting forth the address at which notice shall be delivered in that event;

this written objection must be in addition to and separate from any proxy or vote abstaining from or voting against the adoption of the merger agreement. Voting against or failing to vote for the adoption of the merger agreement by itself does not constitute a demand for appraisal within the meaning of Article 5.12;

you must not vote in favor of the adoption of the merger agreement. A vote in favor of the adoption of the merger agreement, by proxy or in person, will constitute a waiver of your appraisal rights in respect of the shares so voted and will nullify any previously filed written demands for appraisal. Failing to vote against adoption of the merger agreement will not constitute a waiver of your appraisal rights;

you must continuously hold your shares through the effective time of the merger.

If you fail to comply with any of these conditions and the merger is completed, you will be entitled to receive the fixed combination of the cash consideration and the note consideration for each share of MedSolutions common stock as provided for in the merger agreement if you are the holder of record at the effective time of the merger, but you will have no appraisal rights with respect to your shares of MedSolutions common stock. A proxy card which is signed and does not contain voting instructions will, unless revoked, be voted FOR the adoption of the merger agreement and will constitute a waiver of your right of appraisal and will nullify any previous written demand for appraisal.

All written objections should be addressed to MedSolutions Secretary at 12750 Merit Drive, Park Central VII, Suite 770, Dallas, Texas 75251, and should be executed by, or on behalf of, the record holder of the shares in respect of which appraisal is being demanded. The written objection must reasonably inform MedSolutions of the identity of the shareholder and the intention of the shareholder to demand appraisal of his, her or its shares.

To be effective, a written objection by a holder of MedSolutions common stock must be made by or on behalf of the shareholder of record. The written objection should set forth, fully and correctly, the shareholder of record s name as it appears on his or her stock certificate(s) and should specify the holder s mailing address and the number of shares registered in the holder s name. The written objection must state that the person intends to exercise his, her or its right to dissent under Texas law in connection with the merger. Beneficial owners who do not also hold the shares of record may not directly make appraisal demands to MedSolutions. The beneficial holder must, in such cases, have the record owner submit the required demand in respect of those shares. If shares are owned of record in a fiduciary capacity, such as by a trustee, guardian or custodian, execution of a written objection should be made in that capacity; and if the shares are owned of record by more than one person, as in a joint tenancy or tenancy in common, the written objection should be executed by or for all joint owners. An authorized agent, including an authorized agent for two or more joint owners, may execute the written objection for appraisal for a shareholder of record; however, the agent must identify the record owner or owners and expressly disclose the fact that, in executing the written objection, he or she is acting as agent for the record owner. A record owner, such as a broker, who holds shares as a nominee for others, may exercise his or her right of appraisal with respect to the shares held for one or more beneficial owners, while not exercising this right for other beneficial owners. In that case, the written objection should state the number of shares as to which appraisal is sought. Where no number of shares is expressly mentioned, the written objection will be presumed to cover all shares held in the name of the record owner.

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If you hold your shares of MedSolutions common stock in a brokerage account or in other nominee form and you wish to exercise appraisal rights, you should consult with your broker or the other nominee to determine the appropriate procedures for the making of a demand for appraisal by the nominee.

Within 10 days after the effective time of the merger, the surviving corporation to the merger must give written notice that the merger has become effective to each MedSolutions shareholder who has properly filed a written objection and who did not vote in favor of the merger agreement. Each shareholder who has properly filed a written objection has 10 days from the delivery or mailing of the notice to make written demand for payment of the fair value for the shareholder s shares. The written demand must state the number of shares owned by the shareholder and the fair value of the shares as estimated by the shareholder. Any shareholder who fails to make written demand within 10 days of the delivery or mailing of the notice from the surviving corporation that the merger has become effective will not be entitled to any appraisal rights. Any shareholder making a written demand for payment must submit to the surviving corporation for notation any certificated shares held by that shareholder which are subject to the demand within 20 days after making the written demand. The failure by any shareholder making a written demand to submit its certificates may result in the termination of the shareholder s appraisal rights.

The surviving corporation has 20 days after its receipt of a demand for payment to provide notice that the surviving corporation (i) accepts the amount claimed in the written demand and agrees to pay the amount claimed within 90 days from effective time of the merger, or (ii) offers to pay its estimated fair value of the shares within 90 days after the effective time.

If, within 60 days after the effective time of the merger, the surviving corporation and a shareholder who has delivered written demand in accordance with Article 5.12 do not reach agreement as to the fair value of the shares, either the surviving corporation or the shareholder may file a petition in any Texas state court, with a copy served on the surviving corporation in the case of a petition filed by a shareholder, demanding a determination of the fair value of the shares held by all shareholders entitled to appraisal. The surviving corporation has no obligation and has no present intention to file such a petition if there are objecting shareholders. Accordingly, it is the obligation of MedSolutions shareholders to initiate all necessary action to perfect their appraisal rights in respect of shares of MedSolutions common stock within the time prescribed in Article 5.12. The failure of a shareholder to file such a petition within the period specified could nullify the shareholder s previously written demand for appraisal.

If a petition for appraisal is duly filed by a shareholder and a copy of the petition is delivered to the surviving corporation, the surviving corporation will then be obligated, within 10 days after receiving service of a copy of the petition, to provide the office of the clerk of the court in which the petition was filed with a list containing the names and addresses of all shareholders who have demanded an appraisal of their shares and with whom agreements as to the value of their shares have not been reached.

After notice to dissenting shareholders, the court will conduct a hearing upon the petition, and determine those shareholders who have complied with Article 5.12 and who have become entitled to the appraisal rights provided thereby.

After determination of the shareholders entitled to appraisal of their shares of MedSolutions common stock, the court will appraise the shares, determining their fair value. When the value is determined, the court will direct the payment of such value to the shareholders entitled to receive the same, immediately to the holders of uncertificated shares and upon surrender by holders of the certificates representing shares.

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Pursuant to Article 5.12, the fair value of your shares is the value of such shares as of the day immediately preceding the date of the special meeting, excluding any appreciation or depreciation in anticipation of the merger. You should be aware that the fair value of your shares as determined under Article 5.12 could be more, the same, or less than the value that you are entitled to receive under the terms of the merger agreement.

Costs of the appraisal proceeding may be imposed upon the surviving corporation and the shareholders participating in the appraisal proceeding by the court as the court deems equitable in the circumstances. Upon the application of a shareholder, the court may order all or a portion of the expenses incurred by any shareholder in connection with the appraisal proceeding, including, without limitation, reasonable attorneys fees and the fees and expenses of experts, to be charged pro rata against the value of all shares entitled to appraisal. Any shareholder who had demanded appraisal rights will not, after the effective time of the merger, be entitled to vote shares subject to that demand for any purpose or to receive payments of dividends or any other distribution with respect to those shares, other than with respect to payment as of a record date prior to the effective time; however, if no petition for appraisal is filed within 120 days after the effective time, or if the shareholder delivers a written withdrawal of such shareholder s demand for appraisal and an acceptance of the terms of the merger prior to the filing of a petition for appraisal, then the right of that shareholder to appraisal will cease and that shareholder will be entitled to receive the cash and note consideration for shares of his, her or its MedSolutions common stock pursuant to the merger agreement. Any withdrawal of a demand for appraisal made after the filing of a petition for appraisal may only be made with the written approval of the surviving corporation.

Failure to comply with all of the procedures set forth in Article 5.12 will result in the loss of a shareholder s statutory appraisal rights. In view of the complexity of Article 5.12, MedSolutions shareholders who may wish to dissent from the merger and pursue appraisal rights should consult their legal advisors.

If the number of shares of dissenting stock exceeds 7.5% of the outstanding shares of MedSolutions common stock outstanding immediately prior to the effective time of the merger, then Stericycle may elect not to consummate the merger.

Deregistration of MedSolutions Common Stock

If the merger is completed, the shares of MedSolutions common stock will be deregistered under the Securities Exchange Act of 1934.

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INTERESTS OF MEDSOLUTIONS DIRECTORS AND EXECUTIVE OFFICERS IN THE MERGER

In considering the recommendation of the MedSolutions Board of Directors with respect to the merger, MedSolutions shareholders should be aware that some directors and executive officers of MedSolutions have interests in the merger that are different from, or in addition to, the interests of MedSolutions shareholders generally. The MedSolutions Board of Directors was aware of those interests and took them into account in approving and adopting the merger agreement and recommending that MedSolutions shareholders vote to approve and adopt the merger agreement. Those interests are summarized below.

Stock Options

All options to purchase MedSolutions common stock granted under MedSolutions equity compensation plans that are outstanding immediately prior to the effective time of the merger are fully vested. At the effective time of the merger, each outstanding MedSolutions stock option will be cancelled and converted into the right to receive the cash consideration and the note consideration in respect of the in-the-money value of the option. See The Merger Agreement Treatment of MedSolutions Options beginning on page 51.

The following table shows, as of July 6, 2007, the number of shares of MedSolutions common stock subject to vested and unexercised stock options held by MedSolutions named executive officers and directors.

Name and Principal Position	Number of Stock Options	Value of Stock Options (At $2.00 per share net of exercise price)
Matthew H. Fleeger, President, Chief Executive Officer & Director	0	$ 0.00
Winship B. Moody, Sr., Chairman of the Board of Directors	0	$ 0.00
Ajit S. Brar, Director	193,208	$ 110,510.00
David L. Mack, Director	62,222	$ 77,777.50
Steven R. Block, Director	0	$ 0.00
Lonnie P. Cole, Sr., Senior Vice President Sales	0	$ 0.00
J. Steven Evans, Vice President Finance	145,665	$ 178,998.25
Alan E. Larosee, Vice President Operations	221,666	$ 273,332.50
James M. Treat, Vice President Business Development	173,333	$ 216,666.25
Mark M. Altenau, Former Director in 2006	69,833	$ 77,166.25

Severance Payments

Pursuant to the merger agreement, all employment agreements entered into between MedSolutions and its employees, including its executive officers, will be terminated at or prior to closing, and such employees will be paid all severance benefits payable in connection with such terminations. The following table sets forth the lump sum cash payments that MedSolutions named executive officers will receive if the merger is consummated.

Executive Officer	Cash Severance Payments
Matthew H. Fleeger	$600,000.00
Lonnie P. Cole, Sr.	$100,000.00
J. Steven Evans	$109,000.00
Alan E. Larosee	$109,537.50
James M. Treat	$111,300.00

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Positions of Certain MedSolutions Executive Officers After the Merger

Stericycle intends to retain, pursuant to a letter agreement to be executed in connection with the closing of the merger, Matthew H. Fleeger, MedSolutions President and Chief Executive Officer, or a company affiliated with Mr. Fleeger as a consultant for a period of six months beginning on the closing date of the merger to provide transition management and other services. Mr. Fleeger or his affiliated company will receive aggregate consulting fees of $96,900 for such services as well as health insurance coverage for Mr. Fleeger and his dependents. Subject to landlord approval, Stericycle also intends to sublease MedSolutions current corporate office space to Mr. Fleeger beginning on the six-month anniversary of the closing date of the merger, at the rental rates and for the remaining term as specified in MedSolutions current office lease.

Stericycle may also retain additional officers or employees of MedSolutions to provide transitional services on a consulting basis after the closing of the merger.

Ownership of MedSolutions Common Stock

MedSolutions directors and executive officers and their affiliates beneficially owned, as of the record date, approximately 13.6% of the outstanding MedSolutions common stock, including those shares of MedSolutions common stock underlying outstanding stock options and convertible debt.

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MATERIAL UNITED STATES FEDERAL INCOME TAX CONSEQUENCES

The following discussion summarizes certain material U.S. federal income tax consequences of the merger to U.S. holders. This discussion is based upon the Internal Revenue Code of 1986, as amended, Treasury Regulations promulgated under the Internal Revenue Code, court decisions, published positions of the Internal Revenue Service and other applicable authorities, all as in effect on the date of this document and all of which are subject to change or differing interpretations, possibly with retroactive effect. This discussion is limited to U.S. holders who hold MedSolutions shares as capital assets for U.S. federal income tax purposes (generally, assets held for investment). This discussion does not address all of the U.S. federal income tax consequences that may be relevant to holders in light of their particular circumstances or to holders who may be subject to special treatment under U.S. federal income tax laws, such as tax exempt organizations, foreign persons or entities, S corporations or other pass-through entities, financial institutions, insurance companies, broker-dealers, holders who hold MedSolutions shares as part of a hedge, straddle, wash sale, synthetic security, conversion transaction, or other integrated investment comprised of MedSolutions shares and one or more investments, holders with a functional currency (as defined in the Internal Revenue Code) other than the U.S. dollar, persons who exercise appraisal rights, and persons who acquired MedSolutions shares in compensatory transactions. Further, this discussion does not address any aspect of state, local or foreign taxation. No ruling has been or will be obtained from the Internal Revenue Service regarding any matter relating to the merger. No assurance can be given that the Internal Revenue Service will not assert, or that a court will not sustain, a position contrary to any of the tax aspects described below. Holders are urged to consult their own tax advisors as to the U.S. federal income tax consequences of the merger, as well as the effects of state, local and foreign tax laws.

As used in this summary, a U.S. holder includes:

- an individual U.S. citizen or resident alien;
- a corporation, partnership or other entity created or organized under U.S. law (federal or state);
- an estate whose worldwide income is subject to U.S. federal income tax; or
- a trust if a court within the United States of America is able to exercise primary supervision over the administration of the trust and one or more U.S. persons have the authority to control all substantial decisions of the trust.

If a partnership (including for this purpose any entity treated as a partnership for U.S. federal income tax purposes) is a beneficial owner of MedSolutions shares, the tax treatment of a partner in that partnership will generally depend on the status of the partner and the activities of the partnership. Holders of MedSolutions shares that are partnerships and partners in these partnerships are urged to consult their tax advisors regarding the U.S. federal income tax consequences of owning and disposing of MedSolutions shares in the merger.

THIS SUMMARY IS NOT A SUBSTITUTE FOR AN INDIVIDUAL ANALYSIS OF THE TAX CONSEQUENCES OF THE MERGER TO YOU. WE URGE YOU TO CONSULT A TAX ADVISOR REGARDING THE PARTICULAR FEDERAL, STATE, LOCAL AND FOREIGN TAX CONSEQUENCES OF THE MERGER IN LIGHT OF YOUR OWN SITUATION.

This summary of certain material U.S. federal income tax considerations, and any other discussion in this proxy statement/prospectus of the tax consequences or tax risks of the merger to U.S. holders of MedSolutions common stock (collectively, written discussion) is not intended nor written to be used, and cannot be used, by any person for the purpose of avoiding tax penalties that may be imposed on such person. The written discussion was prepared to support the marketing of the transaction(s) or matter(s) addressed by such written discussion, and the taxpayer should seek advice based on the taxpayer s particular circumstances from an independent tax advisor.

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Tax Consequences of the Merger to U.S. Holders of MedSolutions Common Stock

The Merger

The receipt of the merger consideration in the merger will result in a taxable transaction for United States federal income purposes and also may result in a taxable transaction under applicable state, local and other income tax laws. In general, under Section 1001 of the Internal Revenue Code of 1986, as amended (the Code), a holder of MedSolutions common stock will recognize gain or (subject to the limitations under Section 267 of the Code) loss equal to the difference between his or her adjusted tax basis in the MedSolutions common stock surrendered as determined under Section 1011 of the Code and the fair market value of the cash and promissory notes received, if any.

If a MedSolutions shareholder effectively dissents from the merger and receives cash for his, her or its shares, such cash will be treated as having been received by that shareholder as a distribution in redemption of his, her or its MedSolutions common stock, subject to the provisions and limitations of Section 302 of the Code, which determines whether a distribution in redemption of stock is treated as a payment in exchange for the stock or as a dividend. Where as a result of such distribution, a shareholder owns no MedSolutions common stock, either directly or through the application of Section 318(a) of the Code, the redemption will be a complete termination of interest within the meaning of Section 302(b)(3) of the Code and such cash will be treated as a distribution in full payment in exchange for his or her MedSolutions common stock, and not as a dividend.

Assuming that the shares of MedSolutions common stock have been held as a capital asset, the gain or loss recognized by a MedSolutions shareholder generally will constitute a capital gain or loss, other than, with respect to the exercise of dissenters rights, amounts, if any, which are treated as a dividend under Section 302 of the Code (and taxable as such), or which constitute interest or are deemed to constitute interest for federal income tax purposes (which amounts will be taxable as ordinary income). The gain will constitute short-term capital gain or loss subject to ordinary income tax rates if, at the effective time of the merger, the shares of MedSolutions common stock were held for one year or less. If the shares were held for more than one year, the capital gain or loss would be long-term, subject in the case of individual shareholders, estates and certain trusts to tax at a maximum United States federal income tax rate of 15% for 2007.

With certain exceptions, installment sale treatment under Section 453 of the Code may be available for purposes of reporting gain attributable to the promissory note portion of the merger consideration received pursuant to the Merger. The installment method permits gain (but not loss) from installment sales to be taxed as the shareholder receives installment payments instead of being taxed in full in the year of the merger.

A shareholder may elect out of installment sale treatment. If a shareholder makes such an election, taxable gain will be recognized to the same extent as if the shareholder s shares had been exchanged for cash in the amount of the face value of the promissory note.

The benefits of the installment method of reporting gain on installment sales are limited by a number of statutory rules including the following: (i) the pledge of certain installment obligations is treated as a payment resulting in the recognition of gain; (ii) a disposition of an installment obligation generally triggers the recognition of any deferred gain remaining on the sale; and (iii) the installment method is generally not available in respect of dispositions by dealers. Furthermore, where the installment method does apply, a special interest rule applicable to an installment obligation arising from a disposition of property with a sales price in excess of $150,000 may apply, with the possible effect of diminishing or eliminating the economic benefit of the deferral.

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If the Internal Revenue Service were to successfully assert that the promissory notes do not qualify for installment treatment, then MedSolutions shareholders would not be able to defer the recognition of a portion of their gain during the term of the promissory notes. Taxpayers are urged to consult their own independent tax advisors to consider the possible effects of installment reporting of gain allocated to the promissory note portion of the payments received pursuant to the merger, and the possible effects of electing out of the installment method.

Because the stated interest rate payable on the promissory notes is less than the relevant applicable federal rate (AFR), additional interest under the promissory notes will be imputed by reason of the imputed interest rules of Sections 1274 or 483 of the Code, as applicable. The relevant AFR is calculated by determining the appropriate term of the debt instrument (short-, mid- or long-term) and applying the lowest AFR during the three-month periods ending with the month in which the merger agreement was signed and the month in which the merger occurs. The promissory notes will be considered mid-term debt for these purposes. The lowest AFR for mid-term debt during May, June and July, 2007 was 4.62%.

The imputed interest rules will have the effect of re-characterizing as interest, for federal income tax purposes, a portion of the principal to be paid on the promissory notes because the relevant AFR exceeds the nominal interest of 4.5% or 3.5% payable on the promissory notes. You are urged to consult your own tax advisor to determine how the imputed interest rules will affect you.

Backup Withholding

United States federal income tax law requires that a holder of MedSolutions shares provide the payment agent with his or her correct taxpayer identification number, which is, in the case of a U.S. holder who is an individual, a social security number, or, in the alternative, establish a basis for exemption from backup withholding. Exempt holders, including, among others, corporations and some foreign individuals, are not subject to backup withholding and reporting requirements. If the correct taxpayer identification number or an adequate basis for exemption is not provided, a holder will be subject to backup withholding on any reportable payment. Any amounts withheld under the backup withholding rules from a payment to a U.S. holder will be allowed as a credit against that U.S. holder s U.S. federal income tax and may entitle the U.S. holder to a refund, if the required information is furnished to the Internal Revenue Service.

To prevent backup withholding, each holder of MedSolutions shares must complete the Substitute Form W-9 which will be provided by the payment agent with the transmittal letter and certify under penalties of perjury that:

the taxpayer identification number provided is correct or that the holder is awaiting a taxpayer identification number, and

the holder is not subject to backup withholding because

the holder is exempt from backup withholding,

the holder has not been notified by the Internal Revenue Service that he is subject to backup withholding as a result of the failure to report all interest or dividends, or

the Internal Revenue Service has notified the holder that he is no longer subject to backup withholding.

The Substitute Form W-9 must be completed, signed and returned to the payment agent.

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THE MERGER AGREEMENT

The following summary of the merger agreement is qualified by reference to the complete text of the merger agreement, which is attached as Annex A and incorporated by reference into this proxy statement/prospectus.

The merger agreement contains representations and warranties Stericycle and MedSolutions made to each other. The assertions embodied in MedSolutions representations and warranties are qualified by information in confidential disclosure schedule that MedSolutions has provided to Stericycle in connection with signing the merger agreement. The disclosure schedule contain information that modifies, qualifies and creates exceptions to MedSolutions representations and warranties set forth in the attached merger agreement. Accordingly, you should keep in mind that MedSolutions representations and warranties are modified in important part by the underlying disclosure schedule. The disclosure schedule contain information that has been included in MedSolutions general prior public disclosures, as well as additional information, some of which is non-public. Neither Stericycle nor MedSolutions believe that MedSolutions disclosure schedule contains information that the securities laws require them to publicly disclose except as discussed in this proxy statement/prospectus. Moreover, information concerning the subject matter of the representations and warranties may have changed since the date of the merger agreement, and that information may or may not be fully reflected in the companies public disclosures.

Structure of the Merger

Upon the terms and subject to the conditions of the merger agreement, and in accordance with the TBCA, at the effective time of the merger, TMW Acquisition Corporation, a wholly-owned subsidiary of Stericycle, which we refer to as Merger Sub, will be merged with and into MedSolutions. MedSolutions will continue as the surviving corporation and a wholly-owned subsidiary of Stericycle. The separate corporate existence of Merger Sub will cease. The effectiveness of the merger will not affect the separate corporate existence of MedSolutions subsidiaries, which will remain subsidiaries of MedSolutions following the merger.

Timing of Closing

The closing date of the merger will occur as soon as possible following the date on which all conditions to the merger, other than those conditions that by their nature are to be satisfied at the closing, have been satisfied or waived. Stericycle and MedSolutions expect to complete the merger during the third quarter of 2007. However, we do not know how long after the MedSolutions special meeting the closing of the merger will take place. Stericycle and MedSolutions hope to have the significant conditions satisfied so that the closing can occur immediately following the special meeting. However, there can be no assurance that such timing will occur or that the merger will be completed during the third quarter of 2007 as expected.

As soon as practicable after the closing of the merger, Merger Sub and MedSolutions will file a certificate of merger with the Secretary of State of the State of Texas. The effective time of the merger will be the time Merger Sub and MedSolutions file the certificate of merger with the Secretary of State of the State of Texas or at a later time as we may agree and specify in the certificate of merger.

Merger Consideration

At the effective time of the merger, each outstanding share of MedSolutions common stock (other than any shares owned directly or indirectly by MedSolutions, Stericycle or Merger Sub and those shares

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held by dissenting shareholders) will be converted into the right to receive $0.50 in cash, without interest, and a promissory note in the principal amount of $1.50. We refer to the aggregate amount of the cash consideration and the note consideration to be received by MedSolutions shareholders pursuant to the merger as the merger consideration. The aggregate merger consideration is subject to adjustment after the closing of the merger in certain events. See The Merger Agreement Adjustments to Merger Consideration beginning on page 54 of this proxy statement/prospectus. At the closing of the merger, $250,000 of the aggregate cash consideration will be placed into an escrow account for use by the shareholder representative for the costs and expenses of fulfilling its duties under the merger agreement. See The Merger Agreement Shareholder Representative beginning on page 57 of this proxy statement/prospectus.

The promissory notes will be payable in seven installments of interest only due on each of the first six anniversaries of the date on which the merger closes and one final installment of principal and interest due on the seventh anniversary of such closing date, and will bear interest, at the election of each holder of shares of MedSolutions common stock, at the annual rate of either 3.5% (if such shareholder elects to have such promissory note supported by a master letter of credit) or 4.5% (if such shareholder does not elect such support). Holders of the promissory notes will not have any voting rights with respect to Stericycle. See Description of Promissory Notes beginning on page 65 of this proxy statement/prospectus.

The promissory notes will be subject to payment offset and reduction and principal reduction pursuant to the merger consideration adjustment, litigation payment adjustment and indemnification provisions of the merger agreement or in the event that the expenses of the payment agent and the indenture trustee exceed $80,000. See The Merger Agreement Payment Procedures, The Merger Agreement Representations and Warranties and Indemnification, and The Merger Agreement Adjustments to Merger Consideration Application of Closing Balance Sheet and Revenue Adjustments and Litigation Adjustment beginning on pages 51, 52 and 54 of this proxy statement/prospectus, respectively.

Treatment of MedSolutions Options

All MedSolutions stock options have vested. At the effective time of the merger, the MedSolutions stock options will be canceled and converted to a right to receive the merger consideration for each deemed outstanding MedSolutions option share. The number of deemed outstanding MedSolutions option shares attributable to each MedSolutions stock option will be equal to the net number of shares of MedSolutions common stock (rounded down to the next whole share) that would have been issued upon a cashless exercise of that MedSolutions stock option immediately before the effective time of the merger. That net number of shares will be computed by deducting from the shares of MedSolutions common stock that would be issued to the option holder a number of deemed surrendered shares of MedSolutions common stock which is equal to the fair value of (i) the exercise price of a MedSolutions stock option to be paid by the option holder and (ii) all amounts required to be withheld and paid by MedSolutions for federal taxes and other payroll withholding obligations as a result of such exercise (using an assumed tax rate of 35%). The fair value of each deemed surrendered share of MedSolutions common stock, for purposes of determining the net number of shares, will be equal to $2.00.

Conversion of Shares

At the effective time of the merger, each outstanding share of MedSolutions common stock (other than shares held by MedSolutions, Stericycle or Merger Sub and shareholders who properly exercise their dissenters rights) will automatically be canceled and retired, will cease to exist and will be converted into

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the right to receive the merger consideration. Shares of MedSolutions common stock owned by MedSolutions will be canceled in the merger without payment of any merger consideration.

Prior to the completion of the merger, Stericycle will deposit with the payment agent, for the benefit of the holders of MedSolutions common stock and stock options to purchase MedSolutions common stock, an amount in cash and promissory notes sufficient to effect the conversion of MedSolutions common stock and exercised stock options into the cash and note consideration to be paid in the merger. Stericycle has appointed LaSalle Bank National Association, Chicago, Illinois to act as payment agent for the merger.

Payment Procedures

As soon as reasonably practicable after the effective time of the merger, the payment agent will send to each holder of MedSolutions common stock a letter of transmittal for use in the payment of the merger consideration and instructions explaining how to surrender MedSolutions shares to the payment agent. Holders of MedSolutions common stock who surrender their certificates to the payment agent, together with a properly completed letter of transmittal, will receive the appropriate merger consideration.

At the effective time of the merger, the stock transfer books of MedSolutions will be closed and no further issuances or transfers of MedSolutions common stock will be made. If, after the effective time, valid MedSolutions stock certificates are presented to the surviving corporation for any reason, they will be cancelled and exchanged as described above to the extent allowed by applicable law.

The payment agent will deliver to MedSolutions, as the surviving corporation, any promissory notes to be issued in the merger and any funds set aside by Stericycle to pay the cash consideration that are not claimed by former MedSolutions shareholders within six months after the effective time of the merger. Thereafter, the surviving corporation will act as the payment agent and former MedSolutions shareholders may look only to the surviving corporation for payment of their merger consideration, provided that the payment agent will continue to disburse payments due under the promissory notes that have been duly issued to holders of MedSolutions common stock. None of MedSolutions, Stericycle, the surviving corporation, the payment agent or any other person will be liable to any former MedSolutions shareholder for any amount properly delivered to a public official pursuant to applicable abandoned property, escheat or similar laws.

Stericycle will pay for the expenses of the payment agent and the indenture trustee incurred in connection with the payment of the merger consideration in an aggregate amount up to $80,000. Any reasonable expenses of the payment agent in excess of $80,000 will be paid by Stericycle and reimbursed by reducing the principal amount of the promissory notes by the amount of such expenses on a pro rata basis. Any such principal reduction is referred to in this proxy statement/prospectus as an expense payment principal reduction.

MEDSOLUTIONS STOCK CERTIFICATES SHOULD NOT BE RETURNED WITH THE ENCLOSED PROXY CARD. MEDSOLUTIONS STOCK CERTIFICATES SHOULD BE RETURNED WITH THE TRANSMITTAL LETTER AND ACCOMPANYING INSTRUCTIONS WHICH WILL BE PROVIDED TO MEDSOLUTIONS SHAREHOLDERS BY THE PAYMENT AGENT FOLLOWING THE EFFECTIVE TIME OF THE MERGER.

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Directors and Officers of the Surviving Corporation After the Merger

Under the merger agreement, the directors and officers of Merger Sub immediately prior to the effective time of the merger will be the directors and officers of the surviving corporation at and after the effective time of the merger.

Representations and Warranties and Indemnification

The merger agreement contains customary and substantially reciprocal representations and warranties made by each party to the other. MedSolutions representations and warranties to Stericycle and Merger Sub relate to, among other things:

- corporate organization, qualification and good standing;
- corporate power and authority to enter into the merger agreement, and due execution, delivery and enforceability of the merger agreement;
- the ownership of equity interests in other entities, including the ownership of the equity interests of MedSolutions subsidiaries;
- the absence of proxies or voting agreements with respect to the stock of our subsidiaries and the absence of any option, warrant or other commitment obligating MedSolutions or any of its subsidiaries to issue, sell, redeem or repurchase any equity interest in any of our subsidiaries;
- the participation by MedSolutions and its subsidiaries in joint ventures;
- absence of a breach of charter documents, bylaws, material agreements, instruments or obligations, or applicable law as a result of the merger;
- consents, approvals, orders, authorizations, registrations, declarations, filings and permits required to enter into the merger agreement or to complete the transactions contemplated by the merger agreement;
- timely and accurate filings with the Securities and Exchange Commission in compliance with applicable rules and regulations;
- financial statements;
- capital structure;
- list of MedSolutions equipment;
- MedSolutions real property and real property leases;
- absence of undisclosed liabilities;
- absence of specified adverse changes or events since January 1, 2007;
- material contracts;
- compliance with laws, material agreements and permits;
- governmental regulation;
- material litigation, material judgments or injunctions and absence of undisclosed investigations or litigation;

absence of certain restrictive agreements or arrangements;

tax matters;

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the amount of MedSolutions net operating loss for federal tax purposes as of December 31, 2006;

employee benefit plans and labor matters;

employee contracts and benefits;

insurance matters;

intellectual property;

title to assets;

environmental matters;

brokers and finders fees;

required vote of MedSolutions shareholders to approve the merger;

recommendation of MedSolutions Board of Directors;

absence of preferential purchase or repurchase rights;

inapplicability of Texas anti-takeover statute;

accuracy of information provided for inclusion in this proxy statement/prospectus.

The representations and warranties in the merger agreement are subject to materiality and knowledge qualifications in many respects and survive the closing of the merger agreement until the first anniversary of the closing date of the merger, with the exception of MedSolutions representations and warranties relating to environmental and tax matters, which will survive the closing and continue until the date that is 90 days after the expiration of the underlying statutes of limitations for such matters.

Pursuant to the merger agreement, Stericycle may assert an indemnification claim for any loss, damage, cost or expense (including reasonable attorneys fees) that is caused by, arises out of or relates to any breach of any representation and warranty by MedSolutions in the merger agreement or in the officer s certificate to be delivered by MedSolutions to Stericycle at closing. Any such indemnification claim must be asserted prior to the expiration of the representation or warranty in question. Except in certain limited instances, Stericycle may not assert an indemnification claim until the aggregate amount for which indemnification is sought exceeds $100,000, and if such threshold is reached, may then assert its claim only for the portion of the indemnification claim in excess of $100,000. Any subsequent indemnification claims after the $100,000 threshold is met are not subject to any further thresholds.

Stericycle may assert an indemnification claim by providing written notice to the shareholder representative. If the shareholder representative does not object to an indemnification claim within 30 days of its receipt of such written notice, Stericycle s indemnification claim will be considered undisputed. If the shareholder representative gives written notice to Stericycle within such 30-day period that the shareholder representative objects to Stericycle s indemnification claim, Stericycle and the shareholder representative will attempt in good faith to resolve their differences. If Stericycle and the shareholder representative fail to resolve their disagreement within 30 days of the date on which Stericycle receives notice of the shareholder representative s objection, either party may submit the disputed indemnification claim for binding arbitration before the American Arbitration Association in Chicago, Illinois or Dallas, Texas.

To the extent that any indemnification claim by Stericycle is undisputed or is resolved in Stericycle s favor, either by agreement with the shareholder representative or by binding arbitration, the

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indemnification claim will reduce the aggregate amounts next becoming due under the promissory notes on a pro rata basis. This reduction will be Stericycle s sole means of satisfying an indemnification claim. Any such reduction is referred to in this proxy statement/prospectus as an indemnification claim payment reduction.

Adjustments to Merger Consideration

Closing Balance Sheet Adjustment

Pursuant to the merger agreement, following the closing of the merger, Stericycle and the shareholder representative will determine MedSolutions adjusted liabilities (as defined below) and adjusted current assets (as defined below), in each case as of the date of the closing. If the excess of MedSolutions adjusted liabilities over its adjusted current assets as of the closing date (the liability excess) is less than $4,340,000 (including no more than $90,000 in capital expenditures since May 31, 2007), the aggregate merger consideration will be increased by an amount equal to the difference between $4,340,000 and the liability excess. If the liability excess as of the closing date is more than $4,340,000, the aggregate merger consideration will be reduced by an amount equal to the difference between the liability excess and $4,340,000. The $4,340,000 threshold referred to in the preceding two sentences will be reduced, however, on a dollar-for-dollar basis to the extent that the sum of the aggregate merger consideration payable with respect to shares of MedSolutions common stock and merger consideration and tax withholdings with respect to the exercise of stock options to purchase MedSolutions common stock in connection with the merger exceeds $54,350,000. Any adjustment will be applied as described under the heading Application of Adjustments below. This adjustment is referred to in this proxy statement/prospectus as the closing balance sheet adjustment.

Adjusted liabilities means MedSolutions consolidated total liabilities determined in accordance with United States generally accepted accounting principles (GAAP), as increased by (except to the extent already accrued) (i) severance payments and other termination liabilities under employment agreements with MedSolutions employees or otherwise, (ii) MedSolutions unpaid transaction expenses relating to the merger, and as reduced by the first $100,000 of MedSolutions unpaid transaction expenses relating to the merger. Adjusted current assets means MedSolutions total current assets as determined in accordance with GAAP.

Stericycle will prepare a schedule of adjusted liabilities and adjusted current assets as of the closing date within 75 days after the closing, and will promptly furnish a copy of such schedule to the shareholder representative. If the shareholder representative accepts Stericycle s schedule, or if the shareholder representative fails to give written notice to Stericycle of any objection within 30 days after receipt of a copy of such schedule, Stericycle s schedule will become binding. If the shareholder representative gives written notice to Stericycle within such 30-day period that the shareholder representative objects to Stericycle s schedule of adjusted liabilities and adjusted current assets, Stericycle and the shareholder representative will attempt in good faith to resolve their differences. If Stericycle and the shareholder representative fail to resolve their disagreement within 30 days of the date on which Stericycle receives notice of the shareholder representative s objection, either party may submit the disputed items to a mutually acceptable accounting firm for a determination of the correct amounts, which determination will be binding on Stericycle and the shareholder representative. If Stericycle and the shareholder representative are unable to agree upon a mutually acceptable accounting firm within 10 days of the date on which both parties become aware of such dispute, Stericycle will select an accounting firm that is not Stericycle s regular accounting firm, the shareholder representative will select an accounting firm that was not the regular accounting firm of MedSolutions, and the two firms so selected will select a third accounting firm that is not the regular accounting firm of either Stericycle or MedSolutions to resolve the disputed items.

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Revenue Adjustment

Pursuant to the merger agreement, following the closing of the merger Stericycle and the shareholder representative will determine MedSolutions measured revenues (as defined below). If the measured revenues are $16,000,000 or more, there will be no adjustment to the aggregate merger consideration. If the measured revenues are less than $16,000,000, the aggregate merger consideration will be reduced by an amount equal to the difference between the product of (i) $16,000,000 less the amount of measured revenues multiplied by (ii) 3.375. Any adjustment will be applied as described under the heading Application of Adjustments below. This adjustment is referred to in this proxy statement/prospectus as the revenue adjustment.

Measured revenues means the sum of $15,655,352 plus the aggregate annualized gross revenues (net of returns, rebates and chargebacks) received by MedSolutions from certain scheduled customers during the first three full calendar months after the closing. Such net revenues will be annualized on a customer-by-customer basis as follows: (i) if there are three full calendar months of service to such customer during the measurement period, the net revenues will be annualized by multiplying them by four; (ii) if there are only two full calendar months of service to such customer during the measurement period, the net revenues will be annualized by multiplying them by six; (iii) if there is only one full calendar month of service to such customer during the measurement period, the net revenues will be annualized by multiplying them by 12; and (iv) if there is less than one full calendar month of service, the average weekly net revenues for such month will be annualized by multiplying them by 52.

Stericycle will prepare a schedule of measured revenues within 45 days after the end of the three full calendar month measurement period described above, and will promptly furnish a copy of such schedule to the shareholder representative. If the shareholder representative accepts Stericycle s schedule, or if the shareholder representative fails to give written notice to Stericycle of any objection within 30 days after receipt of a copy of such schedule, Stericycle s schedule will become binding. If the shareholder representative gives written notice to Stericycle within such 30-day period that the shareholder representative objects to Stericycle s schedule of measured revenues, Stericycle and the shareholder representative will attempt in good faith to resolve their differences. If Stericycle and the shareholder representative fail to resolve their disagreement within 30 days of the date on which Stericycle receives notice of the shareholder representative s objection, either party may submit the disputed items to a mutually acceptable accounting firm for a determination of the correct amounts, which determination will be binding on Stericycle and the shareholder representative. If Stericycle and the shareholder representative are unable to agree upon a mutually acceptable accounting firm within 10 days of the date on which both parties become aware of such dispute, Stericycle will select an accounting firm that is not Stericycle s regular accounting firm, the shareholder representative will select an accounting firm that was not the regular accounting firm of MedSolutions, and the two firms so selected will select a third accounting firm that is not the regular accounting firm of either Stericycle or MedSolutions to resolve the disputed items.

Application of Closing Balance Sheet and Revenue Adjustments

When both the closing balance sheet adjustment and revenue adjustment have been finally determined as described above, the aggregate merger consideration will be adjusted as follows:

If there is an increase in the aggregate merger consideration due to the closing balance sheet adjustment and no adjustment pursuant to the revenue adjustment, Stericycle will, within three days of such determination, deposit cash equal to the increase in the aggregate merger consideration with the payment agent for distribution on a pro rata basis to holders of

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MedSolutions common stock who have duly surrendered or may duly surrender their stock certificates for payment and holders of MedSolutions options;

If there is an increase in the aggregate merger consideration due to the closing balance sheet adjustment and a reduction in the aggregate merger consideration pursuant to the revenue adjustment, the two amounts will be added together to determine the net adjustment to the aggregate merger consideration, and

if the net adjustment is an increase in the aggregate merger consideration, Stericycle will, within three days of such determination, deposit cash equal to the increase in the aggregate merger consideration with the payment agent for distribution on a pro rata basis to holders of MedSolutions common stock who have duly surrendered or may duly surrender their stock certificates for payment and holders of MedSolutions option; or

if the net adjustment is a reduction in the aggregate merger consideration, the principal amounts of the promissory notes will be reduced, retroactive to the closing date, on a pro rata basis in an aggregate amount equal to the reduction in the aggregate merger consideration; and

If there is a reduction in the aggregate merger consideration due to both the closing balance sheet adjustment and the revenue adjustment, the two amounts shall be added together to determine the combined reduction in the aggregate merger consideration, and the principal amounts of the promissory notes will be reduced, retroactive to the closing date, on a pro rata basis in an aggregate amount equal to the reduction in the aggregate merger consideration.

Any such reduction in the principal amount of the promissory notes is referred to in this proxy statement/prospectus as a merger consideration principal reduction.

Litigation Adjustment

On May 14, 2007, a Texas jury found EnviroClean Management Services, Inc., a Texas corporation and a subsidiary of MedSolutions (EMSI), liable in connection for approximately $9.8 million in actual damages and $10 million in punitive damages in connection with a 2004 traffic accident involving one of EMSI s trucks. The punitive damages awarded by the jury were subsequently reduced by the trial court to approximately $4.6 million. Approximately $5.4 million of such damages are covered by EMSI s insurance coverage. MedSolutions intends through its insurance provider, Zurich American Insurance (Zurich), to vigorously appeal the judgment. This process is likely to take considerable time and may extend past the closing date of the merger. If MedSolutions or the Surviving Corporation, as the case may be, is unsuccessful or only partially successful on appeal, to the extent that the amount of any award exceeds EMSI s insurance coverage, MedSolutions has been advised by its legal counsel that EMSI has a valid claim against Zurich that, pursuant to applicable Texas law, should result in Zurich s being held responsible for the amount of any award in excess of the policy limits.

Pursuant to the merger agreement, following the closing of the merger the shareholder representative will have the sole power and authority on behalf of EMSI, which will become a subsidiary of the Surviving Corporation in connection with the merger, to appeal the judgment rendered in connection with the lawsuit described above on behalf of EMSI, pursue any claims against Zurich for the amount of any judgment in excess of EMSI s policy limits, and settle any of the litigation described above. The shareholder representative will also have the sole power and authority to select and retain legal counsel and any other consultants as it deems necessary or proper for the prosecution, defense or settlement of such litigation, to incur costs and expenses in connection with such litigation to be paid out of the $250,000 to be placed into an escrow account to be used by the shareholder representative, and to take any and all other actions it deems necessary or proper to resolve or settle such litigation.

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The shareholder representative will have the authority on behalf of EMSI to enter into a binding settlement agreement with respect to the lawsuit described above, without the prior written consent of Stericycle, if and only if such settlement provides for payment by EMSI of an aggregate amount after the application of all available insurance coverage not to exceed the then outstanding aggregate principal and interest owing under the promissory notes to be issued by Stericycle to holders of MedSolutions common stock in connection with the merger and for the complete release of EMSI and its affiliates, including without limitation the Surviving Corporation and Stericycle. If any proposed settlement does not meet such requirements, the shareholder representative must obtain the prior written consent of Stericycle, which consent may be granted or withheld by Stericycle in its absolute discretion, prior to entering into any binding settlement agreement on behalf of EMSI with respect to the lawsuit.

Pursuant to the merger agreement, Stericycle has agreed to pay for all costs and expenses incurred in connection with the prosecution, defense or settlement of the litigation described above in excess of the $250,000 escrow account, and the aggregate principal amount of the promissory notes to be issued by Stericycle to holders of MedSolutions common stock in connection with the merger will be reduced by all such excess litigation expenses that Stericycle pays. To the extent that EMSI s liability with respect to the lawsuit after the litigation described above has been finally resolved exceeds EMSI s available insurance coverage, the aggregate principal amount of the promissory notes will be reduced by the amount of EMSI s payment (or the payment by the surviving corporation or Stericycle on EMSI s behalf) in excess of EMSI s insurance coverage. Additionally, in the event that the litigation described above has not been finally resolved (including without limitation by way of settlement) on or before the 90th day immediately preceding the seventh anniversary of the closing date of the merger, the surviving corporation may satisfy the judgment rendered in connection with the lawsuit (as reduced by any successful appeal) in full without the prior consent of the shareholder representative, and to the extent that EMSI s liability with respect to the lawsuit exceeds its available insurance coverage, the aggregate principal amount of the promissory notes will be reduced by the amount of EMSI s payment (or the payment by the surviving corporation or Stericycle on EMSI s behalf) in excess of EMSI s insurance coverage.

If the aggregate principal amount of the promissory notes to be issued by Stericycle in connection with the merger is reduced by reason of EMSI s, the surviving corporation s or Stericycle s payment of any of the expenses or liabilities described in the preceding paragraph, any such reduction will be effective as of the date of payment of such expense or liability. In addition, the amount of any such reduction of the aggregate principal amount of the promissory notes will be increased by the amount of interest that would accrue on the amount of such reduction between the date of payment of such expense or liability and the maturity date of the promissory notes, using an interest rate equal to 8.0% less the weighted average interest rate of all promissory notes outstanding as of the date of payment. Any reduction of the aggregate principal amount of the promissory notes made on account of the litigation described above will be made on a pro rata basis in respect of the principal amounts of all such promissory notes.

Any such reduction in the principal amount of the promissory notes is referred to in this proxy statement/prospectus as a litigation payment principal reduction.

Shareholder Representative

Pursuant to the merger agreement, at the effective time of the merger Matthew H. Fleeger and Winship B. Moody, Sr. will be appointed as the joint agents and attorneys-in-fact, for the holders of shares of MedSolutions common stock who have duly surrendered or may duly surrender their stock certificates to the payment agent, to give and receive notices and communications and to take any and all

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action on behalf of such holders pursuant to the merger agreement and in connection with the promissory notes, including without limitation asserting, prosecuting, or settling any claim against the surviving corporation or Stericycle or defending or settling any claim asserted by the surviving corporation or Stericycle. In this capacity, Mr. Fleeger and Mr. Moody are referred to as the shareholder representative in this proxy statement/prospectus. The shareholder representative may be changed from time to time by the consent of holders representing a majority of the shares of MedSolutions common stock immediately prior to the effective time of the merger upon written notice to the surviving corporation and the shareholder representative. Any vacancy in the position of shareholder representative may be filled by the remaining shareholder representative, if any, subject to the rights of holders representing a majority of the shares of MedSolutions common stock immediately prior to the effective time of the merger to replace any shareholder representative so appointed. Any notices or communications to or from the shareholder representative will constitute notice to or from each of the holders of shares of MedSolutions common stock who have duly surrendered or may duly surrender their stock certificates to the payment agent. Any decision, act, consent or instruction of the shareholder representative (acting in such capacity) will constitute a decision of all of the holders of shares of MedSolutions common stock who have duly surrendered or may duly surrender their stock certificates to the payment agent, and will be final, binding and conclusive upon each such holder. The surviving corporation and Stericycle are authorized to rely upon any such decision, act, consent or instruction of the shareholder representative as being the decision, act, consent or instruction of each such holder. No bond is being required of the shareholder representative, and by voting to approve and adopt the merger agreement each holder of MedSolutions common stock agrees that the shareholder representative will not be liable to such holder or any other person for any action taken, or declined to be taken, in good faith and in the exercise of reasonable judgment.

At closing of the merger, Stericycle will place $250,000 of the aggregate merger consideration into an escrow account with Park Cities Bank, Dallas, Texas, which amount will be made available for use by the shareholder representative for the costs and expenses incurred by the shareholder representative in fulfilling its duties under the merger agreement. Such costs and expenses will include $5,000 per year compensation paid to each of Messrs. Fleeger and Moody for their service as shareholder representative. The $250,000 will be deducted on a pro rata basis from the cash consideration distributable to the holders of shares of MedSolutions common stock in connection with the merger. Any funds remaining in such escrow account on the date of the last payment payable under the promissory notes will be distributed on a pro rata basis to holders of shares of MedSolutions common stock who have duly surrendered or may duly surrender their stock certificates to the payment agent.

Covenants and Agreements

Each of Stericycle and MedSolutions has undertaken various covenants in the merger agreement. The following summarizes the more significant of these covenants:

Operating Covenants MedSolutions

Prior to the effective time of the merger MedSolutions has agreed that it and its subsidiaries will conduct their operations in the ordinary course consistent with past practices. Prior to the effective time of the merger, unless Stericycle consents otherwise in writing, with certain exceptions, MedSolutions has agreed that neither MedSolutions nor any of its subsidiaries will:

- sell, lease, transfer or dispose of any of its assets used, held for use or useful in conduct of MedSolutions medical waste business except in the ordinary course consistent with past practices;

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enter into any contract, other than any contracts relating to the merger, relating to MedSolutions medical waste business except in the ordinary course consistent with past practices;

terminate, accelerate or modify any material contract relating to MedSolutions medical waste business to which it is or was a party or by which it is or was bound, or agree to do so, except in the case of contracts that expire in accordance with their terms or that terminate in the ordinary course consistent with past practices;

impose or permit any lien (other than liens permitted under the merger agreement) on any of its assets except in the ordinary course consistent with past practices;

delay or postpone beyond its normal practice payment of its vendor accounts payable and other liabilities;

cancel, compromise, waive or release any claim or right outside of the ordinary course consistent with past practices;

experience any damage, destruction or loss to any material portion of its assets used, held for use or useful in conduct of MedSolutions medical waste business (whether or not covered by insurance);

change the base compensation or other terms of employment of any of its employees except in the ordinary course consistent with past practices;

pay a bonus to any employee;

adopt a new employee benefit plan, terminate any existing plan or increase the benefits under or otherwise modify any existing plan except as contemplated by the merger agreement;

amend its organizational documents;

issue, sell, redeem or repurchase, or effect any split, combination or reclassification of, any shares of its capital stock or other securities or retire any indebtedness;

grant any stock options;

declare or pay any dividends or make any other distributions in respect of its capital stock;

make, or guarantee, any loans or advances to another person, other than MedSolutions or one of its subsidiaries, or make any investment or commitment to invest in any person other than MedSolutions or one of its subsidiaries;

make any capital expenditures in excess of $25,000 in the aggregate;

make any change in its accounting principles or methods; or

enter into any contract to do any of the matters described in the preceding clauses.

Acquisition Proposals

MedSolutions has agreed that, except as specifically permitted in the merger agreement, it will not, and it will not authorize or permit its subsidiaries or its representatives to:

solicit, initiate or knowingly encourage the submission of any acquisition proposal (as defined below);

participate in any discussions or negotiations regarding, or furnish to any person any information in respect of, or take any other action to facilitate, any acquisition proposal or any inquiries or the

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making of any proposal that constitutes, or reasonably would be expected to lead to, any acquisition proposal;

approve or recommend to MedSolutions shareholders any acquisition proposal.

An acquisition proposal is any inquiry, offer or proposal regarding any of the following matters (other than the transactions contemplated by the merger agreement or the merger):

an investment in MedSolutions representing (on a post-investment basis) more than 25% of MedSolutions capital stock or a purchase from MedSolutions of more than 25% of the shares of its capital stock or any debt securities convertible into or exchangeable for more than 25% of the shares of its capital stock;

a merger, consolidation, share exchange, recapitalization, business combination or other similar transaction involving all of MedSolutions equity interests or all shares of the MedSolutions common stock;

the sale, lease, exchange, mortgage, pledge, transfer or other disposition of all or substantially all of MedSolutions assets in a single transaction or a series of related transactions;

a tender offer or exchange offer for 25% or more of the outstanding shares of MedSolutions capital stock or the filing of a registration statement under the Securities Act of 1933, as amended, in connection with such a tender offer or exchange offer; or

any public announcement of a proposal, plan or intention to do so, or any agreement to engage in, any of the matters described immediately above.

Except as specifically permitted in the merger agreement, MedSolutions has also agreed to, and will cause its affiliates and their respective officers, directors and representatives to, immediately terminate any activities, discussions or negotiations existing as of the date of the merger agreement with any person (other than Stericycle) conducted with respect to any acquisition proposal.

However, if MedSolutions receives a superior proposal (as defined below), MedSolutions may terminate the merger agreement if:

MedSolutions notifies Stericycle of the superior proposal;

MedSolutions gives Stericycle at least five days to propose revisions to the terms of the merger agreement or to make another proposal in response to the competing proposal; and

MedSolutions pays to Stericycle a termination fee of $2,500,000.

A superior proposal is any proposal by a third party to acquire more than 50% of the voting power of MedSolutions equity securities or more than 50% of MedSolutions assets, pursuant to a tender or exchange offer, merger, consolidation, liquidation or dissolution, recapitalization, sale of assets or otherwise, if MedSolutions Board of Directors determines in its good faith judgment (after consultation with MedSolutions valuation advisor and after considering the likelihood and timing of the consummation of such third party transaction and any amendments or modifications to the merger agreement that Stericycle has offered or proposed within five days of learning of such proposed transaction) that such transaction is more favorable from a financial point of view to MedSolutions shareholders than the merger with Stericycle.

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Additional Agreements

In addition to those covenants described above, the merger agreement contains additional agreements between Stericycle and MedSolutions relating to, among other things:

- convening and holding the MedSolutions special meeting;
- preparing, filing and distributing this proxy statement/prospectus and filing the registration statement of which this proxy statement/prospectus is a part;
- providing access to information;
- using their reasonable best efforts to take all actions and to do all things necessary in order to consummate the merger, including the satisfaction of all closing conditions to the merger in such party s control;
- providing notices, making filings and obtaining permits or consents required in connection with the merger;
- providing notice of (i) any representation or warranty in the merger agreement becoming untrue or inaccurate, (ii) the occurrence of any event or development that would cause any representation or warranty to be untrue or inaccurate at the time of the closing of the merger or (iii) the failure to materially comply with or satisfy any covenant, condition or agreement in the merger agreement;
- making public announcements;
- payment of fees and expenses in connection with the merger;
- the termination of all of MedSolutions existing employment agreements and accrual of all severance payments and other termination liabilities to its employees at or prior to closing;
- payment of certain MedSolutions liabilities within 30 days of closing;
- release of certain officers and directors of MedSolutions from their personal guarantees of MedSolutions debt at the effective time of the merger; and
- appointment, duties and replacement of MedSolutions shareholder representative after the closing.

Conditions Precedent

Conditions to Obligations of Stericycle and Merger Sub

Unless waived in whole or in part by Stericycle and Merger Sub, the obligations of Stericycle and Merger Sub to effect the merger are subject to the following conditions:

- accuracy as of the closing of the merger of the representations and warranties made by MedSolutions to the extent specified in the merger agreement;
- MedSolutions performance in all material respects of its covenants and agreements under the merger agreement;
- holders of shares of MedSolutions common stock representing no more than 7.5% of the outstanding shares of MedSolutions common stock have exercised (and not withdrawn or otherwise forfeited) the rights of a dissenting owner under Section 5.11 of the TBCA with respect to their shares of MedSolutions common stock;
- the approval of the merger by MedSolutions shareholders has been obtained;

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Stericycle has entered into consulting agreements and noncompetition agreements with certain officer, directors, employees and shareholders of MedSolutions;

no temporary restraining order, preliminary or permanent injunction or other order issued by a court or governmental authority has been issued and is in effect making the merger illegal or otherwise prohibiting consummation of the merger; and

the registration under the Securities Act of 1933, as amended, of the promissory notes to be issued by Stericycle to holders of MedSolutions common stock in connection with the merger has been declared effective by the SEC.

Conditions to Obligations of MedSolutions

Unless waived in whole or in part by MedSolutions, the obligations of MedSolutions to effect the merger are subject to the following conditions:

accuracy as of the closing of the merger of the representations and warranties made by Stericycle and Merger Sub to the extent specified in the merger agreement;

Stericycle s and Merger Sub s performance in all material respects of their respective covenants and agreements under the merger agreement;

the approval of the merger by MedSolutions shareholders has been obtained; and

no temporary restraining order, preliminary or permanent injunction or other order issued by a court or governmental authority has been issued and is in effect making the merger illegal or otherwise prohibiting consummation of the merger.

Termination

Before the effective time of the merger, the merger agreement may be terminated:

by mutual written consent of Stericycle, Merger Sub and MedSolutions;

by either Stericycle or MedSolutions, if:

adoption of the merger agreement and approval of the merger by the MedSolutions shareholders is not obtained;

the parties fail to consummate the merger on or before September 30, 2007, unless the failure is the result of a breach of the merger agreement by the party seeking the termination; or

any governmental authority has issued a final and nonappealable order, decree or ruling or has taken any other final and nonappealable action that restrains, enjoins or otherwise prohibits the merger, unless the party seeking the termination has not used its reasonable best efforts to oppose such order or decision or to have such order or decision vacated or made inapplicable to the merger;

by Stericycle, if:

MedSolutions materially breaches any of its representations, warranties, covenants or agreements set forth in the merger agreement, and MedSolutions has not cured such breach within 15 business days of receiving written notice from Stericycle of such breach;

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one or more of Stericycle s conditions precedent to closing the merger are not satisfied or capable of being satisfied on or before September 30, 2007 as a result of MedSolutions failure to comply with its obligations under the merger agreement;

MedSolutions Board of Directors withdraws or materially and adversely to Stericycle modifies its approval of the merger agreement and the merger, other than as a result of a material breach by Stericycle or Merger Sub of a representation, warranty or covenant under the merger agreement which remains uncured for a period of two business days after receipt of notice from MedSolutions of such breach, or as a result of the failure of any of MedSolutions conditions precedent to closing the merger not being met; or

MedSolutions enters into a definitive agreement (other than the merger agreement) to implement:

an investment in MedSolutions representing (on a post-investment basis) more than 25% of MedSolutions capital stock or a purchase from MedSolutions of more than 25% of the shares of its capital stock or any debt securities convertible into or exchangeable for more than 25% of the shares of its capital stock;

a merger, consolidation, share exchange, recapitalization, business combination or other similar transaction involving all of MedSolutions equity interests or all shares of the MedSolutions common stock;

the sale, lease, exchange, mortgage, pledge, transfer or other disposition of all or substantially all of MedSolutions assets in a single transaction or a series of related transactions;

a tender offer or exchange offer for 25% or more of the outstanding shares of MedSolutions capital stock or the filing of a registration statement under the Securities Act of 1933, as amended, in connection with such a tender offer or exchange offer; or

any public announcement of a proposal, plan or intention to do so, or any agreement to engage in, any of the matters described immediately above;

adoption of the merger agreement and approval of the merger by the MedSolutions shareholders is not obtained by reason of the violation of the voting agreement by one or more MedSolutions shareholders who are party to the voting agreement.

by MedSolutions, if:

either Stericycle or Merger Sub materially breaches any of its representations, warranties, covenants or agreements set forth in the merger agreement, and Stericycle or Merger Sub, as the case may be, has not cured such breach within 15 business days of receiving written notice from MedSolutions of such breach;

one or more of MedSolutions conditions precedent to closing the merger are not satisfied or capable of being satisfied on or before September 30, 2007 as a result of either Stericycle s or Merger Sub s failure to comply with its obligations under the merger agreement; or

MedSolutions enters into a definitive agreement providing for the implementation of a superior proposal, which is defined as the acquisition by a third party of more than 50% of the voting power of MedSolutions equity securities or more than 50% of MedSolutions assets, pursuant to a tender or exchange offer, merger, consolidation, liquidation or dissolution, recapitalization, sale of assets or otherwise, if MedSolutions Board of Directors has determined in its good faith judgment, after consultation with MedSolutions valuation advisor and after considering the likelihood and timing of the consummation of such third

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party transaction and any amendments or modifications to the merger agreement that Stericycle has offered or proposed within five days of learning of such proposed transaction, that such transaction is more favorable from a financial point of view to MedSolutions shareholders than the merger with Stericycle.

If the merger agreement is validly terminated, the merger agreement will become void without any liability on the part of any party unless that party is in breach. However, certain provisions of the merger agreement, including, among others, those provisions relating to expenses and termination fees, will continue in effect notwithstanding termination of the merger agreement.

Fees and Expenses

MedSolutions must pay to Stericycle a termination fee of $2,500,000 in the following circumstances:

if MedSolutions terminates the merger agreement because MedSolutions enters into a definitive agreement providing for the implementation of a superior proposal, which is defined as the acquisition by a third party of more than 50% of the voting power of MedSolutions equity securities or more than 50% of MedSolutions assets, pursuant to a tender or exchange offer, merger, consolidation, liquidation or dissolution, recapitalization, sale of assets or otherwise, if MedSolutions Board of Directors has determined in its good faith judgment, after consultation with MedSolutions valuation advisor and after considering the likelihood and timing of the consummation of such third party transaction and any amendments or modifications to the merger agreement that Stericycle has offered or proposed within five days of learning of such proposed transaction, that such transaction is more favorable from a financial point of view to MedSolutions shareholders than the merger with Stericycle; or

if Stericycle terminates the merger agreement because:

MedSolutions Board of Directors withdraws or materially and adversely to Stericycle modifies its approval of the merger agreement and the merger, other than as a result of a material breach by Stericycle or Merger Sub of a representation, warranty or covenant under the merger agreement which remains uncured for a period of two business days after receipt of notice from MedSolutions of such breach, or as a result of the failure of any of MedSolutions conditions precedent to closing the merger not being met;

MedSolutions enters into a definitive agreement (other than the merger agreement) to implement:

an investment in MedSolutions representing (on a post-investment basis) more than 25% of MedSolutions capital stock or a purchase from MedSolutions of more than 25% of the shares of its capital stock or any debt securities convertible into or exchangeable for more than 25% of the shares of its capital stock;

a merger, consolidation, share exchange, recapitalization, business combination or other similar transaction involving all of MedSolutions equity interests or all shares of the MedSolutions common stock;

the sale, lease, exchange, mortgage, pledge, transfer or other disposition of all or substantially all of MedSolutions assets in a single transaction or a series of related transactions;

a tender offer or exchange offer for 25% or more of the outstanding shares of MedSolutions capital stock or the filing of a registration statement under the Securities Act of 1933, as amended, in connection with such a tender offer or exchange offer; or

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any public announcement of a proposal, plan or intention to do so, or any agreement to engage in, any of the matters described immediately above; or

adoption of the merger agreement and approval of the merger by the MedSolutions shareholders is not obtained by reason of the violation of the voting agreement by one or more of MedSolutions shareholders who are party to the voting agreement.

In general, each of Stericycle, Merger Sub and MedSolutions will bear its own expenses in connection with the merger agreement and the related transactions. If the merger is consummated, the surviving corporation to the merger will pay MedSolutions transaction expenses up to $100,000. If the merger is not consummated, all expenses incurred in connection with the merger agreement and the related transactions will be paid by the party incurring them. If the merger is consummated, Stericycle will pay for the expenses of the payment agent selected to distribute the merger consideration and the indenture trustee for the notes up to $80,000.

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Amendment

Stericycle, Merger Sub and MedSolutions, by action taken or authorized by their respective boards of directors, may amend the merger agreement in writing at any time before the effective time of the merger. However, after the approval of the merger agreement by the MedSolutions shareholders, no amendment may be made that by law would require further approval by the MedSolutions shareholders without such further approval.

Extension; Waiver

Stericycle, Merger Sub and MedSolutions may at any time before the effective time of the merger and to the extent legally allowed:

extend the time for the performance of any of the obligations or the other acts of the other parties;

waive any inaccuracies in the representations and warranties contained in the merger agreement or in any document delivered pursuant to the merger agreement; or

waive compliance with any of the agreements or conditions contained in the merger agreement.

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DESCRIPTION OF PROMISSORY NOTES

The following description summarizes certain material terms of the promissory notes. The promissory notes consist of 4.5% Promissory Notes Due 2014 (the 4.5% notes) and 3.5% Promissory Notes (Letter of Credit Supported) Due 2014 (the 3.5% notes). This summary does not purport to be complete and is subject to, and qualified in its entirety by reference to, the indenture relating to the 4.5% notes (the 4.5% indenture) and the indenture relating to the 3.5% notes (the 3.5% indenture) (together, the indentures), which Stericycle has entered into with LaSalle Bank National Association, Chicago, Illinois as indenture trustee.

We urge you read the indentures because they, and not this description, will define your rights as a holder of promissory notes (a noteholder). The terms and provisions of the promissory notes include the terms and provisions set out in the indentures and the terms and provisions made part of the indentures by reference to the Trust Indenture Act of 1939. The 4.5% indenture is included in this proxy statement/prospectus as Annex D, and the 3.5% indenture is included as Annex E. The form of the 4.5% notes is Exhibit A to the 4.5% indenture; the form of the 3.5% notes is Exhibit A to the 3.5% indenture.

General

Stericycle will issue promissory notes up to the aggregate principal amount of $40,761,202.50 in connection with the merger. The promissory notes will be in registered form. The promissory notes will be transferable or exchangeable only upon registration of the transfer or exchange with LaSalle Bank National Association as the registrar as under the indentures.

Stericycle will issue promissory notes to each shareholder of MedSolutions and each holder of MedSolutions stock options upon the shareholder s or option holder s compliance with the requirements of the letter of transmittal in connection with payment of the merger consideration. See The Merger Agreement Merger Consideration, Treatment of MedSolutions Options and Payment Procedures on pages 50, 51 and 51, respectively, of this proxy statement/prospectus.

The promissory notes will be issued without coupons and will mature on the seventh anniversary of the closing of the merger, which will fall in 2014. The promissory notes will be general obligations of Stericycle. They will not be secured by any of Stericycle s assets.

Payment of the 3.5% notes will be supported by a letter of credit issued by Bank of America, N.A., any other lender party to the Stericycle s current credit agreement, or any other bank or financial institution approved by the shareholder representative, and paid for by Stericycle. Payment of the 4.5% notes will not be supported by a letter of credit.

When returning their completed letters of transmittal, shareholders of MedSolutions and holders of MedSolutions stock options may elect to receive either 3.5% notes or 4.5% notes or a combination of 3.5% notes and 4.5% notes. Once the promissory notes have been issued, however, noteholders may not exchange 4.5% notes for 3.5% notes or 3.5% notes for 4.5% notes.

The promissory notes are not subject to any sinking fund provisions.

Interest

Interest on the unpaid principal balance of the 3.5 % promissory notes will accrue at the rate of 3.5% per annum, and interest on the unpaid principal balance of the 4.5% promissory notes will accrue at the rate of 4.5% per annum.

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Interest will be payable annually in arrears on each anniversary of the closing date of the merger falling in 2008, 2009, 2010, 2011, 2012, 2013 and 2014.

Principal

The unpaid principal balance of the 3.5% and 4.5% notes will be due and payable on the seventh anniversary of the closing date of the merger, which will fall in 2014.

Method of Payment

Stericycle will pay interest on the promissory notes to the persons who are registered holders of promissory notes as of the close of business on the record date for the interest payment on or immediately before the interest payment date.

Holders of promissory notes will be required to surrender their notes to the payment agent to collect principal payments. Stericycle has appointed the indenture trustee as the payment agent.

Letter of Credit

Payment of the 3.5% notes will be supported by a letter of credit issued to the indenture trustee. The issuer of the initial letter of credit will be Comerica Bank.

The initial letter of credit will be for a one-year term, subject to being renewed automatically for additional one-year terms unless the issuer gives the indenture trustee, Stericycle and the shareholder representative 30 days prior notice of the issuer s intent not to renew the letter of credit upon the expiry of its current one-year term.

If the issuer of the current letter of credit gives the indenture trustee, Stericycle and the shareholder representative at least 30 days prior notice of the issuer s intent not to renew the letter of credit upon the expiry of its current one-year term, Stericycle is required by the 3.5% indenture to deliver a new letter of credit to the indenture trustee no later than 15 days prior to the expiry of the current letter of credit.

Stericycle may at any time substitute a new letter of credit for the current letter of credit. Any new letter of credit is required to be issued by Bank of America, N.A., any other lender party to Stericycle s credit agreement for its senior unsecured credit facility, or any other bank or financial institution approved by the shareholder representative (whose approval may not be unreasonably withheld), and conform in substance to the current letter of credit that it replaces.

Reduction in Payments

Payments under the promissory notes are subject to reduction by reason of an indemnification claim payment reduction. This reduction is in the nature of a dollar-for-dollar offset. See The Merger Agreement Representations and Warranties and Indemnification on page 52 of this proxy statement/prospectus.

In the event of an indemnification claim payment reduction, the payments otherwise next becoming due under all outstanding promissory notes will be reduced on a pro rata basis.

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Reduction in Principal

The principal amount of the promissory notes is subject to reduction, retroactive to the date of issuance of the promissory notes, by reason of a merger consideration principal reduction. The principal amount of the promissory notes is also subject to reduction, effective as of the date of payment, by reason of a litigation payment principal reduction or an expense payment principal reduction. See The Merger Agreement Adjustments to Merger Consideration, The Merger Agreement Payment Procedures, Adjustments to Merger Consideration Application of Closing Balance Sheet and Revenue Adjustments and Litigation Adjustment on pages 54, 51, 55 and 56 of this proxy statement/prospectus.

In the event of a merger consideration principal reduction, a litigation payment principal reduction or an expense payment principal reduction, the principal amount of all outstanding promissory notes will be reduced on a pro rata basis.

Prepayment

Stericycle, at its option, may prepay all or any portion of the principal amount of the promissory notes without penalty at any time prior to the maturity date if it concurrently pays all accrued interest on the principal amount being prepaid. Any prepayment of principal will be made in respect of all outstanding promissory notes on a pro rata basis determined by the promissory notes respective principal amounts.

Merger and Sale of Assets

Each indenture provides that Stericycle may not consolidate or merge with or into or transfer all or substantially all of its assets to a third party unless (i) Stericycle is the resulting or surviving entity, or (ii) if Stericycle is not the resulting or surviving entity, the resulting or surviving entity is a U.S. corporation and assumes all of Stericycle s obligations under the promissory notes and the indenture and, in either case (i) or (ii), (iii) immediately before and immediately after the transaction there is no default under the indenture.

No Financial Covenants

The indentures and the promissory notes do not contain any financial covenants by Stericycle. There are no provisions requiring the maintenance of any asset ratio or restricting the incurrence of additional debt or restricting the declaration of dividends.

Events of Default

Under each indenture, an event of default occurs in respect of the promissory notes issued pursuant to the indenture if:

- Stericycle fails to pay interest on any promissory note when it becomes due and payable and its failure continues for a period of 10 days;
- Stericycle fails to pay the principal of any promissory note when it becomes due and payable at maturity;
- Stericycle fails to comply with any of its other agreements in the promissory notes or the indenture and its failure continues for a period of 30 days after the indenture trustee or the shareholder representative gives Stericycle notice of the default;

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an event of bankruptcy, insolvency or liquidation specified in the indenture has occurred;

in the case of the 3.5% indenture, there is an event of default under the 4.5% indenture, and in the case of the 4.5% indenture, there is an event of default under the 3.5% indenture; or

in the case of the 3.5% indenture, Stericycle fails to deliver a new letter of credit when required by the terms of the indenture.

Acceleration of Notes

Under each indenture, if an event of default occurs, the indenture trustee by notice to Stericycle, or the shareholder representative by notice to Stericycle and the indenture trustee, may declare the principal of and accrued interest on all outstanding promissory notes issued pursuant to the indenture to be due and payable.

The indenture trustee is required to declare the principal of and accrued interest on all outstanding promissory notes issued pursuant to one indenture to be due and payable if the principal of and accrued interest on all outstanding promissory notes issued pursuant to the other indenture have been declared to be due and payable.

The shareholder representative may direct (i) the time, method and place of conducting any proceeding for any remedy available to the indenture trustee or (ii) the exercise of any trust or other power conferred on the indenture trustee, including drawing on the letter of credit supporting the 3.5% Notes.

The shareholder representative by notice to Stericycle and the indenture trustee may rescind an acceleration and its consequences if the rescission would not conflict with any judgment or decree and if all existing events of default have been cured or waived except the nonpayment of principal or interest that became due solely because of the acceleration.

Modification and Waiver

Stericycle and the indenture trustee may amend each indenture or the promissory notes issued pursuant to the indenture without the consent of any noteholder in order to:

cure any ambiguity, defect or inconsistency;

comply with provisions of the indenture relating to the circumstances in which Stericycle is permitted to merge with a third party; or

make any change that does not adversely affect the rights of any noteholder.

Stericycle and the indenture trustee may amend each indenture or the promissory notes issued pursuant to the indenture with the written consent of the shareholder representative. Without the consent of each affected noteholder, however, no amendment may:

reduce the interest on or change the time for payment of interest on any promissory note, except in limited circumstances as expressly set forth in the merger agreement (see The Merger Agreement Adjustments to Merger Consideration beginning on page 54 of this proxy statement/prospectus);

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reduce the principal of or change the fixed maturity of any promissory note, except in limited circumstances as expressly set forth in the merger agreement (see The Merger Agreement Adjustments to Merger Consideration beginning on page 54 of this proxy statement/prospectus);

make any promissory note payable in money other than that stated in the promissory note; or

make any change in the provisions of the indenture relating to waiver of past defaults, limitations on noteholders right to sue, or actions requiring the consent of the noteholders.

Reporting Obligations

Under each indenture, Stericycle is required to file with the indenture trustee copies of all annual, quarterly and current reports that it required to file with the SEC. Stericycle is also required to file with the indenture trustee an annual compliance certificate signed by its principal executive office, principal financial officer or principal accounting officer certifying to Stericycle s compliance with the conditions and covenants of the indenture to the signing officer s knowledge.

Governing Law

The indentures and the promissory notes will be governed by the laws of the State of Illinois.

Information Concerning the Trustee

LaSalle Bank National Association is the indenture trustee under the indentures. Its address is 135 South LaSalle Street, Suite ___, Chicago, Illinois 60603. Stericycle has also appointed the indenture trustee as the initial registrar and payment agent under the indentures.

Stericycle may maintain banking and other commercial relationships with the indenture trustee and its affiliates in the ordinary course of business. The indenture trustee in its individual or any other capacity may become the owner or pledgee of promissory notes and may otherwise deal with Stericycle or its affiliates with the same rights that it would have had if it were not indenture trustee.

The indenture trustee may refuse to follow any direction by the shareholder representative that conflicts with law or the indentures, is unduly prejudicial to the rights of noteholders, or would involve the trustee in personal liability or expense for which the trustee has not received a satisfactory indemnity.

The indenture trustee may refuse to perform any duty or exercise any right or power under the indentures that would require it to expend its own funds or risk any liability if it reasonably believes that repayment of such funds or adequate indemnity against such risk is not reasonably assured to it.

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INFORMATION ABOUT STERICYCLE

General

Stericycle is in the business of managing regulated waste and providing an array of related services. Stericycle operates in the United States, Canada, Mexico, the United Kingdom, Ireland and Argentina.

For large-quantity generators of regulated waste such as hospitals and for pharmaceutical companies and distributors, Stericycle offers:

its institutional regulated waste management services

its Bio Systems® management services to reduce the risk of needle sticks

a variety of products and services for infection control

its regulated returns management services for expired or recalled healthcare products

For small-quantity generators of regulated waste such as doctors offices and for retail pharmacies, Stericycle offers:

its regulated waste management services

its Steri-Safe® Occupational Safety and Health Act and Health Insurance Portability and Accountability Act (HIPAA) compliance programs

a variety of products and services for infection control

its regulated returns management services for expired or recalled healthcare products

Stericycle operates integrated national regulated waste management networks in the United States, Canada, Mexico, Argentina, the United Kingdom and Ireland. Stericycle s national networks include a total of 76 processing or combined processing and collection sites and 104 additional transfer, collection or combined transfer and collection sites.

Stericycle s regulated waste processing technologies include autoclaving, Stericycle s proprietary electro-thermal-deactivation system (ETD), chemical treatment and incineration.

Stericycle serves approximately 351,700 customers worldwide, of which approximately 8,600 are large-quantity generators, such as hospitals, blood banks and pharmaceutical manufacturers, and approximately 343,100 are small-quantity generators, such as outpatient clinics, medical and dental offices, long-term and sub-acute care facilities and retail pharmacies.

Stericycle benefits from significant customer diversification. No one customer accounts for more than 2% of Stericycle s total revenues, and its top 10 customers account for approximately 9% of total revenues.

Additional information about Stericycle is provided in its 2006 Form 10-K, which has been delivered with this proxy statement/prospectus, and in the other documents that Stericycle has filed with the Securities and Exchange Commission and incorporated by reference in this proxy statement/prospectus. See Where You Can Find More Information on page 202.

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Directors and Executive Officers

For information about Stericycle s directors and executive officers, please see Stericycle s 2006 Form 10-K, which has been delivered with and incorporated by reference in this proxy statement/prospectus, and Stericycle s proxy statement for its 2007 Annual Meeting of Stockholders, which has been incorporated by reference in this proxy statement/prospectus.

Beneficial Ownership of Stericycle Stock

For information about beneficial ownership of Stericycle s common stock, please see Stericycle s 2006 Form 10-K, which has been delivered with and incorporated by reference in this proxy statement/prospectus, and Stericycle s proxy statement for its 2007 Annual Meeting of Stockholders, which has been incorporated by reference in this proxy statement/prospectus.

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INFORMATION ABOUT MEDSOLUTIONS

Description of MedSolutions Business

Company Overview

MedSolutions, a Texas corporation that was organized on November 11, 1993, is a diversified holding company that provides complete and effective waste management outsource solutions marketed and serviced through four wholly owned subsidiaries and one substantially owned subsidiary. Through EnviroClean Management Services, Inc. (EMSI), from which MedSolutions currently derives virtually all of its revenue, MedSolutions is primarily engaged in regulated medical waste (RMW) management services, which include collecting, transporting, treating and disposing of regulated medical waste from a variety of healthcare customers. Through SharpsSolutions, Inc. (SharpsSolutions), MedSolutions offers a reusable sharps container service program to healthcare facilities that it expects will virtually eliminate the current method of utilizing disposable sharps containers. Through ShredSolutions, Inc., MedSolutions markets a fully integrated, comprehensive service for the collection, transportation and destruction of protected healthcare Information (PHI) and other confidential documents, primarily those generated by healthcare providers and regulated under the Health Insurance Portability and Accountability Act (HIPAA). Through Positive Impact Waste Servicing, Inc. doing business as EnviroClean On-Site, MedSolutions provides a patented mobile treatment process that uses Cold-Ster®, a proprietary dry chemical product approved by the U.S. Environmental Protection Agency (EPA) for the treatment of RMW. Through the acquisition of SteriLogic Waste Systems, Inc., located in Syracuse, New York (SteriLogic), MedSolutions operates a regulated medical waste management company that provides collection, transportation and disposal of regulated medical waste services in addition to providing a reusable sharps container program to its customers who are primarily located in the States of New York and Pennsylvania. SteriLogic also designs, manufactures and markets reusable sharps containers to medical waste service providers who provide a reusable sharps container program to their medical waste customers.

MedSolutions is a fully integrated regulated medical waste management company providing medical waste and PHI collection, transportation, treatment and disposal, sharps container management, and related consulting, training and education services and products. MedSolutions three principal groups of customers include (i) outpatient clinics, medical and dental offices, biomedical companies, municipal entities, long-term and sub-acute care facilities and other smaller-quantity generators (SQG) of regulated medical waste, (ii) blood banks, surgery centers, dialysis centers and other medium quantity generators (MQG) of regulated medical waste and (iii) hospitals, diagnostic facilities and other larger-quantity generators (LQG) of regulated medical waste. MedSolutions believes that the services it offers are compelling to its customers because they allow its customers to avoid the significant capital and operating costs that they would have to incur if they were to manage their regulated medical waste, sharps container management, on-site treatment, or PHI destruction internally. Moreover, by outsourcing waste management, sharps container management, on-site treatment, PHI destruction, regulatory compliance and other services to MedSolutions, its customers reduce or eliminate their risk of the large fines associated with regulatory non-compliance.

Business Background

MedSolutions was originally incorporated as Advanced EnviroTech Systems, Inc. for the purpose of developing, designing and manufacturing a patented solid waste treatment technology, the EnviroClean® Thermal Oxidation System, which may sometimes be referred to in this proxy statement/prospectus as the EnviroClean® System , for the destruction of regulated medical and other specialized waste streams generated by the medical, commercial and industrial business communities in an environmentally sound

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manner. MedSolutions subsequently changed its name to EnviroClean International, Inc. MedSolutions has two issued patents (No. 5,680,820 and No. 5,730,072) and a trademark regarding the EnviroClean® System. Although MedSolutions was established for the purpose of developing, manufacturing and marketing the EnviroClean® System, its success in that regard has been marginal, and MedSolutions has not produced significant revenue or any profit from such activities. Lack of funds for the development, modification and marketing of the EnviroClean® System, coupled with the general lack of acceptance and demand, and the cost of production and operation of the product, contributed to MedSolutions disappointing results in prior periods. There are no plans to reactivate the development of the EnviroClean System. In 1999, MedSolutions altered its focus from the development of the EnviroClean® System to the development of its regulated medical waste management service business, changed its corporate name and modified its business model. In addition, MedSolutions subsequently began to focus on the creation and development of subsidiaries to provide its large base of healthcare provider customers with other healthcare related waste management services and regulatory compliance programs. From the point MedSolutions elected to implement these changes in its business strategy, MedSolutions business has seen a dramatic turnaround and a much more receptive market.

Industry Overview

The regulated medical waste industry arose with the Medical Waste Tracking Act of 1988, or MWTA, which Congress enacted in response to media attention after medical waste washed ashore on ocean beaches, particularly in New York and New Jersey. Since the 1980s, government regulation has increasingly required the proper handling and disposal of the medical waste generated by the healthcare industry. Regulated medical waste is generally described as any medical waste that can cause an infectious disease, including single-use disposable items, such as needles, syringes, gloves and other medical supplies; cultures and stocks of infectious agents; and blood and blood products.

According to publicly available information, the size of the regulated medical waste market in the United States is approximately $3.0 billion and is in excess of $10.0 billion when ancillary services such as PHI destruction, reusable sharps container programs, training, education, product sales and regulatory compliance programs are taken into consideration. Industry growth is driven by a number of factors. These factors include:

Pressure To Reduce Hospital Costs. The healthcare industry is under pressure to reduce costs and improve efficiency. To accomplish this reduction, outside contractors are being hired to perform some services, including medical waste management, PHI destruction and reusable sharps container programs. MedSolutions believes that its medical waste management services help healthcare providers reduce costs by reducing their medical waste tracking, handling and compliance costs, reducing their potential liability related to employee exposure to blood borne pathogens and other infectious materials, and reducing the amount of money invested in on-site treatment of medical waste and/or PHI destruction.

Shift to Off-Site Treatment. MedSolutions believes that managed care and other healthcare cost-containment pressures are causing patient care to shift from institutional, higher-cost, acute-care settings to less expensive, smaller, off-site treatment alternatives. Many common diseases and conditions are now being treated in smaller non-institutional settings. MedSolutions believes that these non-institutional, alternate-site, healthcare expenditures will continue to grow as cost-cutting pressures increase. Typically these type of settings generate only small amounts of medical waste; thus, the potential risks of non-compliance with applicable state and federal medical waste regulations is disproportionate to the cost of services MedSolutions can provide.

Aging of U.S. Population. The relative size of the baby boom generation should continue to result in an increase in the average age of the population, while falling mortality rates ensure that the average

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person should live longer. As people age, they typically require more medical attention and a wider variety of tests and procedures. In addition, as technology improves more tests and procedures become available. All of these factors lead to increased generation of medical waste.

Environmental and Safety Regulation. MedSolutions industry is subject to extensive regulation beyond the MWTA. For example, the Clean Air Act Amendments of 1990 (the Clean Air Act) regulations adopted in 1997 limit the discharge into the atmosphere of pollutants released by medical waste incineration. These regulations have increased the costs of operating medical waste incinerators and have resulted in the closures of several on-site treatment facilities, thereby increasing the demand for off-site treatment services. In addition, the Occupational Safety and Health Administration (OSHA) has issued regulations concerning employee exposure to blood borne pathogens and other potentially infectious materials that require, among other things, special procedures for the handling and disposal of medical waste and annual training of all personnel who may be exposed to blood and other bodily fluids. These regulations underlie the expansion of MedSolutions service offerings to include OSHA compliance services for healthcare providers.

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Services and Operations

MedSolutions services and operations are comprised of the collection, transportation, treatment, and disposal of regulated medical waste, reusable sharps containers and PHI, together with regulatory compliance training and education programs and consulting services. To service its customers, MedSolutions has one collection/treatment facility and two transfer sites in the State of Texas, one collection/treatment/transfer facility in the State of Oklahoma and one transfer site and one collection/treatment facility in the state of Kansas. MedSolutions offers programs to assist its customers in the proper handling, separating, packaging and disposing of medical waste. MedSolutions also advises its healthcare customers in the proper methods of recording and documenting their medical waste management to comply with federal, state and local regulations. In addition, MedSolutions offers consulting services to its healthcare customers for OSHA and HIPAA compliance and to assist them in reducing the amount of medical waste they generate. MedSolutions has approximately 10,000 medical waste disposal agreements with customers for the collection of their regulated medical waste, sharps management, and/or PHI. MedSolutions customers include the Texas Health Resources Hospital System, the Greater Ozarka Health Care System, St. Joseph Hospitals, Carter Blood Care, Tenet Healthcare System, Quest Diagnostics, Inc., East Texas Medical Center, St. Luke s Episcopal Health System, The Methodist Health System, Hospital Corporation of America and many others.

Collection and Transportation. MedSolutions considers efficiency of collection and transportation to be a critical element of its operations because it represents approximately one-half of MedSolutions cost of revenues. MedSolutions has sophisticated routing software to optimize its routes. MedSolutions tries to maximize the number of stops on each route. MedSolutions use a global positioning system (GPS) for certain of its collection vehicles to improve efficiency. MedSolutions attempts to correlate the size of its collection vehicles to the amount of medical waste to be collected at a particular stop or on a particular route. MedSolutions collects reusable containers or corrugated boxes of medical waste from its customers at intervals depending upon customer requirements, terms of service and volume of medical waste produced. The containers or boxes are inspected at each customer s site prior to pickup. The waste is then transported directly to one of MedSolutions treatment facilities or to one of its transfer stations where it is combined with other medical waste and transported to a treatment facility. In some select circumstances MedSolutions transports medical waste to other permitted medical waste treatment facilities.

As part of its collection operations, MedSolutions supplies specially designed containers for use by most of its customers. MedSolutions has reusable plastic containers that are leak and puncture resistant. The plastic containers enable MedSolutions customers to reduce costs by reducing the number of times that medical waste is handled, eliminating the cost (and weight) of corrugated boxes and potentially reducing liability resulting from human contact with medical waste. The plastic containers are designed to maximize the loads that will fit within the cargo compartments of MedSolutions standard trucks and trailers. If a customer generates a large volume of waste, MedSolutions will place a large temporary storage container or trailer on the customer s premises. In order to maximize regulatory compliance and minimize potential liability, MedSolutions will not accept medical waste unless it is properly packaged by customers in containers that MedSolutions has either supplied or approved.

Treatment and Disposal. Upon arrival at a treatment facility, containers or boxes of medical waste are typically scanned to verify that they do not contain any unacceptable substances such as radioactive materials. Any container or box that is discovered to contain unacceptable waste is returned to the customer. After inspection, the waste is treated using one of MedSolutions treatment technologies. Upon completion of the particular process, the resulting waste or incinerator ash is transported for disposal in a landfill operated by parties unaffiliated with MedSolutions. After the plastic containers have been emptied, they are washed, sanitized and returned to customers for re-use. MedSolutions also receives medical waste to process from third party transporters which provides another source of revenue.

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Treatment Technologies. MedSolutions currently uses autoclaving, incineration and chemical mobile technologies for treating regulated medical waste.

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

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

Chemical Mobile Treatment. MedSolutions employs a chemical mobile treatment process which treats medical waste that uses Cold-Ster®, a proprietary dry chemical product approved by the EPA for the treatment of regulated medical waste. The features of this treatment come from an exclusive long-term, proven mobile technology that treats RMW, reduces its volume by 70% and transforms the waste into a shredded material that is unrecognizable, HIPPA-compliant and ready for the general waste stream.

MedSolutions currently treats regulated medical waste using three treatment methods, which are approximately divided in the following percentages:

Autoclaving	75%
Incineration	15%
Chemical Mobile	10%

MedSolutions varies its treatment of medical waste among available treatment technologies based on the type of waste and capacity and pricing considerations in each service area, in order to minimize operating costs and capital investments.

Disposal Operations. MedSolutions operates multiple permitted treatment/transfer facilities. MedSolutions treatment/transfer facility located in Garland, Texas (a suburb of Dallas) services North Texas, Oklahoma, Arkansas and Louisiana (the Garland Facility). Its treatment facility in Emporia, Kansas currently services the Kansas, Oklahoma, Missouri and Northern Arkansas markets. MedSolutions has a transfer facility located in Houston, Texas which services customers located in South Texas and Southern Louisiana with an emphasis on the Greater Houston, Corpus Christi and San Antonio/Austin service areas. MedSolutions also operates transfer sites in Oklahoma City, Oklahoma; and Wichita, Kansas.

On June 8, 2006, the operating agreement between MedSolutions and the University of Texas Medical Branch (UTMB) expired. The operating agreement allowed MedSolutions to manage the UTMB incineration facility and process their waste for a fee as well as provided a facility for MedSolutions to treat waste generated from EMSI South Texas and Louisiana customers in return for a fee paid to UTMB. Currently, MedSolutions is taking waste generated from South Texas and Louisiana customers to other third party facilities in South Texas and Northern Louisiana and to its Garland facility.

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Chemical Mobile Treatment Technology. Positive Impact Waste Servicing, Inc. doing business as EnviroClean On-Site, Inc., which was acquired by MedSolutions from Positive Impact Waste Solutions, LLC in 2005, employs a patented mobile treatment process that uses Cold-Ster, a proprietary dry chemical product approved by the U.S. EPA for the treatment of RMW. EnviroClean On-Site features an exclusive long-term, proven mobile technology that treats RMW, reduces its volume by 70%, and transforms the waste into a shredded material that is unrecognizable, HIPPA-compliant and ready for the general waste stream. The mobile treatment technology affords MedSolutions the opportunity of reduced permitting constraints and allows for the rapid establishment of a customer base and recurring revenue stream in new markets. This approach is superior to the conventional method of permitting a fixed facility to allow for geographical market expansion that requires significant time and capital expenditures prior to the establishment of a revenue stream. In addition, it allows MedSolutions to compete for those LQG customers that prefer on-site treatment for liability reasons.

Consulting Services. Before medical waste is picked up by its trucks, MedSolutions integrated waste management approach attempts to build in efficiencies that will yield advantages for its customers. For example, MedSolutions consulting services can assist its customers in reducing the volume of medical waste that they generate or assist them with regulatory compliance training. In addition, MedSolutions provides customers with the documentation necessary for compliance with laws, which, if they complete the documentation properly, will reduce interruptions to their businesses to verify compliance.

Documentation. MedSolutions provides complete documentation to its customers for all medical waste and PHI that MedSolutions collects, including the name of the generator, date of pick-up and date of delivery to a treatment facility. MedSolutions believes that its documentation system meets all applicable federal, state and local regulations regarding the packaging and labeling of medical waste, including regulations issued by the U.S. Department of Transportation (DOT), OSHA and state and local authorities. This documentation is sometimes used by MedSolutions customers to prove that they are in compliance with these regulations.

SharpsSolutions, Inc. Reusable Sharps Container Program. MedSolutions reusable sharps container program is perhaps one of the most significant investments and opportunities that MedSolutions is currently undertaking. Sharps management is defined as the management and treatment of sharp-edged medical waste such as syringes, needles, razors, scissors and scalpels that may have come into contact with blood born pathogens, such as HIV or hepatitis. The most common sharps management is where the hospital employees dispose of sharps in various containers that are then collected by other hospital employees and disposed (container and sharps content together) within the hospitals waste that is then treated in-house or outsourced to a medical waste service provider such as MedSolutions. The SharpsSolutions Reusable Sharps Container Program is intended to be a fully outsourced service offering where hospital employees do not handle the sharps once they are disposed of at the point of use. This is paramount for hospitals in that hospital personnel are less subject to needle stick injuries.

Statistically, there are 600,000 to 800,000 needle stick injuries annually, with a third of them occurring during the disposal process. With each needle stick costing between $5,000 and $10,000, these incidents alone are costing the industry over one billion dollars annually. In addition to the cost/liability savings associated with reduced needle stick incidents, the cost of recycling the containers rather than purchasing them is significant, often saving 15 to 20% for the generator. The combined savings between direct costs plus costs associated with reduced needle sticks can reach up to 30% per year.

Currently, the reusable sharps container recycling market is rapidly developing. It is very popular on the east coast of the United States where approximately 80% of the market utilizes reusable sharps programs. MedSolutions estimates, based on research conducted by industry analysts and its own conservative estimates, that there is a total market opportunity in the markets it services of approximately

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$20 million annually. As of December 31, 2006, MedSolutions provides reusable sharps container programs to 14 hospitals in the markets it services.

ShredSolutions, Inc. Document Destruction Program. ShredSolutions benefits from HIPPA, a law that became effective in April 2003 which stipulates that healthcare providers guarantee the security and privacy of health information by requiring that every identifiable patient record for individuals be transferred to an electronic medium or destroyed.

EnviroSafe Complete Compliance Program. The EnviroSafe program is a competitive program to Stericycle s extremely lucrative SteriSafe program.

Business Strategy

MedSolutions goals are to strengthen its position as a regional provider of integrated services in the regulated medical waste industry and to continuously improve its financial performance. Components of MedSolutions strategy to achieve these goals include:

Improve Margins. MedSolutions continues to actively work to improve its margins by increasing its base of small quantity generators and focusing on its ancillary service strategies, including reusable sharps container programs, PHI destruction and regulatory compliance programs. These services fulfill the needs of MedSolutions large, medium and small quantity generators, and MedSolutions believes that with the rapid organic and acquisition growth of its customer base, the opportunity for sales of ancillary services and regulatory compliance products to its customers will continue to grow and the incremental cost of offering these services will continue to decrease, thereby improving margins.

Expand Range of Services and Products. MedSolutions believes that it has the opportunity to expand its business by increasing the range of products and services that it offers to its existing customers. For example, MedSolutions now offers on-site treatment, reusable sharps container management, PHI destruction and a broad range of OSHA compliance and consulting services to its customers. Because MedSolutions drivers call on numerous medical facilities on a routine basis, it is considering offering single-use disposable medical supplies to its customers.

Seek Strategic and/or Complementary Acquisitions. MedSolutions actively seeks strategic opportunities to acquire businesses that expand its network of treatment centers and increase its customer base. MedSolutions believes that strategic acquisitions can enable it to gain operating efficiencies through increased capacity utilization and increased route density as well as to expand the geographic service areas in which MedSolutions operates.

Capitalize on Outsourcing Due to Clean Air Regulations. The Clean Air Act regulations have increased both the capital costs required to bring many existing incinerators into compliance and the operating costs of continued compliance. MedSolutions plans to continue to try and capitalize on the anticipated movement by hospitals to outsource medical waste treatment rather than incur the cost of installing the air pollution control systems necessary to comply with these EPA regulations.

MedSolutions business strategy and expansion plans will place significant strain on its management, working capital, financial and management control systems and staff in the event that the merger does not occur. MedSolutions failure to properly respond to these needs by failing to maintain or upgrade financial and management control systems, failing to recruit additional staff or failing to respond effectively to difficulties encountered during expansion could adversely affect its business, financial condition and results of operations. Based on its experience in the industry, MedSolutions believes that its management and financial systems and controls are adequate to address current needs. There can be no

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assurance, however, that MedSolutions systems, controls or staff will be adequate to sustain future growth.

Acquisitions and Corporate Background

BMI Services, Inc (BMI). BMI, a regulated medical waste and transportation management company, was acquired by EMSI in April 1996. BMI was based in Houston, Texas and was one of the largest independent transporters of medical waste in Texas. MedSolutions acquired its primary waste transportation business, its transfer station in Tyler, Texas and the UTMB arrangement through the BMI acquisition.

EnviroClean Management Services, Inc (EMSI). MedSolutions formed EMSI in February 1996, as a consolidation vehicle for the merger or acquisition of BMI and other proposed entities. In January 1998, MedSolutions exchanged shares of its common stock to acquire 667,375 shares of EMSI from other shareholders. This transaction gave MedSolutions a controlling interest of approximately 51.3% of EMSI. In December 1998, MedSolutions offered to exchange one share of its common stock for each share of EMSI still outstanding. As a result, MedSolutions acquired shares representing an aggregate of 96.1% of EMSI s stock. Since then MedSolutions has continued the exchange offer and has acquired additional shares and now owns 100% of EMSI.

AmeriTech Environmental, Inc. (ATE). On November 7, 2003, MedSolutions acquired certain of the assets of ATE, including the assignment by ATE to MedSolutions of all of its regulated medical waste disposal customer contracts (which covered approximately 800 customers). The other assets acquired consisted primarily of equipment associated with ATE s regulated medical waste disposal business and a parcel of real property permitted as a transfer site located in Houston, Texas. The purchase price for the acquired assets was $650,000 cash, a promissory note in the original principal amount of $750,000 bearing interest at a rate per annum of 7%, interest payable monthly, and all principal and accrued interest due on November 7, 2004, and 705,072 shares of MedSolutions common stock. The cash portion of the purchase price was funded from the proceeds of sales of MedSolutions common stock in private placements and $400,000 which was loaned to MedSolutions by two of its directors in exchange for promissory notes. The purchase price was determined largely based upon the amount of revenues ATE had generated from its regulated medical waste disposal business during the first three quarters of 2003.

During 2004 and in accordance with the acquisition agreement, MedSolutions calculated a purchase price adjustment with respect to the customer list acquired from ATE. The calculation resulted in a purchase price reduction of $254,433, which lowered the assigned value of the customer list acquired. In addition, MedSolutions further determined there was an impairment of $139,330 in 2004 to the customer list acquired from ATE. Accordingly, MedSolutions recorded a charge of $139,330 during 2004, to reflect the decrease in net carrying value of the customer list. As part of the acquisition, MedSolutions also recorded goodwill of approximately $1,000,000.

A settlement was reached between ATE and MedSolutions on February 11, 2005 due to numerous disputes and disagreements that arose in relation to ATE s representations in the asset purchase agreement. The settlement called for the modification of the promissory note to ATE from MedSolutions to reduce the amount owed from $750,000 to $150,000, payable in two installments of $75,000 each beginning at the time that ATE delivered audited financial statements of its books and records for the nine-month period ended September 30, 2003 allowing MedSolutions to comply with its Form 8-K reporting requirements with the SEC. MedSolutions recorded a reduction (included in other income) of debt of approximately $650,000 during the three months ended March 31, 2005 for compensatory damages that resulted from breaches committed by ATE. Since the February 11, 2005 settlement was reached, ATE could not deliver audited financial statements as required; therefore, the settlement

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agreement was amended so that the remaining balance of $150,000 owed to ATE was converted into 150,000 shares of the MedSolutions common stock and all remaining disputes with ATE were settled.

Bray Medical Waste Service (Bray). On January 1, 2004, MedSolutions acquired the customer contracts and took over the regulated medical waste operations of Bray. The purchase price for the acquired assets was (i) $11,200 cash and (ii) 29,867 shares of MedSolutions common stock valued at $22,400 for a total purchase price of $33,600. The purchase price allocation was $30,000 to customer list and $3,600 to goodwill.

Med-Con Waste Solutions, Inc. (Med-Con). On September 30, 2004, MedSolutions acquired certain assets, including a customer list, of Med-Con in an acquisition accounted for as a purchase for a total purchase price of $1,149,000. The purchase price for the acquired assets was (i) $250,000 cash, (ii) a promissory note in the original principal amount of $500,000 bearing interest at a rate per annum of 7%, payable in 30 equal monthly installments of principal and interest with the first such installment due on January 1, 2005, (iii) a promissory note in the original principal amount of $250,000, with no interest, and with the principal amount and the due date subject to adjustment based upon the delivery by Med-Con to MedSolutions of consents to the assignment of the customer contracts acquired from Med-Con within 75 days of the closing of the transaction, (iv) and 149,000 shares of MedSolutions common stock. The principal amount of the $500,000 promissory note was subject to adjustment depending upon the amount of revenues realized by MedSolutions from the customer contracts acquired from Med-Con for the ensuing 90 days following the closing of the transaction. MedSolutions assigned $497,610, based on an independent appraisal, to the customer list acquired and established a useful life of five years over which to amortize the assigned cost. Amortization expense of the customer list for each year will approximate $99,522.

During the year ended December 31, 2004 and in accordance with the acquisition agreement, MedSolutions calculated a purchase price adjustment of $153,780, which lowered the assigned value of the assets acquired. This reduction reduced the note payable to Med-Con by $153,780.

As part of the acquisition, MedSolutions also recorded goodwill of approximately $499,610, net of the purchase price reduction.

On May 18, 2005, MedSolutions and Med-Con restructured the two notes payable that were in default. The agreement called for the $346,220 note (originally $500,000) plus accrued interest of $10,000 to be paid in 48 equal monthly payments of $8,896, and an increase of the original interest rate from seven percent (7%) to eight (8%). With regard to the second note of $145,000 (originally $250,000), the agreement called for 24 equal monthly installments of $6,691 with the note bearing interest at ten percent (10%). In accordance with EITF 96-19, Debtor s Accounting for a Modification or Exchange of Debt Instruments, the modification to the debt agreement was not determined to be a substantial modification.

On Call Medical Waste Service (On Call). On August 29, 2005, MedSolutions acquired certain assets including customer contracts from On Call for a total purchase price of $1,155,500. The purchase price for the acquired assets was (i) $375,000 cash, (ii) a promissory note in the original principal amount of $250,000 bearing interest at a rate per annum of 8%, payable in 24 equal monthly installments of principal and interest with the first such installment due on December 27, 2005, (iii) a promissory note in the original principal amount of $375,000 with no interest, (iv) 166,667 shares of MedSolutions common stock, and (v) $30,500 of transaction costs incurred by MedSolutions. The cash portion of the purchase price was funded from the proceeds of a sale of MedSolutions common stock in a private placement to, and a loan to MedSolutions pursuant to a promissory note from, one of its shareholders.

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Cooper Biomed, Ltd. (Cooper). On September 30, 2005, MedSolutions acquired certain assets, principally customer contracts, from Cooper for a total purchase price of $120,000. The purchase price for the acquired assets was (i) $40,000 cash, (ii) a promissory note in the original principal amount of $40,000 with no interest, (iii) a promissory note in the original principal amount of $25,000, without interest, payable in one installment of principal in the amount of $25,000 due on the 120th day after the closing date of the acquisition subject to adjustment, (iv) 10,000 shares of MedSolutions common stock, and (v) $5,000 of transaction costs incurred by MedSolutions. The purchase price was allocated to customer list ($114,505) and to accounts receivable ($5,495). The cash portion of the purchase price was funded from the proceeds of a sale of MedSolutions common stock in a private placement to, and a loan to MedSolutions pursuant to a promissory note from, one of its shareholders. As provided for in the agreement MedSolutions calculated a $8,500 purchase price adjustment and reduced the principal due under the $25,000 promissory note and the amount assigned to customer list, accordingly.

Positive Impact Waste Solutions, LLC (PIWS). On November 30, 2005, MedSolutions acquired certain assets, including customer contracts for approximately 250 PIWS customers plus six mobile treatment units, and took over the regulated medical waste operations of PIWS for a purchase price of $1,820,000. The purchase price for the acquired assets was (i) $700,000 cash, (ii) a promissory note in the original principal amount of $300,000 bearing no interest and payable in three equal installments of principal in the amount of $100,000 each, with the first such installment due on March 30, 2006, the second such installment due on July 28, 2006, and the third such installment due on November 30, 2006, (iii) a promissory note in the original principal amount of $550,000, bearing interest at the annual rate of 8%, and payable in six equal installments of interest only in the amount of $3,666.66 each due monthly beginning on December 30, 2005, and 54 monthly installments of principal and interest in the amount of $12,161.83 each thereafter; (iv) and 360,000 shares of MedSolutions common stock. The cash portion of the purchase price was funded from the proceeds of a sale of MedSolutions common stock in a private placement to, and a loan to MedSolutions pursuant to a promissory note from, one of its shareholders, and loans from two additional shareholders. The purchase price was determined largely based upon the amount of revenues PIWS has generated from its regulated medical waste disposal business and the value of the equipment acquired. Pursuant to the asset purchase agreement and the transaction documents related thereto, PIWS granted MedSolutions the exclusive right to service customers located within the States of Texas and Kansas with PIWS mobile treatment units, and also granted MedSolutions certain rights of first refusal with respect to such exclusive right in additional states.

Subsequent to MedSolutions acquisition of PIWS assets, it was determined that PIWS had not complied with certain terms of the asset purchase agreement. On June 30, 2006, a settlement was reached and executed between MedSolutions and PIWS relating to such noncompliance. As a result of this noncompliance and in accordance with the terms of the asset purchase agreement, a reduction of the total purchase price by $169,000 was agreed to by both parties. The purchase price adjustment reduced the amount assigned to customer list by $169,000.

SteriLogic Waste Systems, Inc. On August 16, 2006, MedSolutions acquired SteriLogic Waste Systems, Inc., a Pennsylvania corporation (SteriLogic) located in Syracuse, New York. SteriLogic is a regulated medical waste management company that provides collection, transportation and disposal of regulated medical waste services in addition to providing a reusable sharps container program to its customers who are primarily located in the states of New York and Pennsylvania. SteriLogic also designs, manufactures and markets reusable sharps containers to medical waste service providers who provide a reusable sharps container program to their medical waste customers. The acquisition was effected by the merger of SteriLogic with and into a wholly-owned subsidiary of MedSolutions. At the effective time of the merger, each share of SteriLogic common stock issued and outstanding immediately prior to such time was converted into the right to receive 200 shares of MedSolutions common stock, for an aggregate of 1,000,000 shares. In addition, MedSolutions paid the sole shareholder of SteriLogic (i) $50,000 in

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readily available funds, and (ii) a convertible promissory note in the principal amount of $250,000 with simple interest at the annual rate of 8% accruing from the effective time and payable in 12 equal installments of interest only in the amount of $1,666.67 each due monthly beginning on the 30th day after the effective time, and 24 equal installments of principal and interest in the amount of $11,306.82 each due monthly thereafter. The unpaid principal and interest under such note was convertible at any time on or prior to August 16, 2007 into shares of the MedSolutions common stock at the conversion price $1.50 per share (subject to certain anti-dilution adjustments). The merger consideration may be adjusted downward depending upon the amount of sales or earnings realized by MedSolutions from the customer contracts acquired through the acquisition of SteriLogic for the twelve months following the closing of the transaction. Any such adjustment to the merger consideration will be deducted 25% from the principal amount of the $250,000 promissory note, and 75% from the shares of MedSolutions common stock issued in connection with the merger at the rate of $1.50 per share; provided, that MedSolutions may not deduct more than 400,000 of such shares with respect to the adjustment. The cash portion of the merger consideration was funded from working capital. The merger consideration was determined largely based upon the amount of revenues SteriLogic had generated from its regulated medical waste disposal business and the value of the net assets acquired.

On January 15, 2007, MedSolutions and the former owners of SteriLogic agreed by mutual consent to amend the original merger agreement whereby the former owners of SteriLogic agreed to reduce the number of shares of MedSolutions common stock issued by MedSolutions from 1,000,000 to 700,000 shares and to terminate the conversion feature of the $250,000 promissory note issued by MedSolutions as part of the purchase price. As a result of these amendments, MedSolutions recorded a reduction in the purchase price with regard to the SteriLogic acquisition by $264,000 reflecting the return of the 300,000 shares issued by MedSolutions. The corresponding reduction reduced the value assigned to SteriLogic s customer list by $264,000.

Expansion Plans and Acquisition Targets

MedSolutions has been issued a treatment permit by the Oklahoma Department of Environmental Quality (ODEQ) for its transfer site in Oklahoma City. MedSolutions subleases a facility and has a first right of refusal on a site in Odessa, Texas that has been issued a permit by the Texas Commission on Environmental Quality (the TCEQ) for the treatment of medical waste. MedSolutions has also submitted applications to treat regulated medical waste in Kansas City, Kansas and Syracuse, New York. These permits should allow MedSolutions to more effectively service the upper New York, Northern Pennsylvania, Oklahoma, Kansas, Missouri and West Texas markets. MedSolutions has currently ceased discussions with potential acquisition and/or merger candidates pending completion of the merger. However, in the event that the merger does not occur, MedSolutions may renew various discussions with potential acquisition and/or merger candidates to densify and/or expand the markets it services.

Evaluation and Integration. MedSolutions believes that its management team can evaluate potential acquisition candidates and determine whether a particular medical waste management business can be successfully integrated into MedSolutions business. In determining whether to proceed with a business acquisition, MedSolutions will evaluate a number of factors including:

- the financial impact of the proposed acquisition, including the effect on MedSolutions cash flow and earnings per share;
- the historical and projected financial results of the target company;
- the purchase price negotiated with the seller and MedSolutions expected internal rate of return;

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the structure of the purchase with regard to offering one or the combination of the following: cash, notes and stock;

the composition and size of the target company s customer base and the opportunity value of integrating MedSolutions service, ancillary service and regulatory compliance programs into the target company s market;

the efficiencies that MedSolutions can achieve by integrating the target company with its existing operations;

the potential for enhancing or expanding MedSolutions geographic service area and allowing MedSolutions to make other acquisitions in the same service area;

the experience, reputation and personality of the target company s management;

the target company s reputation for customer service and relationships with the communities that it serves; and

whether the acquisition gives MedSolutions any strategic advantages over its competition.

Once a business is acquired, MedSolutions will implement programs designed to improve customer service, sales, marketing, routing, equipment utilization, employee productivity, operating efficiencies and cash flow.

Marketing and Sales

Marketing Strategy. MedSolutions uses both telemarketing and direct sales efforts to obtain new customers. In addition, MedSolutions has a large database of potential new large and small quantity generators, which it believes gives it a competitive advantage in identifying and reaching these higher-margin accounts. MedSolutions drivers participate in its marketing and sales efforts by actively soliciting small quantity generators while they service their routes.

Small Quantity Generators (SQG). MedSolutions has targeted SQG s as a growth area. MedSolutions believes that these customers offer high profit potential compared to other potential customers. Typical small quantity generators are individual or small groups of doctors, dentists and other healthcare providers who are widely dispersed and generate only small amounts of medical waste. These customers are very concerned about having the medical waste picked up and disposed of in compliance with applicable state and federal regulations. MedSolutions believes that these customers view the potential risks of non-compliance with applicable state and federal medical waste regulations as disproportionate to the cost of the services that MedSolutions provides. MedSolutions believes that this factor has been the basis for the significantly higher gross margins that it has achieved with its SQG s as opposed to its LQG s. In addition, MedSolutions EnviroSafe program offers a total compliance solution that combines medical waste management, OSHA and HIPPA compliance and training in one simple program. EnviroSafe guarantees small account customers who abide by its training, counsel and advice that they will have protection from regulatory compliance issues.

Medium Quantity Generators (MQG). The medium quantity generators segment of MedSolutions business currently provides it with the opportunity for substantial growth and better profit margins than LQG s. These customers are typically blood banks, dialysis centers, surgery centers and other high volume specialty facilities.

Large Quantity Generators (LQG). MedSolutions believes that it has been successful in servicing LQG s and plans to continue to serve those customers as long as they establish route anchors that open

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the door for opportunities for MedSolutions ancillary services and/or maintain satisfactory levels of profitability. In addition, MedSolutions believes that the implementation of more stringent Clean Air Act and other federal regulations directly and indirectly affecting medical waste will enable it to improve its marketing efforts to large quantity generators because the additional costs that they will incur to comply with these regulations will make the costs of MedSolutions services more attractive, particularly relative to their use of their own incinerators. MedSolutions marketing and sales efforts to large quantity generators are conducted by full-time account executives whose responsibilities include identifying and attracting new customers and serving MedSolutions existing account base of large quantity generators. In addition to securing new contracts, MedSolutions marketing and sales personnel provide consulting services to its healthcare customers, assisting them in reducing the amount of medical waste that they generate, training their employees on safety issues and implementing programs to audit, classify and segregate medical waste in a proper manner.

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

Service agreements are generally for a period of one to five years, although customers may terminate on written notice and, in most cases, upon payment of a penalty. MedSolutions may set its prices on the basis of the number of containers that it collects, the weight of the medical waste that it collects and treats, the number of collection stops that it makes on the customer s route, the number of collection stops that it makes for a particular multi-site customer, and other factors.

Competition. There are several regulated medical waste management companies operating in MedSolutions service areas and the surrounding regions, and the market is highly competitive. MedSolutions primary competitor is Stericycle. Stericycle provides a variety of services other than collection, transportation, treatment and disposal. As such, Stericycle has a larger scope of business opportunities and substantially greater financial resources than MedSolutions possesses.

According to public filings, Stericycle is the largest medical waste management company in the United States. Stericycle initially developed and utilized a proprietary electro-thermal deactivation (ETD) process in a national strategy. However, Stericycle, like MedSolutions, primarily utilizes autoclave technologies to process a majority of its waste stream and to a lesser degree incineration technologies.

In the event that the merger does not occur, based on its experience in the industry, MedSolutions believes that it can successfully compete with Stericycle and other competitors by concentrating its operations in the southern and northeastern portions of the United States. MedSolutions believes that it gains a competitive advantage by offering better customer service than its competitors, attractive ancillary services and regulatory compliance programs and, if necessary, the ability to reduce the price of waste disposal services to customers to an amount below that of MedSolutions competitors. MedSolutions believes this can be accomplished as a result of having its facilities in closer geographic proximity to the generators of medical waste, its cost reduction efforts, its ability to offer ancillary services and programs and the expansion of its operations through acquisitions.

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

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

Competitive Strengths

MedSolutions believes that it benefits from the following competitive strengths:

Broad Range of Services. MedSolutions offers its customers a broad range of services to help them develop internal systems and processes, which allow them to manage their medical waste, sharps containers and PHI destruction efficiently and safely from the point of generation through treatment and disposal. MedSolutions has also developed regulatory compliance programs to help train its customers employees on the proper methods of handling medical waste in order to reduce potential employee exposure. Other regulatory compliance programs such as MedSolutions EnviroSafe Program include those designed to help clients ensure and maintain compliance with OSHA, HIPAA and other relevant regulations.

Strong Sales Network and Proprietary Database. MedSolutions uses both telemarketing and direct sales efforts to obtain new customers. In addition, MedSolutions has a large database of potential new small and large quantity generators, which it believes gives it a competitive advantage in identifying and reaching these higher-margin and route anchor accounts.

Experienced Senior Management Team. MedSolutions senior executives collectively have over 50 years of management experience in the waste management and healthcare industries.

Governmental Regulation

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

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

MedSolutions permits must be periodically renewed and are subject to modification or revocation by the regulatory authorities. MedSolutions is also subject to regulations that govern the definition, generation, segregation, handling, packaging, transportation, treatment, storage and disposal of medical waste. MedSolutions is also subject to extensive regulations designed to minimize employee exposure to medical waste.

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Federal Regulation. There are at least four federal agencies that have authority over medical waste. These agencies are the EPA, OSHA, the DOT and the U.S. Postal Service. These agencies regulate medical waste under a variety of statutes and regulations.

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

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

Occupational Safety and Health Act of 1970. The Occupational Safety and Health Act of 1970 authorizes OSHA to issue occupational safety and health standards. OSHA regulations are designed to minimize the exposure of employees to hazardous work environments. Various standards apply to certain aspects of MedSolutions operations. These regulations govern, among other things:

exposure to blood borne pathogens and other potentially infectious materials;

lock out/tag out procedures;

medical surveillance requirements;

use of respirators and personal protective equipment;

emergency planning;

hazard communication;

noise;

ergonomics; and

forklift safety.

MedSolutions employees are required by its policy to receive new employee training, annual refresher training and training in their specific tasks. As part of MedSolutions medical surveillance program, employees receive pre-employment physicals, including drug testing, annually required medical surveillance and exit physicals. MedSolutions also subscribes to a drug-free workplace policy. In addition, MedSolutions is subject to unannounced OSHA Safety inspections at any time.

Resource Conservation and Recovery Act of 1976. In 1976, Congress passed the Resource Conservation and Recovery Act of 1976, or RCRA, as a response to growing public concern about problems associated with the handling and disposal of solid and hazardous waste. RCRA required the EPA to promulgate regulations identifying hazardous wastes. RCRA also created standards for the generation, transportation, treatment, storage and disposal of solid and hazardous wastes. These standards

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included a documentation program for the transportation of hazardous wastes and a permit system for solid and hazardous waste disposal facilities. Medical wastes are currently considered non-hazardous solid wastes under RCRA. However, some substances collected by MedSolutions from some of its customers, including photographic fixer developer solutions, lead foils and dental amalgam, are considered hazardous wastes.

MedSolutions uses landfills operated by parties unrelated to it for the disposal of incinerator ash, autoclaved and chemically treated waste.

Waste is not regulated as hazardous under RCRA unless it contains hazardous substances exceeding certain quantities or concentration levels, meets specified descriptions, or exhibits specific hazardous characteristics. Following autoclave treatment, waste is disposed of as non-hazardous waste. After incineration treatment, MedSolutions tests ash from the incineration process to determine whether it must be disposed of as hazardous waste.

MedSolutions employs quality control measures to check incoming medical waste for specific types of hazardous substances. MedSolutions customer agreements also require its customers to exclude different kinds of hazardous substances or radioactive materials from the medical waste they provide MedSolutions.

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

DOT regulations also require that a transporter be capable of responding on a 24-hour-a-day basis in the event of an accident, spill, or release to the environment of a hazardous material. MedSolutions has entered into an agreement with an organization that provides 24-hour emergency spill response to provide this service.

MedSolutions drivers are trained on topics such as safety, hazardous materials, medical waste, hazardous chemicals and infectious substances. Employees are trained to deal with emergency spills and releases of hazardous materials, and MedSolutions has a written contingency plan for these events. MedSolutions vehicles are outfitted with spill control equipment and the drivers are trained in its use.

Comprehensive Environmental Response, Compensation and Liability Act of 1980. The Comprehensive Environmental Response, Compensation and Liability Act of 1980, or CERCLA, established a regulatory and remedial program to provide for the investigation and cleanup of facilities that have released or threaten to release hazardous substances into the environment. CERCLA and state laws similar to it may impose strict, joint and several liability on the current and former owners and operators of facilities from which releases of hazardous substances have occurred and on the generators and transporters of the hazardous substances that come to be located at these facilities. Responsible parties may be liable for substantial site investigation and cleanup costs and natural resource damages, regardless of whether they exercised due care and complied with applicable laws and regulations. If MedSolutions were found to be a responsible party for a particular site, it could be required to pay the entire cost of the site investigation and cleanup, even though other parties also may be liable. This result would be the case if MedSolutions were unable to identify other responsible parties, or if those parties were financially unable to contribute money to the cleanup.

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State and Local Regulation. MedSolutions currently conducts all of its business in Texas, Oklahoma, Louisiana, Arkansas, Kansas, Missouri, New York and Pennsylvania. In the event that the merger does not occur, at some point in the future, MedSolutions may conduct business in other states. Other states have different regulations regarding medical waste, medical waste transport and medical waste incineration. If at any time MedSolutions expands its business into other states, MedSolutions believes, because of the stringent standards applicable in the states MedSolutions currently operates, that the costs of bringing its business into compliance with the regulations of other states will be minimal.

Regulated Medical Waste. The Texas Department of Health retains authority to define what waste will be regulated and how it may be treated. These rules, which were updated in December 1994, can be found in Title 25 Texas Administrative Code (TAC) Sections 1.131-1.137. Under Texas law, the term special waste from health-care facilities (SWFHCRF) is used to define medical waste regulated by state agencies. Only five categories of waste are regulated:

animal waste from animals intentionally exposed to pathogens;

bulk human blood and blood products;

pathological waste;

microbiological waste; and

sharps.

The criteria for selection of these categories were based primarily on environmental concerns rather than occupational concerns. A chain of events is necessary to produce disease from contact with medical waste. The items selected for regulation were deemed to have the highest potential for disease production provided all of the required events took place. Sharps, due to their inherent ability to provide a portal of entry, must be managed properly regardless of their contamination status.

Transportation of Regulated Medical Waste. Subchapter Y, 30 TAC § 330.1001-1010 defines rules for medical waste management, disposal, transportation, collection and storage. These rules were updated in December 2006. The responsibility for these regulations rests with the Office of Waste Management of the TCEQ. Under Subchapter Y, the TCEQ regulates and registers transporters of medical waste by, among other things, requiring specific documentation of transportation of all medical waste. Currently, MedSolutions is a registered medical waste transporter. The registration is subject to annual renewal, and though MedSolutions believes, based on its experience in the industry, that it is in compliance with all of the statutory guidelines, there is no guarantee that the TCEQ will continually grant renewal registration to MedSolutions. MedSolutions is also registered as a medical waste transporter in the states of Louisiana, Oklahoma, Kansas Missouri, Arkansas, New York and Pennsylvania.

Treatment of Regulated Medical Waste. Approved methods of treatment of SWFHCRF can be found in Title 25 TAC Section 1.133. There are currently six approved treatment methods:

steam disinfection;

chlorine disinfection/maceration;

chemical disinfection;

moist disinfection;

thermal inactivation; and

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incineration.

MedSolutions employs the steam disinfection (i.e. autoclave), chemical disinfection and incineration methods for the treating of medical waste. MedSolutions has been successful in obtaining permits for its current medical waste transfer, treatment and processing facilities and for its transportation operations. Currently, MedSolutions operates two autoclaves at its Garland facility.

MedSolutions is responsible for complying with the maintenance obligations pursuant to numerous governmental permits and licenses held by it or under which it conducts its business. MedSolutions is also responsible for complying with permits maintained by others. These permits include:

transport permits for solid waste, medical waste and hazardous substances;

permits to construct and operate treatment facilities;

permits to construct and operate transfer stations;

permits governing discharge of sanitary water and registration of equipment under air regulations;

approvals for the use of ETD and other technologies to treat medical waste; and

various business operator s licenses.

MedSolutions believes that it is currently in compliance in all material respects with its permits and applicable laws and regulations. If MedSolutions expands its services to other states, it will have to comply with such state s specific permitting process to obtain the necessary permits to operate in such state, including, but not limited to obtaining zoning approval and local and state operating authority. Most communities rely on state authorities to provide operating rules and safeguards for their community. Usually the state provides public notice of the project and, if enough public interest is shown, a public hearing may be held. If the applicant is successful in meeting all regulatory requirements, the state may issue a permit to construct the new treatment facility or transfer station. Once the facility is constructed, the state may again issue public notice of its intent to issue an operating permit and may provide an opportunity for public opposition or other action that may impede the applicant s ability to construct or operate the planned facility. Permitting for transportation operations frequently involves registration of vehicles, inspection of equipment, and background investigations on MedSolutions drivers.

Patents and Proprietary Rights

MedSolutions relies on unpatented and unregistered trade secrets, proprietary know-how and continuing technological innovation. MedSolutions tries to protect this information, in part, by confidentiality agreements with its employees, vendors and consultants. There can be no assurance that these agreements will not be breached, that MedSolutions would have adequate remedies for any breach, or that it trade secrets or know-how will not otherwise become known or independently discovered by other parties.

MedSolutions commercial success may also depend on its not infringing patents issued to other parties. There can be no assurance that patents belonging to other parties will not require MedSolutions to alter its processes, pay licensing fees, or cease using any current or future processes. In addition, there can be no assurance that MedSolutions would be able to license the technology rights that it may require at a reasonable cost or at all. If MedSolutions could not obtain a license to any infringing technology that it currently uses, it could have a material adverse effect on MedSolutions business.

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Potential Liability and Insurance

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

cleanup costs;

personal injury;

damage to the environment;

employee matters;

property damage; or

alleged negligence or professional errors or omissions in the planning or performance of work.

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

MedSolutions carries $10 million of liability insurance (including umbrella coverage), and $5 million of aggregate pollution and legal liability insurance ($1 million per incident), which it considers sufficient to meet regulatory and customer requirements and to protect its employees, assets and operations. MedSolutions pollution liability insurance excludes liabilities under CERCLA. There can be no assurance that MedSolutions will not face claims under CERCLA or similar state laws resulting in substantial liability for which it is uninsured and which could have a material adverse effect on MedSolutions business.

Employees

As of June 30, 2007, MedSolutions, primarily through EMSI, had 141 employees. Five of the employees are employed in executive capacities; the remaining employees are in transportation and plant operations, sales positions and administrative and clerical capacities. None of MedSolutions employees are subject to collective bargaining agreements.

Description of Property

MedSolutions leases approximately 6,800 square feet of administrative office space at 12750 Merit Drive-Park Central VII, Suite 770, Dallas, Texas 75251. The lease expires May 31, 2012, and the monthly rent ranges from $8,100 to $10,000 through 2012.

MedSolutions owns its Garland facility, which consists of real property, building and improvements, furniture and equipment. The Garland facility includes 17,450 square feet of space (2,450 square feet of office space and 15,000 square feet of warehouse space), and is located on approximately three acres of land. The building is approximately 30 years old, and was extensively remodeled in 1996 at a cost of more than $500,000 to upgrade the facility to accommodate the EnviroClean® System and to showcase its operation for sales and marketing purposes. The EnviroClean® System was removed during 2004 in order to use the space in the Garland facility more efficiently for MedSolutions autoclave process. Prior to the installation of the autoclave in 2002, the Garland facility was used solely as a transfer station. MedSolutions bank debt is secured by a first lien on the Garland facility which is personally guaranteed by MedSolutions President/Chief Executive Officer, and two loans from MedSolutions shareholders are secured by second liens on the Garland facility. The net carrying value of the Garland facility is approximately $263,000.

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MedSolutions owns its Houston facility, which consists of real property, building and improvements, furniture and equipment. The Houston facility includes approximately 7,500 square feet of administrative office and warehouse space in Houston, Texas. MedSolutions, through its subsidiary EMSI, purchased the Houston facility on August 3, 2005. The facility was previously being leased and was contiguous to vacant land that was already owned by EMSI and was being used as a transfer station. The total purchase price, including transaction costs, was approximately $350,000 and is financed by a promissory note to a bank in the amount of $325,000, payable in 60 monthly installments of $3,656 based upon a straight line amortization of 240 payments and accrues interest per annum at the prime rate as published in the Wall Street Journal from time to time plus 2%. The promissory note has a maturity date of August 3, 2010 and is secured by a first lien deed of trust on the building and the adjacent land already owned by EMSI. The promissory note is personally guaranteed by MedSolutions President/Chief Executive Officer.

On August 9, 2006, MedSolutions, through its subsidiary EMSI, secured additional financing from a bank to expand its Houston facility. The facility is currently being used as a transfer facility for the South Texas operations. The expansion will allow EMSI to treat medical waste at the facility once the permitting process is completed from the state of Texas. The total costs of expansion will be approximately $275,000 with $200,000 of those funds coming from bank financing and the remainder from working capital. The promissory note to the bank is payable in 60 monthly installments of $822 in principal plus interest accruing at the prime rate as published in the Wall Street Journal from time to time plus 1%, with the balance of the principal and all accrued and unpaid interest due upon maturity of the loan on July 19, 2011. The note is secured by a second lien on the Houston facility and is personally guaranteed by both MedSolutions President/Chief Executive Officer and MedSolutions Chairman of the Board. As of December 31, 2006, MedSolutions has drawn $55,634 against the promissory note and the funds were used for the commencement phase of expansion. The amount outstanding at December 31, 2006 is $52,347 and the net carrying value of the Houston facility is approximately $370,000.

In the opinion of MedSolutions management, its properties are adequately covered by insurance.

Legal Proceedings

MedSolutions operates in a highly regulated industry and is exposed to regulatory inquiries or investigations from time to time. Government authorities can initiate investigations for a variety of reasons. MedSolutions has been involved in certain legal and administrative proceedings that have been settled or otherwise resolved on terms acceptable to MedSolutions, without having a material adverse effect on its business.

On May 14, 2007, a Texas jury found EMSI liable for approximately $9.8 million in actual damages and $10 million in punitive damages in connection with a 2004 traffic accident involving one of EMSI s trucks. Approximately $5.4 million of such damages are covered by EMSI s insurance coverage. The Company has been advised that the punitive damages awarded by the jury will be reduced by the trial court under applicable Texas law to between approximately $1.3 and $2.1 million. Although a judgment has not yet been entered by the trial court, the Company intends through its insurance provider, Zurich American Insurance (Zurich), to vigorously appeal the judgment. This process is likely to take considerable time. If the Company is unsuccessful or only partially successful on appeal, to the extent that the amount of any award exceeds EMSI s insurance coverage, the Company has been advised by its counsel that EMSI has a valid Stowers claim against Zurich that, pursuant to applicable Texas law, should result in Zurich s being held responsible for the amount of any award in excess of the policy limits. If such a claim against Zurich were unsuccessful, any amount of the final award to the plaintiffs in excess of EMSI s insurance coverage could have a material adverse impact on the Company s financial condition and results of operations. The financial statements for MedSolutions included within this proxy

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statement/prospectus do not include any adjustment which may result from this significant uncertainty should the Company not be successful in the appeals process and/or its Stowers claim against Zurich.

MedSolutions is also a party to various legal proceedings arising in the ordinary course of business. However, except as described above, there are no legal proceedings pending or, to MedSolutions knowledge, threatened against or that could adversely affect its financial condition or its ability to carry on its business.

Market for Common Equity and Related Shareholder Matters

There is currently no public trading market for MedSolutions common stock.

At [___], 2007, the record date for the special meeting, MedSolutions had 26,470,646 shares of common stock outstanding and had approximately 750 shareholders of record.

MedSolutions has no fixed dividend policy with respect to its common stock. MedSolutions Board of Directors is authorized to consider dividend distributions on MedSolutions common stock from time to time, upon its assessment of MedSolutions operating results, capital requirements and general financial condition and requirements. MedSolutions has not paid a dividend on its common stock since its inception. Pursuant to the Investment Agreement (the Investment Agreement) entered into by MedSolutions and Tate Investments, LLC (the Investor) on July 15, 2005, MedSolutions is prohibited from paying any dividends or making any distributions in cash or in kind on shares of its common stock until all of the common stock held by the Investor is registered with the SEC. The outstanding principal amount of the convertible debt issued by MedSolutions pursuant to the Investment Agreement was subsequently converted by the Investor into shares of MedSolutions common stock on March 30, 2007, and MedSolutions has no further obligations to the Investor under the promissory note issued in connection with the Investment Agreement.

MedSolutions Series A 10% Convertible Preferred Stock (the Series A Preferred Stock) ranked senior to its common stock with respect to the payment of dividends, redemption, and payment and rights upon liquidation, dissolution or winding-up of the affairs of MedSolutions. At July 6, 2007, MedSolutions had zero shares of Series A Preferred Stock outstanding. All of MedSolutions previously issued and outstanding shares of Series A Preferred Stock were converted into shares of MedSolutions common stock on a one-for-one basis on or prior to March 31, 2007.

Equity Compensation Plan Information (as of December 31, 2006)

	Number of securities to be issued upon exercise of outstanding options, warrants and rights (a)	**Weighted-average exercise price of outstanding options, warrants and rights (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 security holders	1,328,796	$ 0.80	1,671,204
Equity compensation plans not approved by security holders			
Total	1,328,796	$ 0.80	1,671,204

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Management s Discussion and Analysis or Plan of Operation.

The following discussion of the financial condition and results of operations of MedSolutions should be read in conjunction with MedSolutions Historical Consolidated Financial Statements and Supplementary Data and the notes to such financial statements included in this proxy statement/prospectus.

Background

MedSolutions was incorporated in November 1993. MedSolutions provides regulated medical waste, reusable sharps containers and PHI collection, transportation and treatment services to its customers and related training and education programs and consulting services.

MedSolutions revenues increased to $12,799,132 in 2006 from $9,415,558 in 2005. MedSolutions derives its revenues from services to three principal groups of customers: (i) outpatient clinics, medical and dental offices, biomedical companies, municipal entities, long-term and sub-acute care facilities and other smaller-quantity generators of regulated medical waste (SQG), (ii) blood banks, surgery centers, dialysis centers and other medium quantity generators of regulated medical waste (MQG) and (iii) hospitals, diagnostic facilities and other larger-quantity generators of regulated medical waste (LQG). Substantially all of MedSolutions services are provided pursuant to customer contracts specifying either scheduled or on-call regulated medical waste management services, or both. Contracts with small quantity generators generally provide for annual price increases and have an automatic renewal provision unless the customer notifies MedSolutions prior to completion of the contract. Contracts with medium quantity generators and large quantity generators, which may run for more than one year, typically include price escalator provisions, which allow for price increases generally tied to an inflation index or implemented at a fixed percentage. At December 31, 2006, MedSolutions served approximately 10,000 customers.

Critical Accounting Policies and Procedures

MedSolutions discussion and analysis of its financial condition and results of operations are based upon its 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 MedSolutions make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses, and the related disclosure of contingent assets and liabilities (see Note 3 to MedSolutions consolidated financial statements for the fiscal year ended December 31, 2006 included within MedSolutions Historical Consolidated Financial Statements and Supplementary Data and the notes to such financial statements included in this proxy statement/prospectus). MedSolutions believes that of its significant accounting policies (see Note 3 to MedSolutions consolidated financial statements for the fiscal year ended December 31, 2006), the following may involve a higher degree of judgment on MedSolutions part and complexity of reporting:

Accounts Receivable. Accounts receivable consist primarily of amounts due to MedSolutions from its normal business activities. MedSolutions maintains an allowance for doubtful accounts which reflects management s best estimate of probable losses inherent in the account receivable balance. Management determines the allowance based on known troubled accounts, historical experience, and other currently available evidence. With respect to trade receivables, ongoing credit evaluations of customers financial condition are performed and generally, no collateral is required. MedSolutions maintains a reserve for potential credit losses and such losses, in the aggregate, have not exceeded management s expectations.

Revenue Recognition and Processing Costs. MedSolutions recognizes revenue for its medical waste services at the time the medical waste is collected from its customers. Revenue is only recognized for

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arrangements with customers in which (1) there is persuasive evidence of a contract or agreement which sets forth the terms of the arrangement; (2) services have been rendered; (3) MedSolutions prices are fixed, determinable and agreed upon; and, (4) collectibility is reasonably assured.

Goodwill and Intangible Assets. To determine the adequacy of the carrying amounts on an ongoing basis, MedSolutions performs its annual impairment test at the end of the year each December 31, unless triggering events indicate that an event has occurred which would require the test to be performed sooner. MedSolutions monitors the performance of its intangibles by analyzing the expected future cash flows generated from such related intangibles to ensure their continued performance. If necessary, MedSolutions may hire an outside independent consultant to appraise the fair value of such assets.

Convertible Notes and Convertible Preferred Stock. MedSolutions accounts for conversion options embedded in convertible notes and convertible preferred stock in accordance with Statement of Financial Accounting Standard (SFAS) No. 133 Accounting for Derivative Instruments and Hedging Activities (SFAS 133) and EITF 00-19 Accounting for Derivative Financial Instruments Indexed to, and Potentially Settled in, a Company s Own Stock (EITF 00-19). SFAS 133 generally requires companies to bifurcate conversion options embedded in convertible notes and preferred shares from their host instruments and to account for them as free standing derivative financial instruments in accordance with EITF 00-19. SFAS 133 provides for an exception to this rule when convertible notes and mandatorily redeemable preferred shares, as host instruments, are deemed to be conventional as that term is described in the implementation guidance provided in paragraph 61(k) of Appendix A to SFAS 133 and further clarified in EITF 05-2 The Meaning of Conventional Convertible Debt Instrument in Issue No. 00-19. SFAS 133 provides for an additional exception to this rule when the economic characteristics and risks of the embedded derivative instrument are clearly and closely related to the economic characteristics and risks of the host instrument.

MedSolutions accounts for convertible notes (deemed conventional) and non-conventional convertible debt instruments classified as equity under EITF 00-19 Accounting for Derivative Financial Instruments Indexed to, and Potentially Settled in, a Company s Own Stock (EITF 00-19) and in accordance with the provisions of Emerging Issues Task Force Issue (EITF) 98-5 Accounting for Convertible Securities with Beneficial Conversion Features, (EITF 98-5), EITF 00-27 Application of EITF 98-5 to Certain Convertible Instruments. Accordingly, MedSolutions records, as a discount to convertible notes, the intrinsic value of such conversion options based upon the differences between the fair value of the underlying common stock at the commitment date of the note transaction and the effective conversion price embedded in the note. Debt discounts under these arrangements are amortized over the term of the related debt to their earliest date of redemption.

Results of Operations Year 2006 Compared to 2005

Revenues. MedSolutions revenues increased $3,383,574 or 35.9%, to $12,799,132 during the year ended December 31, 2006, from $9,415,558 during the year ended December 31, 2005. The increase in revenue from 2005 was mostly attributable to the three acquisitions in 2005 and the SteriLogic acquisition in 2006 which contributed approximately $2,600,000 of the 2006 revenue increase. Other contributing factors that caused the revenue increase in 2006 were an annual price increase in January 2006 to the majority of MedSolutions SQG customers and a fuel surcharge increase in March 2006. All price increases and fee charges are provided for under MedSolutions customer contracts. The increases in revenues for the twelve months ended December 31, 2006 were partially offset by a loss of revenue from an LQG customer in MedSolutions South Texas market and from the loss of its operating agreement with UTMB as discussed in Note 12 to MedSolutions consolidated financial statements for the fiscal year ended December 31, 2006 included within MedSolutions Historical Consolidated Financial

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Statements and Supplementary Data and the notes to such financial statements included in this proxy statement/prospectus.

Cost of revenues. MedSolutions cost of revenues increased $2,244,707 or 39.5%, to $7,925,086 during 2006, from $5,680,379 in 2005. Gross margin for MedSolutions decreased to 38.1% in 2006 from 39.7% in 2005. The increase in cost of revenues was caused by increases in container costs resulting from higher prices for paper products, fuel and other transportation costs relating to additions to MedSolutions transportation fleet as its markets and customer base expand. As a result of the PIWS acquisition on November 30, 2005, MedSolutions entered new markets located in West Texas, Kansas and Missouri and incurred costs associated with added personnel, facilities, transportation, and treatment costs in each of those markets. Other costs associated with the increase are attributable to repair and maintenance costs of operating MedSolutions mobile treatment units acquired in the PIWS acquisition.

Selling, general and administrative expenses. MedSolutions selling, general and administrative expenses increased $1,380,029, or 56.3%, to $3,829,489 during 2006, from $2,449,460 in 2005. The increase was caused by costs associated with an increased sales force including MedSolutions new markets in West Texas, Kansas and Missouri in 2006 as compared to 2005, increases in director compensation, increased administrative personnel and a non-cash charge of $240,000 related to stock compensation granted to executive employees in 2005. Other increases are associated with higher travel costs from MedSolutions executive staff seeking acquisition and market opportunities to expand MedSolutions business and market share and administrative costs associated with the SteriLogic acquisition.

Depreciation and amortization. Depreciation and amortization increased by $622,061 or 82.8%, to $1,373,318 during 2006 from $751,257 during 2005. The primary cause for the increase was from depreciation expense resulting from the purchases of fixed assets from the PIWS acquisition and increases in amortization expense from higher carrying values of customer lists purchased from the three acquisitions in 2005 and SteriLogic in 2006.

Interest expense. MedSolutions interest expense increased $108,225 or 28.9%, to $482,485 in 2006 from $374,260 during 2005. Interest expense increased primarily due to the capitalization and amortization of certain debt conversion costs related to the Investment Agreement that was modified during the three months ended June 30, 2006 (see Note 7) and the addition of $500,000 of new debt under the Investment Agreement closed in March 2006. In connection with such transactions related to the debt conversion costs, MedSolutions paid financing fees that were deferred and are being amortized on a straight line method over the remaining life of the convertible debt. The outstanding principal amount of the convertible debt issued by MedSolutions pursuant to the Investment Agreement was subsequently converted by the Investor into shares of MedSolutions common stock on March 30, 2007. Interest expense for the year ended December 31, 2006 was reduced from the conversion of approximately $1.2 million in shareholder loans and advances into MedSolutions equity on June 30, 2005.

Gain on ATE settlement. During the year ended December 31, 2005, MedSolutions recorded a one time gain of $650,468 resulting from a settlement and extinguishment of debt with AmeriTech Environmental, Inc. on February 11, 2005.

Other Income. Other income of $40,135 was recorded in 2006 due to the extinguishment of convertible debentures discussed in Note 10 to MedSolutions consolidated financial statements for the fiscal year ended December 31, 2006 included within MedSolutions Historical Consolidated Financial Statements and Supplementary Data and the notes to such financial statements included in this proxy statement/prospectus.

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Net income (loss). MedSolutions net loss was ($771,111) in 2006 compared to net income of $810,670 in 2005. The net loss in 2006 was due to the factors described above.

Three Months Ended March 31, 2007 Compared to Three Months Ended March 31, 2006

Revenues. MedSolutions revenues increased $573,576, or 18.0% to $3,762,330 during the three months ended March 31, 2007 from $3,188,754 during the three months ended March 31, 2006. The increase in revenue was attributed in part to the SteriLogic acquisition completed in August 2006 that increased revenue by approximately $360,000 during the current period plus additions in revenue from new business from Sharps and EnviroSafe customers and new customers in the Missouri market. However, the increases in revenue for the three months ended March 31, 2007 were partially offset by a loss of revenue from two LQG customers in our South Texas market during the second fiscal quarter of 2006.

Cost of Revenues. MedSolutions cost of revenues increased $435,788 or 24.8% to $2,195,409 during the three months ended March 31, 2007 from $1,759,621 during the three months ended March 31, 2006. Gross margin for MedSolutions decreased to 41.6% for the three months ended March 31, 2007 from 44.8% for the three months ended March 31, 2006. The increase in cost of revenues was caused by new cost of revenues associated with the SteriLogic acquisition, increases in transportation costs primarily in Kansas and Missouri as we expand in those markets, and higher processing costs as MedSolutions uses third party vendors to process its customer waste from South Texas.

Selling, general and administrative expenses. MedSolutions selling, general and administrative expenses increased $54,928, or 6.7% to $870,038 during the three months ended March 31, 2007 from $815,110 during the three months ended March 31, 2006. The increase was primarily caused by new selling, general and administrative expenses associated with the SteriLogic acquisition.

Depreciation and Amortization. Depreciation and amortization increased by $58,825 or 19.2% to $365,268 during the three months ended March 31, 2007 from $306,443 during the three months ended March 31, 2006. The primary cause for the increase was from higher depreciation expense resulting from the purchases of fixed assets in 2006 related to new equipment purchased to expand and service new Sharps business and assets purchased related to the SteriLogic acquisition.

Interest expense. MedSolutions interest expense increased $174,853 or 179.9% to $272,033 during the three months ended March 31, 2007 from $97,180 during the three months ended March 31, 2006. Interest expense increased significantly due to the immediate expense of deferred financing fees related to the Investor notes that were converted into MedSolutions common stock on March 30, 2007. The excess amount of deferred financing fees charged to interest expense during the current period was approximately $104,000. Other increases to interest expense were due to additional debt issued by MedSolutions to shareholders for working capital and new equipment financing plus new debt issued to the sellers of SteriLogic for part of the acquisition purchase price.

Net income. Net income decreased $150,818 or 71.7% to $59,582 during the three months ended March 31, 2007 from $210,400 during the three months ended March 31, 2006. MedSolutions net income decreased in 2007 due to the factors described above.

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Liquidity and Capital Resources

Source of Funds for Operations and Capital Expenditures.

MedSolutions principal source of liquidity is collections on accounts receivable from waste management service revenue, from sales of its common stock and Series A Preferred Stock through private offerings to certain individuals, primarily existing shareholders, and from loans and advances received from certain shareholders. Revenues during 2006 were approximately $280,000 per month higher than in 2005, stemming primarily from the acquisitions in 2005 and 2006 discussed previously. The principal uses of liquidity are payments for labor, fuel, material and expenses, and debt and lease obligations to carry out MedSolutions regulated medical waste management services.

Historically, MedSolutions has met its cash requirements based on a combination of revenues from operations, shareholder loans and advances, and proceeds from the sale of debt and equity securities. Based on the projected operations for 2007, MedSolutions management believes cash to be generated from operations and funds raised from other alternative sources if needed, will be sufficient to satisfy MedSolutions historical and current cash obligations.

Discussion of Liquidity Year 2006 Compared to 2005

At December 31, 2006, MedSolutions working capital deficit was $(1,899,921), compared to a working capital deficit of $(2,397,992) at December 31, 2005.

Net cash provided (used) in operating activities for the year ended December 31, 2006 was $597,729 during 2006, compared to $(311,414) for 2005. This increase was caused primarily from an increase in accounts payable and accrued liabilities resulting from the accrual of director fees not paid at December 31, 2006; the accrual of year-end payroll costs and taxes paid in January 2007; and the assumption of liabilities from the SteriLogic acquisition.

Net cash used in investing activities for the year ended December 31, 2006 was $(621,043) compared to ($1,340,713) for the year ended December 31, 2005. The lesser amount in 2006 was caused by the decrease in the cash portion used for an acquisition in 2006 of $24,283 compared to $1,115,000 used in 2005. Also, MedSolutions invested $596,760 in fixed asset additions in 2006 compared to $225,713 in 2005.

Net cash provided by financing activities was $23,314 during the year ended December 31, 2006, compared to $1,652,127 for the year ended December 31, 2005. Cash proceeds from the sale of MedSolutions common stock and Series A Preferred Stock were $809,000 compared to $1,338,968 in 2005. Proceeds from shareholder loans were $1,150,000 in 2006 compared to $1,375,000 in 2005. Offsetting the proceeds from the sale of MedSolutions stock and new shareholder loans were payments to shareholders and others on existing debt totaling $1,787,054 in 2006 compared to $974,148 in 2005.

March 31, 2007 Compared to December 31, 2006

At March 31, 2007, MedSolutions working capital deficit was $1,063,349 compared to a working capital deficit of $1,899,921 at December 31, 2006, a favorable increase of $836,572 for the three month period ended March 31, 2007. The increase in working capital was primarily caused by the new long term working capital loan provided to MedSolutions by Park Cities Bank. Other increases were from increased accounts receivable resulting from higher revenue during the three month period ended March 31, 2007 versus 2006 and from the conversion of the Investor debt into MedSolutions common stock.

March 31, 2007 Compared to March 31, 2006

Net cash used in operating activities was $242,388 during the three months ended March 31, 2007 as compared to net cash provided of $133,670 during the three months ended March 31, 2006. The decrease

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in cash provided in operating activities was due to increases in MedSolutions net accounts receivable and reducing its accounts payable and accrued liabilities during the period.

Net cash used in investing activities during the three months ended March 31, 2007, was $89,783 attributable to additions to property and equipment compared to $265,435 during the three months ended March 31, 2006.

Net cash provided by financing activities was $332,771 during the three months ended March 31, 2007 compared to $387,959 during the three months ended March 31, 2006. Proceeds from advances from the working capital loan totaled approximately $669,000 and a new shareholder loan of $175,000 contributed to the cash provided by financing activities during the current period but were offset by payments on existing debt to shareholders and other bank financing of approximately $508,000 for the three months ended March 31, 2007. During the three months ended March 31, 2006, MedSolutions sold $260,000 in Common Stock and issued $600,000 in new debt to shareholders which was offset by approximately $420,000 in payments to shareholders and third parties on existing debt.

Net cash did not change during the three months ended March 31, 2007 based upon the factors discussed above.

Other Liquidity Matters

At March 31, 2007, MedSolutions long-term obligations were $4,016,585, including bank debt and equipment financing of $1,815,306 and notes payable to shareholders and seller promissory notes from acquisitions totaling $2,201,279.

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Tate Investments, LLC

On July 15, 2005, MedSolutions entered into the definitive Investment Agreement with the Investor. Pursuant to the terms of the Investment Agreement, the Investor committed to lend up to $1,000,000 to MedSolutions according to the terms of a 10% Senior Secured Promissory Note (the Note) dated as of July 15, 2005. The Note was secured by MedSolutions and its subsidiaries accounts receivable and by a second-lien deed of trust mortgage on MedSolutions Garland facility pursuant to the terms of a General Business Security Agreement and a Deed of Trust, respectively, each dated as of July 15, 2005. All outstanding amounts under the Note bore interest at the rate of 10% per year, unless MedSolutions was in default pursuant to the terms of the Investment Agreement, in which event all outstanding amounts under the Note bore interest at a rate equal to the prime rate as published in the Wall Street Journal from time to time plus 8%. The outstanding principal amount of the Note and any accrued but unpaid interest thereon were convertible at the option of the Investor into shares of MedSolutions common stock at the initial conversion price of $0.65 per share, as subject to certain adjustments from time to time. MedSolutions was permitted to prepay any or all of the outstanding principal amount of the Note and any accrued but unpaid interest thereon on or after January 15, 2007 without the prior consent of the Investor and without any prepayment premium or penalty; provided, however, that MedSolutions first provided the Investor with 30 days prior written notice of its intent to prepay any or all of such outstanding principal amount accompanied by either an irrevocable written financing commitment or other evidence of MedSolutions ability to make the proposed prepayment. The Investor was permitted to, after receipt of such a prepayment notice, elect to convert any or all of such outstanding principal amount proposed to be prepaid into shares of MedSolutions common stock as discussed above. Also pursuant to the terms of the Investment Agreement, the Investor committed to purchase, and MedSolutions committed to sell, up to $1,000,000 of MedSolutions common stock to the Investor at the initial purchase price of $0.65 per share (as subject to certain adjustments from time to time) pursuant to the terms of a Subscription Agreement (the Subscription Agreement) dated as of July 15, 2005. The entire outstanding principal amount of the Note was converted into MedSolutions common stock on March 30, 2007.

Pursuant to the terms of the Investment Agreement, MedSolutions, the Investor and certain shareholders of MedSolutions entered into an Investor s Rights Agreement (the Rights Agreement) pursuant to which MedSolutions has granted certain demand registration rights to the Investor with respect to any shares of MedSolutions common stock obtained pursuant to the Note or the Subscription Agreement. The Rights Agreement grants the Investor one demand registration exercisable after December 31, 2006, and in the event such demand registration is exercised MedSolutions must use its best efforts to register the Investor s shares of MedSolutions common stock until either the shares are either registered or sold pursuant to SEC Rule 144 or another applicable registration exemption. The Rights Agreement contains no penalty provisions or settlement alternatives that would result in the issuance of additional shares of MedSolutions common stock or a cash payment to the Investor in the event that MedSolutions is unable to register the Investor s shares. The Rights Agreement also provides unlimited piggyback registration rights to the Investor. The Rights Agreement also grants the Investor the right to designate one nominee for election to MedSolutions Board of Directors, or two nominees in the event that Mr. Joseph Tate, the beneficial owner of the Investor, is designated as a nominee by the Investor. On September 15, 2005, MedSolutions Board of Directors selected David Mack to fill a vacancy on the Board of Directors based upon the nomination by Mr. Tate. Pursuant to the terms of the Rights Agreement, MedSolutions may not, prior to the registration of the MedSolutions common stock owned by the Investor with the SEC, increase the size of its Board of Directors to more than five members unless the Investor also designates Mr. Joseph Tate as a nominee, in which event the Board of

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Directors may have no more than seven members. Certain MedSolutions shareholders who are party to the Rights Agreement have also granted certain rights of co-sale to the Investor and agreed to vote their shares of MedSolutions common stock in favor of the election of the Investor s nominee(s). The Investor s right to designate nominees to MedSolutions Board of Directors continues until such time as: (i) the Investor effectuates, in one or a series of transactions, a transfer of shares of MedSolutions common stock whereby the number of shares of such common stock owned by the Investor after such transfer is less than 75% of the number of shares of common stock owned by the Investor before the transfer, at which such time the Investor s right to designate nominees to MedSolutions Board of Directors will be reduced to the right to designate one nominee to MedSolutions Board of Directors; (ii) the Investor effectuates, in one or a series of transactions, a transfer of shares of MedSolutions common stock whereby the number of shares of such common stock owned by the Investor after the transfer is less than 50% of the number of shares of common stock owned by the Investor prior to the transfer, at which such time the Investor s right to designate nominees to MedSolutions Board of Directors will terminate; or (iii) the MedSolutions common stock owned by the Investor has been registered with the SEC.

On March 15, 2006, MedSolutions issued another convertible promissory note in the amount of $500,000 to the Investor. The promissory note was payable in 35 monthly installments of interest only with all principal and interest due on March 31, 2009. The note accrued interest at 10% for the first 12 months, 11% for months 13 through 24 and 12% for months 25 through maturity. The effect of the increasing interest rate under EITF 86-15 Increasing-Rate Debt was determined to be de minimus. MedSolutions was permitted to prepay a portion or all of the amount outstanding under the terms of the note after March 31, 2007, provided that MedSolutions first notified the Investor of its intent to prepay, after which the Investor was permitted 30 days to convert the note into shares of MedSolutions common stock. The Investor had the right to convert the amount outstanding plus accrued but unpaid interest at the time of conversion. The conversion price for the $500,000 note agreed to was $0.85 per share during the period beginning March 15, 2006 through March 31, 2007, $1.00 per share during the period beginning April 1, 2007 through March 31, 2008, and $1.15 per share during the period April 1, 2008 through maturity. The promissory note was secured by two PIWS mobile units and was cross-collateralized by the Investor s liens on MedSolutions accounts receivable and its Garland facility pursuant to the Investment Agreement. The proceeds from the promissory note were used by MedSolutions to purchase equipment. The entire outstanding principal amount of the promissory note was converted into MedSolutions common stock on March 30, 2007.

On May 22, 2006, MedSolutions and the Investor agreed to amend the Investment Agreement to lower the conversion price for the $1,000,000 Note to $0.55 per share from $0.65 per share in exchange for the Investor retroactively (as of July 15, 2005, the date the Investment Agreement was executed) eliminating the requirements for MedSolutions to achieve certain earnings targets thereunder. In connection with the conversion price adjustment, MedSolutions was required to record a beneficial conversion charge of $153,846. The beneficial conversion charge represents the incremental fair value of the impact from lowering the conversion rate and was to be amortized over the remaining life of the note. As of December 31, 2006, the remaining amount of the beneficial conversion charge to amortize was $102,564.

As of December 31, 2006, the total principal amount owed by MedSolutions to the Investor was $1,397,436 (net of discount of $102,564), all of which was subsequently converted by the Investor into shares of MedSolutions common stock on March 30, 2007.

MedSolutions is obligated under various installment notes payable for the purchase of equipment with an aggregate cost of $864,261. The notes, which bear interest at rates ranging from 8.0% to 16.1%, are due at various dates through 2011 and are payable in monthly installments totaling approximately $30,549 consisting of principal and interest. The equipment acquired collateralizes the notes.

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Extinguishment of Convertible Debentures

MedSolutions issued an aggregate of $1,100,000 of 15% Convertible Redeemable Subordinated Debentures (the Series I Debentures) in 1994 and 1995 with a final maturity date of March 31, 1999, and containing a provision for conversion of the Series I Debentures, at the option of the holders thereof, into shares of MedSolutions common stock. MedSolutions also issued an aggregate of $256,125 of 10% Convertible Redeemable Debentures (Series II Debentures, and together with the Series I Debentures, the Debentures) in 1998 with a maturity date of November 1, 1999, and containing a provision for conversion of the Series II Debentures, at the option of the holders thereof, into shares of MedSolutions common stock.

Due to cash constraints, MedSolutions was not able to redeem the Debentures in 1999 pursuant to their respective terms. MedSolutions offered (the Conversion Offering) the holders of the Debentures the opportunity to convert their Series I Debentures and Series II Debentures into shares of MedSolutions common stock at a conversion rate of $1.50 and $1.75, respectively.

Certain holders of Debentures did not respond to the Conversion Offering in 1999, and the offer to convert the Debentures into MedSolutions common stock has since expired and any contractual claims for rights pursuant to the Debentures have been time-barred by the applicable statute of limitations. Accordingly, MedSolutions extinguished the Debentures on November 15, 2006 and any obligation owed under their terms. MedSolutions recorded other income of $40,135 and reversed all accrued interest as a result of extinguishment.

On January 1, 2007, MedSolutions issued promissory notes to its directors for payment of their 2006 board compensation. Additional promissory notes were issued to the Chairman of the Board and the President/Chief Executive Officer of MedSolutions for payment of compensation for giving their personal guaranties related to certain indebtedness by MedSolutions to various third parties. The total amount of the promissory notes issued is $292,005 and the notes accrue interest at 12% with final payment of all principal and accrued interest due on July 1, 2007.

On January 2, 2007, MedSolutions issued a promissory note to the Investor, which loaned $175,000 to MedSolutions for equipment expansion purposes. The promissory note bears interest at 12% and is payable in 24 equal monthly installments of principal and interest in the amount of $5,813 each, with the balance of the principal and any accrued and unpaid interest due upon maturity of the note on December 28, 2008.

On January 31, 2007, MedSolutions renewed and extended for six months a $175,000 promissory note to On Call. The note accrues interest at 12% and is payable in monthly installments of interest only with the principal and any accrued and unpaid interest due upon maturity of the note on July 31, 2007. As consideration for this extension, MedSolutions agreed to enter into an agreement with Medical Waste of North Texas, LLC (MWNT an entity owned by the former owner of On Call) for MedSolutions to treat and dispose of regulated medical waste that is brought to MedSolutions Garland facility by MWNT, effective September 1, 2007. The initial term of this agreement is for 24 months, and the agreement automatically renews for additional one-year extensions unless either party notifies the other party in writing at least 30 days but not more than 90 days prior to any such renewal date of its desire not to renew the agreement.

On March 27, 2007, EMSI entered into a $1,500,000 secured, one-year loan and security agreement with Park Cities Bank, Dallas, Texas. The terms of the loan and security agreement provide EMSI with a $1,500,000 revolving line of credit, subject to certain downward adjustments from time to time based upon the value of the collateral securing the line of credit. The performance by EMSI of its obligations

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under the loan and security agreement is secured by all of EMSI s personal property, including without limitation its account receivables, and a first-lien mortgage deed of trust on EMSI s Garland facility, and is unconditionally guaranteed by MedSolutions President/Chief Executive Officer and its Chairman of the Board. The proceeds of the borrowings under the loan and security agreement may only be used for general corporate purposes, including without limitation providing working capital to EMSI for the purposes of financing its operations, production and marketing and sales efforts, costs related to the expansion of EMSI s business operations, and the acquisition of the assets of businesses engaged in businesses the same as, similar to, or complementary to EMSI s business operations. Borrowings under the loan and security agreement bear interest at the lesser of (1) a fluctuating rate of interest equal to 1.0% in excess of the prime rate as designated in the Money Rates Section of the Wall Street Journal from time to time or (2) the maximum rate permissible by applicable law. Accrued and unpaid interest under the loan and security agreement is payable on the first day of each month commencing on April 1, 2007. In addition, EMSI paid an origination fee to the Park cities Bank in the amount of $15,000. The loan and security agreement contains, among other provisions, conditions precedent, covenants, representations and warranties and events of default customary for facilities of this size, type and purpose. Negative covenants with respect to EMSI include certain restrictions or limitations on, among other provisions, the incurrence of indebtedness; liens; investments, loans and advances; restricted payments, including dividends; consolidations and mergers; sales of assets (subject to customary exceptions for sales of inventory in the ordinary course and sales of equipment in connection with the replacement thereof in the ordinary course); and changes of ownership or control. Affirmative covenants with respect to EMSI include covenants regarding, among other provisions, financial reporting. The loan and security agreement will mature and expire on April 1, 2008, at which time all outstanding amounts under such agreement will be due and payable. The outstanding amounts under the loan and security agreement may be prepaid by EMSI at any time without penalty, and any principal amounts borrowed and repaid thereunder may be reborrowed by EMSI prior to the maturity date so long as the aggregate principal amount outstanding at any time does not exceed the $1,500,000 maximum loan commitment (as subject to downward adjustment based on the value of the collateral as described above). Under certain conditions the loan commitment under the loan and security agreement may be terminated by Park Cities Bank and amounts outstanding under such agreement may be accelerated. Bankruptcy and insolvency events with respect to EMSI or either of the guarantors will result in an automatic termination of lending commitments and acceleration of the indebtedness under such agreement. Subject to notice and cure periods in certain cases, other events of default under the loan and security agreement will result in termination of lending commitments and acceleration of indebtedness under such agreement at the option of Park Cities Bank. Such other events of default include failure to pay any principal and/or interest when due, failure to comply with covenants, breach of representations or warranties in any respect, non-payment or acceleration of other material debt of EMSI or the guarantors, the death of either guarantor of the termination of either of their guaranties, certain judgments against EMSI or a guarantor, a material adverse change in the business or financial condition of EMSI or either guarantor, or if Park Cities Bank in good faith deems itself insecure. In connection with providing his personal guarantee and previous guarantees, MedSolutions paid its Chairman of the Board $15,506 in the form of a promissory note which accrues interest at 12% and matures on July 1, 2007 when all principal and accrued interest is due and payable. Also, MedSolutions accrued $17,506 for the benefit of its President/Chief Executive Officer in payment for his personal guarantee for this loan and other company indebtedness.

On March 1, 2007, MedSolutions provided written notice to the Investor that MedSolutions intended to prepay in full on April 2, 2007 all outstanding principal and interest owed by MedSolutions to the Investor pursuant to the $1,000,000 Note and the $500,000 note issued by MedSolutions to the Investor, each as described above. MedSolutions intended to use the proceeds of the loan from Park Cities Bank described above to prepay the such notes.

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On March 31, 2007, 96,667 shares of MedSolutions Series A Preferred Stock were converted into 96,667 shares of the MedSolutions common stock in accordance with the certificate of designation for the Series A Preferred Stock. The terms of the certificate of designation required the holders of the Series A Preferred Stock to convert their shares into MedSolutions common stock on a share for share basis on the second anniversary from the date of issuance of the Series A Preferred Stock. All dividends declared with regard to the issuance of the Series A Preferred Stock have been paid. As of March 31, 2007, there were no shares of Series A Preferred Stock outstanding.

Material Commitments for Capital Expenditures

MedSolutions currently has no significant commitments for capital expenditures.

Off-Balance Sheet Arrangements

During the year ended December 31, 2006, MedSolutions had off balance sheet arrangements related to its lease obligations. MedSolutions is obligated under such lease arrangements for $1,095,753 through 2012. The amount obligated under the lease arrangements is one operating lease totaling $548,229 payable through 2010 to a leasing firm that specializes in heavy transportation equipment financing and has financed the majority of MedSolutions transportation equipment. A second obligation is an operating lease with a remaining balance of $547,524 as of December 31, 2006 and is payable through 2012 to MedSolutions landlord for its corporate headquarters. Both leases are routine and typical in nature and yet critical to MedSolutions operations in that they provide financing that is necessary for us to provide services to its customers and house the corporate functions and operations of MedSolutions. The operating leases are beneficial from a financial perspective in that they do not add to the liabilities of MedSolutions as shown on its balance sheet; however, the costs of such leases are included in MedSolutions statement of operations and statement of cash flows for each period reported.

Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

MedSolutions had no changes in or disagreements with accountants on accounting and financial disclosure during the fiscal years ended December 31, 2005 and 2006.

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Security Ownership of Certain MedSolutions Beneficial Owners and Management

The following table sets forth each certain information concerning the number of shares of MedSolutions common stock owned beneficially as of July 6, 2007, the record date for the special meeting, by: (i) persons known to us to own more than five percent of any class of MedSolutions voting securities; (ii) each of MedSolutions directors and the executive officers; and (iii) all MedSolutions directors and executive officers as a group. Unless otherwise indicated, the shareholders listed possess sole voting and investment power with respect to the shares shown.

Name and Address of Beneficial Owner	Number of Shares Beneficially Owned[1]	Percent of Class[2]
Matthew H. Fleeger, President, CEO and Director 12750 Merit Drive Park Central VII, Suite 770 Dallas, Texas 75251	1,170,416[3]	4.4%
Winship B. Moody, Sr., Chairman of the Board of Directors 12750 Merit Drive Park Central VII, Suite 770 Dallas, Texas 75251	836,485	3.2%
Ajit S. Brar, Director 12750 Merit Drive Park Central VII, Suite 770 Dallas, Texas 75251	909,875[4]	3.4%
David L. Mack, Director 12750 Merit Drive Park Central VII, Suite 770 Dallas, Texas 75251	62,222[5]	0.2%
Steven R. Block, Director 12750 Merit Drive Park Central VII, Suite 770 Dallas, Texas 75251	50,000	0.2%
Lonnie P. Cole, Sr., Senior Vice President, Sales 12750 Merit Drive Park Central VII, Suite 770 Dallas, Texas 75251	149,000[6]	0.6%
Steve Evans, Vice President, Finance 12750 Merit Drive Park Central VII, Suite 770 Dallas, Texas 75251	145,665[7]	0.5%
Alan Larosee, Vice President, Operations 12750 Merit Drive Park Central VII, Suite 770 Dallas, Texas 75251	221,666[8]	0.8%
James M. Treat, Vice President, Business Development 12750 Merit Drive Park Central VII, Suite 770 Dallas, Texas 75251	173,333[9]	0.6%
All Directors and Executive Officers as a Group (9 persons)	3,718,662	13.6%[10]
Tate Investments, LLC 12750 Merit Drive Park Central VII, Suite 770 Dallas, Texas 75251	3,944,880	14.9%
Mark Altenau, M.D. 12750 Merit Drive Park Central VII, Suite 770 Dallas, Texas 75251	2,153,292[11]	8.1%

(1) Pursuant to Rule 13d-3 under the Exchange Act, a person has beneficial ownership of any securities as to which such person, directly or indirectly, through any contract,

arrangement,
undertaking,
relationship

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or otherwise, has or shares voting power and/or investment power as to which such person has the right to acquire such voting and/or investment power within 60 days. Percentage of beneficial ownership as to any person as of a particular date is calculated by dividing the number of shares beneficially owned by such person by the sum of the number of shares outstanding as of such date and the number of unissued shares as to which such person has the right to acquire voting and/or investment control within 60 days. The number of shares shown includes outstanding shares owned as of July 6, 2007, by the person indicated and shares

underlying warrants, options and/or convertible debt and accrued interest thereon owned by such person on July 6, 2007, that were exercisable within 60 days of that date.

(2) Applicable percentage ownership is based on 26,470,646 shares of MedSolutions common stock outstanding on July 6, 2007, and on shares issuable to such holder within 60 days of July 6, 2007.

(3) Includes 670,790 shares owned by Preston Harris Interests, Inc., a Texas corporation, of which Mr. Fleeger is the president.

(4) Includes 100,000 shares of MedSolutions common stock underlying convertible debt and accrued interest thereon and options for 93,208 shares of

common stock.

(5) Includes options for 62,222 shares of MedSolutions common stock.

(6) Includes 149,000 shares owned by Med-Con Waste Solutions, Inc., a Texas corporation, of which Mr. Cole was the President and Chief Executive Officer.

(7) Includes options for 145,665 shares of MedSolutions common stock.

(8) Includes options for 221,666 shares of MedSolutions common stock.

(9) Includes options for 173,333 shares of MedSolutions common stock.

(10) Applicable percentage ownership is based on 26,470,646 shares of MedSolutions common stock issued and outstanding on July 6, 2007, and on shares

issuable to such holders within 60 days of July 6, 2007.

(11) Includes options for 69,833 shares of MedSolutions common stock, and 725,826 shares of MedSolutions common stock held in his individual retirement account.

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MEDSOLUTIONS HISTORICAL CONSOLIDATED FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

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To the Board of Directors
MedSolutions, Inc.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We have audited the accompanying consolidated balance sheets of MedSolutions, Inc. (the Company) as of December 31, 2006 and 2005, and the related consolidated statements of operations, stockholders equity and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Company s management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with 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 consolidated financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company s internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of MedSolutions, Inc. as of December 31, 2006 and 2005, and the results of its operations and cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

MARCUM & KLIEGMAN, LLP
New York, New York
March 17, 2007

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MEDSOLUTIONS, INC.
CONSOLIDATED BALANCE SHEETS

	December 31, 2006	2005
ASSETS		
Current Assets:		
Cash	$	$
Accounts receivable trade, net of allowance of $174,989 and $69,240	1,847,541	1,405,603
Prepaid expenses and other current assets	366,141	258,523
Supplies	26,109	14,106
Total Current Assets	2,239,791	1,678,232
Property and equipment at cost, net of accumulated depreciation of $2,805,851 and $1,836,756	3,586,766	3,150,504
Intangible assets Customer list, net of accumulated amortization of $1,028,993 and $624,770	1,408,189	1,437,912
Intangible assets Goodwill	3,403,025	2,597,021
Intangible assets permits	152,749	65,007
Other assets	46,943	102,126
Total Assets	$ 10,837,463	$ 9,030,802
LIABILITIES AND STOCKHOLDERS EQUITY		
Current Liabilities:		
Convertible debentures	$	$ 40,135
Current maturities of long-term obligations	372,552	145,628
Accounts payable	1,507,220	1,130,155
Accrued liabilities	1,281,443	962,327
Current maturities notes payable to Tate Investments, LLC		250,000
Current maturities notes payable to Med-Con	127,703	157,861
Current maturities notes payable to On Call	294,541	495,819
Current maturities notes payable to Positive Impact	97,705	360,669
Current maturities notes payable to Abele-Kerr Investments, LLC	38,948	
Current maturities notes payable stockholders	419,600	487,891
Current maturities litigation settlements		26,735
Advances from stockholders		19,004
Total Current Liabilities	4,139,712	4,076,224
Long-term obligations, less current maturities	1,003,174	806,952
Notes payable Tate Investments, LLC, less current maturities, net of discount of $102,564 and $0	1,397,436	725,000
Notes payable Med-Con, less current maturities	147,047	274,749
Notes payable On Call, less current maturities		119,541
Notes payable Positive Impact, less current maturities	333,796	489,331
Notes payable Abele-Kerr Investments, LLC, less current maturities	211,052	
Notes payable stockholders, less current maturities	294,267	359,131

Total Liabilities	7,526,484	6,850,928
Commitments and Contingencies		
Stockholders Equity:		
Preferred stock (par value $.001) 100,000,000 shares authorized at December 31, 2006 and December 31,2005,respectively, 96,667 shares issued and outstanding at December 31,2006 and 283,172 shares issued at December 31, 2005 (liquidation preference $145,001 2006; $424,758 2005)	97	283
Common stock (par value $.001) - 100,000,000 shares authorized at December 31, 2006 and December 31,2005; 23,792,985 shares issued and 23,780,785 outstanding at December 31, 2006 and 22,228,980 shares issued and 22,216,780 outstanding at December 31, 2005	23,793	22,229
Additional paid-in capital	26,558,608	24,657,770
Accumulated deficit	(23,253,519)	(22,482,408)
Treasury stock, at cost - 12,200 shares at December 31, 2006 and December 31, 2005	(18,000)	(18,000)
Total Stockholders Equity	3,310,979	2,179,874
Total Liabilities and Stockholders Equity	$ 10,837,463	$ 9,030,802

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

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MEDSOLUTIONS, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS

	For the Years Ended December 31,	
	2006	2005
Revenues	$ 12,799,132	$ 9,415,558
Cost of revenues *	7,925,086	5,680,379
Gross profit	4,874,046	3,735,179
Operating expenses:		
Selling, general and administrative expenses**	3,829,489	2,449,460
Depreciation and amortization	1,373,318	751,257
Total operating expenses	5,202,807	3,200,717
Income (loss) from operations	(328,761)	534,462
Other (income) expenses:		
Interest expense	482,485	374,260
ATE settlement		(650,468)
Other income	(40,135)	
	442,350	(276,208)
Net income (loss)	$ (771,111)	$ 810,670
Preferred stock dividend	(35,500)	(40,875)
Net income (loss) applicable to common stockholders	$ (806,611)	$ 769,795
Basic net income (loss) per share attributable to common stockholders	$ (0.04)	$ 0.04
Diluted net income (loss) per share attributable to common stockholders	$ (0.04)	$ 0.04
Weighted average common shares used in basic income (loss) per share	22,875,017	19,857,233
Weighted average common shares and dilutive securities used in diluted income (loss) per share	22,875,017	20,691,501

* Excludes depreciation of

$969,095 and $501,865 for the years ended December 31, 2006 and 2005, respectively.

** Includes stock compensation charge of $240,000 for the year ended December 31, 2006.

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

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MEDSOLUTIONS, INC.
CONSOLIDATED STATEMENTS OF STOCKHOLDERS EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2006 AND 2005

	MSI Preferred Stock Series A		MSI Common Stock	
Year Ended December 31, 2006	Shares	Amount	Shares	Amount
Balance December 31, 2005	283,172	$ 283	22,228,980	$ 22,229
MSI preferred stock converted into common stock	(186,505)	(186)	186,505	186
MSI common stock sold for cash net of transaction costs of $106,132			429,500	430
MSI common stock returned due to PIWS settlement			(52,000)	(52)
MSI conversion price adjustment on convertible debt To Tate Investments, LLC				
MSI common stock issued for acquisition			1,000,000	1,000
Preferred stock dividend				
Net loss				
Balance December 31, 2006	96,667	$ 97	23,792,985	$ 23,793

****

Year Ended December 31, 2006	Additional Paid-in Capital	Accumulated Deficit	Treasury Stock	Total
Balance December 31, 2005	$ 24,657,770	$ (22,482,408)	$ (18,000)	$ 2,179,874
MSI preferred stock converted into common stock				
MSI common stock sold for cash net of transaction costs of $106,132	702,438			702,868
MSI common stock returned due to PIWS settlement	(38,948)			(39,000
MSI conversion price adjustment on Convertible debt to Tate Investments, LLC	153,848			153,848
MSI common stock issued for acquisition	879,000			880,000
MSI stock compensation charge	240,000			240,000
Preferred stock dividend	(35,500)			(35,500
Net loss		(771,111)		(771,111
Balance December 31, 2006	$ 26,558,608	$ (23,253,519)	$ (18,000)	$ 3,310,979

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

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MEDSOLUTIONS, INC.
CONSOLIDATED STATEMENTS OF STOCKHOLDERS EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2006 AND 2005

	MSI Preferred Stock Series A		MSI Common Stock	
Year Ended December 31, 2005	Shares	Amount	Shares	Amount
Balance December 31, 2004	143,333	$ 143	18,515,755	$ 18,516
MSI preferred stock sold for cash	139,839	140		
MSI common stock sold for cash net of transaction costs of $50,443			1,667,672	1,668
MSI common stock issued for ATE settlement			60,746	61
MSI common stock returned by directors			(20,000)	(20)
MSI common stock issued for debt conversions			1,468,140	1,468
MSI common stock issued for acquisitions			536,667	536
Preferred stock dividend				
Net income				
Balance December 31, 2005	283,172	$ 283	22,228,980	$ 22,229

****

Year Ended December 31, 2005	Additional Paid-in Capital	Accumulated Deficit	Treasury Stock	Total
Balance December 31, 2004	$ 21,595,239	$ (23,293,078)	$ (18,000)	$ (1,697,180)
MSI preferred stock sold for cash	209,618			209,758
MSI common stock sold for cash net of transaction costs of $50,443	1,077,099			1,078,767
MSI common stock issued for ATE settlement	83,006			83,067
MSI common stock issued for director fees	100,689			100,689
MSI common stock returned by directors	(2)			(22)
MSI common stock issued for debt conversions	1,228,532			1,230,000
MSI common stock issued for acquisitions	404,464			405,000
Preferred stock dividend	(40,875)			(40,875)
Net income		810,670		810,670
Balance December 31, 2005	$ 24,657,770	$ (22,482,408)	$ (18,000)	$ 2,179,874

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

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MEDSOLUTIONS, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2006 AND 2005

	For the Years Ended December 31, 2006	2005
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income (loss)	$ (771,111)	$ 810,670
Adjustments to reconcile net income (loss) to net cash (used in) provided by operating activities:		
Depreciation and amortization	1,373,318	751,258
Provision for bad debts	112,000	3,000
Gain on ATE settlement		(650,468)
Litigation settlement		(53,023)
Stock compensation	240,000	100,667
Amortization of finance fees and debt discount	29,527	
Cancellation of convertible debentures, advances from stockholders and related accrued interest	(130,135)	
Changes in assets (increase) decrease:		
Accounts receivable	(441,125)	(375,950)
Supplies	12,247	(2,195)
Prepaid expenses and other current assets	95,565	128,244
Other non-current assets	(108,851)	(64,335)
Changes in liabilities increase (decrease)		
Accounts payable, accrued liabilities & litigation settlements	186,294	(959,282)
NET CASH (USED IN) PROVIDED BY OPERATING ACTIVITIES	597,729	(311,414)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Additions to property and equipment	(596,760)	(225,713)
Asset acquisition of On Call Medical Waste, Ltd.		(375,000)
Asset acquisition of Cooper Biomed, Ltd.		(40,000)
Asset acquisition of Positive Impact Waste Solutions		(700,000)
Asset acquisition of SteriLogic Waste Systems, Inc.	(24,283)	
NET CASH USED IN INVESTING ACTIVITIES	(621,043)	(1,340,713)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from sale of preferred stock		209,758
Proceeds from sale of common stock	809,000	1,129,210
Proceeds from note payable stockholders	1,150,000	1,375,000
Cash paid for transaction costs associated with equity transactions	(106,132)	(50,443)
Dividend on preferred stock	(42,500)	(37,250)
Payments on long-term obligations to stockholders	(1,516,833)	(521,053)
(Repayments to) advances from stockholders	(19,005)	(152,840)

Payments on long-term obligations to others	(251,216)	(300,255)
NET CASH PROVIDED BY FINANCING ACTIVITIES	23,314	1,652,127
NET INCREASE IN CASH AND CASH EQUIVALENTS		
CASH AND CASH EQUIVALENTS BEGINNING		
CASH AND CASH EQUIVALENTS END	$	$

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

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MEDSOLUTIONS, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2006 AND 2005

	For the Years Ended December 31, 2006	2005
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:		
Interest paid	$ 493,440	$ 430,803
Income taxes paid	$	$
Issuance of notes payable for property & equipment	$ 570,463	$ 601,518
Common stock reclaimed in connection to clawback provision regarding the PIWS acquisition	39,000	
Reduction in notes payable from PIWS purchase price settlement	$ 130,000	
Notes payable converted into MSI common stock	$	$ 775,843
Accrued salaries and related interest converted into MSI common stock and stock options	$	$ 454,157
Insurance premiums financed with debt	$ 169,363	$ 163,804
Director fees paid with non plan stock options	$	$ 100,667
Net assets acquired and liabilities assumed (See Acquisitions Note 4)		
Total purchase price	$ 1,267,500	$ 3,150,900
Less: cash consideration paid for acquisition	(24,284)	(1,115,000)
Less: cash acquired	(25,716)	
Non-cash consideration	$ 1,217,500	$ 2,035,900
Short term note	$	$ 740,000
Long term note	250,000	800,000
Common stock issued	880,000	405,000
Acquisition costs	87,500	90,900
Allocation of non-cash consideration	$ 1,217,500	$ 2,035,900

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

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MEDSOLUTIONS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2006 AND 2005

NOTE 1 DESCRIPTION OF BUSINESS

MedSolutions, Inc. (MSI or the Company) was incorporated in Texas in 1993, and through its subsidiary, EnviroClean Management Services, Inc. (EMSI), principally collects, transports and disposes of regulated medical waste in north Texas, south Texas, Oklahoma, Louisiana and Arkansas. MSI markets, through its wholly-owned subsidiary SharpsSolutions, Inc. (Sharps), a reusable sharps container service program to healthcare facilities that we expect will virtually eliminate the current method of utilizing disposable sharps containers. Another subsidiary of MSI, ShredSolutions, Inc. (Shred), markets a fully integrated, comprehensive service for the collection, transportation and destruction of Protected Healthcare Information (PHI) and other confidential documents, primarily those generated by health care providers and regulated under the Health Insurance Portability and Accountability Act (HIPAA). The Company operates another wholly owned subsidiary, Positive Impact Waste Servicing, Inc., which uses mobile treatment equipment to treat and dispose of regulated medical waste on site. Positive Impact Waste Servicing, Inc. was acquired by the Company s from its asset acquisition from Positive Impact Waste Solutions, Ltd. (PIWS) on November 30, 2005. The assets acquired by the Company from PIWS included customer contracts and equipment. The Company operates another wholly owned subsidiary, SteriLogic Waste Systems, Inc. (SteriLogic), in Syracuse, New York which services RMW and Sharps customers in the New York and Pennsylvania markets. SteriLogic was acquired by the Company on August 21, 2006 and the stock acquisition included customer contracts, equipment and a rented facility in Syracuse, New York.

Liquidity and Capital Resources

Our principal source of liquidity is collections on accounts receivable from waste management service revenue, from sales of our Common and Preferred Stock through private offerings to certain individuals, primarily existing stockholders, and from loans and advances received from certain stockholders. Revenues during 2006 were approximately $282,000 per month higher, stemming primarily from organic growth and from an acquisition in the second half of 2006. The Company continues to pursue acquisition targets to expand its existing business. The principal uses of liquidity are payments for labor, fuel, material and expenses, and debt and lease obligations to carry out our regulated medical waste management services.

Historically, we have met our cash requirements based on a combination of revenues from operations, stockholder loans and advances, and proceeds from the sale of debt and equity securities. Based on the projected operations for 2007, management believes cash to be generated from operations and funds raised from other alternative sources if needed, will be sufficient to satisfy the Company s historical and current cash obligations.

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MEDSOLUTIONS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2006 AND 2005

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation

The accompanying consolidated financial statements include the accounts of the Company, its subsidiaries, EMSI, SharpsSolutions, Inc., ShredSolutions, Inc., Positive Impact Waste Servicing, Inc. doing business as EnviroClean On-Site, Inc., SteriLogic Waste Systems, Inc. and EnviroClean Transport, Inc. All significant inter-company balances and transactions between the Company and its subsidiaries have been eliminated in consolidation.

Cash and Cash Equivalents

For purposes of the consolidated statement of cash flows, the Company considers all investments with an original maturity of three months or less to be cash equivalents.

Allowance for Doubtful Accounts

The Company s trade accounts receivable is stated net of an allowance for doubtful accounts of $174,989 and $69,240 at December 31, 2006 and 2005, respectively. Our assumptions in determining the adequacy of the allowance for doubtful accounts include reviewing historical charge-offs over the previous two years, and analyzing current aging reports by performing a specific review of customer balances for possible payment problems. Based on our review, the allowance for doubtful accounts is adjusted accordingly.

Supplies

Supplies are stated at the lower of average cost or fair value and consist primarily of medical waste containers and supplies provided to our medical waste generator customers.

Property and Equipment

Property and equipment are stated at cost less appropriate valuation allowances and accumulated depreciation and amortization. Depreciation is provided on the straight-line method over the estimated useful lives of the related assets, generally three to twenty years. Amortization of leasehold improvements is provided on the straight-line method over the lesser of the estimated useful lives of the improvements or the initial term of the lease. Gain or loss is recognized upon sale or other disposition of property and equipment.

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MEDSOLUTIONS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2006 AND 2005

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Goodwill and Intangible Assets

In accordance with the requirements of Statement of Financial Accounting Standards No. 141 (SFAS No. 141), Business Combinations , the Company recognizes certain intangible assets acquired in acquisitions, primarily goodwill and customer lists. To determine the adequacy of the carrying amounts on an ongoing basis, the Company, in accordance with the provisions of SFAS No. 142, Goodwill and Other Intangible Assets , performs its annual impairment test at the end of the year each December 31, unless triggering events indicate that an event has occurred which would require the test to be performed sooner. The Company monitors the performance of its intangibles by analyzing the expected future cash flows generated from such related intangibles to ensure their continued performance. If necessary, the Company may hire an outside independent consultant to appraise the fair value of such assets.

As of December 31, 2006, goodwill totaled $3,234,025. This amount is a result of seven acquisitions where goodwill was recorded in six of those acquisitions as part of the purchase price. With regard to the AmeriTech Environmental, Inc. (ATE) acquisition, closed on November 7, 2003, goodwill was recorded in the amount of $969,387. With regard to the B. Bray Medical Waste Service (Bray) acquisition, closed on January 1, 2004, goodwill was recorded in the amount of $3,600. Our third acquisition, Med-Con Waste Solutions, Inc. (Med-Con), was closed on September 30, 2004 and goodwill was recorded in the amount of $522,186. Our fourth acquisition, On Call Medical Waste, Ltd. (On Call), was closed on August 29, 2005 and goodwill was recorded in the amount of $653,922. Our sixth acquisition, Positive Impact Waste Solutions, Ltd. (PIWS) was closed on November 30, 2005 and goodwill was originally recorded in the amount of $447,926. The goodwill assigned to the PIWS acquisition was subsequently increased by $50,000 to $497,925 during the quarter ended September 30, 2006 due to additional estimated acquisition costs. Our seventh acquisition, SteriLogic was closed on August 21, 2006 and $756,004 was assigned to goodwill based upon an independent appraisal of the intangible assets acquired. All of the goodwill associated with these acquisitions is deductible for income tax purposes.

As of December 31, 2006, intangible assets associated with customer lists were $1,408,189 net of accumulated amortization of $1,028,993. All values assigned to customer list were derived by independent appraisals and were assigned lives of 5 years over which to amortize the assigned cost.

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NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

The amortization of customer lists for the 5 years ending December 31, 2011 is as follows:

Year Ended December 31,	Amount
2007	$ 440,125
2008	413,374
2009	302,246
2010	197,244
2011	55,200
	$ 1,408,189

Both the goodwill and customer list values are subject to an annual impairment test.

Amortization expense for the years ended December 31,2006 and 2005, was $404,223 and $249,392 respectively.

As of December 31, 2006, the Company determined there was no impairment of its goodwill or intangible assets.

Convertible Notes and Convertible Preferred

The Company accounts for conversion options embedded in convertible notes and convertible preferred stock in accordance with Statement of Financial Accounting Standard (SFAS) No. 133 Accounting for Derivative Instruments and Hedging Activities (SFAS 133) and EITF 00-19 Accounting for Derivative Financial Instruments Indexed to, and Potentially Settled in, a Company s Own Stock (EITF 00-19). SFAS 133 generally requires Companies to bifurcate conversion options embedded in convertible notes and preferred shares from their host instruments and to account for them as free standing derivative financial instruments in accordance with EITF 00-19. SFAS 133 provides for an exception to this rule when convertible notes and mandatorily redeemable preferred shares, as host instruments, are deemed to be conventional as that term is described in the implementation guidance provided in paragraph 61 (k) of Appendix A to SFAS 133 and further clarified in EITF 05-2 The Meaning of Conventional Convertible Debt Instrument in Issue No. 00-19. SFAS 133 provides for an additional exception to this rule when the economic characteristics and risks of the embedded derivative instrument are clearly and closely related to the economic characteristics and risks of the host instrument.

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NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

The Company accounts for convertible notes (deemed conventional) and non-conventional convertible debt instruments classified as equity under EITF 00-19 Accounting for Derivative Financial Instruments Indexed to, and Potentially Settled in, a Company s Own Stock (EITF 00-19)and in accordance with the provisions of Emerging Issues Task Force Issue (EITF) 98-5 Accounting for Convertible Securities with Beneficial Conversion Features, (EITF 98-5), EITF 00-27 Application of EITF 98-5 to Certain Convertible Instruments. Accordingly, the Company records, as a discount to convertible notes, the intrinsic value of such conversion options based upon the differences between the fair value of the underlying common stock at the commitment date of the note transaction and the effective conversion price embedded in the note. Debt discounts under these arrangements are amortized over the term of the related debt to their earliest date of redemption. During 2005, the Company issued $1,000,000 in principal of convertible notes with an embedded conversion option, which was classified as equity. There was no intrinsic value related to the embedded conversion option and accordingly, there was no recorded debt discount.

The Company determined that the conversion option embedded in its Series A Preferred stock is not a free standing derivative in accordance with the implementation guidance provided in paragraph 61 (l) of Appendix A to SFAS 133.

Impairment of Long-Lived Assets

The Company continuously monitors events and changes in circumstances that could indicate carrying amounts of long-lived assets, including intangible assets, may not be recoverable. An impairment loss is recognized when expected cash flows are less than the assets carrying value. Accordingly, when indicators of impairment are present, the Company evaluates the carrying value of such assets in relation to the operating performance and future undiscounted cash flows of the underlying business. The Company s policy is to record an impairment loss when it is determined that the carrying amount of the asset may not be recoverable. At December 31, 2006, there were no indicators of impairment present.

Revenue Recognition and Processing Costs

We recognize revenue for our medical waste services at the time the medical waste is collected from our customers. Revenue is only recognized for arrangements with customers in which (1), there is persuasive evidence of a contract or agreement which sets forth the terms of the arrangement; (2), services have been rendered; (3), our prices are fixed, determinable and agreed upon; and, (4), collectibility is reasonably assured.

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MEDSOLUTIONS, INC.
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NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Fair Value of Financial Instruments

The recorded carrying values of accounts receivable, accounts payable, and other long-term obligations are considered to approximate the fair values of such financial instruments because of the short maturities.

Provisions for Income Taxes

No provisions have been made for federal or state income taxes since the Company has incurred net operating losses since its inception. The Company is subject to certain local minimum taxes.

Stock-Based Compensation

Effective January 1, 2006, the Company adopted SFAS 123R which replaces SFAS 123, Accounting for Stock-Based Compensation and supersedes Accounting Principles Board Opinion No. 25, Accounting for Stock Issued to Employees. SFAS 123R requires all share-based payments to employees, including grants of employee stock options, to be recognized in the financial statements based on their fair values. Pro forma disclosure is no longer an alternative to financial statement recognition.

The Company has selected the Black-Scholes method of valuation for share-based compensation and has adopted the modified prospective transition method under SFAS 123R, which requires that compensation cost be recorded, as earned, for all unvested stock options outstanding as of the beginning of the first quarter of adoption of SFAS 123R. As permitted by SFAS 123R, prior periods have not been restated. The charge is generally recognized as compensation cost on a straight-line basis over the remaining service period after the adoption date based on the options original estimate of fair values.

Prior to the adoption of SFAS 123R, the Company applied the intrinsic-value-based method of accounting prescribed by APB 25 and related interpretations, to account for its stock options to employees. Under this method, compensation cost was recorded only if the market price of the underlying stock on the date of grant exceeded the exercise price. As permitted by SFAS 123, the Company elected to continue to apply the intrinsic-value-based method of accounting described above, and adopted only the disclosure requirements of SFAS 123. The fair-value-based method used to determine historical pro forma amounts under SFAS 123 was similar in most respects to the method used to determine stock-based compensation expense under SFAS 123R.

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NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Periods Ended December 31, 2005 (in thousands)	2005
Net income (loss) applicable to common stockholders, Prior to stock-based employee compensation	$ 770
Stock-based employee compensation cost	
Net income (loss) applicable to common stockholders, as reported	$ 770
Stock-based employee compensation cost determined under fair value method, net of tax effects	(291)
Pro-forma net income (loss) under fair value method **Basic**	$ 479
Effect of dilutive securities	
Preferred Stock	41
Convertible notes payable and advances interest expense	45
Pro-forma net income (loss) under fair value method **Dilutive**	$ 565
Net income (loss) per share applicable to common stockholders **Basic**	$ 0.04
Stock-based employee compensation cost determined under fair value method, net of tax effects	(0.01)
Pro-forma loss per share applicable to common stockholders- **Basic**	$ 0.03
Net income (loss) per share applicable to common stockholders- **Diluted**	$ 0.04
Stock-based employee compensation cost determined under fair value method, net of tax effects	(0.01)
Pro-forma net income (loss) per share attributable to common stockholder **Diluted**	$ 0.03

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MEDSOLUTIONS, INC.
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NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

The fair value of each option grant was estimated at the date of grant using the Black-Scholes option valuation model. The Black-Scholes option valuation model was developed for use in estimating the fair value of traded options which have no vesting restrictions and are fully transferable. During the year ended December 31, 2006 and 2005, the Company granted 478,796 and 674,336 stock options,(fair value $0.00 and $0.51 per share for 2006 and 2005, respectively) respectively to employees under an adopted 2002 Employee Stock Option Plan. The exercise prices of the stock options were $0.75 and $1.00 and vest immediately. The options may be exercised over a period of ten years. The Company recorded a non cash charge of $240,000 during the year ended December 31, 2006 because the options granted in 2005 to executives exceeded the authorized amount of options to grant that was in effect as of December 31, 2005. The authorized amount was increased from 850,000 shares to 3,000,000 shares in October, 2006 by a majority of the Company s shareholders. Because the Company s stock options have characteristics significantly different from those of traded options, and because changes in the subjective input assumptions can materially affect the fair value estimate, in management s opinion, the existing models do not necessarily provide a reliable single measure of the fair value estimate of its stock options. During the years ended December 31, 2006 and 2005, respectively, the Company granted its directors 0 and 215,431, plan stock options, respectively. The options were granted in lieu of payment of director fees. The total number of stock options outstanding as of December 31, 2006 and 2005, was 1,328,796. In calculating the fair values of the stock options, the following assumptions were used:

	YEAR 2006 GRANTS	YEAR 2005 GRANTS
Dividend yield		
Weighted average expected life:	5 years	5 years
Weighted average risk-free interest rate	4.75%	4.25%
Expected volatility	101.00%	92.00%

Income (Loss) Per Share of Common Stock

Basic net income (loss) per share of common stock has been computed based on the weighted average number of common shares outstanding during the periods presented.

Diluted net income per share of common stock has been computed based on the weighted average number of common shares outstanding during the periods presented plus any dilutive securities outstanding unless such combination of shares and dilutive securities were determined to be anti-dilutive. The numerator and denominator for basic and diluted earnings per share (EPS) consist of the following:

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NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

	2006	2005
Numerator:		
Net income (loss)	$ (771,111)	$ 810,670
Convertible preferred stock dividends	(35,500)	(40,875)
Numerator for basic earnings per share income available to common stockholders	$ (806,611)	$ 769,795
Effect of dilutive securities:		
Preferred stock dividends		40,875
Convertible notes payable and advances interest expense		44,987
	$	$ 85,862
Numerator for diluted earnings per share income available to common stockholders after assumed conversions	$ (806,611)	$ 855,657
Denominator:		
Denominator for basic earnings per share weighted average shares	22,875,017	19,857,233
Effect of dilutive securities:		
Convertible accrued salaries		35,060
Preferred convertible stock		250,528
Convertible debentures and unpaid interest		58,334
Note payable to stockholders and accrued interest		34,283
Note payable to Tate Investments, LLC		407,070
Advances from stockholders		48,992
Total potentially dilutive securities		834,267
Denominator for diluted earnings per share adjusted weighted average shares and assumed conversions	22,875,017	20,691,501
Basic earnings per share	$ (0.04)	$ 0.04
Diluted earnings per share	$ (0.04)	$ 0.04

For the year ended December 31, 2005, 850,000 shares attributable to outstanding stock options were excluded from the calculation of diluted earnings per share because the exercise prices of the stock options were greater than or equal to the average price of the common shares ($0.75), and therefore their inclusion would have been anti-dilutive. For the year ended December 31, 2006, common stock equivalents totaling 4,216,035 that consisted of options, convertible preferred shares and convertible notes were not included in the calculation of diluted loss per share because their inclusion would have had the effect of decreasing the loss per share otherwise compute.

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MEDSOLUTIONS, INC.
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NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Advertising Expenses

Advertising costs are charged to expense when incurred. Advertising expense for the years ended December 31, 2006 and 2005 approximated $28,991 and $20,256, respectively.

Environmental Expenditures

Environmental expenditures are capitalized if the costs mitigate or prevent future environmental contamination or if the costs improve existing assets environmental safety or efficiency. All other environmental expenditures are expensed. Liabilities for environmental expenditures are accrued when it is probable that such obligations have been incurred and the amounts can be reasonably estimated. Currently, there are no ongoing environmental issues or activities. At December 31, 2006 and 2005, there have been no amounts recorded as capitalized assets related to any environmental costs.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the related periods. Actual results could differ from such estimates.

NOTE 3 RECENTLY ISSUED ACCOUNTING STANDARDS

The following pronouncements have been issued by the Financial Accounting Standards Board (FASB).

In February 2006, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standard 155 Accounting for Certain Hybrid Financial Instruments (SFAS 155), which eliminates the exemption from applying SFAS 133 Accounting for Derivative Instruments and Hedging Activities (SFAS 133) to interests in securitized financial assets so that similar instruments are accounted for similarly regardless of the form of the instruments. SFAS 155 also allows the election of fair value measurement at acquisition, at issuance, or when a previously recognized financial instrument is subject to a remeasurement event. Adoption is effective for all financial instruments acquired or issued after the beginning of the first fiscal year that begins after September 15, 2006. Early adoption is permitted. The adoption of SFAS 155 is not expected to have a material effect on the Company s consolidated financial position, results of operations or cash flows.

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NOTE 3 RECENTLY ISSUED ACCOUNTING STANDARDS (continued)

In March 2006, the FASB issued Statement of Financial Accounting Standard 156 Accounting for Servicing of Financial Assets (SFAS 156), which requires all separately recognized servicing assets and servicing liabilities be initially measured at fair value. SFAS 156 permits, but does not require, the subsequent measurement of servicing assets and servicing liabilities at fair value. Adoption is required as of the beginning of the first fiscal year that begins after September 15, 2006. Early adoption is permitted. The adoption of SFAS 156 is not expected to have a material effect on the Company s consolidated financial position, results of operations or cash flows.

In July 2006, the FASB released FASB Interpretation No. 48 (FIN 48), Accounting for Uncertainty in Income Taxes, an interpretation of FASB Statement No. 109. FIN 48 clarifies the accounting and reporting for uncertainties in income tax law. FIN 48 prescribes a comprehensive model for the financial statement recognition, measurement, presentation and disclosure of uncertain tax positions taken or expected to be taken in income tax returns. FIN 48 is effective for fiscal years beginning after December 15, 2006. Earlier adoption is permitted as of the beginning of an enterprise s fiscal year, provided the enterprise has not yet issued financial statements, including financial statements for any interim period for that fiscal year. The cumulative effects, if any, of applying FIN 48 will be recorded as an adjustment to retained earnings as of the beginning of the period of adoption. The adoption of FIN 48 is not expected to have a material effect on the Company s consolidated financial position, results of operations or cash flows.

In September 2006, the FASB issued SFAS No. 157, Accounting for Fair Value Measurements (SFAS 157). SFAS 157 defines fair value, and establishes a framework for measuring fair value in generally accepted accounting principles and expands disclosure about fair value measurements. SFAS 157 is effective for financial statements issued by the Company for fiscal years beginning after November 15, 2007. The Company does not expect the new standard to have a material impact on the Company s financial position, results of operations or cash flows.

In September 2006, the FASB issued SFAS No. 158, Employers Accounting for Defined Benefit Pension and Other Postretirement Plans (SFAS 158). SFAS 158 requires an employer to recognize the overfunded or underfunded status of a defined benefit postretirement plan (other than a multiemployer plan) as an asset or liability in its statement of financial position and to recognize changes in that funded status in the year in which the changes occur through comprehensive income of a business entity or changes in unrestricted net assets of a not-for-profit organization. SFAS 158 also requires an employer to measure the funded status of a plan as of the date of its year-end statement of financial position, with limited exceptions. SFAS 158 is effective for the Company for the year ended December 31, 2006. The adoption of this pronouncement did not have a material effect on the Company s financial statements.

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MEDSOLUTIONS, INC.
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NOTE 3 RECENTLY ISSUED ACCOUNTING STANDARDS (continued)

In September 2006, the staff of the Securities and Exchange Commission issued Staff Accounting Bulletin No. 108 (SAB 108), which provides interpretive guidance on how the effects of the carryover or reversal of prior year misstatements should be considered in quantifying a current year misstatement. SAB 108 becomes effective for the first fiscal year ending after November 15, 2006. The adoption of SAB 108 is not expected to have a material impact on the Company s consolidated financial position, results of operations or cash flows.

In December 2006, the FASB approved FASB Staff Position (FSP) No. EITF 00-19-2, Accounting for Registration Payment Arrangements (FSP EITF 00-19-2), which specifies that the contingent obligation to make future payments or otherwise transfer consideration under a registration payment arrangement, whether issued as a separate agreement or included as a provision of a financial instrument or other agreement, should be separately recognized and measured in accordance with SFAS No. 5, Accounting for Contingencies . FSP EITF 00-19-2 also requires additional disclosure regarding the nature of any registration payment arrangements, alternative settlement methods, the maximum potential amount of consideration and the current carrying amount of the liability, if any. The guidance in FSP EITF 00-19-2 amends FASB Statements No. 133, Accounting for Derivative Instruments and Hedging Activities , and No. 150, Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity , and FASB Interpretation No. 45, Guarantor s Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others , to include scope exceptions for registration payment arrangements.

FSP EITF 00-19-2 is effective immediately for registration payment arrangements and the financial instruments subject to those arrangements that are entered into or modified subsequent to the issuance date of this FSP, or for financial statements issued for fiscal years beginning after December 15, 2006, and interim periods within those fiscal years, for registration payment arrangements entered into prior to the issuance date of this FSP. The adoption of this pronouncement is not expected to have an impact on the Company s consolidated financial position, results of operations or cash flows.

In February 2007, the FASB issued SFAS No. 159, The Fair Value Option for Financial Assets and Financial Liabilities (SFAS 159). SFAS 159 provides companies with an option to report selected financial assets and liabilities at fair value. The objective of SFAS 159 is to reduce both complexity in accounting for financial instruments and the volatility in earnings caused by measuring related assets and liabilities differently. Generally accepted accounting principles have required different measurement attributes for different assets and liabilities that can create artificial volatility in earnings. The FASB has indicated it believes that SFAS 159 helps to mitigate this type of accounting-induced volatility by enabling companies to report related assets and liabilities at fair value, which would likely reduce the need for companies to comply with detailed rules for hedge accounting. SFAS 159 also establishes presentation and disclosure requirements designed to

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NOTE 3 RECENTLY ISSUED ACCOUNTING STANDARDS (continued)

facilitate comparisons between companies that choose different measurement attributes for similar types of assets and liabilities. SFAS 159 does not eliminate disclosure requirements included in other accounting standards, including requirements for disclosures about fair value measurements included in SFAS 157 and SFAS No. 107, Disclosures about Fair Value of Financial Instruments. SFAS 159 is effective for the Company as of the beginning of fiscal year 2009. The Company has not yet determined the impact SFAS 159 may have on its consolidated financial position, results of operations, or cash flows.

NOTE 4 ACQUISITIONS

Med-Con Waste Solutions, Inc. (Med-Con)

At December 31, 2006, the Company owed $274,749 in two promissory notes to Med-Con as payment for part of the purchase price for the Company s acquisition of certain Med-Con assets completed on September 30, 2004. The first promissory note has a balance of $235,749 as of December 31, 2006 and accrues interest at 8%. The Company pays monthly installments of $8,696 including principal and interest and the note matures on May 1, 2009. The second promissory note has a balance of $39,001 as of December 31, 2006 and accrues interest at 10%. The Company pays monthly installments of $6,691 including principal and interest and the note matures on May 1, 2007.

On Call Medical Waste Service (On Call)

On August 29, 2005, we acquired certain assets including customer contracts from On Call for a total purchase price of $1,155,500. The purchase price for the acquired assets was (i) $375,000 cash, (ii) a promissory note in the original principal amount of $250,000 bearing interest at a rate per annum of 8%, payable in 24 equal monthly installments of principal and interest with the first such installment due on December 27, 2005, (iii) a promissory note in the original principal amount of $375,000 with no interest, (iv) 166,667 shares of Common Stock, and (v) $30,500 of transaction costs incurred by the Company. The cash portion of the purchase price was funded from the proceeds of a sale of the Company s Common Stock in a private placement to, and a loan to the Company pursuant to a promissory note from, one of its shareholders.

Positive Impact Waste Solutions, Ltd. (PIWS)

On November 30, 2005, the Company acquired certain assets, including customer contracts, and took over the regulated medical waste operations of Positive Impact Waste Solutions, LLC, a Delaware limited liability company (PIWS). Subsequent to the Company s acquisition of PIWS assets, it was determined that PIWS had not complied with certain terms of the asset purchase agreement (the PIWS Agreement). On June 30, 2006, a settlement was reached and executed between the Company and PIWS relating to such noncompliance. As a result of this noncompliance and in accordance with the terms of the PIWS Agreement, a reduction of the total purchase price by $169,000 was agreed to by both parties. The purchase price adjustment reduced the amount assigned to customer list by $169,000. The goodwill assigned to the PIWS acquisition was subsequently increased by $50,000 to $497,925 during the quarter ended September 30, 2006 due to additional estimated acquisition costs.

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MEDSOLUTIONS, INC.
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NOTE 4 ACQUISITIONS (continued)

At December 31, 2006, the Company owed $431,501 in a promissory note to PIWS as payment for part of the purchase price. The promissory note accrues interest at 8% and the Company pays monthly installments of $10,725 including principal and interest. The note matures on November 30, 2010.

Cooper Biomed, Ltd. (Cooper)

On September 30, 2005, we acquired certain assets, principally customer contracts, from Cooper. On March 31, 2006, the Company calculated a purchase price reduction of $8,500 in accordance with the asset purchase agreement and reduced the $40,000 promissory note to Cooper accordingly. The promissory note has subsequently been paid and all obligations of the Company to Cooper pursuant to such agreement have been satisfied. The cash portion of the purchase price was funded from the proceeds of a sale of the Company s Common Stock in a private placement to, and a loan to the Company pursuant to a promissory note from, one of its stockholders. As provided for in the agreement the Company calculated a $8,500 purchase price adjustment and reduced the principal due under the $25,000 promissory note and the amount assigned to customer list, accordingly.

SteriLogic Waste Systems, Inc. (SteriLogic)

On August 16, 2006, MedSolutions, Inc., a Texas corporation (the Company), acquired SteriLogic Waste Systems, Inc., a Pennsylvania corporation (SteriLogic) located in Syracuse, New York. SteriLogic is a regulated medical waste management company that provides collection, transportation and disposal of regulated medical waste services in addition to providing reusable sharps container programs to its customers who are primarily located in the states of New York and Pennsylvania. SteriLogic also designs, manufactures and markets reusable sharps containers to medical waste service providers who provide reusable sharps container programs to their medical waste customers.

The acquisition was effected pursuant to a Merger Agreement and Plan of Reorganization dated as of August 16, 2006, by and between the Company, SteriLogic Acquisition Subsidiary, Inc., a Texas corporation and wholly-owned subsidiary of the Company (Subsidiary), and SteriLogic, by the merger (the Merger) of SteriLogic with and into Subsidiary, with Subsidiary continuing as the surviving corporation. At the effective time of the Merger, each share of SteriLogic common stock, par value $0.01 per share, issued and outstanding immediately prior to such time was converted into the right to receive 200 shares of the Company s common stock, par value $0.001 per share (Merger Shares), for an aggregate of 1,000,000 Merger Shares.

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NOTE 4 ACQUISITIONS (continued)

In addition, the Company paid Abele-Kerr Investments, LLC (i) $50,000 in readily available funds, and (ii) a convertible promissory note in the principal amount of $250,000 with simple interest at the annual rate of 8% accruing from the effective time and payable in 12 equal installments of interest only in the amount of $1,666.67 each due monthly beginning on the 30th day after the effective time, and 24 equal installments of principal and interest in the amount of $11,306.82 each due monthly thereafter. The note holder may convert the unpaid principal and interest at any time, but prior to August 16, 2007, into the Company s common stock at $1.50 per share. The Merger consideration may be adjusted downward depending upon the amount of sales or earnings realized by the Company from the customer contracts acquired through the acquisition of SteriLogic for the 12 months following the closing of the transaction. Any such adjustment to the Merger consideration will be deducted 25% from the principal amount of the $250,000 promissory note, and 75% from the Merger Shares, pro rata against each former holder of SteriLogic common stock that received Merger Shares in proportion to the percentage of the Merger Shares received by each such holder, at the rate of $1.50 per share; provided, that the Company may not deduct more than 400,000 Merger Shares with respect to the adjustment. The cash portion of the Merger consideration was funded from working capital. The Merger consideration was determined largely based upon the amount of revenues SteriLogic has generated from its regulated medical waste disposal business and the value of the net assets acquired.

On January 15, 2007, the former owners of SteriLogic and the Company agreed by mutual consent to amend the original Merger Agreement whereby the former owners of SteriLogic agreed to reduce the number of Merger Shares issued by the Company from 1,000,000 to 700,000 shares and to terminate the conversion feature of the $250,000 promissory note issued by the Company as part of the purchase price. As a result of these amendments, the Company recorded a reduction in the purchase price with regard to the SteriLogic acquisition by $264,000 reflecting the return of the 300,000 shares issued by the Company. The corresponding reduction reduced the value assigned to SteriLogic s customer list by $264,000.

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NOTE 4 ACQUISITIONS (continued)

MedSolutions purchased the following assets in the following table in exchange for the amount paid.

Description	**Amount**
Purchase price:	
Cash paid	$ 50,000
Promissory note	250,000
MSI Common Stock issued, 1,000,000 shares	880,000
Acquisition related costs	87,500
Total purchase price	$ 1,267,500
Assets acquired and liabilities assumed:	
Cash	$ 25,716
Accounts Receivable, Inventory, and other assets	155,336
Equipment at Fair Value	100,000
Liabilities assumed	(321,557)
Allocation to customer list, to be amortized over 5 years	552,000
Allocation to goodwill	756,005
Total assets acquired	$ 1,267,500

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NOTE 4 ACQUISITIONS (continued)

Pro Forma Results

The following table presents the unaudited pro-forma combined results of operations of the Company for its 2006 results and acquisitions as if they had been combined from the beginning of 2006 and 2005.

	Pro forma Combined For the year ended December 31, 2006	Pro forma Combined for the year ended December 31, 2005
Revenues:		
Net Sales	$ 13,381,088	$ 12,124,379
Net income (loss)	$ (670,674)	$ 157,744
Basic net income (loss) per common share	$ (0.03)	$ 0.01
Diluted net income (loss) per common share	$ (0.03)	$ 0.01
Weighted average common shares outstanding basic	23,499,674	21,296,703
Weight average common shares outstanding diluted	23,499,674	22,130,972

The pro forma combined results are not necessarily indicative of the results that actually would have occurred if the acquisition had been completed as of the beginning of the 2006 and 2005 years, nor are they necessarily indicative of future consolidated results.

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NOTE 5 PROPERTY AND EQUIPMENT

Property and equipment consisted of the following:

	At December 31,		
	2006	2005	Useful Life
Land	$ 151,180	$ 151,180	
Building	1,124,276	1,050,711	20 years
Furniture and equipment	5,117,161	3,785,369	3 to 5 years
	6,392,617	4,987,260	
Less: Accumulated depreciation	2,805,851	1,836,756	
Property and Equipment, Net	$ 3,586,766	$ 3,150,504	

Depreciation of property and equipment for the years ended December 31, 2006 and 2005 amounted to $969,095 and $501,685, respectively.

NOTE 6 INCOME TAXES

The current year s Federal and State income tax provision consists substantially of minimum taxes. The principal reasons for the variation between income taxes at the statutory federal rate and that shown in the statement of operations were as follows:

	Years Ended	
	2006	2005
Statutory federal income tax rate	34.0%	34.0%
State income taxes, net of federal income tax benefit	6.0%	6.0%
Adjustment for change in valuation allowance	(40.0)	(40.0%)

Temporary differences between the financial statement and tax basis of assets and liabilities which give rise to a significant portion of deferred tax assets and deferred tax liabilities were as follows:

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MEDSOLUTIONS, INC.
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NOTE 6 INCOME TAXES (continued)

	Year Ended	
	2006	2005
Deferred Tax Assets:		
Operating loss carryforwards	$ 8,000,000	$ 7,500,000
Accounts receivable allowance	70,000	28,000
Total Tax Assets	$ 8,070,000	$ 7,528,000
Deferred Tax Liabilities:		
Fixed Assets	$ 286,000	$ 238,000
Goodwill and intangibles	409,000	213,000
Total Tax Liabilities	695,000	451,000
Less- Valuation Allowance	(7,375,000)	(7,077,000)
Net Deferred Tax Asset	$	$

The valuation allowance primarily relates to the Federal and State net operating losses for which utilization in future periods is uncertain. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible. The Company considers projected future taxable income and tax planning strategies in making this assessment. Based on the historical taxable income and projections for future taxable income over the periods that the deferred tax assets are deductible, the Company believes it is more likely than not that the Company will not realize all of its tax benefits in the near future and therefore a valuation allowance was established in 2006 in the amount of $7,375,000.

As of December 31, 2006 the Company has approximately $19.9 million of federal and state net operating losses available to offset future taxable income, which if not utilized will expire through 2025. The Company s ability to utilize its carryforwards may be subject to an annual limitation in future periods pursuant to Section 382 of the Internal Revenue Code, as amended.

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NOTE 7 ACCRUED LIABILITIES

Accrued liabilities consist of the following:

	At December 31,	
	2006	2005
Salaries and other taxes	$ 347,545	$ 244,268
Accrued director fees	269,891	
Interest	27,408	116,598
Insurance	169,363	254,042
Other accrued liabilities	467,236	347,419
	$ 1,281,443	$ 962,327

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MEDSOLUTIONS, INC.
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NOTE 8 LONG-TERM OBLIGATIONS

Long-term obligations are comprised of the following:

	At December 31,	
	2006	2005
Bank notes EMSI facilities	$ 511,465	$ 505,216
Installment notes equipment	864,261	447,364
Total indebtedness to bank and financial institutions	1,375,726	952,580
Less: Current maturities	372,552	145,628
Total Long-Term Obligations	$ 1,003,174	$ 806,952

On August 9, 2006, the Company, through its subsidiary EMSI, secured additional financing from a bank to expand its Houston facility. The facility is currently being used as a transfer facility for the South Texas operations. The expansion will allow EMSI to treat medical waste at the facility once the permitting process is completed from the state of Texas. The total costs of expansion will be approximately $275,000 with $200,000 of those funds coming from bank financing and the remainder from working capital. The promissory note to the bank is payable in 60 monthly installments of $822 in principal plus interest accruing at the Prime Rate as published in the *Wall Street Journal* from time to time plus 1%, with the balance of the principal and all accrued and unpaid interest due upon maturity of the loan on July 19, 2011. The note is secured by a second lien on the Houston facility and is personally guaranteed by both our President/Chief Executive Officer and our Chairman of the Board. As of December 31, 2006, the Company has drawn $55,634 against the promissory note and the funds were used for the commencement phase of expansion. The amount outstanding at December 31, 2006 is $52,347 and the net carrying value of our Houston facility is approximately $370,000.

On August 3, 2005, the Company, through its subsidiary EMSI, borrowed $325,000 from a bank. The note is secured by a first lien on EMSI s facility in Houston, Texas and accrues interest at a variable rate based on the national prime rate, plus 2.0%, aggregating 10.25% at December 31, 2006. The note is payable in 60 minimum monthly installments of $3,656, including principal and interest, based upon a straight line amortization of 240 payments, and matures on August 3, 2010, with a balloon payment of $243,750. The promissory note is personally guaranteed by our President/Chief Executive Officer. The total amount outstanding at December 31, 2006 is $303,333.

In July 1996, the Company borrowed $367,500 from a bank. The note is secured by a first lien on EMSI s facility in Garland, Texas, and accrues interest at a variable rate based on the national prime rate, plus 0.5%, aggregating 8.75% at December 31, 2006. The note is payable in minimum monthly installments of principal and interest totaling $3,459 and matures in July 2011. The promissory note is personally guaranteed by our President/Chief Executive Officer. The total amount outstanding at December 31, 2006 is $155,785 and the net carrying value of the Garland facility is approximately $263,000.

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MEDSOLUTIONS, INC.
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NOTE 8 LONG-TERM OBLIGATIONS (continued)

The Company is obligated under various installment notes payable for the purchase of equipment with an aggregate cost of $864,261. The notes, which bear interest at rates ranging from 8.0% to 16.1%, are due at various dates through 2011 and are payable in monthly installments totaling approximately $30,549 consisting of principal and interest. The equipment acquired collateralizes the notes.

Aggregate maturities of long-term indebtedness (including the notes payable stockholders described in Note 9 below) at December 31, 2006 are as follows:

Year Ended December 31,	Amount
2007	$ 1,351,050
2008	1,845,110
2009	1,047,873
2010	531,812
2011 and thereafter	64,538
Total Annual Payments	$ 4,840,383
Less: Debt Discount	102,564
Total (Net of Discount)	$ 4,737,819

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MEDSOLUTIONS, INC.
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NOTE 9 NOTES PAYABLE STOCKHOLDERS

On March 15, 2006, the Company issued a convertible promissory note in the amount of $500,000 to Tate Investments LLC (the Investor). The promissory note is payable in 35 monthly installments of interest only with all principal and interest due on March 31, 2009. The note accrues interest at 10% for the first 12 months, 11% for months 13 through 24 and 12% for months 25 through maturity. The effect of the increasing interest rate under EITF 86-15 Increasing-Rate Debt was determined to be de minimus. The Company may prepay a portion or all of the amount outstanding under the terms of the note after March 31, 2007, provided that the Company notify the Investor of the Company s intent to prepay after which, the Investor will have 30 days to convert the note into the Company s Common Stock. The Investor has the right to convert the amount outstanding plus accrued but unpaid interest at the time of conversion. The conversion price agreed to is $0.85 per share during the period beginning March 15, 2006 through March 31, 2007, $1.00 per share during the period beginning April 1, 2007 through March 31, 2008, and $1.15 per share during the period April 1, 2008 through maturity. The promissory note is secured by two PIWS mobile units, with a net carrying value of $271,867 and is cross-collateralized by the Investor s liens on the Company s accounts receivable and its Garland facility pursuant to the Investment Agreement dated July 15, 2005, between the Company and the Investor (Investment Agreement). The proceeds from the promissory note were used by the Company to purchase equipment.

On May 22, 2006, the Company and the Investor agreed to amend the Investment Agreement to lower the conversion price for the $1,000,000 Promissory Note to $0.55 per share from $0.65 per share in exchange for the Investor retroactively (as of July 15, 2005, the date the Investment Agreement was executed) eliminating the requirements for the Company to achieve certain earnings targets thereunder. In connection with the conversion price adjustment, the Company was required to record a beneficial conversion charge of $153,846. The beneficial conversion charge represents the incremental fair value of the impact from lowering the conversion rate and will be amortized over the remaining life of the note. The note accrues interest at 10% and matures on July 15, 2008 when all outstanding principal and accrued interest is due. As of December 31, 2006, the remaining amount of the beneficial conversion charge to amortize was $102,564.

As of December 31, 2006, the total principal amount owed by the Company to the Investor was $1,397,436, net of discount of $102,564.

On October 3, 2006, the Company issued a convertible promissory note to our Chairman of the Board who loaned $100,000 for the purpose of providing working capital to the Company. The promissory note is payable in interest only monthly installments for three months and afterwards, it begins paying 24 equal monthly installments of principal and interest in the amount of $4,707 each. The note accrues interest at 12% and at the option of the holder, any unpaid principal and accrued interest may be converted into Common Stock at the conversion price of $1.00 per share. The note matures on January 3, 2009 at which time all unpaid principal and accrued interest thereon is due.

On December 28, 2006, the Company issued a promissory note to our Chairman of the Board who loaned $175,000 for the purpose of providing equipment financing to the Company. The promissory note is payable in 24 equal monthly installments of principal and interest in the amount of $5,813 each. The note accrues interest at 12% and matures on December 28, 2008.

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MEDSOLUTIONS, INC.
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NOTE 9 NOTES PAYABLE STOCKHOLDERS (continued)

On October 3, 2006, the Company issued a convertible promissory note to one of our directors/shareholders who loaned $100,000 for the purpose of providing working capital to the Company. The promissory note is payable in interest only monthly installments for 24 months at $1,000 per installment. The note accrues interest at 12% and at the option of the holder, any unpaid principal and accrued interest may be converted into Common Stock at the conversion of $1.00 per share. The note matures on October 3, 2008.

NOTE 10 EXTINGUISHMENT OF CONVERTIBLE DEBENTURES

The Company issued an aggregate of $1,100,000 of 15% Convertible Redeemable Subordinated Debentures (the Series I Debentures) in 1994 and 1995 with a final maturity date of March 31, 1999, and containing a provision for conversion of the Series I Debentures, at the option of the holders thereof, into shares of Common Stock. The Company also issued an aggregate of $256,125 of 10% Convertible Redeemable Debentures (Series II Debentures, and together with the Series I Debentures, the Debentures) in 1998 with a maturity date of November 1, 1999, and containing a provision for conversion of the Series II Debentures, at the option of the holders thereof, into shares of Common Stock.

Due to cash constraints, the Company was not able to redeem the Debentures in 1999 pursuant to their respective terms. The Company offered (the Conversion Offering) the holders of the Debentures the opportunity to convert their Series I Debentures and Series II Debentures into shares of Common Stock at a conversion rate of $1.50 and $1.75, respectively.

Certain holders of Debentures did not respond to the Conversion Offering in 1999, and the offer to convert the Debentures into the Company s Common Stock has since expired and any contractual claims for rights pursuant to the Debentures have been time-barred by the applicable statute of limitations. Accordingly, the Company extinguished the Debentures on November 15, 2006 and any obligation owed under their terms. The Company recorded other income of $40,135 and reversed all accrued interest as a result of extinguishment.

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MEDSOLUTIONS, INC.
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NOTE 11 STOCKHOLDERS EQUITY

Stock Issuances

During the year ended December 31, 2006, the Company sold 429,500 shares of its Common Stock to new stockholders for a total consideration of $809,000, less $106,132 in transaction costs.

During the year ended December 31, 2006, 186,505 shares of Series A Preferred Stock were converted into 186,505 shares of the Company s Common Stock in accordance with the Certificate of Designation for the Series A Preferred Stock (the Certificate of Designation). The terms of the Certificate of Designation required the holders of the Preferred Stock to convert their shares into the Company s Common Stock on a share for share basis on the second anniversary from the date of issuance of the Preferred Stock. The remaining shares of 96,667 shares of Preferred Stock sold under the Certificate of Designation will convert into shares of Common Stock during the 3 month period ended March 31, 2007.

The total amount of dividends declared to the holders of Preferred Stock was $35,500 during the year ended December 31, 2006.

Stock Grants and Options

At the annual meeting of stockholders of the Company on December 18, 2002, the stockholders approved the adoption of the MedSolutions, Inc. 2002 Stock Plan. The purpose of the plan is to attract and retain the best available personnel for positions of substantial responsibility, to provide additional incentive to employees, directors and consultants and to promote the success of the Company s business. Options granted under the plan may be Incentive Stock Options or Nonstatutory Stock Options, as determined by the Board of Directors at the time of grant. On August 17, 2006, the Board of Directors approved an increase in the number of shares available for future grants and awards under the 2002 Stock Plan to 3,000,000 shares from 850,000 shares. The shareholders of the Company approved the amendment to the 2002 Stock Plan at their Annual Shareholder s Meeting on October 19, 2006.

The option grants have a contractual life up to ten years. Options for 478,796 and 674,336 shares were granted to directors and employees during 2006 and 2005, respectively. During the year ended December 31, 2006 and 2005, respectively, the Company granted its directors 134,223 and 81,208, respectively, stock options in lieu of payment of director fees. As of December 31, 2006, all stock options outstanding are fully vested. The amount of stock options available for future issuance is 1,671,204 shares as of December 31, 2006.

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MEDSOLUTIONS, INC.
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NOTE 11 STOCKHOLDERS EQUITY (continued)

Stock Grants and Options (continued)

A summary of activity involving options on the Company s common stock follows:

	Number of Options	Weighted Average Exercise Price	Aggregate Intrinsic Value
Balance outstanding at December 31, 2004	268,118	$ 1.00	
Granted	674,336	$ 0.82	
Exercised			
Cancelled/Expired	92,454	$ 1.00	
Balance outstanding at December 31, 2005	850,000	$ 0.82	$ 0
Granted	478,796	$ 0.75	
Exercised			
Cancelled/Expired			
Balance outstanding at December 31, 2006	1,328,796	$ 0.80	$ 106,303
Number of options exercisable at December 31, 2006	1,328,796	$ 0.80	$ 106,303

Stock options outstanding at December 31, 2006 for each of the following classes of options, by exercise price, are summarized as follows:

EXERCISE PRICE	NUMBER OF OPTIONS	WEIGHTED-AVERAGE REMAINING CONTRACTUAL LIFE	NUMBER OF OPTIONS CURRENTLY EXERCISABLE
$1.00	80,164	7.00 years	80,164
$1.00	95,500	8.00 years	95,500
$1.00	79,173	8.50 years	79,173
$0.75	289,736	8.51 years	289,736
$0.75	305,427	9.00 years	305,427
$0.75	478,796	9.80 years	478,796

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NOTE 12 WASTE MANAGEMENT FACILITY AGREEMENT

On June 8, 2006, the operating agreement between the Company and the University of Texas Medical Branch (UTMB) expired. The operating agreement allowed the Company to manage the UTMB incineration facility and process their waste for a fee as well as provided a facility for the Company to treat waste generated from EMSI South Texas and Louisiana customers in return for a fee paid to UTMB. Currently, the Company is taking generated waste from South Texas and Louisiana to other third party facilities in South Texas and Northern Louisiana and to its Garland facility.

NOTE 13 COMMITMENTS AND CONTINGENCIES

Risks and Concentrations

Financial instruments, which potentially subject the Company to concentrations of credit risk, are primarily cash and cash equivalents, trade accounts receivable and related party notes.

The Company carries $10 million of liability insurance (including umbrella coverage), and $5 million of aggregate pollution and legal liability insurance ($1 million per incident), which the Company considers sufficient to meet regulatory and customer requirements and to protect its employees, assets and operations. The Company s pollution liability insurance excludes liabilities under CERCLA. There can be no assurance that the Company will not face claims under CERCLA or similar state laws resulting in substantial liability for which the Company is uninsured and which could have a material adverse effect on its business.

Lease Obligations

Effective February 10, 2005, the Company extended and renewed its lease at its corporate headquarters in Dallas, Texas. The Company has leases for its corporate office and other facilities for terms which expire through December 2012. Minimum annual rentals under the leases are as follows:

Years Ended December 31,	Amount
2007	$ 97,547
2008	99,491
2009	99,491
2010	103,118
2011	104,384
Thereafter	43,493
	$ 547,524

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NOTE 13 COMMITMENTS AND CONTINGENCIES (continued)

During the year ended December 31, 2002, the Company entered into an operating lease agreement for the use of new vehicles to use in the transportation segment of its business. The monthly lease payments range from $713 to $1,237 and the lease periods range from 60 to 84 months for the vehicles. In addition, the Company pays a per-mile maintenance fee of $0.065 to $0.070 for the use of the vehicles. The following table shows the future minimum operating lease payments that are due under the contracts:

Years Ended December 31,	Amount
2007	$ 213,378
2008	201,458
2009	121,255
2010	12,138
2011 & thereafter	
	$ 548,229

Rent expense for all operating leases during the years ended December 31, 2006 and 2005 was $924,029 and $729,045, respectively.

Environmental Matters

The Company operates within the medical waste management industry, which is subject to various federal, state and local laws and regulations. Management is not aware of any significant contingent liabilities relative to these activities.

Litigation

The Company operates in a highly regulated industry and are exposed to regulatory inquiries or investigations from time to time. Government authorities can initiate investigations for a variety of reasons. We have been involved in certain legal and administrative proceedings that have been settled or otherwise resolved on terms acceptable to us, without having a material adverse effect on our business.

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NOTE 13 COMMITMENTS AND CONTINGENCIES (continued)

The Company, EMSI and one of the Company s employees have been named in a civil action filed in the Dallas County Court, Dallas County, Texas as a result of a traffic accident involving one of EMSI s trucks. The complaint, Case No. cc-05-04255-E, was filed on April 8, 2005 and is a civil action titled Kathleen Bohne and David Ross, Independent Executor of the Estate of Robert E. Bohne v. MedSolutions, Inc., EnviroClean Management Services, Inc. and Turner Bruce Yarbrough. The complaint seeks damages from the Company for losses suffered by the plaintiffs as a result of an accidental death. The Company denies responsibility for the claims alleged by the plaintiffs and is vigorously defending the action through its insurance carrier. The Company believes that this lawsuit is adequately covered by insurance; however, to the extent that the amount of any award exceeds the Company s insurance coverage, such excess amounts could have a material impact on the Company s financial condition or results of operations. The plaintiffs are litigating for damages, which could exceed $4.4 million plus punitive damages. The Company maintains $6 million of insurance coverage to cover potential claims. If the suit is settled for an amount exceeding $6 million the Company will be responsible for this excess.

We are also a party to various legal proceedings arising in the ordinary course of business. However, except as described above, there are no legal proceedings pending or, to our knowledge, threatened against us that could adversely affect our financial condition or our ability to carry on the business.

Employment Agreements

Matthew H. Fleeger serves as the Company s President and Chief Executive Officer and entered into a three-year employment agreement dated December 30, 2004 to be effective as of January 1, 2005. Mr. Fleeger is entitled to receive an annual base salary of $200,000, increased 5% annually, and is also entitled to be paid a cash bonus of $25,000 on April 15, 2005. Pursuant to the Executive Target Bonus Program, Mr. Fleeger is also eligible for an annual bonus based on the Company achieving certain goals related to EBITDA. Any such bonus will be paid to Mr. Fleeger in the form of a stock option to purchase a number of shares of Common Stock equal to the amount of such bonus at an exercise price per share of Common Stock equal to the fair market value (as such term is defined in the Company s 2002 Stock Option Plan or any successor plan thereto) of such Common Stock as of the effective date that such option is granted; provided, however, that in the event that Mr. Fleeger becomes the owner of equity securities of the Company representing more than 10% of the total combined voting power of all classes of equity securities of the Company, the exercise price per share of Common Stock shall be equal to 110% of the fair market value of such Common Stock as of the effective date that such option is granted; provided further, however, that Mr. Fleeger shall have the option, in his sole discretion, to receive up to 50% of the amount of any such bonus in the form of cash in lieu of such stock option.

Mr. Lonnie P. Cole, Sr. serves as a Senior Vice President in charge of our Sales Department. Mr. Cole entered into a three-year employment agreement dated September 30, 2004 to be effective as of October 1, 2004. Mr. Cole is to receive a base salary of $100,000 annually and is eligible for bonus incentives based on the Company achieving certain goals related to revenue growth.

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MEDSOLUTIONS, INC.
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NOTE 13 COMMITMENTS AND CONTINGENCIES (continued)

Mr. J. Steven Evans serves as Vice President of Finance in charge of our Finance and Accounting Department. Mr. Evans entered into a three-year employment agreement dated February 1, 2005. Mr. Evans is to receive a base salary of $95,000 annually and is eligible for bonus incentives based on personal performance and the Company achieving certain financial goals.

Mr. Alan Larosee serves as Vice President of Operations. Mr. Larosee entered into a three-year employment agreement dated March 1, 2005. Mr. Larosee is to receive a base salary of $95,000 annually and is eligible for bonus incentives based on personal performance and the Company achieving certain financial goals.

Mr. James M. Treat serves as Vice President of Business Development. Mr. Treat entered into a three-year employment agreement dated December 1, 2005. Mr. Treat is to receive a base salary of $100,000 annually and is eligible for bonus incentives based on personal performance and the Company achieving certain financial goals.

NOTE 14 RELATED PARTY TRANSACTIONS

Related party expenses included in the accompanying consolidated statements of operations are as follows:

	Years Ended December 31,	
	2006	2005
Interest expense	$ 183,082	$ 139,705

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MEDSOLUTIONS, INC.
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NOTE 15 SUBSEQUENT EVENTS

On January 1, 2007, the Company issued promissory notes to its directors for payment of their 2006 board compensation. Additional promissory notes were issued to the Chairman of the Board and the President/Chief Executive Officer of the Company for payment of compensation for giving their personal guaranties related to certain indebtedness by the Company to various third parties. The total amount of the promissory notes issued is $292,005 and the notes accrue interest at 12% with final payment of all principal and accrued interest due on July 1, 2007.

On January 2, 2007, the Company issued a promissory note to Tate Investments, LLC, which loaned $175,000 to the Company for equipment expansion purposes. The promissory note bears interest at 12% and is payable in 24 equal monthly installments of principal and interest in the amount of $5,813 each, with the balance of the principal and any accrued and unpaid interest due upon maturity of the note on December 28, 2008.

On January 31, 2007, the Company renewed and extended for six months a $175,000 promissory note to On Call Medical Waste Services, Ltd (On Call). The note accrues interest at 12% and is payable in monthly installments of interest only with the principal and any accrued and unpaid interest due upon maturity of the note on July 31, 2007. As consideration for this extension, the Company agreed to enter into an agreement with Medical Waste of North Texas, LLC (MWNT an entity owned by the former owner of On Call) for the Company to treat and dispose of regulated medical waste that is brought to its Garland Facility by MWNT, effective September 1, 2007. The initial term of this agreement is for 24 months, and the agreement automatically renews for additional one-year extensions unless either party notifies the other party in writing at least 30 days but not more than 90 days prior to any such renewal date of its desire not to renew the agreement.

On March 27, 2007, EMSI entered into a $1,500,000 secured, one-year loan and security agreement (the Loan Agreement) with Park Cities Bank, Dallas, Texas (the Bank), and Mr. Matthew H. Fleeger and Mr. Winship B. Moody, Sr. (collectively, the Guarantors). The terms of the Loan Agreement provide EMSI with a $1,500,000 revolving line of credit, subject to certain downward adjustments from time to time based upon the value of the collateral securing the line of credit. The performance by EMSI of its obligations under the Loan Agreement is secured by all of EMSI s personal property, including without limitation its account receivables, and a first-lien mortgage deed of trust on EMSI s facility located in Garland, Texas, and is unconditionally guaranteed by the Guarantors. The proceeds of the borrowings under the Loan Agreement may only be used for general corporate purposes, including without limitation providing working capital to EMSI for the purposes of financing its operations, production and marketing and sales efforts, costs related to the expansion of EMSI s business operations, and the acquisition of the assets of businesses engaged in businesses the same as, similar to, or complementary to EMSI s business operations. Borrowings under the Loan Agreement will bear interest at the lesser of (1) a fluctuating rate of interest equal to 1.0% in excess of the prime rate as designated in the Money Rates Section of the *Wall Street Journal* from time to time or (2) the maximum rate permissible by applicable law. Accrued and unpaid interest under the Loan Agreement is payable on the first day of each month commencing on April 1, 2007. In addition, EMSI paid an

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MEDSOLUTIONS, INC.
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NOTE 15 SUBSEQUENT EVENTS (continued)

origination fee to the Bank in the amount of $15,000. The Loan Agreement contains, among other provisions, conditions precedent, covenants, representations and warranties and events of default customary for facilities of this size, type and purpose. Negative covenants include certain restrictions or limitations on, among other provisions, the incurrence of indebtedness; liens; investments, loans and advances; restricted payments, including dividends; consolidations and mergers; sales of assets (subject to customary exceptions for sales of inventory in the ordinary course and sales of equipment in connection with the replacement thereof in the ordinary course); and changes of ownership or control of EMSI. Affirmative covenants include covenants regarding, among other provisions, financial reporting. The Loan Agreement will mature and expire on April 1, 2008, at which time all outstanding amounts under the Loan Agreement will be due and payable. The outstanding amounts under the Loan Agreement may be prepaid by EMSI at any time without penalty, and any principal amounts borrowed and repaid thereunder may be reborrowed by EMSI prior to the maturity date so long as the aggregate principal amount outstanding at any time does not exceed the $1,500,000 maximum loan commitment (as subject to downward adjustment based on the value of the collateral as described above). Under certain conditions the loan commitment under the Loan Agreement may be terminated by the Bank and amounts outstanding under the Loan Agreement may be accelerated. Bankruptcy and insolvency events with respect to EMSI or either of the Guarantors will result in an automatic termination of lending commitments and acceleration of the indebtedness under the Loan Agreement. Subject to notice and cure periods in certain cases, other events of default under the Loan Agreement will result in termination of lending commitments and acceleration of indebtedness under the Loan Agreement at the option of the Bank.

Such other events of default include failure to pay any principal and/or interest when due, failure to comply with covenants, breach of representations or warranties in any respect, non-payment or acceleration of other material debt of EMSI or the Guarantors, the death of either Guarantor of the termination of either of their guaranties, certain judgments against EMSI or a Guarantor, a material adverse change in the business or financial condition of EMSI or either Guarantor, or if the Bank in good faith deems itself insecure.

On March 1, 2007, the Company provided written notice to the Investor, that the Company intended to prepay in full on April 2, 2007 all outstanding principal and interest owed by the Company to the Investor pursuant to (1) that certain 10% Senior Convertible Note issued by the Company to the Investor on July 15, 2005 in the principal amount of $1,000,000 (the 2005 Note), and (2) that certain Convertible Secured Promissory Note issued by the Company to the Investor on March 15, 2006 in the principal amount of $500,000 (the 2006 Note, and together with the 2005 Note, the Notes). The 2005 Note was issued by the Company in connection with the Investment Agreement. The Company intended to use the proceeds of the Loan Agreement described above to prepay the Notes.

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MEDSOLUTIONS, INC.
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NOTE 15 SUBSEQUENT EVENTS (continued)

On March 31, 2007, 96,667 shares of the Company s Series A 10% Convertible Preferred Stock (the Series A Preferred Stock) were converted into 96,667 shares of the Company s Common Stock in accordance with the Certificate of Designation for the Series A Preferred Stock (the Certificate of Designation). The terms of the Certificate of Designation required the holders of the Preferred Stock to convert their shares into the Company s Common Stock on a share for share basis on the second anniversary from the date of issuance of the Series A Preferred Stock. All dividends declared with regard to the issuance of the Series A Preferred Stock have been paid. As of March 31, 2007, there were no shares of Series A Preferred Stock outstanding.

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To the Board of Directors
MedSolutions, Inc.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We have audited the accompanying consolidated balance sheets of MedSolutions, Inc. (the Company) as of December 31, 2005 and 2004, and the related consolidated statements of operations, stockholders equity (deficiency) and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Company s management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with 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 consolidated financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company s internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of MedSolutions, Inc. as of December 31, 2005 and 2004, and the results of its operations and cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

MARCUM & KLIEGMAN, LLP
New York, New York
March 17, 2006

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MEDSOLUTIONS, INC.
CONSOLIDATED BALANCE SHEETS

	December 31, 2005	2004
ASSETS		
Current Assets:		
Cash	$	$
Accounts receivable trade, net of allowance of $69,240 and $88,835	1,405,603	979,080
Prepaid expenses and other current assets	258,523	240,428
Supplies	14,106	11,911
Total Current Assets	1,678,232	1,231,419
Property and equipment at cost, net of accumulated depreciation of $1,836,756 and $1,335,071	3,150,504	1,636,265
Intangible assets Customer list, net of accumulated amortization of $624,770 and $235,858	1,437,912	897,980
Intangible assets Goodwill	2,597,021	1,495,173
Intangible assets permits	65,007	59,764
Other assets	102,126	43,034
Total Assets	$ 9,030,802	$ 5,363,635
LIABILITIES AND STOCKHOLDERS EQUITY (DEFICIENCY)		
Current Liabilities:		
Note payable to bank	$	$ 22,493
Convertible debentures	40,135	40,135
Current maturities of long-term obligations	145,628	122,571
Accounts payable	1,130,155	1,592,822
Accrued liabilities	962,327	1,741,064
Note payable AmeriTech Environmental, Inc.		750,000
Current maturities notes payable to Tate Investments, LLC	250,000	
Current maturities notes payable to Med-Con	157,861	467,820
Current maturities notes payable to On Call	495,819	
Current maturities notes payable to Positive Impact	360,669	
Current maturities notes payable stockholders	487,891	588,618
Current maturities litigation settlements	26,735	186,253
Advances from stockholders	19,004	171,845
Total Current Liabilities	4,076,224	5,683,621
Long-term obligations, less current maturities	806,952	399,100
Notes payable Tate Investments, LLC, less current maturities	725,000	
Notes payable Med-Con, less current maturities	274,749	
Notes payable On Call, less current maturities	119,541	
Notes payable Positive Impact, less current maturities	489,331	
Notes payable stockholders, less current maturities	359,131	951,358
Litigation settlements, less current maturities		26,736

Total Liabilities	6,850,928	7,060,815
Commitments and Contingencies		
Stockholders Equity (Deficiency):		
Preferred stock (par value $.001) 100,000,000 shares authorized at December 31, 2005 and December 31,2004,respectively, 283,172 shares issued and outstanding at December 31,2005 and 143,333 shares issued at December 31, 2004 (liquidation preference $424,758 2005; $215,000 2004)	283	143
Common stock (par value $.001) - 100,000,000 shares authorized at December 31, 2005 and December 31,2004; 21,854,467 shares issued and 21,842,267 outstanding at December 31, 2005 and 18,141,242 shares issued and 18,129,042 outstanding at December 31, 2004	21,854	18,141
Additional paid-in capital	24,658,145	21,595,614
Accumulated deficit	(22,482,408)	(23,293,078)
Treasury stock, at cost - 12,200 shares at December 31, 2005 and December 31, 2004	(18,000)	(18,000)
Total Stockholders Equity (Deficiency)	2,179,874	(1,697,180)
Total Liabilities and Stockholders Equity (Deficiency)	$ 9,030,802	$ 5,363,635

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

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MEDSOLUTIONS, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS

	For the Years Ended December 31,	
	2005	2004
Revenues	$ 9,415,558	$ 7,926,330
Cost of revenues *	5,680,379	5,692,801
Gross profit	3,735,179	2,233,529
Operating expenses:		
Selling, general and administrative expenses	2,449,460	2,202,697
Depreciation and amortization	751,257	579,332
Impairment of customer list		139,330
Total operating expenses	3,200,717	2,921,359
Income (loss) from operations	534,462	(687,830)
Other (income) expenses:		
Interest expense	374,260	317,854
ATE settlement	(650,468)	
Other income		(13,050)
	(276,208)	304,804
Net income (loss)	$ 810,670	$ (992,634)
Preferred stock dividend	(40,875)	(7,000)
Net income (loss) applicable to common stockholders	$ 769,795	$ (999,634)
Basic net income (loss) per share attributable to common stockholders	$ 0.04	$ (0.06)
Diluted net income (loss) per share attributable to common stockholders	$ 0.04	$ (0.06)
Weighted average common shares used in basic income (loss) per share	19,482,720	18,113,411
Weighted average common shares and dilutive securities used in diluted income (loss) per share	20,316,988	18,113,411

* Excludes depreciation of $501,865 and $392,825 for the years ended December 31, 2005 and 2004, respectively.
The accompanying notes are an integral part of these consolidated financial statements.

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MEDSOLUTIONS, INC.
CONSOLIDATED STATEMENTS OF STOCKHOLDERS EQUITY (DEFICIENCY)
FOR THE YEARS ENDED DECEMBER 31, 2005 AND 2004

	MSI Preferred Stock Series A		MSI Common Stock	
Year Ended December 31, 2005	Shares	Amount	Shares	Amount
Balance December 31, 2004	143,333	$ 143	18,141,242	$ 18,141
MSI preferred stock sold for cash	139,839	140		
MSI common stock sold for cash net of transaction costs of $50,443			1,667,672	1,668
MSI common stock issued for ATE settlement			60,746	61
MSI common stock returned by directors			(20,000)	(20)
MSI common stock issued for debt conversions			1,468,140	1,468
MSI common stock issued for acquisitions			536,667	536
Preferred stock dividend				
Net income				
Balance December 31, 2005	283,172	$ 283	21,854,467	$ 21,854

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Year Ended December 31, 2005	Additional Paid-in Capital	Accumulated Deficit	Treasury Stock	Total
Balance December 31, 2004	$ 21,595,614	$ (23,293,078)	$ (18,000)	$ (1,697,180)
MSI preferred stock sold for cash	209,618			209,758
MSI common stock sold for cash net of transaction costs of $50,443	1,077,099			1,078,767
MSI common stock issued for ATE settlement	83,006			83,067
MSI common stock issued for director fees	100,689			100,689
MSI common stock returned by directors	(2)			(22)
MSI common stock issued for debt conversions	1,228,532			1,230,000
MSI common stock issued for acquisitions	404,464			405,000
Preferred stock dividend	(40,875)			(40,875)
Net income		810,670		810,670
Balance December 31, 2005	$ 24,658,145	$ (22,482,408)	$ (18,000)	$ 2,179,874

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

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MEDSOLUTIONS, INC.
CONSOLIDATED STATEMENTS OF STOCKHOLDERS DEFICIENCY
FOR THE YEARS ENDED DECEMBER 31, 2005 AND 2004

	MSI Common Stock		MSI Preferred Stock Series A	
Year Ended December 31, 2004:	Shares	Amount	Shares	Amount
Balance December 31, 2003	18,084,703	$ 18,084		$
MSI common stock sold for cash	100,000	100		
MSI preferred stock sold for cash			143,333	143
MSI common stock issued for bonuses	115,000	115		
MSI common stock bonuses cancelled by the Company				
MSI common stock issued in partial payment for assets of Bray	29,867	30		
MSI common stock issued for consulting services	8,500	9		
MSI common stock issued for director fees	20,000	20		
MSI common stock reversal of shares issued due to clawback provision for AmeriTech acquisition	(365,828)	(366)		
MSI common stock issued in partial payment for assets of Med-Con	149,000	149		
Net loss				
Balance December 31, 2004	18,141,242	$ 18,141	143,333	$ 143

****

Year Ended December 31, 2004:	Additional Paid-in Capital	Accumulated Deficit	Treasury Stock	Total
Balance December 31, 2003	$ 21,476,848	$ (22,300,444)	$ (18,000)	$ (823,512)
MSI common stock sold for cash	129,900			130,000
MSI preferred stock sold for cash	214,857			215,000
MSI common stock issued for bonuses	(115)			
MSI common stock bonuses cancelled by the Company	(144,500)			(144,500)
MSI common stock issued in partial payment for assets of Bray	22,369			22,399
MSI common stock issued for consulting services	8,491			8,500
MSI common stock issued for director fees	(20)			
MSI common stock reversal of shares issued due to clawback provision for AmeriTech acquisition	(254,067)			(254,433)
MSI common stock issued in partial payment for assets of Med-Con	148,851			149,000
Preferred Stock Dividend	(7,000)			(7,000)

Net loss			(992,634)		$ (992,634)
Balance	December 31, 2004	$ 21,595,614	$ (23,293,078)	$ (18,000)	$ (1,697,180)

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

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MEDSOLUTIONS, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2005 AND 2004

	For the Years Ended December 31,	
	2005	2004
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income (loss)	$ 810,670	$ (992,634)
Adjustments to reconcile net income (loss) to net cash (used in) provided by operating activities:		
Depreciation and amortization	751,258	579,332
Gain on disposal of fixed asset		(11,194)
Impairment of customer list		139,330
Provision for bad debts	3,000	59,000
Gain on ATE settlement	(650,468)	
Cancellation of accrued bonuses		(144,500)
Litigation settlement	(53,023)	
Stock issued for other services		8,500
Stock options issued for director fees	100,667	
Changes in assets (increase) decrease:		
Accounts receivable	(375,950)	295,685
Supplies	(2,195)	867
Prepaid expenses and other current assets	128,244	309,516
Other non-current assets	(64,335)	(72,151)
Changes in liabilities increase (decrease)		
Accounts payable, accrued liabilities & litigation settlements	(959,282)	40,821
NET CASH (USED IN) PROVIDED BY OPERATING ACTIVITIES	(311,414)	212,572
CASH FLOWS FROM INVESTING ACTIVITIES:		
Additions to property and equipment	(225,713)	(350,104)
Proceeds from disposal of fixed asset		10,115
Asset acquisition of Bray Medical Waste Service		(11,200)
Asset acquisition of Med-Con Waste Solutions, Inc.		(250,000)
Asset acquisition of On Call Medical Waste, Ltd.	(375,000)	
Asset acquisition of Cooper Biomed, Ltd.	(40,000)	
Asset acquisition of Positive Impact Waste Solutions	(700,000)	
NET CASH USED IN INVESTING ACTIVITIES	(1,340,713)	(601,189)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from sale of preferred stock	209,758	215,000
Proceeds from sale of common stock	1,129,210	130,000
Proceeds from note payable stockholders	1,375,000	1,150,000

Cash paid for transaction costs associated with equity transactions	(50,443)	
Dividend on preferred stock	(37,250)	
Payments on long-term obligations to stockholders	(521,053)	(603,020)
(Repayments to) advances from stockholders	(152,840)	(186,550)
Payments on long-term obligations to others	(300,255)	(316,813)
NET CASH PROVIDED BY FINANCING ACTIVITIES	1,652,127	388,617
NET INCREASE IN CASH AND CASH EQUIVALENTS		
CASH AND CASH EQUIVALENTS BEGINNING		
CASH AND CASH EQUIVALENTS END	$	$

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

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MEDSOLUTIONS, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2005 AND 2004

	For the Years Ended December 31, 2005	2004
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:		
Interest paid	$ 430,803	$ 236,384
Income taxes paid	$	$
Issuance of notes payable for property & equipment	$ 601,518	$ 148,855
Common stock reclaimed in connection to clawback provision regarding AmeriTech acquisition		$ 254,433
Notes payable converted into MSI common stock	$ 775,843	$
Accrued salaries and related interest converted into MSI common stock and stock options	$ 454,157	$
Insurance premiums financed with debt	$ 163,804	$ 125,000
Director fees paid with non plan stock options	$ 100,667	$ 85,500
Net assets acquired and liabilities assumed (See Acquisitions Note 4)		
Total purchase price	$ 3,150,900	$ 1,256,048
Less: cash consideration paid	(1,115,000)	(261,200)
Non-cash consideration	$ 2,035,900	$ 994,848
Short term note	$ 740,000	$ 750,000
Long term note	800,000	
Common stock issued	405,000	171,400
Liabilities assumed		71,448
Acquisition costs	90,900	2,000
Allocation of non-cash consideration	$ 2,035,900	$ 994,848

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

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MEDSOLUTIONS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2005 AND 2004

NOTE 1 DESCRIPTION OF BUSINESS

MedSolutions, Inc. (MSI or the Company) was incorporated in Texas in 1993, and through its subsidiary, EnviroClean Management Services, Inc. (EMSI), principally collects, transports and disposes of regulated medical waste in north Texas, south Texas, Oklahoma, Louisiana and Arkansas. MSI markets, through its wholly-owned subsidiary SharpsSolutions, Inc. (Sharps), a reusable sharps container service program to healthcare facilities that we expect will virtually eliminate the current method of utilizing disposable sharps containers. Another subsidiary of MSI, ShredSolutions, Inc. (Shred), markets a fully integrated, comprehensive service for the collection, transportation and destruction of Protected Healthcare Information (PHI) and other confidential documents, primarily those generated by health care providers and regulated under the Health Insurance Portability and Accountability Act (HIPAA). The Company operates another wholly owned subsidiary, Positive Impact Waste Servicing, Inc., which uses mobile treatment equipment to treat and dispose of regulated medical waste on site. Positive Impact Waste Servicing, Inc. was acquired by the Company s from its asset acquisition from Positive Impact Waste Solutions, Ltd. (PIWS) on November 30, 2005. The assets acquired by the Company from PIWS included customer contracts and equipment.

Liquidity and Capital Resources

Our principal source of liquidity is collections on accounts receivable from waste management service revenue, from sales of our Common and Preferred Stock through private offerings to certain individuals, primarily existing stockholders, and from loans and advances received from certain stockholders. Revenues during 2005 were approximately $125,000 per month higher, stemming primarily from organic growth and from acquisitions in the second half of 2005. The Company continues to pursue acquisition targets to expand its existing business. The principal uses of liquidity are payments for labor, fuel, material and expenses, and debt and lease obligations to carry out our regulated medical waste management services.

Historically, we have met our cash requirements based on a combination of revenues from operations, stockholder loans and advances, and proceeds from the sale of debt and equity securities. Based on the projected operations for 2006, management believes cash to be generated from operations and funds raised from other alternative sources if needed, will be sufficient to satisfy the Company s historical and current cash obligations.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation

The accompanying consolidated financial statements include the accounts of the Company, its subsidiaries, EMSI, SharpsSolutions, Inc., ShredSolutions, Inc., Positive Impact Waste Servicing, Inc. doing business as EnviroClean On-Site, Inc., and EnviroClean Transport, Inc. All significant inter- company balances and transactions between the Company and its subsidiaries have been eliminated in consolidation.

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MEDSOLUTIONS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2005 AND 2004

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Cash and Cash Equivalents

For purposes of the consolidated statement of cash flows, the Company considers all investments with an original maturity of three months or less to be cash equivalents.

Allowance for Doubtful Accounts

The Company s trade accounts receivable is stated net of an allowance for doubtful accounts of $69,240 and $88,835 at December 31, 2005 and 2004, respectively. Our assumptions in determining the adequacy of the allowance for doubtful accounts include reviewing historical charge-offs over the previous two years, and analyzing current aging reports by performing a specific review of customer balances for possible payment problems. Based on our review, the allowance for doubtful accounts is adjusted accordingly.

Supplies

Supplies are stated at the lower of average cost or fair value and consist primarily of medical waste containers and supplies provided to our medical waste generator customers.

Property and Equipment

Property and equipment are stated at cost less appropriate valuation allowances and accumulated depreciation and amortization. Depreciation is provided on the straight-line method over the estimated useful lives of the related assets, generally three to twenty years. Amortization of leasehold improvements is provided on the straight-line method over the lesser of the estimated useful lives of the improvements or the initial term of the lease. Gain or loss is recognized upon sale or other disposition of property and equipment.

Goodwill and Intangible Assets

To determine the adequacy of the carrying amounts on an ongoing basis, the Company performs its annual impairment test at the end of the year each December 31, unless triggering events indicate that an event has occurred which would require the test to be performed sooner. The Company monitors the performance of its intangibles by analyzing the expected future cash flows generated from such related intangibles to ensure their continued performance. If necessary, the Company may hire an outside independent consultant to appraise the fair value of such assets.

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MEDSOLUTIONS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2005 AND 2004

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

As of December 31, 2005, goodwill totaled $2,597,021. This amount is a result of six acquisitions where goodwill was recorded in five of those acquisitions as part of the purchase price. With regard to the AmeriTech Environmental, Inc. (ATE) acquisition, purchased on November 7, 2003, goodwill was recorded in the amount of $969,387. With regard to the B. Bray Medical Waste Service (Bray) acquisition, purchased on January 1, 2004, goodwill was recorded in the amount of $3,600. Our third acquisition, Med-Con Waste Solutions, Inc. (Med-Con), was purchased on September 30, 2004 and goodwill was recorded in the amount of $522,186. Our fourth acquisition, On Call Medical Waste, Ltd. (On Call), was purchased on August 29, 2005 and goodwill was recorded in the amount of $653,922. Our sixth acquisition, Positive Impact Waste Solutions, Ltd. (PIWS) was purchased on November 30, 2005 and goodwill was recorded in the amount of $447,926. All of the goodwill associated with these acquisitions is deductible for income tax purposes.

As of December 31, 2005, intangible assets were $1,437,912, net of accumulated amortization, of $624,770, and consisted almost entirely of customer lists recorded from the acquisitions mentioned above. All values assigned to customer list were derived by independent appraisals and were assigned lives of 5 years over which to amortize the assigned cost.

Year Ended December 31,	Amount
2006	$ 370,423
2007	370,423
2008	343,672
2009	232,543
2010	120,851
	$ 1,437,912

Both the goodwill and customer list values are subject to an annual impairment test.

As of December 31, 2005, the Company determined there was no impairment of its goodwill or intangible assets. For the year ended December 31, 2004, the Company recorded an impairment of $139,330 on the ATE customer list.

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MEDSOLUTIONS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2005 AND 2004

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Convertible Notes and Convertible Preferred

The Company accounts for conversion options embedded in convertible notes and convertible preferred stock in accordance with Statement of Financial Accounting Standard (SFAS) No. 133 Accounting for Derivative Instruments and Hedging Activities (SFAS 133) and EITF 00-19 Accounting for Derivative Financial Instruments Indexed to, and Potentially Settled in, a Company s Own Stock (EITF 00-19). SFAS 133 generally requires Companies to bifurcate conversion options embedded in convertible notes and preferred shares from their host instruments and to account for them as free standing derivative financial instruments in accordance with EITF 00-19. SFAS 133 provides for an exception to this rule when convertible notes and mandatorily redeemable preferred shares, as host instruments, are deemed to be conventional as that term is described in the implementation guidance provided in paragraph 61 (k) of Appendix A to SFAS 133 and further clarified in EITF 05-2 The Meaning of Conventional Convertible Debt Instrument in Issue No. 00-19. SFAS 133 provides for an additional exception to this rule when the economic characteristics and risks of the embedded derivative instrument are clearly and closely related to the economic characteristics and risks of the host instrument.

The Company accounts for convertible notes (deemed conventional) and non-conventional convertible debt instruments classified as equity under EITF 00-19 Accounting for Derivative Financial Instruments Indexed to, and Potentially Settled in, a Company s Own Stock (EITF 00-19)and in accordance with the provisions of Emerging Issues Task Force Issue (EITF) 98-5 Accounting for Convertible Securities with Beneficial Conversion Features, (EITF 98-5), EITF 00-27 Application of EITF 98-5 to Certain Convertible Instruments. Accordingly, the Company records, as a discount to convertible notes, the intrinsic value of such conversion options based upon the differences between the fair value of the underlying common stock at the commitment date of the note transaction and the effective conversion price embedded in the note. Debt discounts under these arrangements are amortized over the term of the related debt to their earliest date of redemption. During 2005, the Company issued $1,000,000 in principal of convertible notes with an embedded conversion option, which was classified as equity. There was no intrinsic value related to this debt instrument and accordingly, there was no recorded debt discount.

The Company determined that the conversion option embedded in its Series A Preferred stock is not a free standing derivative in accordance with the implementation guidance provided in paragraph 61 (l) of Appendix A to SFAS 133.

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MEDSOLUTIONS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2005 AND 2004

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Impairment of Long-Lived Assets

The Company continuously monitors events and changes in circumstances that could indicate carrying amounts of long-lived assets, including intangible assets, may not be recoverable. An impairment loss is recognized when expected cash flows are less than the assets carrying value. Accordingly, when indicators or impairment are present, the Company evaluates the carrying value of such assets in relation to the operating performance and future undiscounted cash flows of the underlying business. The Company s policy is to record an impairment loss when it is determined that the carrying amount of the asset may not be recoverable.

Revenue Recognition and Processing Costs

We recognize revenue for our medical waste services at the time the medical waste is collected from our customers. Revenue is only recognized for arrangements with customers in which (1), there is persuasive evidence of a contract or agreement which sets forth the terms of the arrangement; (2), services have been rendered; (3), our prices are fixed, determinable and agreed upon; and, (4), collectibility is reasonably assured.

Fair Value of Financial Instruments

The recorded carrying values of accounts receivable, accounts payable, and other long-term obligations are considered to approximate the fair values of such financial instruments because of the short maturities.

Provisions for Income Taxes

No provisions have been made for federal or state income taxes since the Company has incurred net operating losses since its inception. The Company is subject to certain local minimum taxes.

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MEDSOLUTIONS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2005 AND 2004

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Stock-Based Compensation

As permitted under Statement No. 123, the Company continues to apply the Accounting Principles Board (APB) Opinion No. 25, Accounting for Stock Issued to Employees. As required under Statement No. 148, the following table presents pro- forma net loss and basic and diluted loss per share as if the fair value-based method had been applied to all awards.

Periods Ended December 31, 2005 and 2004 (in thousands)

	2005	2004
Net income (loss) applicable to common stockholders, Prior to stock-based employee compensation	$ 770	$ (1,000)
Stock-based employee compensation cost		
Net income (loss) applicable to common stockholders, as reported	$ 770	$ (1,000)
Stock-based employee compensation cost determined under fair value method, net of tax effects	(291)	(162)
Pro-forma net income (loss) under fair value method **Basic**	$ 479	$ (1,162)
Effect of dilutive securities Preferred Stock	41	
Convertible notes payable and advances interest expense	45	
Pro-forma net income (loss) under fair value method **Dilutive**	$ 565	$ (1,162)
Net income (loss) per share applicable to common stockholders **Basic**	$ 0.04	$ (0.06)
Stock-based employee compensation cost determined under fair value method, net of tax effects	(0.01)	(0.01)
Pro-forma loss per share applicable to common stockholders **Basic**	$ 0.03	$ (0.07)
Net income (loss) per share applicable to common stockholders **Diluted**	$ 0.04	$ (0.06)
Stock-based employee compensation cost determined under fair value method, net of tax effects	(0.01)	(0.01)
Pro-forma net income (loss) per share attributable to common stockholder **Diluted**	$ 0.03	$ (0.07)

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MEDSOLUTIONS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2005 AND 2004

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The fair value of each option grant was estimated at the date of grant using the Black-Scholes option valuation model. The Black-Scholes option valuation model was developed for use in estimating the fair value of traded options which have no vesting restrictions and are fully transferable. During the year ended December 31, 2005 and 2004, the Company granted 566,673 and 228,118 stock options,(fair value $0.51 and $0.74 per share for 2005 and 2004, respectively) respectively to employees under an adopted 2002 Employee Stock Option Plan. The exercise price of the stock options was $1.00 (which is above the estimated market value of the Company s common stock) and vest immediately. The options may be exercised over a period of ten years. Because the Company s stock options have characteristics significantly different from those of traded options, and because changes in the subjective input assumptions can materially affect the fair value estimate, in management s opinion, the existing models do not necessarily provide a reliable single measure of the fair value estimate of its stock options. During the years ended December 31, 2005 and 2004, respectively, the Company granted its directors 100,667 and 85,500, non plan stock options, respectively. The options were granted in lieu of payment of director fees. The total number of stock options outstanding as of December 31, 2005 and 2004, was 1,132,740 and 268,118 respectively. In calculating the fair values of the stock options, the following assumptions were used:

	YEAR 2005	YEAR
GRANTS	GRANTS	2004
Dividend yield		
Weighted average expected life:	5 years	5 years
Weighted average risk-free interest rate	4.25%	3.27%
Expected volatility	92.00%	80.39%

Income (Loss) Per Share of Common Stock

Basic net income (loss) per share of common stock has been computed based on the weighted average number of common shares outstanding during the periods presented.

Diluted net income per share of common stock has been computed based on the weighted average number of common shares outstanding during the periods presented plus any dilutive securities outstanding unless such combination of shares and dilutive securities were determined to be anti-dilutive. The numerator and denominator for basic and diluted earnings per share (EPS) consist of the following:

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MEDSOLUTIONS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2005 AND 2004

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

	2005	2004
Numerator:		
Net income (loss)	$ 810,670	$ (992,634)
Convertible preferred stock dividends	(40,875)	(7,000)
Numerator for basic earnings per share income available to common stockholders	$ 769,795	$ (999,634)
Effect of dilutive securities:		
Preferred stock dividends	40,875	
Convertible notes payable and advances interest expense	44,987	
	$ 85,862	$
Numerator for diluted earnings per share income available to common stockholders after assumed conversions	$ 855,657	$ (999,634)
Denominator:		
Denominator for basic earnings per share weighted average shares	19,482,170	18,113,411
Effect of dilutive securities:		
Convertible accrued salaries	35,060	
Preferred convertible stock	250,528	
Convertible debentures and unpaid interest	58,334	
Note payable to stockholders and accrued interest	441,353	
Advances from stockholders	48,992	
Total potentially dilutive securities	834,267	
Denominator for diluted earnings per share adjusted weighted average shares and assumed conversions	20,316,437	18,113,411
Basic earnings per share	$ 0.04	$ (0.06)
Diluted earnings per share	$ 0.04	$ (0.06)

For the year ended December 31, 2005, 1,132,740 shares attributable to outstanding stock options were excluded from the calculation of diluted earnings per share because the exercise prices of the stock options were greater than or equal to the average price of the common shares ($0.75), and therefore their inclusion would have been anti-dilutive. For the year ended December 31, 2004, common stock equivalents totaling 2,206,306 that consisted of options, convertible accrued wages and convertible securities were not included in the calculation of diluted loss per share because their inclusion would have had the effect of decreasing the loss per share otherwise computed.

In connection with the anti-dilution provisions of the Tate Agreement (see note 11) the Company may be required to lower the conversion price to a level that could result in a change in control upon conversion. The anti-dilution provision provides for adjustment to the conversion price of such Tate Agreement whereby the Company is required to achieve certain earnings targets for 2006 and 2007.

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NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Advertising Expenses

Advertising costs are charged to expense when incurred. Advertising expense for the years ended December 31, 2005 and 2004 approximated $20,256 and $79,149, respectively.

Environmental Expenditures

Environmental expenditures are capitalized if the costs mitigate or prevent future environmental contamination or if the costs improve existing assets environmental safety or efficiency. All other environmental expenditures are expensed. Liabilities for environmental expenditures are accrued when it is probable that such obligations have been incurred and the amounts can be reasonably estimated. Currently, there are no ongoing environmental issues or activities. At December 31, 2005 and 2004, there have been no amounts recorded as capitalized assets related to any environmental costs.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the related periods. Actual results could differ from such estimates.

NOTE 3 RECENTLY ISSUED ACCOUNTING STANDARDS

The following pronouncement has been issued by the Financial Accounting Standards Board (FASB).

In December 2004, the FASB issued SFAS No. 123(R), Share-Based Payment, which is a revision of SFAS No. 123, Accounting for Stock-Based Compensation. Statement 123(R) supersedes Accounting Principles Board Opinion (APB) No. 25, Accounting for Stock Issued to Employees, and amends SFAS No. 95, Statement of Cash Flows. Generally, the approach in Statement 123(R) is similar to the approach described in Statement 123. However, Statement 123(R) requires all share-based payments to employees, including grants of employee stock options, to be recognized in the income statement based on their fair values. Pro forma disclosure is no longer an alternative. The Statement is effective for small business issuers financial statements for the first annual reporting period beginning after December 15, 2005. Statement 123(R) permits public companies to adopt its requirements using one of two methods:

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MEDSOLUTIONS, INC.
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NOTE 3 RECENTLY ISSUED ACCOUNTING STANDARDS (Continued)

A. Modified prospective method in which compensation cost is recognized beginning with the effective date (a) based on the requirements of Statement 123(R) for all share-based payments granted after the effective date and (b) based on the requirements of Statement 123 for all awards granted to employees prior to the effective date of Statement 123(R) that remain unvested on the effective date. B. Modified retrospective method which includes the requirements of the modified prospective method described above, but also permits entities to restate, based on the amounts previously recognized under Statement 123 for purposes of pro forma disclosures, either (a) all prior periods presented or (b) prior interim periods of the year of adoption.

The Company will adopt Statement 123(R) beginning January 1, 2006 using the modified prospective method. The impact of this Statement will require the Company to record a charge for the fair value of its stock options over the vesting period in the Consolidated financial statements.

In June 2005, the FASB published Statement of Financial Accounting Standards No. 154, Accounting Changes and Error Corrections (SFAS 154). SFAS 154 establishes new standards on accounting for changes in accounting principles. Pursuant to the new rules, all such changes must be accounted for by retrospective application to the financial statements of prior periods unless it is impracticable to do so. SFAS 154 completely replaces Accounting Principles Bulletin No. 20 and SFAS 3, though it carries forward the guidance in those pronouncements with respect to accounting for changes in estimates, changes in the reporting entity, and the correction of errors. The requirements in SFAS 154 are effective for accounting changes made in fiscal years beginning after December 15, 2005. The Company will apply these requirements to any accounting changes after the implementation date. The application of this pronouncement is not expected to have an impact on the Company s Consolidated financial position, results of operations, or cash flows.

The Emerging Issues Task Force (EITF) reached a tentative conclusion on EITF No. 05-1, Accounting for the Conversion of an Instrument That Becomes Convertible upon the Issuer s Exercise of a Call Option (EITF No. 05-1) that no gain or loss should be recognized upon the conversion of an instrument that becomes convertible as a result of an issuer s exercise of a call option pursuant to the original terms of the instrument. The consensus for EITF No. 05-1 has not been finalized. The adoption of this pronouncement is not expected to have an impact on our Consolidated financial position, results of operations, or cash flows.

In June 2005, the FASB ratified EITF Issue No. 05-2, The Meaning of `Conventional Convertible Debt Instrument in EITF No. 00-19, `Accounting for Derivative Financial Instruments Indexed to, and Potentially Settled in, a Company s Own Stock (EITF No. 05-2), which addresses when a convertible debt instrument should be considered `conventional for the purpose of applying the guidance in EITF No. 00-19. EITF No. 05-2 also retained the exemption under EITF No. 00-19 for conventional convertible debt instruments and indicated that convertible preferred stock having a mandatory redemption date may qualify for the exemption provided under EITF No. 00-19 for conventional convertible debt if the instrument s economic characteristics are more similar to debt than equity. EITF No. 05-2 is effective for new instruments entered into and instruments modified in periods beginning after June 29, 2005. The Company has

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MEDSOLUTIONS, INC.
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NOTE 3 RECENTLY ISSUED ACCOUNTING STANDARDS (Continued)

applied the requirements of EITF No. 05-2 since the required implementation date. The adoption of this pronouncement did not have an impact on the Company s consolidated financial position, results of operations or cash flows.

EITF Issue No. 05-4 The Effect of a Liquidated Damages Clause on a Freestanding Financial Instrument Subject to EITF Issue No. 00-19, `Accounting for Derivative Financial Instruments Indexed to, and Potentially Settled in, a Company s Own Stock (EITF No. 05-4) addresses financial instruments, such as stock purchase warrants, which are accounted for under EITF 00-19 that may be issued at the same time and in contemplation of a registration rights agreement that includes a liquidated damages clause. The consensus for EITF No. 05-4 has not been finalized. The adoption of this pronouncement is not expected to have an impact on our Consolidated financial position, results of operations, or cash flows.

In June 2005, the EITF reached consensus on Issue No. 05-6 (EITF 05-6). EITF 05-6 provides guidance on determining the amortization period for leasehold improvements acquired in a business combination or acquired subsequent to lease inception. The guidance in EITF 05-6 will be applied prospectively and is effective for periods beginning after June 29, 2005. The adoption of EITF 05-6 did not have a material impact on our Consolidated financial position, results of operations, or cash flows.

In September 2005, the FASB ratified the following consensus reached in EITF Issue 05-8: a) The issuance of convertible debt with a beneficial conversion feature results in a basis difference in applying FASB Statement of Financial Accounting Standards SFAS No. 109. Recognition of such a feature effectively creates a debt instrument and a separate equity instrument for book purposes, whereas the convertible debt is treated entirely as a debt instrument for income tax purposes. b) The resulting basis difference should be deemed a temporary difference because it will result in a taxable amount when the recorded amount of the liability is recovered or settled. c) Recognition of deferred taxes for the temporary difference should be reported as an adjustment to additional paid-in capital. This consensus is effective in the first interim or annual reporting period commencing after December 15, 2005, with early application permitted. The effect of applying the consensus should be accounted for retroactively to all debt instruments containing a beneficial conversion feature that are subject to EITF Issue 00-27 (and thus is applicable to debt instruments converted or extinguished in prior periods but which are still presented in the financial statements). The adoption of this pronouncement is not expected to have a material impact on the Company s consolidated financial statements.

In February 2006, the FASB issued SFAS No. 155 Accounting for Certain Hybrid Financial Instruments, an amendment of FASB Statements No. 133 and 140 (SFAS 155). SFAS 155 clarifies certain issues relating to embedded derivatives and beneficial interests in securitized financial assets. The provisions of SFAS 155 are effective for all financial instruments acquired or issued after fiscal years beginning after September 15, 2006. The Company is currently assessing the impact that the adoption of SFAS 155 will have on its financial position and results of operations.

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MEDSOLUTIONS, INC.
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NOTE 4 ACQUISITIONS

Positive Impact Waste Solutions, Ltd. (PIWS)

On November 30, 2005, the Company acquired certain assets, including customer contracts, and took over the regulated medical waste operations of Positive Impact Waste Solutions, LLC, a Delaware limited liability company (PIWS), in exchange for a combination of cash, promissory notes and shares of the Company s common stock, par value $.001 (the Common Stock). Pursuant to the definitive asset purchase agreement (the Agreement) dated as of November 30, 2005 (the Closing Date), by and between the Company and PIWS, the transaction was accomplished by an assignment by PIWS to the Company of all of its regulated medical waste disposal customer contracts, which cover approximately 250 customers. The other assets acquired consisted primarily of six mobile treatment units.

The purchase price for the acquired assets was (i) $700,000 cash, (ii) a promissory note in the original principal amount of $300,000 bearing no interest and payable in three equal installments of principal in the amount of $100,000 each, with the first such installment due on March 30, 2006, the second such installment due on July 28, 2006, and the third such installment due on November 30, 2006, (iii) a promissory note in the original principal amount of $550,000, bearing interest at the annual rate of 8%, and payable in six equal installments of interest only in the amount of $3,666.66 each due monthly beginning on December 30, 2005, and 54 monthly installments of principal and interest in the amount of $12,161.83 each thereafter; (iv) and 360,000 shares of Common Stock. The purchase price for the acquired assets may be adjusted downward (x) depending upon the amount of revenues realized by the Company from the customer contracts acquired from PIWS for the ensuing three months following the closing of the transaction; and (y) if PIWS fails to deliver assignments of its customer contracts acquired by the Company representing at least 90% of the aggregate revenues represented thereby within 90 days of the closing of the transaction (or 180 days of the closing of the transaction if PIWS has delivered at least 75% but less than 90% of such contracts within 90 days of the closing of the transaction). Any such adjustment to the purchase price will be deducted 33% from the principal amount of the $300,000 note, 33% from the principal amount of the $550,000 note, and 34% by redemption and cancellation of the shares of Common Stock issued to PIWS. The cash portion of the purchase price was funded from the proceeds of a sale of the Company s Common Stock in a private placement to, and a loan to the Company pursuant to a promissory note from, one of its shareholders, and loans from two additional shareholders. The purchase price was determined largely based upon the amount of revenues PIWS has generated from its regulated medical waste disposal business and the value of the equipment acquired. Pursuant to the asset purchase agreement and the transaction documents related thereto, PIWS granted the Company the exclusive right to service customers located within the states of Texas and Kansas with

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MEDSOLUTIONS, INC.
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NOTE 4 ACQUISITIONS (continued)

Positive Impact Waste Solutions, Ltd. (PIWS) (continued)

PIWS mobile treatment units, and also granted the Company certain rights of first refusal with respect to such exclusive right in additional states.

MedSolutions purchased the following assets shown in the following table in exchange for the amount paid.:

Purchase price:	
Cash paid	$ 700,000
Promissory notes	850,000
Common stock, 360,000 shares	270,000
Acquisition related costs	55,400
Total purchase price	$ 1,875,400
Assets acquired:	
Equipment	$ 1,148,475
Allocation to customer list, to be amortized over 5 years	279,000
Allocation to goodwill	447,925
Total net assets acquired	$ 1,875,400

Subsequent to December 31, 2005, it was determined that PIWS had not complied with the terms of Section 5.09 of the Agreement where they were obligated to assign to the Company, within 90 days from the Closing Date, executed contracts for PIWS existing customers as of the Closing Date in a form acceptable to the Company. As a result of this non-compliance and in accordance with the terms of the Agreement, the Company may be entitled to a reduction in the total purchase price of the assets acquired based upon a calculation of average monthly revenue represented by the contracts not submitted to the Company for acceptance. The purchase price adjustment, if any, has yet to be determined. Such adjustment would reduce the amount of notes payable and common stock issued to PIWS by the Company as part of the consideration for the purchase price paid to PIWS for assets acquired and a corresponding reduction in the amount assigned first to the customer list and the remaining amount, if any to goodwill.

On Call Medical Waste Service, Ltd. (On Call)

On August 29, 2005, we acquired certain assets including customer contracts from On Call for a total purchase price of $1,155,500. The purchase price for the acquired assets was (i) $375,000 cash, (ii) a promissory note in the original principal amount of $250,000 bearing interest at a rate per annum of 8%, payable in 24 equal monthly installments of principal and interest with the first such installment due on December 27, 2005, (iii) a promissory note in the original principal amount of $375,000, with no interest (payable within 90 days from Closing and paid in full on April 10, 2006), with the principal amount subject to adjustment if On Call fails to deliver consents to the assignment of its customer contracts acquired by the Company representing at

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MEDSOLUTIONS, INC.
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NOTE 4 ACQUISITIONS (continued)

least 90% of both the number of such customers and the aggregate revenues represented thereby within 90 days of the closing of the transaction (or 180 days of the closing of the transaction if On Call has delivered at least 75% but less than 90% of such contracts within 90 days of the closing of the transaction), and due on the fifth business day after the earlier to occur of the delivery of 90% of such contracts or an adjustment, (iv) 166,667 shares of Common Stock at $0.75 per share, and (v) $30,500 of transaction costs incurred by the Company. The note was subsequently modified into two notes. The first note of $200,000 is payable on April 10, 2006 and the $175,000 note is payable on January 31, 2007. In accordance with EITF 96-19, Debtor s Accounting for a Modification or Exchange of Debt Instruments, the modification of the debt agreement was not determined to be a substantial modification. The principal amount of the $250,000 promissory note may be decreased depending upon the amount of revenues realized by the Company from the customer contracts acquired from On Call for the ensuing three months following the closing of the transaction. The cash portion of the purchase price was funded from the proceeds of a sale of the Company s Common Stock in a private placement to, and a loan to the Company pursuant to a promissory note from, one of its shareholders.

MedSolutions purchased the following assets shown in the following table in exchange for the amount paid.

Purchase price:	
Cash paid	$ 375,000
Promissory notes	625,000
Common stock, 166,667 shares	125,000
Acquisition related costs	30,500
Total purchase price	$ 1,155,500
Assets acquired:	
Accounts receivable, net	$ 48,078
Vehicles	57,500
Allocation to customer list, to be amortized over 5 years	396,000
Allocation to goodwill	653,922
Total net assets acquired	$ 1,155,500

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MEDSOLUTIONS, INC.
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NOTE 4 ACQUISITIONS (continued)

Cooper Biomed, Ltd. (Cooper)

On September 30, 2005, we acquired certain assets, principally customer contracts, from Cooper for a total purchase price of $120,000. The purchase price for the acquired assets was (i) $40,000 cash, (ii) a promissory note in the original principal amount of $40,000 with no interest, with the principal amount subject to adjustment if Cooper fails to deliver consents to the assignment of its customer contracts acquired by the Company representing at least 90% of both the number of such customers and the aggregate revenues represented thereby within 90 days of the closing of the transaction (or 180 days of the closing of the transaction if Cooper has delivered at least 75% but less than 90% of such contracts within 90 days of the closing of the transaction), and due on the fifth business day after the earlier to occur of the delivery of 90% of such contracts or an adjustment, (iii) a promissory note in the original principal amount of $25,000, without interest, payable in one installment of principal in the amount of $25,000 due on the 120th day after the Closing Date and subject to adjustment as described below, (iv) 10,000 shares of Common Stock valued at $1.00 per share, and (v) $5,000 of transaction costs incurred by the Company. The purchase price was allocated to customer list ($114,505) and to accounts receivable ($5,495). The principal amount of the $25,000 promissory note may be decreased depending upon the amount of revenues realized by the Company from the customer contracts acquired from Cooper for the ensuing three months following the closing of the transaction. The Company may be entitled to a reduction in the total purchase price of the assets acquired based upon a calculation of average monthly revenue represented by the contracts not submitted to the Company for acceptance. The purchase price adjustment, if any, has yet to be determined and is expected to be de minimus. The cash portion of the purchase price was funded from the proceeds of a sale of the Company s Common Stock in a private placement to, and a loan to the Company pursuant to a promissory note from, one of its shareholders.

Med-Con Waste Solutions, Inc. (Med-Con)

On September 30, 2004, the Company acquired certain assets, including a customer list, of Med-Con in an acquisition accounted for as a purchase for a total purchase price of $1,222,448. The purchase price for the acquired assets was (i) $250,000 cash, (ii) a promissory note in the original principal amount of $500,000 bearing interest at a rate per annum of 7%, payable in 30 equal monthly installments of principal and interest with the first such installment due on January 1, 2005, (iii) a promissory note in the original principal amount of $250,000, with no interest, and with the principal amount and the due date subject to adjustment based upon the delivery by Med-Con to the Company of consents to the assignment of the customer contracts acquired from Med-Con within 75 days of the closing of the transaction, (iv) and 149,000 shares of Common Stock. The principal amount of the $500,000 promissory note was adjustable depending upon the amount of revenues realized by the Company from the customer contracts acquired from Med-Con for the ensuing 90 days following the closing of the transaction. The Company, based on an independent appraisal, assigned $574,500 (adjusted to $497,610 based on subsequent purchase price adjustment) to the customer list acquired and established a useful life of five years over which to amortize the assigned cost. Amortization expense of the customer list for each year will approximate $99,522.

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MEDSOLUTIONS, INC.
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NOTE 4 ACQUISITIONS (continued)

During the quarter ended December 31, 2004 and in accordance with the acquisition agreement, the Company calculated a purchase price adjustment of $153,780, which lowered the assigned value of the assets acquired. This reduction reduced the note payable to Med-Con by $153,780.

As part of the acquisition, the Company also recorded goodwill of approximately $499,610, net of the purchase price reduction.

MedSolutions purchased assets and assumed liabilities shown in the following table in exchange for the amount paid:

Description	Amount
Purchase price:	
Cash paid	$ 250,000
Promissory notes	750,000
Common stock, 149,000 shares	149,000
Liabilities assumed	71,448
Acquisition related costs	2,000
Total purchase price	$ 1,222,448
Assets acquired:	
Equipment	$ 71,448
Allocation to customer list, to be amortized over five years	574,500
Allocation to goodwill	576,500
Total assets acquired	$ 1,222,448

On May 18, 2005, the Company and Med-Con restructured the two notes payable that were in default. The agreement calls for the $346,220 note (originally $500,000) plus accrued interest of $10,000 to be paid in 48 equal monthly payments of $8,896, and an increase of the original interest rate from seven percent (7%) to eight (8%). With regard to the second note of $145,000 (originally $250,000), the agreement calls for 24 equal monthly installments of $6,691 with the note accruing interest at ten percent (10%). In accordance with EITF 96-19, Debtor s Accounting for a Modification or Exchange of Debt Instruments, the modification of the debt agreement was not determined to be a substantial modification.

Bray Medical Waste Service

Effective January 1, 2004, the Company acquired the customer contracts and took over the regulated medical waste operations of B. Bray Medical Waste Service, a Texas sole proprietorship. The purchase price for the acquired assets (i $11,200 cash and (ii 29,867 shares of the Company s Common Stock valued at $22,400 for a total purchase price of $33,600, allocated $30,000 to customer list and $3,600 to goodwill.

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MEDSOLUTIONS, INC.
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NOTE 4 ACQUISITIONS (continued)

Pro Forma Results

The following table presents the pro-forma combined results of operations of the Company for its 2005 results and acquisitions as if they had been combined from the beginning of 2005 and 2004.

	Pro forma Combined At December 31, 2005	Pro forma Combined At December 31, 2004
Revenues:		
Net Sales	$ 11,090,832	$ 9,059,435
Net income (loss)	$ 450,092	$ (1,295,005)
Basic net income (loss) per common share	$ 0.02	$ (0.07)
Diluted net income (loss) per common share	$ 0.02	$ (0.07)
Weighted average common shares outstanding basic	19,922,190	18,350,978
Weight average common shares outstanding diluted	20,756,459	18,350,978

The pro forma combined results are not necessarily indicative of the results that actually would have occurred if the acquisition had been completed as of the beginning of the 2005 and 2004 years, nor are they necessarily indicative of future consolidated results.

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MEDSOLUTIONS, INC.
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NOTE 5 PROPERTY AND EQUIPMENT

Property and equipment consisted of the following:

	At December 31,		
	2005	2004	Useful Life
Land	$ 151,180	$ 58,680	
Building	1,050,711	777,560	20 years
Furniture and equipment	3,785,369	2,135,096	3 to 5 years
	4,987,260	2,971,336	
Less: Accumulated depreciation	1,836,756	1,335,071	
Property and Equipment, Net	$ 3,150,504	$ 1,636,265	

Depreciation of property and equipment for the years ended December 31, 2005 and 2004 amounted to $501,685 and $392,825, respectively.

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MEDSOLUTIONS, INC.
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NOTE 6 INCOME TAXES

The current year s Federal and State income tax provision consists substantially of minimum taxes. The principal reasons for the variation between income taxes at the statutory federal rate and that shown in the statement of operations were as follows:

	Years Ended	
	2005	2004
Statutory federal income tax rate	34.0%	(34.0%)
State income taxes, net of federal income tax benefit	6.0%	(6.0%)
Adjustment for change in valuation allowance	(40.0)	40.0%

Temporary differences between the financial statement and tax basis of assets and liabilities which give rise to a significant portion of deferred tax assets and deferred tax liabilities were as follows:

	Year Ended	
	2005	2004
Deferred Tax Assets:		
Operating loss carryforwards	$ 7,500,000	$ 7,800,000
Accounts receivable allowance	28,000	36,000
Total Tax Assets	$ 7,528,000	$ 7,836,000
Deferred Tax Liabilities:		
Fixed Assets	$ 238,000	$ 353,000
Goodwill and intangibles	213,000	141,000
Total Tax Liabilities	451,000	494,000
Less- Valuation Allowance	(7,077,000)	(7,342,000)
Net Deferred Tax Asset	$	$

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MEDSOLUTIONS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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NOTE 6 INCOME TAXES (Continued)

The valuation allowance primarily relates to the Federal and State net operating losses for which utilization in future periods is uncertain. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible. The Company considers projected future taxable income and tax planning strategies in making this assessment. Based on the historical taxable income and projections for future taxable income over the periods that the deferred tax assets are deductible, the Company believes it is more likely than not that the Company will not realize all of its tax benefits in the near future and therefore a valuation allowance was established in 2005 in the amount of $7,077,000.

As of December 31, 2005 the Company has approximately $18.8 million of federal and state net operating losses available to offset future taxable income, which if not utilized will expire through 2024. The Company s ability to utilize its carryforwards may be subject to an annual limitation in future periods pursuant to Section 382 of the Internal Revenue Code, as amended.

NOTE 7 ACCRUED LIABILITIES

Accrued liabilities consist of the following:

	At December 31,	
	2005	2004
Salaries	$ 118,664	$ 486,373
Payroll and other taxes	125,604	440,207
Royalty obligation	5,000	5,000
Interest	116,598	173,141
Processing expenses	37,588	100,131
Insurance	254,042	206,824
Other accrued liabilities	304,831	329,388
	$ 962,327	$ 1,741,064

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MEDSOLUTIONS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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NOTE 8 LONG-TERM OBLIGATIONS

Long-term obligations are comprised of the following:

	At December 31,	
	2005	2004
Bank note EMSI facilities	$ 505,216	$ 213,198
Installment notes equipment	447,364	308,473
Total indebtedness to bank and financial institutions	952,580	521,671
Less: Current maturities	145,628	122,571
Total Long-Term Obligations	$ 806,952	$ 399,100

On August 3, 2005, the Company borrowed $325,000 from a bank. The note is secured by a first lien on EMSI s facility in Houston, Texas and accrues interest at a variable rate based on the national prime rate, plus 2.0%, aggregating 9.25% at December 31, 2005. The note is payable in 60 minimum monthly installments of $3,656, including principal and interest, based upon a straight line amortization of 240 payments, and matures on August 3, 2010, with a balloon payment of $243,750. The promissory note is personally guaranteed by our President and Chief Executive Officer. The total amount outstanding at December 31, 2005 is $319,583.

In July 1996, the Company borrowed $367,500 from a bank. The note is secured by a first lien on EMSI s facility in Garland, Texas, and accrues interest at a variable rate based on the national prime rate, plus 2.5%, aggregating 6.75% at December 31, 2005. The note is payable in minimum monthly installments of principal and interest totaling $3,100 and matures in July 2011. The Company s President and Chief Executive Officer has guaranteed this debt. The total amount outstanding at December 31, 2005 is $185,632.

The Company is obligated under various installment notes payable for the purchase of equipment with an aggregate cost of $594,268. The notes, which bear interest at rates ranging from 7.0% to 16.1%, are due at various dates through September 15, 2010 and are payable in monthly installments totaling approximately $15,580 consisting of principal and interest. The equipment acquired collateralizes the notes.

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MEDSOLUTIONS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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NOTE 8 LONG-TERM OBLIGATIONS (Continued)

Aggregate maturities of long-term indebtedness (including the notes payable stockholders described in Note 9 below) and the Smart Jobs litigation and the Surety Bond litigation settlements described in Note 13 below subsequent to December 31, 2005 are as follows:

Year Ended December 31,	Amount
2006	$ 1,971,810
2007	851,080
2008	1,094,919
2009	308,725
2010	451,072
2011 and thereafter	21,700
	$ 4,699,306

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MEDSOLUTIONS, INC.
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NOTE 9 NOTES PAYABLE STOCKHOLDERS

On June 30, 2005, a stockholder converted $350,000 of convertible debt owed by the Company into Common Stock at $.75 per share. The remaining amount of debt owed to the stockholder totaled $488,149 and was combined into one convertible promissory note with similar terms. The note is payable in 25 monthly installments of $21,711 and accrues interest at 10% per year. In accordance with EITF 96-19, Debtor s Accounting for a Modification or Exchange of Debt Instruments, the modification to the debt agreement was not determined to be a substantial modification. On November 29, 2005, the same stockholder loaned the Company $75,000 to fund part of the purchase price of the PIWS acquisition. The note accrues interest at 10% and is payable in monthly installments of interest only for three months and begins monthly and interest payments of $3,461 for 24 months beginning in March, 2006. At December 31, 2005, the total obligation to the stockholder was $455,058.

On June 30, 2005, another stockholder converted $350,000 of convertible debt owed by the Company into Common Stock at $.75 per share. The remaining amount of debt including accrued interest owed to the stockholder totaled $23,728 and was combined into one promissory note. The note is payable in 12 monthly installments of $2,086 and accrues interest at 10% per year. In accordance with EITF 96-19, Debtor s Accounting for a Modification or Exchange of Debt Instruments, the modification of the debt agreement was not determined to be a substantial modification. On November 29, 2005, the same stockholder loaned the Company $75,000 to fund part of the purchase price of the PIWS acquisition. The note accrues interest at 10% and is payable in monthly installments of interest only for three months and begins monthly and interest payments of $3,461 for 24 months beginning in March, 2006. At December 31, 2005, the total obligation to the second stockholder was $87,159.

At September 30, 2005, the Company issued $65,000 in promissory notes to Cooper Biomed as part of the purchase price with regard to certain assets that were purchased (See Note 4). At December 31, 2005, the amount outstanding to this stockholder was $65,000.

On August 28, 2002, the Company received loans totaling $615,000 from a third stockholder of the Company. The notes payable to the stockholder bear interest at the rate of 10 percent per annum, are payable monthly, and commenced September 28, 2002 for a period of 60 months. The total monthly payment amount is $13,067. The loans are secured by a second lien deed of trust on the Garland, Texas plant. At December 31, 2005, the total obligation to the third stockholder was $239,805.

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NOTE 10 CONVERTIBLE DEBENTURES

Series I Debentures

In 1994 and 1995, the Company issued a total of $1,100,000 of 15% Convertible Redeemable Subordinated Debentures (Series I Debentures) for the primary purpose of funding the initial R&D activities relating to the EnviroCleanâ System. The terms of the Series I Debentures specified a final maturity date of March 31, 1999, with provisions for conversion of the debentures, at the holder s option, into the Company s common stock at varying conversion rates through maturity. The Series I Debentures also allowed the Company to redeem the debentures any time prior to maturity at a price of 105% of the debenture face value. Interest on the Series I Debentures is payable semi-annually on April 1 and October 1 of each year.

Due to cash constraints, the Company was not able to redeem this balance at the stated maturity date of March 31, 1999. In addition, the Company is delinquent in its payment of interest on the outstanding debentures. The Company is still allowing the holders to convert Series I Debentures into MSI common stock at a conversion rate of $1.50 per share. Accrued interest payable on the debentures as of December 31, 2005 and 2004 totaled $42,812 and $38,312, respectively. The principal balance at December 31, 2005 and 2004 was $30,000.

Series II Debentures

In 1998 the Company issued 10% Convertible Redeemable Debentures (Series II Debentures) primarily for working capital purposes. The terms of the Series II Debentures specify a maturity date of November l, 1999, and contain a provision for conversion of the debentures, at the holder s option, into the Company s common stock at a rate of $3 per share. The Company may also redeem the debentures at a price of 110% of the debenture face value prior to November l, 1999, and at a price of 100% of face value thereafter. Interest on the Series II Debentures is scheduled to be paid semi-annually on May 1 and November 1 of each year.

Due to cash constraints, the Company was not able to redeem this balance at the stated maturity date of November 1, 1999. In addition, the Company is delinquent in its payment of interest on the outstanding debentures. However, the Company is still allowing the holders to convert Series II Debentures into MSI common stock at a conversion rate of $1.75 per share. Accrued interest payable on the debentures as of December 31, 2005 and 2004 totaled $7,003 and $5,989, respectively. The principal balance at December 31, 2005 and 2004 was $10,135.

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NOTE 11 STOCKHOLDERS EQUITY

Stock Issuances

During the year ended December 31, 2005, the Company sold 1,667,672 of Common Stock to one stockholder and to Tate Investments, LLC for net proceeds of $1,078,767, net of $50,443 in transaction costs.

Tate Investments, LLC

On July 15, 2005, the Company entered into a definitive Investment Agreement (the Investment Agreement) with Tate Investments, LLC, a Wisconsin limited liability company (the Investor).

Promissory Note

Pursuant to the terms of the Investment Agreement, the Investor committed to lend up to $1,000,000 to the Company according to the terms of a 10% Senior Secured Promissory Note (the Note) dated as of July 15, 2005. The Note is secured by the Company s and its subsidiaries accounts receivable and by a second-lien deed of trust mortgage on the Company s Garland, Texas facility pursuant to the terms of a General Business Security Agreement and a Deed of Trust, respectively, each dated as of July 15, 2005. All outstanding amounts under the Note bear interest at the rate of 10% per year, unless the Company is in default pursuant to the terms of the Investment Agreement, in which event all outstanding amounts under the Note will bear interest at a rate equal to the prime rate as published in the Wall Street Journal from time to time plus 8%. Pursuant to the terms of the Note, the Company initially borrowed $300,000 from the Investor (the Initial Advance), which is repayable to the Investor in three equal monthly installments of interest only commencing August 14, 2005 and 12 equal monthly installments of principal and interest commencing thereafter. The Company may draw additional advances (Additional Advances) against the Note through October 15, 2006 for up to an aggregate outstanding amount of $1,000,000 if it satisfies certain conditions precedent as specified in the Investment Agreement. Additional Advances must be repaid by the Company in 35 monthly payments of interest only with a final installment equal to the then-outstanding aggregate principal amount under the Note and any accrued but unpaid interest thereon due on the third anniversary of the date of the first Additional Advance. Any principal repaid under the Note may not be redrawn, except that the amount of the Initial Advance which if repaid when due will be reinstated and available for draws as Additional Advances under the Note. The Company has drawn $1,000,000 against the Note through December 31, 2005 and has repaid $50,000 of principal plus accrued interest through December 31, 2005 in accordance with the terms of the Note. As of December 31, 2005, $25,000 was available for Additional Advances under the Note.

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NOTE 11 STOCKHOLDERS EQUITY (Continued)

Tate Investments, LLC (continued)

The outstanding principal amount of the Note and any accrued but unpaid interest thereon are convertible at the option of the Investor into shares of Common Stock at the initial conversion price of $0.65 per share. This initial conversion price is subject to certain anti-dilution protections as set forth in the Investment Agreement. In connection with the anti-dilution provisions of the Tate Agreement the Company may be required to lower the conversion price to a level that could result in a change in control upon conversion. The anti-dilution provision provides for adjustment to the conversion price of such Tate Agreement whereby the Company is required to achieve certain earnings targets for 2006 and 2007. As of December 31, 2005 and in accordance with the Investment Agreement, the conversion price was reduced to $0.634 per share.

Pursuant to the terms of the Investment Agreement, the Company has used the proceeds of the Initial Advance to satisfy certain obligations to the IRS and certain trade and vendor payables. The proceeds of any Additional Advances may only be used by the Company to make strategic acquisitions that are approved by the Investor.

The Company may prepay any or all of the outstanding principal amount of the Note and any accrued but unpaid interest thereon on or after January 15, 2007 without the prior consent of the Investor and without any prepayment premium or penalty; provided, however, that the Company must first provide the Investor with 30 days prior written notice of its intent to prepay any or all of such outstanding principal amount accompanied by either an irrevocable written financing commitment or other evidence of the Company s ability to make the proposed prepayment. The Investor may, after receipt of such a prepayment notice, elect to convert any or all of such outstanding principal amount proposed to be prepaid into shares of Common Stock as discussed above. Any notice of prepayment delivered to the Investor by the Company will be irrevocable, and in the event the Company fails to prepay the amount specified in the prepayment notice (or to effectuate any conversion requested by the Investor in connection therewith) within 30 days of the delivery date of such notice, the full outstanding principal amount under the Note, together with any accrued and unpaid interest thereon, will become immediately due and payable.

Subscription Agreement

Also pursuant to the terms of the Investment Agreement, the Investor committed to purchase, and the Company committed to sell, up to $1,000,000 of its Common Stock to the Investor at the initial purchase price of $0.65 per share pursuant to the terms of a Subscription Agreement (the Subscription Agreement) dated as of July 15, 2005. This initial purchase price is subject to certain anti-dilution protections as set forth in the Investment Agreement. Pursuant to the terms of the Subscription Agreement, the Company made an initial capital call for the purchase of, and the Investor initially purchased 461,539 shares of Common Stock from the Company at the purchase price of $0.65 per share, for an aggregate purchase price of $300,000 (the Initial Capital Call). The Company may make additional capital calls (Additional Capital Calls) pursuant to the Subscription Agreement through September 30, 2006 for up to an aggregate purchase price of $1,000,000 if it satisfies certain conditions precedent as specified in the Investment Agreement.

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NOTE 11 STOCKHOLDERS EQUITY (Continued)

Tate Investments, LLC (continued)

As of December 31, 2005, the Company has sold to the Investor 1,538,462 shares of Common Stock for a total consideration of $1,000,000 pursuant to the Subscription Agreement. There are no funds remaining for Additional Capital Calls pursuant to the Subscription Agreement.

Pursuant to the terms of the Investment Agreement, the Company has used the proceeds of the Initial Capital Call to satisfy certain obligations to the IRS and certain trade and vendor payables. The proceeds of the remaining Additional Capital Calls were used by the Company to make three strategic acquisitions during the last five months of 2005 that were approved by the Investor.

Certain Obligations of the Company pursuant to the Investment Agreement

The Investment Agreement contains, among other things, conditions precedent, covenants, representations and warranties and events of default similar to those contained in a strategic financing round agreement. Negative covenants include certain restrictions or limitations on, among other things, the incurrence of indebtedness; liens; investments, loans and advances; restricted payments, including dividends; consolidations and mergers; and sales of assets. Affirmative covenants include covenants regarding, among other things, financial reporting, minimum earnings and net income requirements, and minimum net worth requirements.

In accordance with the obligations of the Company pursuant to Section 3.2 (i) (ii) (A) of the Investment Agreement, the Company was required to realize $1,983,691 in EBITDA and $820,482 in net income as defined and calculated by the definitions in the Investment Agreement for the twelve month period ended December 31, 2005. In accordance with the Investment Agreement, should the Company fail to meet the required EBITDA or net income as defined, the Company shall issue additional shares based upon an adjustment downward from the original price of $0.65 per share by a percentage equal to the greater of the percentage difference between the required EBITDA and actual EBITDA and required net income and actual net income. The actual EBITDA results for the Company as defined by the Investment Agreement was $1,936,187 and net income was $810,670 for the twelve months ended December 31, 2005. The deficient amount from the actual results of the Company was $47,504 in EBITDA and $9,812 in net income, respectively for the twelve month period ended December 31, 2005. Therefore, the deficiency that provides the greater percentage of a downward adjustment is EBITDA which will require the Company to issue an additional 37,745 shares of Common Stock to the Investor in the second fiscal quarter of 2006 at an adjusted Conversion Price of $0.634 per share. The value of such additional shares issues approximates $24,000.

As of December 31, 2005, the Company was in default with its quarterly minimum net worth requirement as required by Section 8.11 of the Investment Agreement. The Company received a one time waiver of default from the Investor.

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NOTE 11 STOCKHOLDERS EQUITY (Continued)

Tate Investments, LLC (continued)

Investor s Rights Agreement

Pursuant to the terms of the Investment Agreement, the Company, the Investor and certain shareholders of the Company entered into an Investor s Rights Agreement (the Rights Agreement) pursuant to which the Company has granted certain demand registration rights to the Investor with respect to any shares of Common Stock obtained pursuant to the Note or the Subscription Agreement. The Rights Agreement grants the Investor one demand registration exercisable after December 31, 2006, and in the event such demand registration is exercised the Company must use its best efforts to register the Investor s shares of Common Stock until either the shares are either registered or sold pursuant to Rule 144 or another applicable registration exemption. The Rights Agreement contains no penalty provisions or settlement alternatives that would result in the issuance of additional shares of Common Stock or a cash payment to the Investor in the event that the Company is unable to register the Investor s shares. The Rights Agreement also provides unlimited piggyback registration rights to the Investor. The Rights Agreement also grants the Investor the right to designate one nominee for election to the Company s Board of Directors, or two nominees in the event that Mr. Joseph Tate, the beneficial owner of the Investor, is designated as a nominee by the Investor. On September 15, 2005, the Company s Board of Directors selected David Mack to fill a vacancy on the Board of Directors based upon the nomination by Mr. Tate. Pursuant to the terms of the Rights Agreement, the Company may not, prior to the registration of the Common Stock owned by the Investor with the Securities and Exchange Commission (the SEC), increase the size of its Board of Directors to more than five members unless the Investor also designates Mr. Joseph Tate as a nominee, in which event the Board of Directors may have no more than seven members. Certain shareholders of the Company who are party to the Rights Agreement have also granted certain rights of co-sale to the Investor and agreed to vote their shares of Common Stock in favor of the election of the Investor s nominee(s).

The Investor s right to designate nominees to the Company s Board of Directors continues until such time as: (i) the Investor effectuates, in one or a series of transactions, a transfer of shares of Common Stock whereby the number of shares of Common Stock owned by the Investor after such transfer is less than 75% of the number of shares of Common Stock owned by the Investor before the transfer, at which such time the Investor s right to designate nominees to the Company s Board of Directors will be reduced to the right to designate one nominee to the Company s Board of Directors; (ii) the Investor effectuates, in one or a series of transactions, a transfer of shares of Common Stock whereby the number of shares of Common Stock owned by the Investor after the transfer is less than 50% of the number of shares of Common Stock owned by the Investor prior to the transfer, at which such time the Investor s right to designate nominees to the Company s Board of Directors will terminate; or (iii) the Common Stock owned by the Investor has been registered with the SEC.

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NOTE 11 STOCKHOLDERS EQUITY (Continued)

Tate Investments, LLC (continued)

On March 15, 2006, the Company issued a new convertible promissory note in the amount of $500,000 to the Investor. The promissory note is payable in 35 monthly installments of interest only with all principal and interest due on March 31, 2009. The note accrues interest at 10% for the first 12 months, 11% for months 13 through 24 and 12% for months 25 through maturity. The Company may prepay a portion or all of the amount outstanding under the terms of the note after March 31, 2007, provided that the Company notify the Investor of the Company s intent to prepay after which, the Investor will have 30 days to convert the note into the Company s Common Stock. The Investor has the right to convert the amount outstanding plus accrued but unpaid interest at the time of conversion. The conversion price agreed to is $0.85 per share during the period beginning March 15, 2006 through March 31st, 2007, $1.00 per share during the period beginning April 1, 2007 through March 31, 2008, and $1.15 per share during the period April 1, 2008 through maturity. The promissory note is secured by two PIWS mobile units and is cross-collateralized by the Investor s liens on the Company s accounts receivable and the Garland Facility pursuant to the Investment Agreement (as discussed above). The proceeds from the promissory note were used to purchase equipment for Company expansion purposes.

Other Stockholder s Equity Transactions

On June 30, 2005, four shareholders of the Company converted a total amount of $1,063,604 in debt, accrued salaries and related accrued interest into 1,418,140 shares of Common Stock. Also, on June 30, 2005, the Company issued 155,195 stock options, exercisable at $0.75 per share, to two shareholders in settlement of $116,396 in accrued salaries and related accrued interest. On December 31, 2005, one of the four shareholders converted another $50,000 in debt into 50,000 shares of Common Stock.

A settlement was reached between ATE and the Company on February 11, 2005 due to numerous disputes and disagreements that arose in relation ATE s representations in the asset purchase agreement. The settlement called for the modification of the promissory note to ATE from the Company to reduce the amount owed from $750,000 to $150,000, payable in two installments of $75,000 each beginning at the time that ATE delivers audited financial statements of its books and records for the nine-month period ended September 30, 2003 allowing us to comply with our Form 8-K reporting requirements with the United States Securities and Exchange Commission (SEC). We recorded a reduction (included in other income) of debt of approximately $650,000 during the three months ended March 31, 2005 for compensatory damages that resulted from breaches committed by ATE. Since the February 11, 2005 settlement was reached, ATE could not deliver audited financial statements as required; therefore, the remaining balance of $150,000 owed to ATE was converted into 150,000 shares of the Company s Common Stock and all remaining disputes with ATE were settled.

During the year ended December 31, 2004, the Company sold 100,000 shares of Common Stock to two stockholders for a total consideration of $130,000.

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NOTE 11 STOCKHOLDERS EQUITY (Continued)

Preferred Stock

During 2005, the Company issued 139,839 shares of Series A Preferred Stock for net proceeds of $209,758 in connection with a Private Placement Memorandum (Memorandum) titled the Acquisition and Expansion Fund II and dated October 1, 2004. The terms of the Memorandum call for the Company to sell to accredited investors Series A 10% Convertible Preferred Stock, par value of $.001 (Series A Preferred Stock), and Series B 8% Convertible Preferred Stock, par value of $.001 (Series B Preferred Stock). The Series A Preferred Stock is being sold at a minimum of 10,000 shares and a maximum 500,000 shares at a $1.50 per share. After the Company has accepted subscriptions for 500,000 shares of Series A Preferred Stock, up to 600,000 shares of Series B Preferred Stock are being offered at $1.75 per share. Each outstanding share of Preferred Stock will automatically convert on the second anniversary of the issuance of the Preferred Stock into one share of Common Stock, subject to certain anti-dilution protections. The Series A Preferred shares are redeemable at the option of the Company at any time prior to conversion at a price of $1.50 per share plus the amount of accrued and unpaid dividends whether or not declared. In addition, the Series A Preferred shares are convertible at the option of the holder at any time at an initial conversion price of $1.50 per share. The initial conversion price will be adjusted based upon anti-dilution provisions as described in the Certification of Designation. The preferred stock contains no provisions for redemption by the holder except in certain circumstances such as voluntary or involuntary liquidation, dissolution or winding-up of the Company. The preferred stock is considered permanent equity. During 2004, the Company sold 143,333 shares of Series A Preferred Stock for a total consideration of $215,000.

Stock Grants and Options

At the annual meeting of stockholders of the Company on December 18, 2002, the stockholders approved the adoption of the MedSolutions, Inc. 2002 Stock Plan. The purpose of the plan is to attract and retain the best available personnel for positions of substantial responsibility, to provide additional incentive to employees, directors and consultants and to promote the success of the Company s business. Options granted under the plan may be Incentive Stock Options or Non statutory Stock Options, as determined by the Board of Directors at the time of grant. 850,000 shares of common stock have been reserved for issuance under the plan.

The Company s Board of Directors has previously approved grants of common stock and options to purchase common stock to key executives and employees, all of which were granted prior to January 1, 1999. The Company has also granted stock and options to a stockholder of the Company in connection with various loans made by the stockholder to the Company, all of which were granted prior to January 1, 1999. The option grants are for periods of two to five years. Certain options may not be exercised for a period of two years after the grant date. Options for 566,673 and 228,118 shares were granted to directors and employees during 2005 and 2004, respectively. During the year ended December 31, 2005 and 2004, respectively, the Company granted its directors 100,667 and 85,500, non plan stock options, respectively. The options were granted in lieu of payment of director fees.

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Stock Grants and Options (Continued)

A summary of activity involving options on the Company s common stock follows:

	Number of Options	Weighted Average Exercise Price
Balance outstanding at December 31, 2003	40,000	$ 1.00
Granted	228,118	$ 1.00
Exercised		
Cancelled/Expired		
Balance outstanding at December 31, 2004	268,118	$ 1.00
Granted	957,076	0.92
Exercised		
Cancelled/Expired	92,454	1.00
Balance outstanding at December 31, 2005	1,132,740	$ 0.94
Number of options exercisable at December 31, 2005	1,132,740	$ 0.94

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NOTE 12 WASTE MANAGEMENT FACILITY AGREEMENT

In April 1996, EMSI acquired certain assets and assumed certain liabilities of BMI Services, Inc. (BMI), a medical waste transportation and management company. As part of this acquisition, BMI s contract to operate the medical waste incineration facility at UTMB in Galveston, Texas, and to provide medical waste incineration services to UTMB, was assigned to EMSI. The original contract was for an initial term of five years that ended in December 2000, but is renewable for a second five-year term (see below). The contract required EMSI to pay UTMB a monthly fixed facility usage fee on one medical waste incinerator; a monthly variable fee based on the volume of medical waste processed at the facility; and utility charges for the facility. EMSI was also responsible for repairs and maintenance costs of the facility up to an annual limit of $90,000. In return, EMSI received medical waste management fees from UTMB based on the quantity of waste processed. Such fees are determined using a progressive rate schedule, which is adjusted annually. The Company renegotiated with UTMB an amendment extending the UTMB contract until June 8, 2006.

During 2004, the Company and the University of Texas Medical Branch (UTMB) amended their operating agreement again for the incineration facility, resulting in UTMB installing at its own expense an autoclave system for waste treatment to be managed by the Company. The amendment requires the Company to pay the following estimated monthly amounts during the contract years:

Contract Years	Fixed Facility Maintenance and Use Fee	Capital Renewal Fee	Variable Usage Fee (Based on waste incinerated)
2004	$12,500	$30,290	$.005 per lb.
2005	$12,500	$31,366	$.005 per lb.
Thru June 8, 2006	$12,500	$ 5,000	$.005 per lb.

Further, the Company agreed to pay UTMB $0.035 per pound for all third party waste processed through the autoclave with a guarantee by the Company to pay a monthly minimum amount of no less then $21,000 for such processing. The Company is required to pay $2,700 towards the facility s utility costs. The contract is cancelable by either party with a one year written notice and payment of the remaining capital renewal fee if cancelled by the Company. The Company operates the incineration facility under the revised agreement one week per month with UTMB paying the utility costs in excess of $2,700. In exchange, certain of the processing fees charged by us to UTMB were modified in the most recent amendment.

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MEDSOLUTIONS, INC.
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NOTE 13 COMMITMENTS AND CONTINGENCIES

Risks and Concentrations

MSI and EMSI operate exclusively in one industry. EMSI provides waste management services to medical waste generators in North and South Texas. Until August 29, 2002, EMSI s operations were highly dependent upon utilization of UTMB s waste incineration facility. EMSI uses this facility to service UTMB in addition to several other customers in the South Texas area. Prior to August 29, 2002, substantially all of the waste processed by the Company was done at the Galveston facility, except when the facility was not operational, in which case the Company outsourced its medical waste processing through alternate facilities. On August 29, 2002, EMSI commenced using its own autoclave system that was installed in its Garland, Texas facility. Accordingly, in the event that UTMB cancelled the waste management facility agreement with EMSI, EMSI would be able to use its Garland facility as a suitable alternate facility to avoid any significant detrimental impact on the operations of EMSI (see Note 13).

Financial instruments, which potentially subject the Company to concentrations of credit risk, are primarily cash and cash equivalents, trade accounts receivable and related party notes.

At December 31, 2005 and 2004, UTMB accounted for approximately 0% and 6%, respectively, of the accounts receivable balance. For the years ended December 31, 2005 and 2004, UTMB accounted for approximately 9% and 14%, respectively, of net revenues in each year.

The Company carries $5 million of liability insurance (including umbrella coverage), and $1 million of aggregate pollution and legal liability insurance ($2 million per incident), which the Company considers sufficient to meet regulatory and customer requirements and to protect its employees, assets and operations. The Company s pollution liability insurance excludes liabilities under CERCLA. There can be no assurance that the Company will not face claims under CERCLA or similar state laws resulting in substantial liability for which the Company is uninsured and which could have a material adverse effect on its business.

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NOTE 13 COMMITMENTS AND CONTINGENCIES (Continued)

Lease Obligations

Effective February 10, 2005, the Company extended and renewed its lease at its corporate headquarters in Dallas, Texas. The Company has leases for its corporate office and other facilities for terms which expire through December 2012. Minimum annual rentals under the leases are as follows:

Years Ended December 31,	Amount
2006	$ 83,106
2007	86,994
2008	88,938
2009	88,938
2010	92,219
Thereafter	132,192
	$ 572,387

During the year ended December 31, 2003, the Company entered into operating lease agreements for the use of eight new vehicles to expand its fleet to accommodate the new business acquired from AmeriTech Environmental, Inc. The monthly lease payments range from $1,106 to $1,527 and the lease periods range from 60 to 72 months for the vehicles. In addition the Company pays a per-mile maintenance fee of $0.065 to $0.070 for the use of the vehicles. The following table shows the future minimum operating lease payments that are due under the contracts.

Years Ended December 31,	Amount
2006	$ 214,470
2007	213,378
2008	201,458
2009	124,478
2010	12,138
	$ 765,922

Rent expense for all operating leases during the years ended December 31, 2005 and 2004 was $634,951 and $797,731, respectively.

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MEDSOLUTIONS, INC.
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NOTE 13 COMMITMENTS AND CONTINGENCIES (Continued)

Environmental Matters

The Company operates within the medical waste management industry, which is subject to various federal, state and local laws and regulations. Management is not aware of any significant contingent liabilities relative to these activities.

Litigation

We operate in a highly regulated industry and are exposed to regulatory inquiries or investigations from time to time. Government authorities can initiate investigations for a variety of reasons. We have been involved in certain legal and administrative proceedings that have been settled or otherwise resolved on terms acceptable to us, without having a material adverse effect on our business.

We are also a party to various legal proceedings arising in the ordinary course of business. However, there are no legal proceedings pending or, to our knowledge, threatened against us that will adversely affect our financial condition or our ability to carry on the business except the following:

The Company was named defendant in a lawsuit filed in Travis County, Texas by the State of Texas. The lawsuit claimed that the Company breached a contract awarded under the Texas Smart Jobs Program by failing to meet the requirements of the contract and sought compensatory damages in the amount of $439,631, plus costs and attorneys fees. On March 3, 2003 we reached a settlement with the State of Texas the terms of which will require that we pay the State $240,620 with no interest in 36 equal installments of $6,684 commencing on or about April 30, 2003. The settlement also requires that we retroactively pay $6,110 to those employees or past employees whom we were obligated to pay, but failed to pay in full, pursuant to the Smart Jobs Program. As of December 31, 2005, the remaining liability to the State of Texas was $26,735.

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MEDSOLUTIONS, INC.
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NOTE 13 COMMITMENTS AND CONTINGENCIES (Continued)

Employment Agreements

Matthew H. Fleeger serves as the Company s President and Chief Executive Officer and entered into a three-year employment agreement dated December 30, 2004 to be effective as of January 1, 2005. Mr. Fleeger is entitled to receive an annual base salary of $200,000, increased 5% annually, and is also entitled to be paid a cash bonus of $25,000 on April 15, 2005. Pursuant to the Executive Target Bonus Program, Mr. Fleeger is also eligible for an annual bonus based on the Company achieving certain goals related to EBITDA. Any such bonus will be paid to Mr. Fleeger in the form of a stock option to purchase a number of shares of Common Stock equal to the amount of such bonus at an exercise price per share of Common Stock equal to the fair market value (as such term is defined in the Company s 2002 Stock Option Plan or any successor plan thereto) of such Common Stock as of the effective date that such option is granted; provided, however, that in the event that Mr. Fleeger becomes the owner of equity securities of the Company representing more than 10% of the total combined voting power of all classes of equity securities of the Company, the exercise price per share of Common Stock shall be equal to 110% of the fair market value of such Common Stock as of the effective date that such option is granted; provided further, however, that Mr. Fleeger shall have the option, in his sole discretion, to receive up to 50% of the amount of any such bonus in the form of cash in lieu of such stock option.

Mr. Lonnie P. Cole, Sr. serves as a Senior Vice President in charge of our Sales Department. Mr. Cole entered into a three-year employment agreement dated September 30, 2004 to be effective as of October 1, 2004. Mr. Cole is to receive a base salary of $100,000 annually and is eligible for bonus incentives based on the Company achieving certain goals related to revenue growth.

Mr. J. Steven Evans serves as Vice President of Finance in charge of our Finance and Accounting Department. Mr. Evans entered into a three-year employment agreement dated February 1, 2005. Mr. Evans is to receive a base salary of $95,000 annually and is eligible for bonus incentives based on personal performance and the Company achieving certain financial goals.

Mr. Alan Larosee serves as Vice President of Operations. Mr. Larosee entered into a three-year employment agreement dated March 1, 2005. Mr. Larosee is to receive a base salary of $95,000 annually and is eligible for bonus incentives based on personal performance and the Company achieving certain financial goals.

Mr. James M. Treat serves as Vice President of Business Development. Mr. Treat entered into a three-year employment agreement dated December 1, 2005. Mr. Treat is to receive a base salary of $100,000 annually and is eligible for bonus incentives based on personal performance and the Company achieving certain financial goals.

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MEDSOLUTIONS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2005 AND 2004

NOTE 14 RELATED PARTY TRANSACTIONS

Related party expenses included in the accompanying consolidated statements of operations are as follows:

	Years Ended December 31,	
	2005	2004
Interest expense	$ 139,705	$ 182,498

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MEDSOLUTIONS, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS

	March 31, 2007 (unaudited)	December 31, 2006
ASSETS		
Current Assets:		
Cash	$	$
Accounts receivable trade, net of allowance of $112,295 and $174,989	2,114,387	1,847,541
Prepaid expenses and other current assets	271,970	366,141
Supplies	36,720	26,109
Total Current Assets	2,423,077	2,239,791
Property and equipment at cost, net of accumulated depreciation of $3,075,580 and $2,805,851	3,412,520	3,586,766
Intangible assets Customer list, net of accumulated amortization of $1,124,533 and $1,028,993	1,048,649	1,408,189
Intangible assets Goodwill	3,403,025	3,403,025
Intangible assets permits	179,966	152,749
Other assets	64,423	46,943
Total Assets	$ 10,531,660	$ 10,837,463
LIABILITIES AND STOCKHOLDERS EQUITY		
Current Liabilities:		
Current maturities of long-term obligations	$ 353,456	$ 372,552
Accounts payable	1,213,006	1,507,220
Accrued liabilities	695,508	1,281,443
Current maturities notes payable to Tate Investments, LLC	53,084	
Current maturities notes payable to Med-Con	110,231	127,703
Current maturities notes payable to On Call	262,800	294,541
Current maturities notes payable to Positive Impact	99,672	97,705
Current maturities notes payable to Abele-Kerr Investments, LLC	68,846	38,948
Current maturities notes payable stockholders	629,823	419,600
Total Current Liabilities	3,486,426	4,139,712
Long-term obligations, less current maturities	1,461,851	1,003,174
Notes payable Tate Investments, LLC, less current maturities, net of discount of $0 and $102,564	109,606	1,397,436
Notes payable Med-Con, less current maturities	123,743	147,047
Notes payable Positive Impact, less current maturities	308,128	333,796
Notes payable Abele-Kerr Investments, LLC, less current maturities	181,154	211,052
Notes payable stockholders, less current maturities	254,191	294,267
Total Liabilities	5,925,099	7,526,484

Commitments and Contingencies (Note 1)		
Stockholders Equity:		
Preferred stock (par value $.001) - 100,000,000 shares authorized at March 31, 2007 and December 31,2006,respectively, 0 shares issued and outstanding at March 31, 2007 and 96,667 shares issued at December 31, 2006 (liquidation preference $0 - 2007; $145,001 - 2006)		97
Common stock (par value $.001) - 100,000,000 shares authorized at March 31, 2007 and December 31,2006; 26,014,819 shares issued and 26,002,619 outstanding at March 31, 2007 and 23,792,985 shares issued and 23,780,785 outstanding at December 31, 2006	26,015	23,793
Additional paid-in capital	27,792,483	26,558,608
Accumulated deficit	(23,193,937)	(23,253,519)
Treasury stock, at cost - 12,200 shares at March 31, 2007 and December 31, 2006	(18,000)	(18,000)
Total Stockholders Equity	4,606,561	3,310,979
Total Liabilities and Stockholders Equity	$ 10,531,660	$ 10,837,463

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

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MEDSOLUTIONS, INC.
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

	For the Three Months Ended March 31,	
	2007	2006
	(Unaudited)	
Revenues:		
Sales	$ 3,762,330	$ 3,188,754
Cost of revenues *	2,195,409	1,759,621
Gross profit	1,566,921	1,429,133
Operating expenses:		
Selling, general and administrative expenses	870,038	815,110
Depreciation and amortization	365,268	306,443
Total operating expenses	1,235,306	1,121,553
Income from operations	331,615	307,580
Other (income) expenses:		
Interest expense	272,033	97,180
	272,033	97,180
Net income	$ 59,582	$ 210,400
Preferred stock dividend		(10,625)
Net income applicable to common stock	$ 59,582	$ 199,775
Basic net income per common share	$ .00	$ .01
Diluted net income per common share	$ .00	$ .01
Weighted average common shares used in basic income per share	23,530,785	21,924,656
Weighted average common shares and dilutive securities used in diluted income per share	23,802,651	24,047,014

See Notes to Condensed Consolidated Financial Statements

*

Excludes depreciation of $269,729 and $206,704 for the three months ended March 31, 2007 and 2006, respectively.

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MEDSOLUTIONS, INC.
CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS EQUITY
FOR THE THREE MONTHS ENDED MARCH 31, 2007
(Unaudited)

	MSI Preferred Stock Series A		MSI Common Stock	
	Shares	Amount	Shares	Amount
Three Months Ended March 31, 2007: (Unaudited)				
Balance December 31, 2006	96,667	$ 97	23,792,985	$ 23,793
MSI preferred stock converted into common stock	(96,667)	(97)	96,667	97
MSI common stock returned due to SteriLogic settlement			(300,000)	(300)
MSI convertible debt converted into common stock			2,425,167	2,425
Net income				
Balance March 31, 2007		$	26,014,819	$ 26,015

****

	Additional Paid-in Capital	Accumulated Deficit	Treasury Stock	Total
Three Months Ended March 31, 2007: (Unaudited)				
Balance December 31, 2006	$ 26,558,608	$ (23,253,519)	$ (18,000)	$ 3,310,979
MSI preferred stock converted into common stock				
MSI common stock returned due to SteriLogic settlement	(263,700)			(264,000)
MSI convertible debt converted into common stock	1,497,575			1,500,000
Net income		59,582		59,582
Balance March 31, 2007	$ 27,792,483	$ (23,193,937)	$ (18,000)	$ 4,606,561

See Notes to Condensed Consolidated Financial Statements
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MEDSOLUTIONS, INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

	For the Three Months Ended March 31,	
	2007	2006
	(Unaudited)	
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$ 59,582	$ 210,400
Adjustments to reconcile net income (loss) to net cash used in operating activities:		
Depreciation and amortization	365,269	306,443
Provision for bad debts	30,000	3,000
Equity compensation for director fees		23,930
Finance fees paid in common stock		9,558
Amortization of finance fees and debt discount	124,319	
Changes in assets (increase) decrease:		
Accounts receivable	(353,323)	(288,755)
Supplies	(10,611)	(9,275)
Prepaid expenses and other current assets	138,320	36,286
Other non-current assets	(50,397)	(14,613)
Changes in liabilities increase (decrease) Accounts payable and accrued liabilities	(545,547)	(143,304)
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	(242,388)	133,670
CASH FLOWS FROM INVESTING ACTIVITIES:		
Additions to property and equipment	(89,783)	(265,435)
NET CASH USED IN INVESTING ACTIVITIES	(89,783)	(265,435)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from sale of common stock		260,000
Proceeds from note payable stockholder	175,000	600,000
Cash paid for transaction costs associated with equity transactions		(30,321)
Dividend on preferred stock	(3,625)	(10,625)
Finance fees paid for new debt	(32,892)	
Payments on long-term obligations to stockholders	(245,893)	(369,629)
Payments on advances to stockholders		(10,215)
Advances on long-term obligations to others	669,062	
Payments on long-term obligations to others	(229,481)	(51,251)
NET CASH PROVIDED BY FINANCING ACTIVITIES	332,171	387,959
NET INCREASE IN CASH AND CASH EQUIVALENTS		256,194
CASH AND CASH EQUIVALENTS BEGINNING		
CASH AND CASH EQUIVALENTS END	$	$ 256,194

SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:		
Interest paid	$ 138,954	$ 110,650
Income taxes paid	$	$
Common stock reclaimed in connection to clawback provision regarding SteriLogic acquisition	$ 264,000	$
Notes payable converted into MSI common stock	$ 1,500,000	$

See Notes to Condensed Consolidated Financial Statements

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MEDSOLUTIONS, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

NOTE 1. Business and Operations

Description of Business

MedSolutions, Inc. (MSI or the Company) was incorporated in Texas in 1993, and through its subsidiary, EnviroClean Management Services, Inc. (EMSI), principally collects, transports and disposes of regulated medical waste in north Texas, south Texas, Oklahoma, Louisiana, Kansas, Arkansas and Missouri. MSI markets, through its wholly-owned subsidiary SharpsSolutions, Inc. (Sharps), a reusable sharps container service program to healthcare facilities that we expect will virtually eliminate the current method of utilizing disposable sharps containers. Another subsidiary of MSI, ShredSolutions, Inc. (Shred), markets a fully integrated, comprehensive service for the collection, transportation and destruction of Protected Healthcare Information (PHI) and other confidential documents, primarily those generated by health care providers and regulated under the Health Insurance Portability and Accountability Act (HIPAA). The Company operates another wholly owned subsidiary, Positive Impact Waste Servicing, Inc. (PIWS), which uses mobile treatment equipment to treat and dispose of regulated medical waste on site at various healthcare facilities. SteriLogic Waste Systems, Inc. (SteriLogic), in Syracuse, New York, another wholly owned subsidiary of MSI, services RMW and Sharps customers in the New York and Pennsylvania markets. SteriLogic also designs, manufactures and markets reusable sharps containers to medical waste service providers who provide a reusable sharps container program to their medical waste customers.

Litigation

On May 14, 2007, a Texas jury found EMSI liable for approximately $9.8 million in actual damages and $10 million in punitive damages in connection with a 2004 traffic accident involving one of EMSI s trucks. Approximately $5.4 million of such damages are covered by EMSI s insurance coverage. The Company has been advised that the punitive damages awarded by the jury will be reduced by the trial court under applicable Texas law to between approximately $1.3 and $2.1 million. Although a judgment has not yet been entered by the trial court, the Company intends through its insurance provider, Zurich American Insurance (Zurich), to vigorously appeal the judgment. This process is likely to take considerable time. If the Company is unsuccessful or only partially successful on appeal, to the extent that the amount of any award exceeds EMSI s insurance coverage, the Company has been advised by its counsel that EMSI has a valid Stowers claim against Zurich that, pursuant to applicable Texas law, should result in Zurich s being held responsible for the amount of any award in excess of the policy limits. If such a claim against Zurich were unsuccessful, any amount of the final award to the plaintiffs in excess of EMSI s insurance coverage could have a material adverse impact on the Company s financial condition and results of operations. The financial statements do not include any adjustment which may result from this significant uncertainty should the Company not be successful in the appeal process and or its Stowers claim against Zurich.

NOTE 2. Basis of Presentation and Accounting Policies

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with generally accepted accounting principles for interim financial information. Accordingly, these financial statements do not include all of the information and footnotes required by generally accepted accounting principles. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. Operating results for the three-month period ended March 31, 2007 are not necessarily indicative of the results that may be expected for the year ending December 31, 2007. These consolidated financial statements should be read in conjunction with the December 31, 2006 financial statements and footnotes thereto included elsewhere in this proxy statement/prospectus.

The accompanying consolidated financial statements include the accounts of the Company, its principally owned subsidiary, EMSI, and wholly owned subsidiaries, Shred, Sharps, PIWS, SteriLogic and EnviroClean Transport Services, Inc. All significant intercompany balances and transactions between the Company and its subsidiaries have been eliminated in consolidation.

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MEDSOLUTIONS, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

Goodwill and Intangible Assets

In accordance with the requirements of Statement of Financial Accounting Standards No. 141 (SFAS No. 141), Business Combinations , the Company recognizes certain intangible assets acquired in acquisitions, primarily goodwill and customer lists. To determine the adequacy of the carrying amounts on an ongoing basis, the Company, in accordance with the provisions of SFAS No. 142, Goodwill and Other Intangible Assets , performs its annual impairment test at the end of the year each December 31, unless triggering events indicate that an event has occurred which would require the test to be performed sooner. The Company monitors the performance of its intangibles by analyzing the expected future cash flows generated from such related intangibles to ensure their continued performance. If necessary, the Company may hire an outside independent consultant to appraise the fair value of such assets.

Impairment of Long-Lived Assets

In accordance with SFAS No. 144, the Company continually monitors events and changes in circumstances that could indicate carrying amounts of long-lived assets, including intangible assets, may not be recoverable. An impairment loss is recognized when expected cash flows are less than the assets carrying value. Accordingly, when indicators or impairment are present, the Company evaluates the carrying value of such assets in relation to the operating performance and future undiscounted cash flows of the underlying business. The Company s policy is to record an impairment loss when it is determined that the carrying amount of the asset may not be recoverable. At March 31, 2007, no impairment exists.

Stock-Based Compensation

Effective January 1, 2006, the Company adopted SFAS 123R which replaces SFAS 123, Accounting for Stock-Based Compensation and supersedes Accounting Principles Board Opinion No. 25, Accounting for Stock Issued to Employees. SFAS 123R requires all share-based payments to employees, including grants of employee stock options, to be recognized in the statement of operations based on their fair value. Pro forma disclosure is no longer an alternative to financial statement recognition. The adoption of this standard had no effect on operations for the three months ended March 31, 2007 as the Company did not issue any options during the period and all outstanding options previously issued have already vested.

The Company has selected the Black-Scholes method of valuation for share-based compensation and has adopted the modified prospective transition method under SFAS 123R, which requires that compensation cost be recorded, as earned, for all unvested stock options outstanding as of the beginning of the first quarter of adoption of SFAS 123R. As permitted by SFAS 123R, prior periods have not been restated. The charge is generally recognized as non-cash compensation on a straight-line basis over the remaining service period after the adoption date based on the options original estimate of fair values.

Prior to the adoption of SFAS 123R, the Company applied the intrinsic-value-based method of accounting prescribed by APB 25 and related interpretations, to account for its stock options to employees. Under this method, compensation cost was recorded only if the market price of the underlying stock on the date of grant exceeded the exercise price. As permitted by SFAS 123, the Company elected to continue to apply the intrinsic-value-based method of accounting described above, and adopted only the disclosure requirements of SFAS 123. The fair-value-based method used to determine historical pro forma amounts under SFAS 123 was similar in most respects to the method used to determine stock-based compensation expense under SFAS 123R.

The fair value of each option grant is estimated at the date of grant using the Black-Scholes option valuation model. The Black-Scholes option valuation model was developed for use in estimating the fair value of traded options which have no vesting restrictions and are fully transferable. During the three months ended March 31, 2007 and 2006, no options were granted. Because the Company s stock options have characteristics significantly different from those of traded options, and because changes in the subjective input assumptions can materially affect the fair value estimate, in management s opinion, the existing models do not necessarily provide a reliable single measure of the fair value estimate of its stock options. The total number of stock options outstanding as of March 31, 2007 and December 31,

2006, was 1,328,796.

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MEDSOLUTIONS, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

Net Income Per Share of Common Stock

Basic net income per share of common stock has been computed based on the weighted average number of common shares outstanding during the periods presented.

Diluted net income per share of common stock has been computed based on the weighted average number of common shares outstanding during the periods presented plus any dilutive securities outstanding unless such combination of shares and dilutive securities were determined to be anti-dilutive. The numerator and denominator for basic and diluted earnings per share (EPS) consist of the following:

	At March 31, 2007	At March 31, 2006
Numerator:		
Net income	$ 59,582	$ 210,400
Convertible preferred stock dividends		(10,625)
Numerator for basic earnings per share income available to common stockholders	59,582	199,775
Effect of dilutive securities:		
Preferred stock dividends		10,625
Convertible notes payable	6,509	29,435
	6,509	40,060
Numerator for diluted earnings per share income available to common stockholders after assumed conversions	$ 66,091	$ 239,835
Denominator:		
Denominator for basic earnings per share weighted average shares	23,530,785	21,924,656
Effect of dilutive securities:		
Convertible accrued salaries		53,084
Stock options	54,378	
Preferred convertible stock		283,172
Convertible debentures and unpaid interest		59,229
Note payable to stockholders and accrued interest	217,488	1,710,660
Advances from stockholders		16,213
Total potentially dilutive securities	271,866	2,122,358
Denominator for diluted earnings per share adjusted weighted average shares and assumed conversions	23,802,651	24,047,014
Basic earnings per share	$ .00	$ .01
Diluted earnings per share	$ .00	$ .01

For the three months ended March 31, 2007 and 2006, 254,837 and 1,132,740 shares, respectively, attributable to outstanding stock options were excluded from the calculation of diluted earnings per share because the exercise prices of the stock options were greater than or equal to the average price of the common shares, and therefore their inclusion would have been anti-dilutive.

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MEDSOLUTIONS, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

NOTE 3. Recently Issued Accounting Standards

The following pronouncement has been issued by the Financial Accounting Standards Board (FASB).

In February 2006, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standard 155 Accounting for Certain Hybrid Financial Instruments (SFAS 155), which eliminates the exemption from applying SFAS 133 Accounting for Derivative Instruments and Hedging Activities (SFAS 133) to interests in securitized financial assets so that similar instruments are accounted for similarly regardless of the form of the instruments. SFAS 155 also allows the election of fair value measurement at acquisition, at issuance, or when a previously recognized financial instrument is subject to a remeasurement event. Adoption is effective for all financial instruments acquired or issued after the beginning of the first fiscal year that begins after September 15, 2006. The adoption of this pronouncement did not have a material effect on the Company s financial statements.

In March 2006, the FASB issued Statement of Financial Accounting Standard 156 Accounting for Servicing of Financial Assets (SFAS 156), which requires all separately recognized servicing assets and servicing liabilities be initially measured at fair value. SFAS 156 permits, but does not require, the subsequent measurement of servicing assets and servicing liabilities at fair value. Adoption is required as of the beginning of the first fiscal year that begins after September 15, 2006. The adoption of this pronouncement did not have a material effect on the Company s financial statements.

Effective January 1, 2007, the company adopted the provisions of FASB Interpretation No. 48, Accounting for Uncertainty in Income Taxes an interpretation of FASB Statement No. 109 (FIN 48). FIN 48 prescribes a recognition threshold and a measurement attribute for the financial statement recognition and measurement of tax positions taken or expected to be taken in a tax return. For those benefits to be recognized, a tax position must be more-likely-than-not to be sustained upon examination by taxing authorities. Differences between tax positions taken or expected to be taken in a tax return and the benefit recognized and measured pursuant to the interpretation are referred to as unrecognized benefits . A liability is recognized (or amount of net operating loss carry forward or amount of tax refundable is reduced) for an unrecognized tax benefit because it represents an enterprise s potential future obligation to the taxing authority for a tax position that was not recognized as a result of applying the provisions of FIN 48.

In accordance with FIN 48, interest costs related to unrecognized tax benefits are required to be calculated (if applicable) and would be classified as Interest expense, net in the consolidated statements of operations. Penalties would be recognized as a component of General and administrative expenses .

The Company files income tax returns in the United States (federal) and in various state and local jurisdictions. In most instances, the Company is no longer subject to federal, state and local income tax examinations by tax authorities for years prior to 2002.

The adoption of the provisions of FIN 48 did not have a material impact on the company s consolidated financial position and results of operations. As of March 31, 2007, no liability for unrecognized tax benefits was required to be recorded.

The Company recognized a deferred tax asset of approximately $7.4 million as of March 31, 2007, primarily relating to net operating loss carryforwards of approximately $19.4 million, available to offset future taxable income through 2025.

The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible. The Company considers projected future taxable income and tax planning strategies in making this assessment. At present, the Company does not have a sufficient history of income to conclude that it is more likely than not that the Company will be able to realize all of its tax benefits in the near future and therefore a valuation allowance was established in the full value of the deferred tax asset.

A valuation allowance will be maintained until sufficient positive evidence exists to support the reversal of any portion or all of the valuation allowance net of appropriate reserves. Should the Company continue to be profitable in future periods with supportable trends, the valuation allowance will be reversed accordingly.

In September 2006, the FASB issued SFAS No. 157, Accounting for Fair Value Measurements (SFAS 157). SFAS 157 defines fair value, and establishes a framework for measuring fair value in generally accepted accounting principles and expands disclosure about fair value measurements. SFAS 157 is effective for financial statements issued by the Company for fiscal years beginning after November 15, 2007. The Company does not expect the new standard to have a material impact on the Company s financial position, results of operations or cash flows.

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MEDSOLUTIONS, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

In September 2006, the FASB issued SFAS No. 158, Employers Accounting for Defined Benefit Pension and Other Postretirement Plans (SFAS 158). SFAS 158 requires an employer to recognize the overfunded or underfunded status of a defined benefit postretirement plan (other than a multiemployer plan) as an asset or liability in its statement of financial position and to recognize changes in that funded status in the year in which the changes occur through comprehensive income of a business entity or changes in unrestricted net assets of a not-for-profit organization. SFAS 158 also requires an employer to measure the funded status of a plan as of the date of its year-end statement of financial position, with limited exceptions. SFAS 158 is effective for the Company for the year ended December 31, 2006. The adoption of this pronouncement did not have a material effect on the Company s financial statements.

In December 2006, the FASB approved FASB Staff Position (FSP) No. EITF 00-19-2, Accounting for Registration Payment Arrangements (FSP EITF 00-19-2), which specifies that the contingent obligation to make future payments or otherwise transfer consideration under a registration payment arrangement, whether issued as a separate agreement or included as a provision of a financial instrument or other agreement, should be separately recognized and measured in accordance with SFAS No. 5, Accounting for Contingencies . FSP EITF 00-19-2 also requires additional disclosure regarding the nature of any registration payment arrangements, alternative settlement methods, the maximum potential amount of consideration and the current carrying amount of the liability, if any. The guidance in FSP EITF 00-19-2 amends FASB Statements No. 133, Accounting for Derivative Instruments and Hedging Activities , and No. 150, Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity , and FASB Interpretation No. 45, Guarantor s Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others, to include scope exceptions for registration payment arrangements.

FSP EITF 00-19-2 is effective immediately for registration payment arrangements and the financial instruments subject to those arrangements that are entered into or modified subsequent to the issuance date of this FSP, or for financial statements issued for fiscal years beginning after December 15, 2006, and interim periods within those fiscal years, for registration payment arrangements entered into prior to the issuance date of this FSP. The adoption of this pronouncement is not expected to have an impact on the Company s consolidated financial position, results of operations or cash flows.

In February 2007, the FASB issued SFAS No. 159, The Fair Value Option for Financial Assets and Financial Liabilities (SFAS 159). SFAS 159 provides companies with an option to report selected financial assets and liabilities at fair value. The objective of SFAS 159 is to reduce both complexity in accounting for financial instruments and the volatility in earnings caused by measuring related assets and liabilities differently. Generally accepted accounting principles have required different measurement attributes for different assets and liabilities that can create artificial volatility in earnings. The FASB has indicated it believes that SFAS 159 helps to mitigate this type of accounting-induced volatility by enabling companies to report related assets and liabilities at fair value, which would likely reduce the need for companies to comply with detailed rules for hedge accounting. SFAS 159 also establishes presentation and disclosure requirements designed to facilitate comparisons between companies that choose different measurement attributes for similar types of assets and liabilities. SFAS 159 does not eliminate disclosure requirements included in other accounting standards, including requirements for disclosures about fair value measurements included in SFAS 157 and SFAS No. 107, Disclosures about Fair Value of Financial Instruments. SFAS 159 is effective for the Company as of the beginning of fiscal year 2009. The Company has not yet determined the impact SFAS 159 may have on its consolidated financial position, results of operations, or cash flows.

NOTE 4. Acquisitions

SteriLogic Waste Systems, Inc. (SteriLogic)

On August 16, 2006, the Company acquired SteriLogic Waste Systems, Inc., a Pennsylvania corporation (SteriLogic) located in Syracuse, New York. SteriLogic is a regulated medical waste management company that provides collection, transportation and disposal of regulated medical waste services in addition to providing a reusable sharps container program to its customers who are primarily located in the states of New York and Pennsylvania. SteriLogic also designs, manufactures and markets reusable sharps containers to medical waste service providers who provide a

reusable sharps container program to their medical waste customers. On January 15, 2007, the former owners of SteriLogic and the Company agreed by mutual consent to amend the original Merger Agreement whereby the former owners of SteriLogic agreed to reduce the number of Merger Shares issued by the Company from 1,000,000 to 700,000 shares and to terminate the conversion feature of the $250,000 promissory note issued by the Company as part of the purchase price. As a result of these amendments, the Company recorded a reduction in the purchase price in accordance with the original Merger Agreement of $264,000 reflecting the return of the 300,000 shares issued by the Company. The corresponding reduction reduced the value assigned to SteriLogic s customer list by $264,000.

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MEDSOLUTIONS, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

NOTE 4 Acquisitions (continued)

Pro Forma Results

The following table presents the pro-forma combined results of operations of the Company and SteriLogic for the period ended March 31, 2006 as if they had been combined from the beginning of 2006.

		Pro forma Combined At March 31, 2006
Revenues:		
Net Sales		$ 3,479,732
Net income		$ 153,817
Basic net income (loss) per common share		$ 0.01
Diluted net income (loss) per common share		$ 0.01
Weighted average common shares outstanding	basic	22,624,656
Weighted average common shares outstanding	diluted	24,747,014

The pro forma combined results are not necessarily indicative of the results that actually would have occurred if the acquisitions had been completed as of the beginning of the 2006 year, nor are they necessarily indicative of future consolidated results.

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(Unaudited)

NOTE 5. Goodwill and Intangibles

As of March 31, 2007, goodwill totaled $3,403,025. This amount is a result of seven acquisitions where goodwill was recorded in six of those acquisitions as part of the purchase price. With regard to the AmeriTech Environmental, Inc. (ATE) acquisition, closed on November 7, 2003, goodwill was recorded in the amount of $969,387. With regard to the B. Bray Medical Waste Service (Bray) acquisition, closed on January 1, 2004, goodwill was recorded in the amount of $3,600. Our third acquisition, Med-Con Waste Solutions, Inc. (Med-Con), was closed on September 30, 2004 and goodwill was recorded in the amount of $522,186. Our fourth acquisition, On Call Medical Waste, Ltd. (On Call), was closed on August 29, 2005 and goodwill was recorded in the amount of $653,922. Our sixth acquisition, Positive Impact Waste Solutions, Ltd. (PIWS) was closed on November 30, 2005 and goodwill was originally recorded in the amount of $447,926. The goodwill assigned to the PIWS acquisition was subsequently increased by $50,000 to $497,926 during the quarter ended September 30, 2006 due to additional estimated acquisition costs. Our seventh acquisition, SteriLogic was closed on August 16, 2006 and $756,004 was assigned to goodwill based upon an independent appraisal of the intangible assets acquired. All of the goodwill associated with these acquisitions is deductible for income tax purposes.

As of March 31, 2007, intangible assets were $2,173,182, net of accumulated amortization of $1,124,533, and consisted almost entirely of customer lists recorded from the acquisitions mentioned above. All values assigned to customer list were derived by independent appraisals and were assigned lives of 5 years over which to amortize the assigned cost.

The amortization of customer lists for the 5 years ending December 31, 2011 is as follows:

Year Ended December 31,	Amount
2007	$ 285,919
2008	354,708
2009	243,579
2010	138,577
2011	25,867
	$ 1,048,649

As of March 31, 2007, no impairment test was performed on the Company s goodwill and customer list as no triggering events had occurred that would indicate possible impairment

NOTE 6. Accrued Liabilities

Accrued liabilities consist of the following:	March 31, 2007 (Unaudited)	December 31, 2006
Salaries and payroll taxes	$ 299,203	$ 347,545
Accrued director fees	59,500	269,891
Interest	36,168	27,408
Insurance		169,363
Other accrued liabilities	300,637	467,236
	$ 695,508	$ 1,281,443

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NOTE 7. Notes Payable Stockholders

On January 1, 2007, the Company issued promissory notes to its directors for payment of their 2006 board compensation. Additional promissory notes were issued to the Chairman of the Board and the President/Chief Executive Officer of the Company for payment of compensation. The total amount of the promissory notes issued is $292,005 and the notes accrue interest at 12% with final payment of all principal and accrued interest due on July 1, 2007.

On January 2, 2007, the Company issued a promissory note to Tate Investments, LLC, which loaned $175,000 to the Company for equipment expansion purposes. The promissory note bears interest at 12% and is payable in 36 equal monthly installments of principal and interest in the amount of $5,813 each, with the balance of the principal and any accrued and unpaid interest due upon maturity of the note on December 28, 2009.

On January 31, 2007, the Company renewed and extended for six months a $175,000 promissory note to On Call Medical Waste Services, Ltd (On Call). The note accrues interest at 12% and is payable in monthly installments of interest only with the principal and any accrued and unpaid interest due upon maturity of the note on July 31, 2007. Simultaneously, the Company agreed to enter into an agreement with Medical Waste of North Texas, LLC (MWNT an entity owned by the former owner of On Call) for the Company to treat and dispose of regulated medical waste that is brought to its Garland Facility by MWNT, effective September 1, 2007. The initial term of this agreement is for 24 months, and the agreement automatically renews for additional one-year extensions unless either party notifies the other party in writing at least 30 days but not more than 90 days prior to any such renewal date of its desire not to renew the agreement.

NOTE 8. Working Capital Loan

On March 27, 2007, EMSI entered into a $1,500,000 secured, one-year loan and security agreement (the Loan Agreement) with Park Cities Bank, Dallas, Texas (the Bank), and Mr. Matthew H. Fleeger, our President and CEO, and Mr. Winship B. Moody, Sr., our Chairman of the Board (collectively, the Guarantors). The terms of the Loan Agreement provide EMSI with a $1,500,000 revolving line of credit, subject to certain downward adjustments from time to time based upon the value of the collateral securing the line of credit. The performance by EMSI of its obligations under the Loan Agreement is secured by all of EMSI s personal property, including without limitation its account receivables, and a first-lien mortgage deed of trust on EMSI s facility located in Garland, Texas, and is unconditionally guaranteed by the Guarantors. The proceeds of the borrowings under the Loan Agreement may only be used for general corporate purposes, including without limitation providing working capital to EMSI for the purposes of financing its operations, production and marketing and sales efforts, costs related to the expansion of EMSI s business operations, and the acquisition of the assets of businesses engaged in businesses the same as, similar to, or complementary to EMSI s business operations. Borrowings under the Loan Agreement will bear interest at the lesser of (1) a fluctuating rate of interest equal to 1.0% in excess of the prime rate as designated in the Money Rates Section of the *Wall Street Journal* from time to time or (2) the maximum rate permissible by applicable law. Accrued and unpaid interest under the Loan Agreement is payable on the first day of each month commencing on April 1, 2007. In addition, EMSI paid an origination fee to the Bank in the amount of $15,000. The Loan Agreement contains, among other provisions, conditions precedent, covenants, representations and warranties and events of default customary for facilities of this size, type and purpose. Negative covenants include certain restrictions or limitations on, among other provisions, the incurrence of indebtedness; liens; investments, loans and advances; restricted payments, including dividends; consolidations and mergers; sales of assets (subject to customary exceptions for sales of inventory in the ordinary course and sales of equipment in connection with the replacement thereof in the ordinary course); and changes of ownership or control of EMSI. Affirmative covenants include covenants regarding, among other provisions, financial reporting. The Loan Agreement will mature and expire on April 1, 2008, at which time all outstanding amounts under the Loan Agreement will be due and payable. The outstanding amounts under the Loan Agreement may be prepaid by EMSI at any time without penalty, and any principal amounts borrowed and repaid thereunder may be reborrowed by EMSI prior to the maturity date so long as the aggregate principal amount

outstanding at any time does not exceed the $1,500,000 maximum loan commitment (as subject to downward adjustment based on the value of the collateral as described above). Under certain conditions the loan commitment under the Loan Agreement may be terminated by the Bank and amounts outstanding under the Loan Agreement may be accelerated. Bankruptcy and insolvency events with respect to EMSI or either of the Guarantors will result in an automatic termination of lending commitments and acceleration of the indebtedness under the Loan Agreement. Subject to notice and cure periods in certain cases, other events of default under the Loan Agreement will result in termination of lending commitments and acceleration of indebtedness under the Loan Agreement at the option of the Bank. Such other events of default include failure to pay any principal and/or interest when due, failure to comply with covenants, breach of representations or warranties in any respect, non-payment or acceleration of other material debt of EMSI or the Guarantors, the death of either Guarantor or the termination of either of their guaranties, certain judgments against EMSI or a Guarantor,

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MEDSOLUTIONS, INC.
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NOTE 8. Working Capital Loan (continued)

a material adverse change in the business or financial condition of EMSI or either Guarantor, or if the Bank in good faith deems itself insecure. At March 31, 2007, the Company owed $572,663 and had $927,337 of additional advances available under the Loan Agreement.

NOTE 9. Stockholders Equity

On March 31, 2007, 96,667 shares of the Company s Series A Preferred Stock were converted into 96,667 shares of the Company s Common Stock in accordance with the Certificate of Designation for the Series A Preferred Stock (the Certificate of Designation). The terms of the Certificate of Designation required the holders of the Series A Preferred Stock to convert their shares into the Company s Common Stock on a share for share basis on the second anniversary from the date of issuance of the Series A Preferred Stock. All dividends declared with regard to the issuance of the Preferred Stock have been paid. As of March 31, 2007, there were no shares of Series A Preferred Stock outstanding.

Tate Investments, LLC (Investor)

On March 1, 2007, the Company provided written notice to the Investor, that the Company intended to prepay in full on April 2, 2007 all outstanding principal and interest owed by the Company to the Investor pursuant to (1) that certain 10% Senior Convertible Note issued by the Company to the Investor on July 15, 2005 in the principal amount of $1,000,000 (the 2005 Note), and (2) that certain Convertible Secured Promissory Note issued by the Company to the Investor on March 15, 2006 in the principal amount of $500,000 (the 2006 Note, and together with the 2005 Note, the Notes). The Company was going to use proceeds from the Loan Agreement to prepay the Notes. In lieu of prepayment, the Investor elected to convert his Notes into the Company s Common Stock in accordance with the terms of the Investment Agreement entered into by the Company and the Investor. On March 30, 2007, the Company issued 2,406,417 shares of Common Stock to the Investor in exchange for the cancellation of the Notes.

Stock Grants and Options

At the annual meeting of stockholders of the Company on December 18, 2002, the stockholders approved the adoption of the MedSolutions, Inc. 2002 Stock Plan. The purpose of the plan is to attract and retain the best available personnel for positions of substantial responsibility, to provide additional incentive to employees, directors and consultants and to promote the success of the Company s business. Options granted under the plan may be Incentive Stock Options or Nonstatutory Stock Options, as determined by the Board of Directors at the time of grant. On August 17, 2006, the Board of Directors approved an increase in the number of shares available for future grants and awards under the 2002 Stock Plan to 3,000,000 shares from 850,000 shares. The shareholders of the Company approved the amendment to the 2002 Stock Plan at their Annual Shareholder s Meeting on October 19, 2006.

Stock Grants and Options (continued)

A summary of activity involving options on the Company s common stock follows:

	Number of Options	Weighted Average Exercise Price	Aggregate Intrinsic Value
Balance outstanding at December 31, 2006	1,328,796	$ 0.80	$ 139,615
Granted			
Exercised			
Cancelled/Expired			
Balance outstanding at March 31, 2007	1,328,796	$ 0.80	$ 42,958

Number of options exercisable at March 31, 2007	1,328,796	$	0.80	$	42,958

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MEDSOLUTIONS, INC.
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NOTE 9. Stockholders Equity (continued)

Stock options outstanding at March 31, 2007 for each of the following classes of options, by exercise price, are summarized as follows:

EXERCISE PRICE	NUMBER OF OPTIONS	WEIGHTED-AVERAGE REMAINING CONTRACTUAL LIFE	NUMBER OF OPTIONS CURRENTLY EXERCISABLE
$1.00	80,164	6.75 years	80,164
$1.00	95,500	7.75 years	95,500
$1.00	79,173	8.25 years	79,173
$0.75	289,736	8.26 years	289,736
$0.75	305,427	8.75 years	305,427
$0.75	478,796	9.55 years	478,796

NOTE 10. Related Party Transactions

For the three months ended March 31, 2007 and 2006, the Company paid interest expense to related parties in the amount of $67,050 and $37,691 respectively.

NOTE 11. Subsequent Events

On July 6, 2007, the Company entered into an Agreement and Plan of Merger (the "Merger Agreement") with Stericycle, Inc. and TMW Acquisition Corporation, a wholly-owned subsidiary of Stericycle, Inc. ("Merger Sub"). Pursuant to the Merger Agreement, Merger Sub will merge with and into the Company, with the Company as the surviving corporation to the merger. The Merger Agreement provides for the payment of a combination of cash and promissory notes to the Company's shareholders in consideration for their shares of the Company's common stock. The merger contemplated by the Merger Agreement is expected to close during the third quarter of 2007, and is subject to customary closing conditions including without limitation the approval of the Company's shareholders as required by Texas law and the Company's articles of incorporation, as amended. The Merger Agreement provides for the payment of a $2,500,000 termination fee by the Company to Stericycle, Inc. if the Merger Agreement is terminated in certain manners. See "The Merger" and "The Merger Agreement" beginning on pages 36 and 54, respectively, of this proxy statement/prospectus for additional information.

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LEGAL MATTERS

The validity of the promissory notes to be issued in the merger will be passed on for Stericycle by Johnson and Colmar, outside general counsel to Stericycle. As of July 6 2007, lawyers at Johnson and Colmar beneficially owned or had voting or investment power over 7,176 shares of Stericycle s common stock.

EXPERTS

The consolidated financial statements of Stericycle appearing in Stericycle s annual report on Form 10-K for the year ended December 31, 2006 including schedule appearing therein, and Stericycle s management s assessment of the effectiveness of internal control over financial reporting as of December 31, 2006 included therein have been audited by Ernst & Young LLP, independent registered public accounting firm, as set forth in their reports thereon, included therein, and incorporated herein by reference. Such consolidated financial statements and management s assessment are incorporated herein by reference in reliance upon such reports given on the authority of such firm as experts in accounting and auditing.

The consolidated financial statements of MedSolutions at December 31, 2006, 2005 and 2004, and for each of the years in the three-year period ended December 31, 2006, appearing in this proxy statement/prospectus and registration statement have been audited by Marcum & Kleigman LLP, independent registered public accounting firm, as set forth in their reports thereon, appearing elsewhere herein, and are included in reliance upon such reports given on the authority of such firm as experts in accounting and auditing.

SHAREHOLDER PROPOSALS

To the extent the merger is not consummated, MedSolutions must have received by April 25, 2007 any proposal of a shareholder intended to be presented at MedSolutions 2007 annual meeting and to be included in MedSolutions proxy materials related to the 2007 annual meeting pursuant to Rule 14a-8 under the Securities Exchange Act of 1934. Proposals of shareholders submitted outside the processes of Rule 14a-8 under the Securities Exchange Act of 1934 in connection with the 2007 annual meeting, or non-Rule 14a-8 proposals, must be received by MedSolutions by August 28, 2007. MedSolutions proxy related to the 2007 annual meeting will give discretionary authority to the proxy holders to vote with respect to all non-Rule 14a-8 proposals received by MedSolutions on or before August 28, 2007. Notices of shareholder proposals should be delivered personally or mailed to the Secretary of MedSolutions at its principal offices.

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WHERE YOU CAN FIND MORE INFORMATION

Stericycle and MedSolutions file annual, quarterly and current reports, proxy statements and other information with the Securities and Exchange Commission. You may read and copy materials that Stericycle and MedSolutions have filed with the Securities and Exchange Commission at the following Securities and Exchange Commission public reference room:

100 F Street, N.E., Washington, D.C. 20549

Please call the Securities and Exchange Commission at 1-800-SEC-0330 for further information on the operation of the public reference room.

The Stericycle common stock is traded on the Nasdaq National Market under the symbol SRCL , and its Securities and Exchange Commission filings can also be read at the following address:

Nasdaq Operations, 1735 K Street, N.W., Washington, D.C. 20006

Our Securities and Exchange Commission filings are also available to the public on the Securities and Exchange Commission s internet website at *http://www.sec.gov*, which contains reports, proxy and information statements and other information regarding companies that file electronically with the Securities and Exchange Commission. In addition, Stericycle s Securities and Exchange Commission filings are also available to the public on Stericycle s website, *http://www.stericycle.com.* Information contained on Stericycle s website is not incorporated by reference into this prospectus, and you should not consider information contained on those web sites as part of this prospectus.

Stericycle incorporates by reference into this proxy statement/prospectus the documents listed below and any future filings that Stericycle makes with the Securities and Exchange Commission under Sections 13(a), 13(c), 14 or 15(d) of the Securities Exchange Act of 1934, including any filings after the date of this proxy statement/prospectus, until the special meeting. The information incorporated by reference is an important part of this proxy statement/prospectus. Any statement in a document incorporated by reference into this proxy statement/prospectus will be deemed to be modified or superseded for purposes of this proxy statement/prospectus to the extent a statement contained in this proxy statement/prospectus or any other subsequently filed document that is incorporated by reference into this proxy statement/prospectus modifies or supersedes such statement. Any statement so modified or superseded will not be deemed, except as so modified or superseded, to constitute a part of this proxy statement/prospectus.

Annual report on Form 10-K for the year ended December 31, 2006

Quarterly report on Form 10-Q for the quarter ended March 31, 2007

Current report on Form 8-K filed on May 16, 2007

Proxy statement filed April 16, 2007 for 2007 Annual Meeting of Stockholders on May 16, 2007.

The documents incorporated by reference into this proxy statement/prospectus are available from Stericycle upon request by any MedSolutions shareholder. See References to Additional Information on the second page of this proxy statement/prospectus.

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ANNEX A
AGREEMENT AND PLAN OF MERGER

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Agreement and Plan of Merger
dated as of July 6, 2007
entered into by
Stericycle, Inc.
TMW Acquisition Corporation,
and
MedSolutions, Inc.

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Exhibits

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Agreement and Plan of Merger

This Agreement and Plan of Merger is entered into as of July 6, 2007 by Stericycle, Inc., a Delaware corporation (Parent), TMW Acquisition Corporation, a Texas corporation and wholly-owned subsidiary of Parent (MergerSub), and MedSolutions, Inc., a Texas corporation (the Company).

Background:

A. This Agreement contemplates a transaction in which Parent will acquire all of the outstanding capital stock of the Company for cash and promissory notes through a reverse subsidiary merger of MergerSub with and into the Company.

B. The respective boards of directors of Parent, MergerSub and the Company have approved, and deem it advisable and in the best interests of their respective shareholders to consummate, this Agreement and the merger of MergerSub with and into the Company pursuant to this Agreement.

C. The board of directors of the Company has unanimously resolved to recommend that the shareholders of the Company approve this Agreement and the consummation of the merger of the Company with MergerSub pursuant to this Agreement.

Now, therefore, in consideration of their mutual promises and intending to be legally bound, the Parties agree as follows:

Article 1
Definitions

Certain capitalized terms used in this Agreement are defined in **Annex I**.

Article 2
The Merger

2.1 **Merger**

Upon the terms and subject to the conditions of this Agreement, and in accordance with the requirements of the TBCA and the Texas BOC, MergerSub shall merge with and into the Company (the Merger) at the Effective Time. The separate corporate existence of MergerSub shall cease, and the Company shall continue as the surviving corporation in the Merger (the Surviving Corporation) and succeed to and assume all of the rights and obligations of MergerSub in accordance with the TBCA and the Texas BOC.

2.2 **Closing**

The closing of the Merger (Closing) shall take place at the offices of Block & Garden, LLP, 12750 Merit Drive, Park Central VII, Suite 770, Dallas, Texas 75251 at 10:00 a.m. on the second Business Day (the Closing Date) following the satisfaction or, to the extent permitted by Law, waiver of all of the Parent Closing Conditions and all of the Company Closing Conditions (other than those conditions that by their nature are to be satisfied at Closing, but subject to the satisfaction or waiver of those conditions at Closing), or at such other place, time and date as the Parties may agree in writing.

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2.3 **Closing Events**

At Closing, the following events shall take place, all of which shall be considered to take place concurrently:

(a) **Certificate of Merger**

The Company and MergerSub shall execute a certificate of merger consistent with the terms of this Agreement and complying in form and substance with the requirements of the TBCA and the Texas BOC (the Certificate of Merger), and shall file the Certificate of Merger in the office of the Secretary of State of the State of Texas.

(b) **Deliveries by Company**

Company shall deliver to Parent and MergerSub an Officer s Certificate certifying that all of the Company Closing Conditions have been either satisfied or waived.

(c) **Deliveries by Parent and MergerSub**

Parent and MergerSub shall do the following:

(1) Parent and MergerSub shall deposit the Exchange Fund with the Paying Agent in accordance with Section 2.5; and

(2) Parent and MergerSub shall deliver to the Company an Officer s Certificate certifying that all of the Parent Closing Conditions have been either satisfied or waived.

2.4 **Effect of Merger**

(a) **General**

The Merger shall become effective at the time (the Effective Time) that the Certificate of Merger is duly filed in the office of the Secretary of State of the State of Texas or at such later time as Parent and the Company may agree and as the Company and MergerSub specify in the Certificate of Merger. The Merger shall have the effects described in this Agreement and Section 10.008 of the Texas BOC and Section 5.06 of the TBCA. The Surviving Corporation may, at any time after the Effective Time, take any action (including executing and delivering any document) in the name and on behalf of either the Company or MergerSub in order to carry out and give effect to the Merger.

(b) **Articles of Incorporation**

As of the Effective Time, the Surviving Corporation s articles of incorporation shall be amended and restated to read as the certificate of formation of MergerSub read immediately prior to the Effective Time (with the exception that the name of the Surviving Corporation shall remain unchanged).

(c) **Bylaws**

As of the Effective Time, the Surviving Corporation s bylaws shall be amended and restated to read as the bylaws of MergerSub read immediately prior to the Effective Time (with the exception that the name of the Surviving Corporation shall remain unchanged).

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(d) **Directors and Officers**

As of the Effective Time, the officers and directors of the Surviving Corporation shall be the officers and directors of MergerSub immediately prior to the Effective Time.

(e) **Conversion of Company Common Stock**

At the Effective Time, by virtue of the Merger and without any action on the part of Parent, MergerSub, the Company or holders of any securities of MergerSub or the Company, each share of Company Common Stock issued and outstanding immediately prior to the Effective Time (other than a Dissenting Share or a share canceled pursuant to Section 2.4(f)) shall be converted into the right to receive a payment (the Merger Consideration) consisting of (i) cash in the amount of $0.50 (the Cash Consideration Per Share), without interest, and (ii) a note issued by Parent (the Parent Note) in the principal amount of $1.50 (the Note Consideration Per Share) and, at the election of the holder of such share of Company Common Stock, either bearing interest at the rate of 4.5% and having the terms provided in an indenture substantially in the form of the attached **Exhibit A**, or bearing interest at the rate of 3.5%, secured by a master letter of credit and having the terms provided in an indenture substantially in the form of the attached **Exhibit B**, upon surrender of the Company Stock Certificate representing the share pursuant to Section 2.5(b). All shares of Company Common Stock converted into the right to receive Merger Consideration as provided in this Section 2.4(e) (Company Shares) shall be canceled automatically and cease to exist. The Merger Consideration is subject to adjustment as provided in Section 7.6.

(f) **Treasury Shares**

At the Effective Time, each share of Company Common Stock held in treasury by the Company or owned by Parent, MergerSub or any direct or indirect wholly-owned subsidiary of the Company or Parent shall be canceled, and no payment of Merger Consideration shall be made in respect of such share.

(g) **Conversion of MergerSub s Stock**

At and as of the Effective Time, each share of MergerSub s common stock, par value $.01 per share, shall be converted into one share of common stock of the Surviving Corporation.

2.5 **Exchange Fund and Procedures**

(a) **Exchange Fund**

Prior to the Effective Time, Parent shall appoint LaSalle Bank National Association, Chicago, Illinois to act as the paying agent (the Paying Agent) for the purpose of exchanging Company Shares for Merger Consideration. At or prior to the Effective Time, Parent shall (a) deposit with Holdback Escrow Agent (as defined in Section 7.3(c) below) cash in the amount of $250,000 and (b) deposit with the Paying Agent, in trust for the benefit of holders of Company Shares and Company Stock Options, a fund (the Exchange Fund), consisting of cash and Parent Notes (registered in the name of the Paying Agent or its nominee) sufficient in the aggregate for the Paying Agent to make full payment to the holders of Company Shares and Company Stock Options of the Merger Consideration payable under Section 2.4(e) and the amounts payable pursuant to Section 2.5(h), less the amount to be deposited with the Holdback Escrow Agent pursuant to subclause (a) above. The Paying Agent shall invest the cash included in the Exchange Fund as directed by Parent, and any interest or other income resulting from the investment shall

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be Parent s sole and exclusive property and shall be paid to Parent upon its demand. No part of this interest or income shall accrue to the benefit of holders of Company Shares. Parent shall promptly replace any portion of the Exchange Fund that is lost through the Paying Agent s investments. Parent shall pay for the expenses of the Paying Agent incurred in connection with the Exchange Fund in an aggregate amount up to $80,000; any reasonable expenses of the Paying Agent in excess of $80,000 shall be paid by Parent and reimbursed by deducting the amount of such expenses from the principal amount of the Parent Notes distributed or to be distributed to holders of Company Shares who have duly surrendered or who may duly surrender their Company Stock Certificates pursuant to Section 2.5(b) on a Pro Rata Basis.

(b) **Exchange Procedures**

The Surviving Corporation shall cause the Paying Agent, as soon as reasonably practicable after the Effective Time, to mail to each registered holder of Company Shares immediately prior to the Effective Time (i) a letter of transmittal in customary form containing such other provisions as Parent reasonably may require (a Letter of Transmittal) and (ii) instructions for surrendering the stock certificate or certificates representing the holder s Company Shares (each a Company Stock Certificate) in exchange for the Merger Consideration payable in respect of the Company Shares represented by the holder s certificate or certificates. Upon surrender of a Company Stock Certificate to the Paying Agent for cancellation, together with a Letter of Transmittal duly executed and completed in accordance with its instructions and such other documents as the Paying Agent reasonably may require, the Paying Agent shall pay to the holder of the surrendered certificate the Merger Consideration payable in respect of the Company Shares represented by the certificate, and the Company Stock Certificate so surrendered shall be canceled. If any portion of the Merger Consideration payable in respect of any Company Shares is to be paid to a Person other than the registered holder of those shares, it shall be a condition to the Paying Agent s making such payment that the Company Stock Certificate representing those shares is surrendered properly endorsed or otherwise in proper form for transfer and that the Person requesting such payment (i) pays any transfer or other Tax required as a result of payment to a Person other than the registered holder or (ii) establishes to the satisfaction of the Paying Agent that any such Tax has been paid or is not payable. At and after the Effective Time and until surrendered as contemplated by this Section 2.5(b), each Company Stock Certificate shall be deemed to represent for all purposes only the right to receive the Merger Consideration payable upon such surrender.

(c) **No Further Ownership Rights**

From and after the Effective Time, holders of Company Shares outstanding immediately prior to the Effective Time shall cease to have any rights in respect of those shares, except as otherwise provided for in this Agreement or by applicable Law. The Merger Consideration issued and paid upon conversion of Company Shares in accordance with the terms of this Article 2 shall be deemed to have been issued and paid in full satisfaction of all rights in respect of those shares.

(d) **Termination of Exchange Fund**

Any portion of the Exchange Fund remaining undistributed six months after the Effective Time shall be delivered to the Surviving Corporation or as the Surviving Corporation directs, and thereafter any holder of Company Shares who did not comply with this Article 2 prior to such delivery shall look, as a general creditor, solely to the Surviving Corporation for the Merger Consideration payable in respect of those shares (subject to abandoned property, escheat and similar Laws).

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(e) **Lost Certificates**

Upon delivery to the Paying Agent of a lost certificate affidavit and indemnity agreement in customary form to the effect that a Company Stock Certificate has been lost, stolen or destroyed, the Paying Agent shall deliver to the Person claiming ownership of the lost, stolen or destroyed Company Stock Certificate the Merger Consideration payable in respect of the Company Shares represented by the certificate; provided, however, that the Surviving Corporation may also require, in its reasonable discretion, delivery of a bond in such reasonable amount as the Surviving Corporation may direct as indemnity against any claim that may be made against the Surviving Corporation in respect of any lost, stolen or destroyed Company Stock Certificate for 50,000 or more Company Shares.

(f) **Stock Transfer Books**

The Company s stock transfer books shall be closed immediately upon the Effective Time, and there shall be no further registration of transfers of Company Shares on the Company s stock transfer records.

(g) **Dissenters Rights**

Notwithstanding anything in this Agreement to the contrary, a Dissenting Share shall not be converted into the right to receive Merger Consideration, but shall instead represent only the rights of a dissenting owner under section 5.11 et seq. of the TBCA to receive the fair value of the dissenting owner s ownership interest through appraisal, unless and until the Dissenting Shareholder fails to perfect or effectively withdraws or otherwise forfeits those rights. If a Dissenting Shareholder fails to perfect or effectively withdraws or otherwise forfeits the rights of a dissenting owner under Section 5.11 et seq. of the TBCA, the Dissenting Shareholder s Dissenting Shares shall be converted into and represent for all purposes only the right to receive the Merger Consideration payable upon surrender of the Company Stock Certificate representing those shares pursuant to Section 2.5(b). The Company shall give Parent (i) prompt notice of any written demand for appraisal of any shares of Company Common Stock, any attempted withdrawal of any demand and any other instrument served on the Company pursuant to the TBCA relating to rights of appraisal and (ii) the opportunity to direct all negotiations and proceedings in respect of demands for appraisal under the TBCA. The Company shall not voluntarily make any payment in respect of, or settle or offer to settle, any demand for appraisal without Parent s prior written consent.

(h) **Stock Options**

The Company shall take all action necessary so that each outstanding Company Stock Option, whether or not it is then vested or exercisable, shall be canceled immediately prior to the Effective Time, and shall thereafter represent, whether or not previously vested, only the right to receive from the Surviving Corporation, at the Effective Time or as soon as practicable thereafter, in consideration for the option s cancellation, an amount equal to the product of (i) the number of shares of Company Common Stock issuable upon the exercise of the option multiplied by (ii) the excess, if any, of the Merger Consideration over the exercise price per share payable under the option, subject to any required withholding Taxes. The amount payable shall consist of cash and a Parent Note, and the amount of cash and the principal amount of the Parent Note shall be in the same relative proportions as the Cash Consideration Per Share and the principal amount of the Note Consideration Per Share.

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Promptly following the execution of this Agreement, the Company shall mail to each person who is a holder of an outstanding Company Stock Option, whether or not it is then vested or exercisable, a letter in a form acceptable to Parent describing the treatment of and payment for Company Stock Options pursuant to this Section 2.5(h) and providing instructions to use to obtain payment for the holder s Company Stock Options under this Agreement. The Company shall use its reasonable best efforts to obtain, prior to the Effective Time, a release from each holder of an outstanding Company Stock Option effectively relinquishing all rights in respect of the holder s outstanding Company Stock Options upon payment in accordance with this Section 2.5(h). The Company shall take all actions necessary to cause all stock option and stock purchase plans, and any other plan, program or arrangement relating to the issuance of equity securities of the Company or any Subsidiary, to be terminated effective as of the Effective Time and to ensure that no Person shall have any rights under any such plan, program or arrangement to acquire equity securities of the Company, any Subsidiary, Parent or the Surviving Corporation after the Effective Time.

Article 3
Representations and Warranties
of Company

Except as disclosed in (i) a Schedule to this Article or (ii) the Company SEC Reports, the Company represents and warrants to Parent and MergerSub as follows:

3.1 **Organization**

Each Target Company is a corporation duly organized, validly existing and in good standing under the Laws of its state of incorporation, with full corporate power and authority to conduct its business as it is now being conducted, to own or use the properties and assets that it purports to own or use, and to perform its obligations under all Contracts. Except as disclosed on Schedule 3.1, each Target Company is duly qualified to do business as a foreign corporation and is in good standing under the Laws of each state or other jurisdiction in which qualification is required by Law (except where the failure to be qualified and in good standing would not reasonably be expected to have a Material Adverse Effect).

3.2 **Authority**

The Company has the power and authority to execute and deliver this Agreement and, subject to receipt of Shareholder Approval, to perform its obligations under this Agreement. By all necessary action, the board of directors of the Company has duly and validly authorized the execution and delivery of this Agreement and approved this Agreement and the consummation of the Merger and declared it advisable, and has resolved to recommend that the Shareholders of the Company approve this Agreement and the consummation of the merger of the Company with MergerSub pursuant to this Agreement. The Company s execution and delivery of this Agreement and, subject to receipt of Shareholder Approval, consummation of the Merger, have been duly authorized by all necessary action required by the Company s Organizational Documents and the TBCA.

3.3 **Enforceability**

This Agreement constitutes a legally valid and binding obligation of the Company, enforceable against the Company in accordance with its terms except as enforceability may be limited by (i) applicable bankruptcy, insolvency, reorganization, moratorium or other similar Laws affecting the enforcement of creditors rights generally and (ii) general principles of equity (regardless of whether enforceability is considered in a proceeding in equity or at law) and judicial discretion.

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3.4 **Capital Stock**

(a) The Company s authorized capital stock consists of 100,000,000 shares of Company Common Stock and 100,000,000 shares of Company Preferred Stock.

(b) As of the date of this Agreement, the Company has 26,470,646 shares of Company Common Stock issued and outstanding. All of these shares are duly authorized, validly issued, fully paid and nonassessable, and none of them was issued in violation of or subject to any preemptive rights. As of the date of this Agreement, the Company holds 12,000 shares of Company Common Stock in treasury.

(c) As of the date of this Agreement, the Company does not have any shares of Company Preferred Stock issued and outstanding or hold any shares of Company Preferred Stock in treasury.

(d) As of the date of this Agreement, there are outstanding Company Stock Options to purchase a total of 964,682 shares of Company Common Stock, as listed in Schedule 3.4(d). Schedule 3.4(d) also provides, for each stock option listed, the name of the holder, the number of underlying shares, the date of grant, the applicable vesting schedule and the exercise price.

(e) As of the date of this Agreement: (i) except as described in Section 3.4(b) , there are no outstanding shares of capital stock or other outstanding equity securities of the Company; and (ii) except as described in Section 3.4(d) or in Schedule 3.4(e), there are no outstanding Company Convertible Debentures or other debt securities of the Company convertible into or exchangeable for shares of capital stock of the Company or Company Stock Options, warrants, calls, puts, subscription rights, conversion rights or other Contracts to which the Company is party or by which it is bound providing for the Company s issuance of any shares of Company Common Stock or Company Preferred Stock or other equity securities.

(f) Except for the Voting Agreement, as provided in the Company s articles of incorporation as amended to the date of this Agreement, and the lockup agreement entered into between the Company and certain of its Shareholders, there are no shareholder agreements, buy-sell agreements, voting trusts or other Contracts to which the Company or any Subsidiary is a party or by which it is bound relating to the voting or disposition of any shares of Company Common Stock or Company Preferred Stock or creating any obligation of the Company to repurchase, redeem or otherwise acquire or retire any shares of Company Common Stock or Company Preferred Stock or any Company Stock Options or warrants.

(g) Schedule 3.4(g) lists for each Subsidiary its name and jurisdiction of incorporation and the number of authorized shares of each class of its capital stock. All of the issued and outstanding shares of capital stock of each Subsidiary are duly authorized, validly issued, fully paid and nonassessable, and none of them was issued in violation of any preemptive rights.

(h) Except as disclosed on Schedule 3.4(h), the Company holds of record and owns beneficially all of the issued and outstanding shares of capital stock of each Subsidiary, free and clear of any Liens (other than restrictions on transfer under the Securities Act and state securities Laws) and there are no other outstanding equity securities or equity equivalents of any Subsidiary.

(i) There are no securities of any Subsidiary convertible into or exchangeable for shares

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of capital stock or other equity securities of the Subsidiary or options, warrants, calls, puts, subscription rights, conversion rights or other Contracts to which any Subsidiary is party or by which it is bound providing for its issuance of any shares of its capital stock or any other equity securities.

(j) There are no stockholders agreements, buy-sell agreements, voting trusts or other Contracts to which any Subsidiary is a party or by which it is bound relating to the voting or disposition of any shares of the Subsidiary s capital stock or creating any obligation of the Subsidiary to repurchase, redeem or otherwise acquire or retire any shares of its capital stock or any stock options or warrants.

(k) Except for the Subsidiaries or as described in the Company SEC Reports, the Company does not own any shares of capital stock of or other equity interest in any corporation or other Person.

3.5 **No Violation**

Subject only to obtaining Shareholder Approval, the Company s execution, delivery and performance of this Agreement will not, either directly or indirectly, and with or without Notice or the passage of time or both:

(a) violate or conflict with its Organizational Documents or those of any Subsidiary;

(b) except as disclosed on Schedule 3.5(b), result in a breach of or default under any Material Contract to which it or any Subsidiary is a party or by which it is bound;

(c) result in the imposition or creation of any Lien (other than a Permitted Lien) upon any of its assets or any of the assets of any Subsidiary; or

(d) violate or conflict with, or give any Governmental Authority the right to challenge the Merger or to obtain any other relief under, any Law or Order to which it or any Subsidiary is subject.

3.6 **No Consent Required**

Except (i) as required by the TBCA, the Texas BOC, the Securities Act, the Exchange Act, or applicable Takeover Statutes or (ii) disclosed on Schedule 3.6, and except for (iii) filing and recording appropriate documents for the Merger as required by the TBCA and the Texas BOC, the Company s execution, delivery and performance of this Agreement do not require any Notice to, filing with, Permit from or other Consent of any Governmental Authority or other Person.

3.7 **SEC Reports and Financial Statements**

The Company has filed with the SEC all forms, reports, schedules, exhibits and other documents that it has been required to file (the Company SEC Reports), each of which complied in all material respects with all applicable requirements of the Securities Act and the Exchange Act and the related SEC rules and regulations in effect on the date that it was filed with the SEC. None of the Company SEC Reports, including any financial statements or schedules included or incorporated by reference in the Company SEC Reports, contained, as of their respective dates of filing (and, if amended or superseded by a filing prior to the date of this Agreement or the Closing Date, then on the date of the filing), any untrue statement of a material fact or omitted to state a material fact required to be stated therein or incorporated

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by reference or necessary in order to make the statements contained therein, in light of the circumstances under which they were made, not misleading. No Subsidiary is required to file any forms, reports or other documents with the SEC.

The consolidated financial statements of the Company included in the Company SEC Reports complied as to form in all material respects with applicable accounting requirements and the relevant published rules and regulations of the SEC and present fairly, in conformity with GAAP applied on a consistent basis during the periods involved (except as otherwise noted therein), the consolidated financial position of the Company and its consolidated Subsidiaries as of the dates indicated and their consolidated results of operations and cash flows for the periods then ended (subject, in the case of the unaudited interim financial statements, to normal year-end adjustments and to the lack of footnotes and other presentation items).

3.8 **Equipment**

Schedule 3.8 contains a complete and accurate list of all of the Equipment of each of the Target Companies as of the date of this Agreement having an original purchase price of more than $10,000 per piece of Equipment and purchased since January 1, 2004 (grouping the Equipment listed by Target Company, and identifying each piece of Equipment by vendor, description, model number, serial number and location).

3.9 **Contracts**

(a) Schedule 3.9(a) consists of 12 subschedules which contain complete and accurate lists of the following Contracts of each Target Company as of the date of this Agreement (grouping the Contracts listed on each subschedule by Target Company, and listing each Contract only once if more than one listing otherwise would be required):

(1) a list of its largest 20 Customer Contracts (by revenues for the 12-month period ending March 31, 2007) identifying each Customer Contract by name of customer, billing address and contract term (Schedule 3.9(a)(1));

(2) all Equipment Leases involving monthly payments of more than $1,000, identifying each Equipment Lease by (i) vendor, description, model number, serial number and location and (ii) lessor, lessee and term of lease (Schedule 3.9(a)(2));

(3) all current and former Facility Leases, identifying each Facility Lease by (i) name, location and use of the Facility in question, and (ii) for each current Facility Lease, lessor, lessee, rent payable and term of lease (Schedule 3.9(a)(3)); provided, however, that the Target Companies shall not be required to list any former Facility Lease which expired or was terminated prior to January 1, 2002 or any former Facility Lease for a Facility for which a Target Company has entered into a new Facility Lease on or after January 1, 2002;

(4) any Contract (or series of related Contracts) for the purchase or sale of raw materials, parts, supplies, products or other personal property, or for the receipt of services, the performance of which will extend over a period of more than 90 days or involve payments in an amount exceeding $10,000 over the life of such Contract (Schedule 3.9(a)(4));

(5) all Contracts with lenders evidencing or securing any indebtedness for

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borrowed money (Schedule 3.9(a)(5));

(6) all Contracts with distributors and sales representatives of such Target Company (Schedule 3.9(a)(6));

(7) all Contracts guaranteeing the contractual performance of or any payment by another Person (other than another Target Company) (Schedule 3.9(a)(7));

(8) all Contracts creating a partnership or joint venture with another Person (Schedule 3.9(a)(8));

(9) all Contracts restricting or purporting to restrict the geographical area or scope of business activities or limiting or purporting to limit the freedom to engage in any line of business or to compete with any Person (Schedule 3.9(a)(9));

(10) all Contracts granting a right of first refusal or first negotiation with respect to any material asset (Schedule 3.9(a)(10));

(11) all Contracts (other than Employee Benefit Plans) relating to employee compensation, employment, termination of employment or consulting services, including any Contract that would result in any benefit becoming payable to any Person following consummation of the Merger (Schedule 3.9(a)(11)); and

(12) any Contract (or series of related Contracts) entered into outside of the Ordinary Course of Business and involving the expenditure or receipt by any party of an amount exceeding $25,000 over the life of such Contract (Schedule 3.9(a)(12)).

(b) Each Material Contract of a Target Company is a legally valid and binding obligation of the Target Company and, to the Knowledge of the Company, the other Person or each of the other Persons party to the Contract.

(c) No Target Company is in Default in a material respect under any Material Contract, and to the Company s Knowledge, no other Person party to a Material Contract is in Default in any material respect under the Contract except as disclosed on Schedule 3.9(c); and no event has occurred or circumstance exists that (with or without Notice or the passage of time or both) would result in a Default in a material respect by a Target Company under a Material Contract or would give any Person party to a Material Contract the right to exercise any remedy under the Contract or to cancel, terminate or modify the Material Contract.

(d) Except as disclosed on Schedule 3.9(d), no Target Company has given Notice to or received Notice from any other Person relating to an alleged, possible or potential Default under any Material Contract.

(e) For each current Facility Lease listed in Schedule 3.9(a)(3), the Target Company party to the Facility Lease has a good and valid leasehold interest in the Facility Lease free and clear of all Liens, except for (i) Taxes and general and special assessments not in default and payable without penalty and interest, (ii) easements, covenants and other encumbrances or restrictions that do not materially impair the current use, occupancy, value or marketability of the Target Company s interest, (iii) any landlord s or other statutory lien incidental to the Ordinary

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Course of Business and (iv) Permitted Liens.

3.10 **Real Property**

Schedule 3.10 contains a complete and accurate list of all Real Property that each Target Company owns as of the date of this Agreement (identified by Target Company and common name). For each item of Real Property listed in Schedule 3.10, title to the property is free and clear of all Liens, except for (i) Taxes and general and special assessments not in default and payable without penalty and interest, (ii) easements, covenants and other encumbrances or restrictions that do not materially impair the current use, occupancy, value or marketability of the property, (iii) statutory liens incidental to the Ordinary Course of Business and (iv) Permitted Liens.

3.11 **Permits**

(a) Schedule 3.11 contains a complete and accurate list of all material Permits held by each Target Company (grouping the Permits listed by Target Company). In the case of each material Permit held by a Target Company. Except as disclosed on Schedule 3.11:

(1) the Permit is valid and in full force and effect;

(2) the Target Company has complied with the terms of the Permit in all material respects;

(3) to Company s Knowledge, no event has occurred or circumstance exists that (with or without Notice or the passage of time or both) would constitute or result in the Target Company s violation of or failure to comply with the Permit or result in the revocation, withdrawal, suspension, cancellation, termination or material modification of the Permit;

(4) the Target Company has not received any written Notice from any Governmental Authority or other Person that has not been resolved regarding (i) any actual, alleged or potential violation of or failure to comply with the Permit or (ii) any actual, proposed or potential revocation, withdrawal, suspension, cancellation, termination or modification of the Permit; and

(5) since January 1, 2004 the Target Company has duly filed on a timely basis all applications that were required to be filed for the renewal of the Permit and has duly made on a timely basis all other filings, if any, required to have been made in respect of the Permit.

(b) Each Target Company holds all material Permits that it requires for the lawful conduct of the Business as it is currently conducted.

3.12 **Intellectual Property**

Except as disclosed on Schedule 3.12, each Target Company owns or has the valid and enforceable right to use all Intellectual Property of any kind necessary for or used in its conduct of the Business as it is currently conducted.

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3.13 **Undisclosed Liabilities**

Except as disclosed in Schedule 3.13, no Target Company has any Liabilities (including, for example, any indemnification Liabilities) except for (i) Liabilities disclosed in the financial statements included in the Company s SEC Reports or (ii) Liabilities incurred in the Ordinary Course of Business since January 1, 2007.

3.14 **Taxes**

(a) Except as disclosed on Schedule 3.14(a), each Target Company has filed all material Tax Returns that it was required to file prior to the date of this Agreement, all of the Tax Returns that it filed were correct and complete in all material respects, and all material amounts of Taxes due in connection with these Tax Returns have been paid.

(b) No federal or state income Tax Return that any Target Company filed prior to the date of this Agreement is currently under audit or examination by a Governmental Authority, and no Target Company has received Notice from any Governmental Authority that (i) any federal or state income Tax Return that it filed will be audited or examined or that (ii) it is or may be liable for a material amount of additional Taxes in respect of any Tax Return or for the payment of a material amount of Taxes in respect of a Tax Return that it did not file (because, for example, it believed that it was not subject to taxation by the jurisdiction in question).

(c) Except as disclosed on Schedule 3.14(c), no Target Company had any amount of delinquent Taxes as of April 30, 2007. The Target Companies consolidated net operating loss for federal income Tax purposes was $19,384,698 as of December 31, 2006.

(d) No Target Company has extended the time in which to file any Tax Return or extended or waived the statute of limitations for the assessment of any Tax other than through the obtaining of routine, automatic extensions of time to file.

(e) No Target Company has filed a consent under §341(f) of the Internal Revenue Code (relating to collapsible corporations) or made any payments, or is or could become obligated under an existing Contract (including a Company Stock Option) to make any payments, that are not deductible under § 280G of the Internal Revenue Code (relating to golden parachute payments).

(f) Schedule 3.14(f) lists all federal and all material other income Tax Returns that each of the Target Companies has filed since January 1, 2004. No Target Company is a party to any agreement providing for the allocation or sharing of Taxes.

(g) Company has not been at any time during the applicable period specified in § 897(c)(1)(A)(ii) of the Internal Revenue Code, a United States real property holding corporation within the meaning of § 897(c) of the Internal Revenue Code.

(h) No Target Company has constituted either a distributing corporation or a controlled corporation (within the meaning of § 355(a)(1)(A) of the Internal Revenue Code) in a distribution of stock qualifying for tax-free treatment under § 355 of the Internal Revenue Code in the two years prior to the date of this Agreement.

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3.15 **No Material Adverse Change**

Since January 1, 2007, (i) there has not been any change in the Company s consolidated financial position, results of operations or assets, and (ii) no event has occurred or circumstance exists relating to Company or any Subsidiary that, in either such case, individually or in the aggregate, has had or would be reasonably expected to have a Material Adverse Effect.

3.16 **Employee Benefits**

(a) Schedule 3.16(a) contains a complete and accurate list of all Employee Benefit Plans under which each Target Company has any obligation or Liability whether contingent or otherwise (grouping the Employee Benefit Plans by Target Company).

(b) In the case of each Employee Benefit Plan listed in Schedule 3.16(a):

(1) the plan has been maintained and operated in material compliance with the applicable requirements of ERISA, the Internal Revenue Code and any other Law;

(2) all required contributions to or premiums or other payments in respect of the plan have been timely paid;

(3) to the Company s Knowledge, there have been no prohibited transactions (as defined in § 406 of ERISA and §4975 of the Internal Revenue Code) in respect of the plan which could reasonably result in Liability to a Target Company; and

(4) no Suit in respect of the administration or operation of the plan or the investment of plan assets is pending or, to Company s Knowledge, Threatened, and to Company s Knowledge, there is no basis for any such Suit.

(c) Except to the extent required by § 4980B of the Internal Revenue Code or any similar state law, no Target Company provides health or other welfare benefits to any retired or former employee or is obligated to provide health or other welfare benefits to any active employee following his or her retirement or other termination of service.

(d) No Target Company maintains or has ever maintained an Employee Benefit Plan that is or was subject to the minimum funding standards of § 302 of ERISA or Title IV of ERISA.

(e) No Target Company contributes to or at any time has been required to contribute to any multiemployer plan (as defined in § 3(37) of ERISA).

(f) Each Employee Benefit Plan listed in Schedule 3.16(a) and any related trust intended to qualify under § 401(a) of the Internal Revenue Code has received a determination from the Internal Revenue Service that it so qualifies.

(g) Except as contemplated by this Agreement, neither the execution of this Agreement nor the consummation of the Merger will result in an increase in benefits under any Employee Benefit Plan listed in Schedule 3.16(a) or any Contract with any current, former or retired employee of the Company or an acceleration of the time of payment or vesting of any benefits.

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3.17 **Insurance**

(a) Schedule 3.17(a) consists of three subschedules:

(1) all insurance policies in effect on the date of this Agreement under which any Target Company or any director or officer of a Target Company (in his or her capacity as a director or officer) is insured (Schedule 3.17(a)(1));

(2) all self-insurance arrangements by any Target Company in effect on the date of this Agreement (Schedule 3.17(a)(2)); and

(3) all obligations of any Target Company to provide insurance coverage to any Person other than an employee (Schedule 3.17(a)(3)).

(b) Except as disclosed on Schedule 3.17(b), in the case of each pending claim under an insurance policy listed on Schedule 3.17(a), the insured Target Company has not received (i) any refusal of coverage, (ii) any Notice that a defense will be afforded with a reservation of rights or (iii) any Notice of cancellation or any other indication that the policy is no longer in full force or effect or will not be renewed or that the insurance company is unwilling or unable to perform its obligations.

3.18 **Compliance**

(a) Except as disclosed in Schedule 3.18, since January 1, 2004, each Target Company has complied with, and is currently in compliance with, each Law and Order that is or was applicable to it or to the conduct of the Business by such Target Company, except for any such Laws or Orders the violation of which would not have a Material Adverse Effect.

(b) No Target Company has received any written Notice from any Governmental Authority or other Person that has not been resolved regarding (i) any actual, alleged or potential violation of or failure to comply with any applicable Law or Order or (ii) any actual, alleged or potential obligation to undertake or bear all or any portion of the cost of any remedial action of any kind.

3.19 **Legal Proceedings**

(a) Schedule 3.19(a) consists of two subschedules and lists:

(1) all Suits pending as of the date of this Agreement in which any Target Company is a party (Schedule 3.19(a)(1)); and

(2) all other Suits since January 1, 2004 through the date of this Agreement involving monetary claims of more than $50,000 or requests for injunctive relief in which any Target Company was a party (Schedule 3.19(a)(2)).

(b) Except as disclosed on Schedule 3.19(b), none of the pending Suits listed in Schedule 3.19(a)(1) would reasonably be expected to have a Material Adverse Effect.

(c) To Company s Knowledge, there is no Suit Threatened or investigation pending against any Target Company as of the date of this Agreement.

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3.20 **Absence of Certain Events**

Except as disclosed in Schedule 3.20, since January 1, 2007 through the date of this Agreement, no Target Company has:

(a) sold, leased, transferred or disposed of any of its assets (but not including any assets pledged or hypothecated) used, held for use or useful in conduct of the Business except in the Ordinary Course of Business;

(b) entered into any Contract, other than any Contracts relating to this Merger, relating to the Business except in the Ordinary Course of Business;

(c) terminated, accelerated or modified any Material Contract relating to the Business to which it is or was a party or by which it is or was bound, or has agreed to do so, or has received Notice that another party has done so or intends to do so, except in the case of Contracts that expired in accordance with their terms or that were terminated in the Ordinary Course of Business;

(d) imposed or permitted any Lien (other than a Permitted Lien) on any of its assets except in the Ordinary Course of Business;

(e) delayed or postponed beyond its normal practice payment of its vendor accounts payable and other Liabilities;

(f) cancelled, compromised, waived or released any claim or right outside of the Ordinary Course of Business;

(g) experienced any damage, destruction or loss to any material portion of its assets used, held for use or useful in conduct of the Business (whether or not covered by insurance);

(h) changed the base compensation or other terms of employment of any of its employees except in the Ordinary Course of Business;

(i) paid a bonus to any employee;

(j) adopted a new Employee Benefit Plan, terminated any existing plan or increased the benefits under or otherwise modified any existing plan except as contemplated in this Agreement;

(k) amended its Organizational Documents;

(l) issued, sold, redeemed or repurchased, or effected any split, combination or reclassification of, any shares of its capital stock or other securities or retired any indebtedness;

(m) granted any stock options;

(n) declared or paid any dividends or made any other distributions in respect of its capital stock;

(o) made, or guaranteed, any loans or advances to another Person, other than a Target Company or advances to employees of bonus or salary that have been repaid or earned in full

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prior to the date hereof, or made any investment or commitment to invest in any Person other than a Target Company;

(p) made any capital expenditures in excess of $25,000 in the aggregate;

(q) made any change in its accounting principles or methods; or

(r) entered into any Contract to do any of the matters described in the preceding clauses (a) (q).

3.21 **Environmental Matters**

(a) Except as disclosed on Schedule 3.21(a), each Target Company is, and has been at all times since January 1, 2004, in compliance in all material respects with all applicable Environmental Laws and Occupational Safety and Health Laws, and to the Company s Knowledge, there are no facts, circumstances or conditions that would reasonably be expected to prevent compliance in the future.

(b) Except as disclosed on Schedule 3.21(b), no Target Company has received any Notice from any Governmental Authority, any private citizen acting in the public interest, the current or prior owner or operator of any current or former Facility, or any other Person, of (i) any actual or potential violation or failure to comply with any Environmental Laws or (ii) any actual or potential Cleanup Liability or other Environmental Liability.

3.22 **Employees**

Schedule 3.22 contains a complete and accurate list of the following information for the employees of each Target Company as of the date of this Agreement (grouping the employees by Target Company), including employees on leave of absence: name; job title; date of hire; current base compensation; and changes in base compensation since January 1, 2006 (or date of hire, if later). Except as disclosed on Schedule 3.22, to the Company s Knowledge, no employee of any Target Company is a party to or is otherwise bound by any Contract or arrangement, including any confidentiality, noncompetition or proprietary rights agreement, that presently limits or restricts the scope of his or her duties as an employee of the Surviving Corporation (or of a Subsidiary of the Surviving Corporation).

3.23 **Labor Relations**

No Target Company is or has ever been a party to any collective bargaining agreement or other labor Contract other than individually negotiated employment or similar agreements. No Target Company is experiencing, or has experienced at any time, and, to Company s Knowledge, there is no reasonable basis to expect any Target Company to experience: (i) any strike, slowdown, picketing or work stoppage by or lockout of its employees; (ii) any Suit relating to the alleged violation of any Law or Order relating to labor relations or employment matters (including any charge or complaint filed by an employee or union with the U.S. National Labor Relations Board or Equal Employment Opportunity Commission or any other comparable Governmental Authority); (iii) any other labor or employment dispute that would reasonably be expected to have a Material Adverse Effect; or (iv) any activity to organize or establish a collective bargaining unit, trade union or employee association.

3.24 **Broker s Fee**

No Target Company has any Liability or obligation to pay any fees or commissions to any broker,

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finder or agent with respect to the transactions contemplated by this Agreement.

3.25 **Takeover Statutes**

No fair price , moratorium , control share acquisition or other similar anti-takeover statute or regulation enacted under state or federal Laws applicable to the Company (Takeover Statutes) is applicable to the Merger.

3.26 **Joint Disclosure Document**

None of the information supplied by the Company for inclusion or incorporation by reference in the Joint Disclosure Proxy Statement (and each amendment of or supplement to the Joint Disclosure Document, if any) will, on the date it is mailed to the Shareholders and at the time of the Shareholders Meeting, contain any untrue statement of a material fact or omit to state any material fact required to be stated therein or incorporated by reference or necessary in order to make the statements contained therein, in light of the circumstances under which they were made, not misleading.

3.27 **Vote Required**

Assuming the redemption at or prior to Closing of all of the issued and outstanding shares of Company Preferred Stock, the affirmative vote of the holders of a majority of the outstanding shares of Company Common Stock is the only vote of holders of any class or series of Company s capital stock necessary to adopt this Agreement and to consummate the Merger.

Article 4
Representations and Warranties of
Parent and MergerSub

Except as disclosed in the Parent SEC Reports, Parent and MergerSub represent and warrant to Company as follows:

4.1 **Organization**

Each of Parent and MergerSub is a corporation duly organized, validly existing and in good standing under the Laws of the State of Delaware and Texas, respectively, with full corporate power and authority to conduct its business as it is now being conducted, to own or use the properties and assets that it purports to own or use, and to perform its obligations under all Contracts. Parent directly owns all of the issued and outstanding shares of MergerSub s capital stock.

4.2 **Authority**

Each of Parent and MergerSub has the power and authority to execute and deliver this Agreement and to perform its obligations under this Agreement. The execution, delivery and performance of this Agreement by Parent and MergerSub, including without limitation the issuance of the Parent Notes by Parent, have been duly authorized by all necessary action required by their respective Organizational Documents and applicable Law.

4.3 **Enforceability**

This Agreement constitutes a legally valid and binding obligation of Parent and MergerSub, enforceable against them in accordance with its terms except as enforceability may be limited by (i) applicable bankruptcy, insolvency, reorganization, moratorium or other similar Laws affecting the

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enforcement of creditors rights generally and (ii) general principles of equity (regardless of whether enforceability is considered in a proceeding in equity or at law) and judicial discretion.

4.4 **No Violation**

The execution, delivery and performance of this Agreement by Parent and MergerSub will not, in the case of each of them, either directly or indirectly (and with or without Notice or the passage of time or both):

(a) violate or conflict with its Organizational Documents;

(b) result in a breach of or default under any material Contract to which it is a party or by which it is bound;

(c) result in the imposition or creation of any Lien (other than a Permitted Lien) upon any of its assets; or

(d) violate or conflict with, or give any Governmental Authority or other Person the right to challenge the Merger or to obtain any other relief under, any Law or Order to which it is subject.

4.5 **No Consent Required**

Except (i) as required by the Securities Act, the Exchange Act, The Nasdaq Stock Market, Inc. or applicable Takeover Statutes, and except for (ii) filing and recording appropriate documents for the Merger as required by the TBCA and the Texas BOC, the execution, delivery and performance of this Agreement by Parent and MergerSub do not require any Notice to, filing with, Permit from or other Consent of any Governmental Authority or other Person.

4.6 **SEC Reports and Financial Statements**

Parent has filed with the SEC all forms, reports, schedules, exhibits and other documents that it has been required to file (Parent SEC Reports), each of which complied in all material respects with all applicable requirements of the Securities Act and the Exchange Act and the related SEC rules and regulations in effect on the date that it was filed with the SEC. None of the Parent SEC Reports, including any financial statements or schedules included or incorporated by reference in the Parent SEC Reports, contained, as of their respective dates (and, if amended or superseded by a filing prior to the date of this Agreement or the Closing Date, then on the date of the filing), any untrue statement of a material fact or omitted to state a material fact required to be stated therein or incorporated by reference or necessary in order to make the statements contained therein, in light of the circumstances under which they were made, not misleading.

The consolidated financial statements of Parent included in the Parent SEC Reports complied as to form in all material respects with applicable accounting requirements and the relevant published rules and regulations of the SEC and present fairly, in conformity with GAAP applied on a consistent basis during the periods involved (except as otherwise noted therein), the consolidated financial position of Parent and its consolidated subsidiaries as of the dates indicated and their consolidated results of operations and cash flows for the periods then ended (subject, in the case of the unaudited interim financial statements, to normal year-end adjustments and to the lack of footnotes and other presentation items).

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4.7 **Broker s Fee**

Neither Parent nor MergerSub has any Liability or obligation to pay any fees or commissions to any broker, finder or agent with respect to the transactions contemplated by this Agreement.

4.8 **MergerSub Formation**

MergerSub was formed solely for the purpose of engaging in the transactions contemplated by this Agreement. Since the date of its incorporation, MergerSub has not carried on any business or conducted any operations other than the execution of this Agreement, the performance of its obligations under this Agreement and related ancillary matters.

4.9 **Joint Disclosure Document**

None of the information supplied or to be supplied by Parent and MergerSub for inclusion or incorporation by reference in the Joint Disclosure Proxy Statement (and each amendment of or supplement to the Joint Disclosure Document, if any) will, on the date it is mailed to the Shareholders and at the time of the Shareholders Meeting, contain any untrue statement of a material fact or omit to state any material fact required to be stated therein or incorporated by reference or necessary in order to make the statements contained therein, in light of the circumstances under which they were made, not misleading.

4.10 **Board Approval**

The board of directors of MergerSub, by unanimous written consent, has unanimously approved this Agreement and declared it advisable and in the best interests of MergerSub s sole stockholder.

4.11 **Vote Required**

The affirmative vote of Parent, as the sole stockholder of MergerSub, is the only vote of the stockholders of Parent or the stockholders of MergerSub necessary to adopt this Agreement.

Article 5
Events Prior to Closing

5.1 **General**

Pending Closing, each Party shall use its reasonable best efforts to take all actions and to do all things necessary in order to consummate the Merger (including, in the case of Company, satisfaction, but not waiver, of the Company Closing Conditions in its control, and in the case of Parent and MergerSub, satisfaction, but not waiver, of the Parent Closing Conditions in their respective control).

5.2 **Conduct of Business by Company**

Pending Closing:

(a) the Company shall, and shall cause each Subsidiary to, conduct the Business only in the Ordinary Course of Business and with no less diligence and effort than would be applied in the absence of this Agreement; and

(b) without the prior written consent of Parent, such consent not to be unreasonably withheld, delayed or conditioned, the Company shall not, and shall cause each Subsidiary not to,

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take any affirmative action that results in the occurrence of an event described in Section 3.20 or fail to take any reasonable action within its control that would avoid the occurrence of an event described in Section 3.20.

5.3 **SEC Filings**

(a) As promptly as practicable after the date of this Agreement, the Company shall prepare and file with the SEC a preliminary proxy statement under the Exchange Act containing the information required to be furnished to the Shareholders in connection with the vote of the Shareholders at the Shareholders Meeting.

(b) As promptly as practicable after the date of this Agreement, Parent shall prepare and file with the SEC a registration under Securities Act relating to the offering and issuance of the Parent Notes (the Registration Statement) and a statement of eligibility and qualification under the Trust Indenture Act on Form T-1.

(c) In each case, the filing Party shall use its reasonable best efforts to respond to the comments of the SEC and, in the case of the Company, to clear the preliminary proxy statement with the SEC as promptly as practicable and, in the case of Parent, to have the Registration Statement declared effective under the Securities Act as promptly as practicable.

(c) The Company and Parent shall provide one another with whatever information and assistance with these filings that the other reasonably may request, and shall provide copies to one another of all written comments from the SEC and inform one another of all oral comments.

(d) Parent shall use its reasonable best efforts to keep the Registration Statement effective for as long as necessary to consummate the Merger, and shall take all actions that may be necessary in connection with the offering and issuance of the Parent Notes.

5.4 **Shareholders Meeting**

Once the preliminary proxy statement has been cleared by the SEC and the Registration Statement has been declared effective, the Company shall call a special meeting of the Shareholders (the Shareholders Meeting) to be held as soon as practicable for the purpose of obtaining Shareholder Approval and shall mail the Joint Disclosure Document to the Company s Shareholders. In this regard:

(a) the Company s board of directors shall recommend approval and adoption of this Agreement and the Merger by Company s Shareholders and, except as permitted by Section 5.8(c), shall not withdraw, amend, or modify its recommendation in a manner adverse to Parent (or announce publicly its intention to do so);

(b) the Joint Disclosure Document shall contain the recommendation of the Company s board of directors that the Shareholders vote in favor of adoption of this Agreement and the Merger;

(c) subject to the fiduciary duties of the board of directors and Section 5.8, the Company shall use its reasonable best efforts to obtain Shareholder Approval;

(d) the Company shall otherwise comply in all material respects with all legal requirements applicable to the Shareholders Meeting; and

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(e) prior to mailing the Joint Disclosure Statement, the Company shall obtain the opinion of Van Amburgh Valuation Associates, Inc., as financial advisor to the Company, to the effect that the Merger Consideration to be received by the holders of shares of Company Common Stock is fair to such holders from a financial point of view.

5.5 **Other Filings by Company**

As promptly as practicable after the date of this Agreement, the Company shall give each Notice, make each filing and obtain each Permit or other Consent listed on Schedule 3.6, if any. To the extent that the cooperation of Parent and MergerSub is necessary or, in the Company s reasonable judgment, desirable, Parent and MergerSub shall cooperate with the Company in regard to any Notices, filings, Permits and other Consents listed on Schedule 3.6.

5.6 **Access to Information**

Pending Closing, the Company shall, and shall cause each Subsidiary to (i) give Parent and its representatives (including counsel, financial advisors and accountants) access during normal business hours (but without unreasonable interference with operations) to its Facilities and Books and Records and other documents and (ii) make its officers and employees available to respond to reasonable inquiries regarding the Company, the Subsidiaries and the Business. The Company shall furnish Parent and its representatives with all information and copies of all documents concerning the Company, the Subsidiaries and the Business that Parent and its representatives reasonably request. The Company shall furnish to Parent, at the earliest time that they are available, such monthly and quarterly financial statements and data as are routinely prepared by Company.

5.7 **Notice of Developments**

Pending Closing, each Party shall promptly give Notice to the other Party of: (i) any fact or circumstance of which a Party becomes aware that causes or constitutes an inaccuracy in any of Party s representations and warranties in Articles 3 or 4 on the date of this Agreement that would reasonably be expected to result in a failure to satisfy any Parent Closing Condition or Company Closing Condition; (ii) any breach of or default of any Party s other obligations in this Article 5 that would reasonably be expected to result in a failure to satisfy any Parent Closing Condition or Company Closing Condition; or (iii) the occurrence of any event that may make satisfaction of any Parent Closing Condition or Company Closing Condition impossible or unlikely. The delivery of any Notice pursuant to this Section 5.8 shall not, however, cure any inaccuracy, breach or default or limit or otherwise affect the rights, obligations or remedies available to any Party under this Agreement.

5.8 **Acquisition Proposals**

(a) Immediately after the execution and delivery of this Agreement, the Company shall cease and terminate any existing activities, discussions or negotiations with any parties previously conducted in respect of any possible Acquisition Proposal, and shall cause its affiliates and their respective officers, directors, employees, investment bankers, attorneys, accountants and other advisors and representatives to do the same. The Company shall take all necessary steps promptly to inform the individuals or entities referred to in the next sentence of this Section 5.8(a) of the obligations undertaken in this Section 5.8(a). From the date of this Agreement and prior to the earlier of the Effective Time or the date on which this Agreement is terminated in accordance with its terms, the Company shall not, and shall not authorize or cause any Subsidiary or any officer, director or employee of Company or any Subsidiary, or any investment banker, attorney, accountant or other advisor or representative of Company or any Subsidiary, to directly or

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indirectly: (i) solicit, initiate or knowingly encourage the submission of any Acquisition Proposal; or (ii) participate in any discussions or negotiations regarding, or furnish to any Person any information in respect of, or take any other action to facilitate, any Acquisition Proposal or any inquiries or the making of any proposal that constitutes, or reasonably would be expected to lead to, any Acquisition Proposal.

(b) Notwithstanding the limitation in clause (ii) of the third sentence of Section 5.8(a), if the Company receives a bona fide written proposal or offer that the Company s board of directors determines in good faith is or would reasonably be expected to result in a third party making a Superior Company Proposal, the Company may (i) furnish information with respect to the Company to the Person making such proposal or offer (if the Person first enters into a confidentiality agreement with Company containing restrictions as to confidentiality substantially equivalent to or more protective of the Company than those in the confidentiality agreement between the Company and Parent), and (ii) participate in discussions or negotiations with such person regarding such proposal or offer.

(c) Except as expressly permitted by this Section 5.8, the Company s board of directors shall not approve or recommend to Shareholders any Acquisition Proposal. Nothing contained in this Agreement shall prohibit Company from complying with Rule 14e-2 under the Exchange Act with regard to any Acquisition Proposal or making any disclosure to Company s Shareholders which, in the good faith reasonable judgment of the Company s board of directors, is required under applicable Law. Notwithstanding anything contained in this Agreement to the contrary, any action by the Company s board of directors permitted by, and taken in accordance with, this Section 5.8 shall not constitute a breach of this Agreement by the Company.

(d) In the event that the Company receives a Superior Company Proposal, nothing contained in this Agreement shall prevent the Company s board of directors or an Authorized Officer of the Company from executing or entering into an agreement relating to such Superior Company Proposal and recommending such Superior Company Proposal to the Shareholders; and in such a case, the Company s board of directors may withdraw, modify or refrain from making its recommendation (including a declaration of advisability) of the Merger and/or adoption of this Agreement, and, to the extent the board does so, that Company may refrain from calling, providing notice of and holding the Shareholders Meeting to adopt this Agreement and from soliciting proxies or consents to secure the vote or written consent of its stockholders to adopt this Agreement and may terminate this Agreement.

5.9 **Public Announcements**

Each of Parent, Subsidiary and Company shall consult with one another before issuing any press release or otherwise making any public statements in respect of the transactions contemplated by this Agreement, including the Merger, and shall not issue any such press release or make any such public statement prior to such consultation, except as required by Law or the rules of The Nasdaq National Market, Inc.

5.10 **Fees and Expenses**

If the Merger is consummated, the Surviving Corporation shall pay the Company s Transaction Expenses, up to (i) $100,000 plus (ii) the aggregate amount of Transaction Expenses included in the Company s Adjusted Liabilities. If the Merger is not consummated, all Transaction Expenses incurred in connection with this Agreement and the transactions contemplated by this Agreement shall be paid by the

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Party incurring them.

5.11 **Termination of Employment Agreements**

At or prior to Closing, the Company shall terminate all of its existing employment agreements and accrue all severance payments and other termination liabilities to its employees. The Company shall obtain an appropriate release from each employee whose employment agreement is terminated.

5.12 **Notice of Redemption and Repayment**

When the Joint Disclosure Document is mailed to Shareholders, the Company shall also concurrently give notice to all of the holders of the Company Convertible Debentures that the Company will repay all of its indebtedness under the Company Convertible Debentures at Closing.

Article 6
Conditions to Closing

6.1 **Parent Closing Conditions**

The respective obligations of Parent and MergerSub to consummate the Merger and to take the other actions that they are respectively required to take at Closing are subject to the satisfaction of each of the following conditions (the Parent Closing Conditions) prior to or at Closing:

(a) the Company s representations and warranties in Article 3, as qualified or limited by any exceptions in the Schedules to Article 3, are true and correct in all material respects on the Closing Date as if made at and as of Closing (other than representations and warranties that address matters only as of a certain date, which need be true and correct in all material respects only as of that date), except to the extent that such representations and warranties are qualified by the term in all material respects, in which case such representations and warranties as so written shall be true and correct in all respects on the Closing Date as if made at and as of Closing (other than representations and warranties that address matters only as of a certain date, which need be true and correct in all respects only as of that date);

(b) the Company has performed, complied with or satisfied in all material respects all of the its obligations, agreements and conditions under this Agreement that it is required to perform, comply with or satisfy at or prior to Closing;

(c) holders of shares of Company Common Stock representing no more than 7.5% of the outstanding shares of Company Common Stock have exercised (and not withdrawn or otherwise forfeited) the rights of a dissenting owner under Section 5.11 et seq. of the TBCA with respect to their shares of Company Common Stock;

(d) Shareholder Approval has been obtained;

(e) Parent has entered into consulting agreements and noncompetition agreements on mutually acceptable terms with each of the officers, directors, employees and Shareholders listed on Schedule 6.1(e);

(f) no temporary restraining order, preliminary or permanent injunction or other Order issued by a court or Governmental Authority has been issued and is in effect making the Merger illegal or otherwise prohibiting consummation of the Merger; and

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(e) the registration of the Parent Notes under the Securities Act has been declared effective by the SEC.

Parent and MergerSub may waive any Parent Closing Condition specified in this Section 6.1 by a written waiver delivered to Company at any time prior to or at Closing.

6.2 **Company Closing Conditions**

The obligation of Company to consummate the Merger and to take the other actions that it is required to take at Closing is subject to the satisfaction of each of the following conditions (the Company Closing Conditions) prior to or at Closing:

(a) the representations and warranties of Parent and MergerSub in Article 4 are true and correct in all material respects on the Closing Date as if made at and as of Closing (other than representations and warranties that address matters only as of a certain date, which need be true and correct in all material respects only as of that date), except to the extent that such representations and warranties are qualified by the term in all material respects, in which case such representations and warranties as so written shall be true and correct in all respects on the Closing Date as if made at and as of Closing (other than representations and warranties that address matters only as of a certain date, which need be true and correct in all respects only as of that date);

(b) Parent and MergerSub have performed, complied with or satisfied in all material respects all of the their respective obligations, agreements and conditions under this Agreement that they are required to perform, comply with or satisfy at or prior to Closing;

(c) Shareholder Approval has been obtained; and

(d) no temporary restraining order, preliminary or permanent injunction or other Order issued by a court or Governmental Authority has been issued and is in effect making the Merger illegal or otherwise prohibiting consummation of the Merger.

The Company may waive any Company Closing Condition specified in this Section 6.2 by a written waiver delivered to Parent and MergerSub at any time prior to or at Closing.

Article 7
Events Following Closing

7.1 **Payment of Certain Liabilities**

Parent shall cause the Surviving Corporation to pay all of the Liabilities listed on the attached **Exhibit C** no later than 30 days after Closing.

7.2 **Release of Guarantors**

As of Closing, Parent shall indemnify each officer, director and other person listed on the attached **Exhibit D** against any loss, damage, cost or expense (including reasonable attorneys fees) as such loss, damages, costs and expenses are incurred by reason of his guaranty of the Liability or Liabilities specified opposite his name on **Exhibit D**, and shall obtain his release from each of his guaranties no later than 30 days after Closing.

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7.3 **Shareholder Representative**

(a) As of the Effective Time, without further act of any holder of Company Shares, the Shareholder Representative shall be appointed as agent and attorney-in-fact for each holder of Company Shares, to give and receive notices and communications and to take any and all action on behalf of the holders of Company Shares pursuant to this Agreement and in connection with the Parent Notes, including, but not limited to, asserting, prosecuting or settling any claim against the Surviving Corporation or Parent or defending or settling any claim asserted by the Surviving Corporation or Parent. Such Shareholder Representative may be changed by the consent of holders representing a majority of the Company Shares immediately prior to the Effective Time from time to time upon written notice given to the Surviving Corporation and the Shareholder Representative. Any vacancy in the position of Shareholder Representative may be filled by the remaining Shareholder Representative, if any, subject to the right of holders representing a majority of the outstanding Company Shares immediately prior to the Effective Time to replace any Shareholder Representative so appointed. No bond shall be required of the Shareholder Representative. Notices or communications to or from the Shareholder Representative shall constitute notice to or from each of the holders of Company Shares. The Shareholder Representative shall not be liable to any Shareholder or other Person for any action taken, or declined to be taken, in good faith and in the exercise of reasonable judgment.

(b) A decision, act, consent or instruction of the Shareholder Representative (acting in its capacity as the Shareholder Representative) shall constitute a decision of all the holders of Company Shares and shall be final, binding and conclusive upon each of such holders, and the Surviving Corporation and Parent may rely upon any such decision, act, consent or instruction of the Shareholder Representative as being the decision, act, consent or instruction of each such holder of Company Shares.

(c) $250,000 from the aggregate Cash Consideration Per Share shall be placed by Parent at Closing into an escrow account (the Shareholder Representative Holdback Account) with Park Cities Bank, Dallas, Texas (the Holdback Escrow Agent), which amount shall be made available for use by the Shareholder Representative for the costs and expenses, including, without limitation, the costs of the Holdback Escrow Agent and legal fees, incurred by the Shareholder Representative in fulfilling the duties of such position hereunder, including without limitation those duties set forth in Section 7.7 hereof. Any funds remaining in the Shareholder Representative Holdback Account on the date of the last payment payable under the Parent Notes shall be distributed on a Pro Rata Basis to holders of Company Shares who have duly surrendered or who may duly surrender their Company Stock Certificates pursuant to Section 2.5(b).

7.4 **Closing Date Adjustment**

(a) Following Closing, Parent and the Shareholder Representative shall determine and agree on, following the procedures described in subsections (d), (e), (f) and (g) of this Section 7.4, (i) the Company s Adjusted Liabilities and (ii) its consolidated total current assets as of the Closing Date determined in accordance with GAAP (Adjusted Current Assets).

(b) If the excess of the Company s Adjusted Liabilities over its Adjusted Current Assets (the Liability Excess) is less than the Threshold, the aggregate Merger Consideration shall be increased by an amount equal to the Threshold less the Liability Excess. If the Liability Excess is more than the Threshold, the aggregate Merger Consideration shall be reduced by an amount equal to the Liability Excess less the Threshold. In either case, this adjustment shall be made in accordance with Section 7.6.

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(c) As used in this Section 7.4, Threshold means $4,340,000 (including no more than $90,000 in capital expenditures since June 1, 2007). To the extent that the sum of (i) the Merger Consideration payable under Section 2.4(e) and (ii) the amounts payable pursuant to Section 2.5(h) in respect of Company Stock Options exceeds $54,350,000, the Threshold shall be reduced dollar-for-dollar by the amount of the excess.

(d) Parent shall prepare a schedule of Adjusted Liabilities and Adjusted Current Assets (the Post-Closing Schedule) no later than 75 days after Closing and promptly furnish a copy of such Post-Closing Schedule to the Shareholder Representative.

(e) If the Shareholder Representative accepts Parent s Post-Closing Schedule, or if the Shareholder Representative fails to give Notice to Parent of any objection within 30 days after receipt of a copy of such schedule, Parent s Post-Closing Schedule shall become binding.

(f) If the Shareholder Representative gives Notice to Parent of an objection to Parent s Post-Closing Schedule within 30 days after receipt of a copy thereof, Parent and the Shareholder Representative shall attempt in good faith to resolve their differences. In this regard, Parent shall make copies of all relevant Books and Records, workpapers and other information available to the Shareholder Representative and his accounting representatives. If Parent and the Shareholder Representative are able to resolve all of their differences, Parent s Post-Closing Schedule, as modified to reflect the resolution of the differences between Parent and the Shareholder Representative, shall become binding.

(g) If Parent and the Shareholder Representative are unable to resolve all of their differences within 30 days after the Shareholder Representative gives Notice to Parent of an objection to Parent s Post-Closing Schedule, Parent and the Shareholder Representative shall submit any disputed items to a mutually acceptable accounting firm for a determination of the correct amounts; provided, however, that in the event that Parent and the Shareholder Representative are not able to agree upon a mutually acceptable accounting firm within 10 calendar days of the date on which both such parties become aware of such dispute, Parent shall select an accounting firm that is not the regular accounting firm of Parent, the Shareholder Representative shall select an accounting firm that was not the regular accounting firm of the Company, and the two firms so selected shall select a third accounting firm that is not the regular accounting firm of Parent and was not the regular accounting firm of the Company which shall serve as the accounting firm to resolve such dispute for purposes of this Section 7.4. The accounting firm shall have access to all relevant Books and Records, workpapers and other information available. The accounting firm s determination shall be binding on Parent and the Shareholder Representative, and Parent s Post-Closing Schedule, as modified to reflect (i) those differences, if any, that Parent and the Shareholder Representative were able to resolve and (ii) the accounting firm s determination with regard to the remaining disputed items, shall become binding.

7.5 **Revenue Adjustment**

(a) Following Closing, Parent and the Shareholder Representative shall determine and agree on, following the procedures described in subsections (c), (d), (e) and (f) of this Section 7.5, the Company s Annualized Additional Revenues.

(b) If Measured Revenues are $16,000,000 or more, there shall not be any adjustment to the aggregate Merger Consideration. If Measured Revenues are less than $16,000,000, the

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aggregate Merger Consideration shall be reduced by an amount equal to the product of (i) $16,000,000 less the amount of Measured Revenues multiplied by (ii) 3.375. This adjustment shall be made in accordance with Section 7.6.

(c) Parent shall prepare a schedule of Annualized Additional Revenues (the Revenues Schedule) no later than 45 days after the expiration of the Measurement Period and promptly furnish a copy to the Shareholder Representative.

(d) If the Shareholder Representative accepts Parent s Revenues Schedule, or if the Shareholder Representative fails to give Notice to Parent of any objection within 30 days after receipt of a copy of such schedule, Parent s Revenues Schedule shall become binding.

(e) If the Shareholder Representative gives Notice to Parent of an objection to Parent s Revenues Schedule within 30 days after receipt of a copy thereof, Parent and the Shareholder Representative shall attempt in good faith to resolve their differences. In this regard, Parent shall make copies of all relevant Books and Records, workpapers and other information available to the Shareholder Representative and his accounting representatives. If Parent and the Shareholder Representative are able to resolve all of their differences, Parent s Revenues Schedule, as modified to reflect the resolution of the differences between Parent and the Shareholder Representative, shall become binding.

(f) If Parent and the Shareholder Representative are unable to resolve all of their differences within 30 days after the Shareholder Representative gives Notice to Parent of an objection to Parent s Revenues Schedule, Parent and the Shareholder Representative shall submit any disputed items to a mutually acceptable accounting firm for a determination of the correct amounts; provided, however, that in the event that Parent and the Shareholder Representative are not able to agree upon a mutually acceptable accounting firm within 10 calendar days of the date on which both such parties become aware of such dispute, Parent shall select an accounting firm that is not the regular accounting firm of Parent, the Shareholder Representative shall select an accounting firm that was not the regular accounting firm of the Company, and the two firms so selected shall select a third accounting firm that is not the regular accounting firm of Parent and was not the regular accounting firm of the Company which shall serve as the accounting firm to resolve such dispute for purposes of this Section 7.5. The accounting firm shall have access to all relevant Books and Records, workpapers and other information available. The accounting firm s determination shall be binding on Parent and the Shareholder Representative, and Parent s Revenues Schedule, as modified to reflect (i) those differences, if any, that Parent and the Shareholder Representative were able to resolve and (ii) the accounting firm s determination with regard to the remaining disputed items, shall become binding.

7.6 **Adjustment to Merger Consideration**

When both the Post-Closing Schedule under Section 7.4 and the Revenues Schedule under Section 7.5 have become binding, the aggregate Merger Consideration shall be adjusted as follows:

(a) If there is an increase in the aggregate Merger Consideration pursuant to Section 7.4(b) and no adjustment to the aggregate Merger Consideration pursuant to Section 7.5(b), Parent shall within three calendar days of such determination deposit cash equal to the increase in the aggregate Merger Consideration with the Paying Agent for distribution on a Pro Rata Basis to holders of Company Shares who have duly surrendered or who may duly surrender their Company Stock Certificates pursuant to Section 2.5(b).

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(b) If there is an increase in the aggregate Merger Consideration pursuant to Section 7.4(b) and a reduction in the aggregate Merger Consideration pursuant to Section 7.5(b), the two amounts shall be added together to determine the net adjustment to the aggregate Merger Consideration, and

(1) if the net adjustment is an increase in the aggregate Merger Consideration, Parent shall within three calendar days of such determination deposit cash equal to the increase in the aggregate Merger Consideration with the Paying Agent for distribution on a Pro Rata Basis to holders of Company Shares who have duly surrendered or who may duly surrender their Company Stock Certificates pursuant to Section 2.5(b); and

(2) if the net adjustment is a reduction in the aggregate Merger Consideration, the principal amount of the Parent Notes distributed or to be distributed to holders of Company Shares who have duly surrendered or who may duly surrender their Company Stock Certificates pursuant to Section 2.5(b) shall be reduced (or deemed to be reduced), retroactive to the Closing Date, on a Pro Rata Basis in an aggregate amount equal to the reduction in the aggregate Merger Consideration.

(c) If there is a reduction in the aggregate Merger Consideration pursuant to Section 7.4(b) and a reduction in the aggregate Merger Consideration pursuant to Section 7.5(b), the two amounts shall be added together to determine the combined reduction in the aggregate Merger Consideration, and the principal amount of the Parent Notes distributed or to be distributed to holders of Company Shares who have duly surrendered or who may duly surrender their Company Stock Certificates pursuant to Section 2.5(b) shall be reduced (or deemed to be reduced), retroactive to the Closing Date, on a Pro Rata Basis in an aggregate amount equal to the combined reduction in the aggregate Merger Consideration.

7.7 **Certain Litigation**

(a) On May 14, 2007, a Texas jury found EnviroClean Management Services, Inc., a Texas corporation and a subsidiary of the Company (EMSI) liable in connection with case number 05-04255-E in the County Court Law No. 5, Dallas County, Texas titled *Kathleen Bohne and David Ross, Independent Executor of the Estate of Robert E. Bohne v. MedSolutions, Inc., EnviroClean Management Services, Inc., Turner Bruce Yarborough, Ford Air, Inc. and FAF, Inc* (the Lawsuit). Following the consummation of the Merger, the Shareholder Representative shall have the sole power and authority on behalf of EMSI pursuant to the terms set forth in this Section 7.7 to (1) appeal any judgment rendered in connection with the Lawsuit on behalf of EMSI, including without limitation any appeals conducted through EMSI s insurance provider, Zurich American Insurance (Zurich); (2) pursue any claims against Zurich for the amount of any judgment in excess of EMSI s policy limits; and (3) settle any of the matters described in subclauses (1) and (2) above (collectively with the Lawsuit, the Litigation). The Shareholder Representative shall also have the sole power and authority to select and retain legal counsel and any other consultants as it deems necessary or proper for the prosecution, defense or settlement of the Litigation, to incur costs and expenses in connection therewith to be paid out of the Shareholder Representative Holdback Account, and to take any and all other actions it deems necessary or proper to resolve or settle the Litigation. The Shareholder Representative shall have the authority on behalf of EMSI to enter into a binding settlement agreement with respect to the Lawsuit, without the prior written consent of Parent, if and only if such settlement provides (x) for payment by EMSI of an aggregate amount after the application of all available insurance coverage not to exceed the then outstanding aggregate principal and interest owing under the

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Parent Notes and (y) for the complete release of EMSI and its affiliates, including without limitation the Surviving Corporation and Parent; otherwise, the Shareholder Representative must obtain the prior written consent of Parent, in its absolute discretion, prior to entering into any binding settlement agreement on behalf of EMSI with respect to the Lawsuit. The Shareholder Representative shall provide, upon request therefor, written update memorandums to the Surviving Corporation as to the status of the Litigation and the balance in the Shareholder Representative Holdback Account until such time as the Litigation has been finally resolved, and shall promptly notify the Surviving Corporation upon the final resolution of the Litigation; provided, however, that in no event shall the Shareholder Representative be obligated to provide more than one such memorandum to the Surviving Corporation per calendar month. Parent hereby covenants and agrees that it shall pay for all costs and expenses incurred in connection with the prosecution, defense or settlement of the Litigation in excess of the Shareholder Representative Holdback Amount (Excess Litigation Expenses), and the principal amount of the Parent Notes shall be reduced by all such Excess Litigation Expenses that Parent pays. To the extent that EMSI s liability with respect to the Lawsuit after the Litigation has been finally resolved exceeds the insurance coverage available therefor, the principal amount of the Parent Notes shall be reduced by the amount of EMSI s payment (or the payment by the Surviving Corporation or Parent on EMSI s behalf) in excess of EMSI s insurance coverage (the Resolved Liability Payment). Notwithstanding any provision of this Section 7.7 to the contrary, in the event that the Litigation has not been finally resolved (including without limitation by way of settlement) on or before the 90th day immediately preceding the seventh anniversary of the Closing Date, the Surviving Corporation may satisfy the judgment rendered in connection with the Lawsuit (as reduced by any successful appeal) in full, without the prior consent of the Shareholder Representative, and to the extent that EMSI s liability with respect to the Lawsuit exceeds the insurance coverage available therefor, the principal amount of the Parent Notes shall be reduced by the amount of the EMSI s payment (or the payment by the Surviving Corporation or Parent on EMSI s behalf) in excess of EMSI s insurance coverage (the Judgment Satisfaction Payment).

(b) The amount of any reduction in the principal amount of the Parent Notes pursuant to Section 7.7(a) by reason of (i) Parent s payment of any Excess Litigation Expenses or (ii) a Resolved Liability Payment or Judgment Satisfaction Payment by EMSI, the Surviving Corporation or Parent shall be effective as of the date of the payment. The amount of the principal reduction shall be increased to that amount payable upon maturity of the Parent Notes which has a present value (as of the date of payment) equal to the amount of the payment, using a discount rate equal to 8.0% less the weighted average interest rate of all Parent Notes outstanding as of the date of payment. The principal reduction shall be made on a pro rata basis in respect of the principal amounts of all such Parent Notes.

7.8 **Post-Closing Tax Returns**

Parent shall prepare or cause to be prepared and file all Tax Returns for the Company and the Subsidiaries that are required to be filed after the Closing Date in respect of a taxable period including or ending on the Closing Date. Parent shall permit the Shareholder Representative, at the Shareholder Representative s request, to review and comment on each such Tax Return before it is filed.

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Article 8
Survival of Representations and Warranties
and Indemnification Claims

8.1 **Survival**

The Parties respective representations and warranties in Article 3 and Article 4 shall survive Closing and continue until the first anniversary of the Closing Date, with the exception of the Company s representations and warranties in Sections 3.14 and 3.21, which shall survive Closing and continue until the date 90 days after the expiration of the underlying Tax or other statute of limitations.

8.2 **Indemnification Claim**

Parent may assert an indemnification claim for any loss, damage, cost or expense (including reasonable attorneys fees) that is caused by, arises out of or relates to any breach of any representation and warranty by the Company in Article 3 or in the Officer s Certificate delivered at Closing pursuant to Section 2.3(c) if the indemnification claim is asserted during the survival of the representation and warranty in question. Parent may not assert an indemnification claim until the aggregate amount for which indemnification is sought exceeds $100,000. If this threshold is reached, Parent may assert an indemnification claim for the portion of the claim in excess of $100,000 and may assert any subsequent indemnification claim without regard to any threshold.

8.3 **Procedures**

(a) Parent may assert an indemnification claim by giving Notice of the indemnification claim to the Shareholder Representative. Parent s Notice shall provide reasonable detail of the facts giving rise to the indemnification claim and a statement of Parent s indemnifiable loss or an estimate of the indemnifiable loss that Parent reasonably anticipates that it will suffer. Parent may amend or supplement its indemnification claim at any time (and more than once) by Notice to the Shareholder Representative.

(b) If the Shareholder Representative does not object to an indemnification claim during the 30-day period following receipt of Parent s Notice of its indemnification claim (the Objection Period), Parent s indemnification claim shall be considered undisputed, and Parent shall be entitled to recover the full amount of its Indemnifiable Loss (or estimate of its Indemnifiable Loss), subject, in the case of an indemnification claim by Parent, to the limitation set forth in Section 8.4.

(c) If the Shareholder Representative gives Notice to Parent within the Objection Period that the Shareholder Representative objects to Parent s indemnification claim, the Shareholder Representative and Parent shall attempt in good faith to resolve their differences during the 30-day period following Parent s receipt of the Shareholder Representative s Notice of its objection. If they fail to resolve their disagreement during this 30-day period, either of them may unilaterally submit the disputed indemnification claim for binding arbitration before the American Arbitration Association in Chicago, Illinois or Dallas, Texas in accordance with its rules for commercial arbitration in effect at the time. The award of the arbitrator or panel of arbitrators may include attorneys fees to the prevailing party.

8.4 **Reduction in Payments**

To the extent that any indemnification claim by Parent is undisputed or is resolved in Parent s

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favor, either by agreement with the Shareholder Representative or by an award of an arbitrator or panel of arbitrators pursuant to Section 8.3(c), the indemnification claim shall reduce on a Pro Rata Basis the aggregate amounts next becoming due under the Parent Notes. This reduction shall be Parent s sole means of satisfying its indemnification claim.

Article 9
Termination, Amendment and Waiver

9.1 **Termination by Company or Parent**

This Agreement may be terminated:

(a) at any time prior to the Effective Time, whether before or after Shareholder Approval, by written consent of the Parties authorized by their respective boards of directors (or by committees of their respective boards of directors delegated with such authority);

(b) by either the Company or Parent, if the Merger shall not have been consummated by the Outside Date (but the right to terminate this Agreement under this Section 9.1(b) shall not be available to any Party whose failure to fulfill any obligation under this Agreement has been the cause of or resulted in the failure of the Merger to occur on or before such date);

(c) by either the Company or Parent, if any Governmental Authority has issued an Order, decree or ruling or taken any other action, permanently restraining, enjoining or otherwise prohibiting the transactions contemplated by this Agreement, and the Order, decree, ruling or other action has become final and nonappealable (but neither the Company nor Parent may terminate this Agreement pursuant to this Section 9.1(c) unless the Party seeking to terminate this Agreement has used its reasonable best efforts to oppose any such governmental order or decision or to have such order or decision vacated or made inapplicable to the Merger contemplated by this Agreement);

(d) By the Company if there has been a material breach of any representation, warranty, covenant or agreement on the part of Parent or MergerSub set forth in this Agreement, or by Parent if there has been a material breach of any representation, warranty, covenant or agreement on the part of the Company, which breach has not been cured within 15 Business Days following receipt by the breaching party of written notice of such breach; or

(e) By the Company if one or more of the Company Closing Conditions are not satisfied or capable of being satisfied on or before the Outside Date as a result of Parent s or MergerSub s failure to comply with their respective obligations under this Agreement, or by Parent if one or more Parent Closing Conditions are not satisfied or capable of being satisfied on or before the Outside Date as a result of the Company s failure to comply with its obligations under this Agreement.

9.2 **Termination by Company**

The Company may terminate this Agreement:

(a) if the Company enters into a definitive agreement providing for the implementation of a Superior Company Proposal; or

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(b) at any time following 10 days prior Notice to Parent (during which Parent may exercise any right that it may have to terminate this Agreement under Section 9.3(a)(3)), if Shareholder Approval is not obtained at the Shareholders Meeting by reason of the failure to obtain the required vote at such meeting or any adjournment of the meeting.

9.3 **Termination by Parent**

Parent may terminate this Agreement:

(a) if:

(1) the Company s board of directors withdraws or materially and adversely to Parent modifies its approval of this Agreement and the Merger or its recommendations to the Shareholders (other than as a result of a material breach by Parent or MergerSub of a representation, warranty or covenant under this Agreement, which remains uncured for a period of two Business Days from the receipt of Notice except to the extent that such representation, warranty or covenant is qualified by the term in all material respects, in which case only a breach of such representation, warranty or covenant is required) or the failure of any Company Closing Condition) (it being understood, however, that for all purposes of this Agreement, the fact that the Company has supplied any Person with information regarding the Company or has entered into discussions or negotiations with such Person as permitted by this Agreement, or the public disclosure of such facts, shall not be deemed a withdrawal or modification of the approval of this Agreement and the Merger or its recommendations to the Shareholders);

(2) the Company enters into a definitive agreement to implement an Acquisition Proposal; or

(3) Shareholder Approval is not obtained by reason of the violation of the Voting Agreement by one or more of the Company s shareholders who are party to the Voting Agreement; or

(b) if Shareholder Approval is not obtained at the Shareholder Meeting by reason of the failure to obtain the required vote at the meeting or any adjournment of the meeting.

9.4 **Effect of Termination**

(a) In the event of the termination of this Agreement pursuant to this Article 9, the Merger shall be abandoned and this Agreement (other than this Section 9.4, Section 5.10 and Section 10.1) shall become void and of no effect, without (subject to this Section 9.4) any Liability on the part of any Party (or of any of its directors, officers, employees, agents, legal and financial advisors, or other representatives).

(b) The Company shall pay a termination fee of $2,500,000 to Parent if:

(1) Parent terminates this Agreement pursuant to Section 9.3(a); or

(2) the Company terminates this Agreement pursuant to Section 9.2(a).

Any termination fee payable under this Paragraph 9.4(b) shall be paid by a wire transfer of

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immediately available funds within two Business Days after receipt of demand for payment by Parent accompanied by appropriate wire transfer instructions.

(c) The Parties acknowledge that the agreements contained in Section 9.4(b) are an integral part of the transactions contemplated by this Agreement and constitute liquidated damages and not a penalty, and that, without these agreements, the Parties would not have entered into this Agreement. If a Party fails to pay a termination fee that it is required to pay under Section 9.4(b), and, in order to obtain payment, the Party to whom the fee is owed brings suit which results in a judgment against the defaulting Party, the defaulting Party shall pay the costs and expenses of the Party bringing suit (including attorneys fees), together with interest from the date of termination of this Agreement on all of the amounts owed at the prime rate of Bank of America, N.A., in effect from time to time during such period plus 2.0%.

9.5 **Amendment**

This Agreement may be amended by the Parties, by action taken or authorized by their respective Boards of Directors, at any time before or after approval of the matters presented in connection with the Merger by the shareholders of Company, but, after any such approval, no amendment shall be made which by law requires further approval by such shareholders without such further approval. This Agreement may not be amended except by an instrument in writing signed on behalf of each of the Parties.

9.6 **Extension and Waiver**

At any time prior to the Effective Time, the Parties, by action taken or authorized by their respective boards of directors, may, to the extent legally allowed, (i) extend the time for the performance of any of the obligations or other acts of the other Parties, (ii) waive any inaccuracies in the representations and warranties of the other Party in this Agreement or in any document delivered pursuant this Agreement and (iii) waive compliance with any of the agreements or conditions contained in this Agreement.

The rights and remedies of the Parties are cumulative and not alternative. The failure or any delay by either Party in exercising any right under this Agreement or any document referred to in this Agreement shall not operate as a waiver of that right, and no single or partial exercise of any right shall preclude any other or further exercise of that right or the exercise of any other right. All extensions and waivers shall be in writing signed by the Party to be charged with the waiver, and no waiver that may be given by a Party shall be applicable except in the specific instance for which it is given.

Article 10
Miscellaneous

10.1 **Confidentiality**

Pending Closing and following termination of this Agreement for any reason, the Confidentiality Agreement executed by the Parties on March 8, 2007 shall remain in full force and effect.

10.2 **Notices**

All Notices under this Agreement shall be in writing and sent by certified or registered mail, overnight messenger service, personal delivery or facsimile, as follows:

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(a) if to the Company, to:
MedSolutions, Inc.
12750 Merit Drive
Park Central VII, Suite 770
Dallas, Texas 75251
Attention: Mr. Matthew H. Fleeger
President and Chief Executive Officer
Fax: (972) 776-8767
with a required copy to:
Block & Garden, LLP
12750 Merit Drive
Park Central VII, Suite 770
Dallas Texas 75251
Attention: Mr. Steven R. Block
Fax: (214) 866-0991

(b) if to Parent or MergerSub, to:
Stericycle, Inc.
21861 North Keith Drive
Lake Forest, Illinois 60045
Attention: Mr. Frank ten Brink
Executive Vice President
and Chief Financial Officer
Fax: (847) 367-9462
with a required copy to:
Johnson and Colmar
300 South Wacker Drive
Suite 1000
Chicago, Illinois 60606
Attention: Mr. Michael Bonn
Fax: (312) 922-9283

Notices sent by certified or registered mail shall be considered to have been given three Business Days after being deposited in the mail. All Notices sent by overnight courier service, personal delivery or facsimile shall be considered to have been given when actually received by the intended recipient. A Party may change its or their address or facsimile number for purposes of this Agreement by Notice in accordance with this Section 10.2.

10.3 **Entire Agreement**

This Agreement (including the documents and the instruments required to be delivered by the parties hereto in connection with the consummation of the transactions contemplated hereby) supersedes all prior agreements between the Parties with respect to its subject matter and constitutes (together with the Schedules and the Parties Closing Documents) a complete and exclusive statement of the terms of the

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agreement between the Parties with respect to its subject matter. This Agreement may not be amended except by a written agreement signed by the Party to be charged with the amendment.

10.4 **Assignment**

No Party may assign any of its rights under this Agreement without the prior written consent of the other Party or Parties.

10.5 **No Third Party Beneficiaries**

Except for Section 7.2 (which is intended to be for the benefit of the Persons covered by that provision and may be enforced by them), nothing in this Agreement shall be considered to give any Person other than the Parties any legal or equitable right, claim or remedy under or in respect of this Agreement or any provision of this Agreement, and this Agreement and all of its provisions are for the sole and exclusive benefit of the Parties and their respective successors and permitted assigns.

10.6 **Severability**

If any provision of this Agreement is held invalid or unenforceable by a court of competent jurisdiction, the other provisions of this Agreement shall remain in full force and effect. Any provision of this Agreement which is held invalid or unenforceable only in part shall remain in full force and effect to the extent not held invalid or unenforceable.

10.7 **Captions**

The captions of articles and sections of this Agreement are for convenience only and shall not affect the construction or interpretation of this Agreement.

10.8 **Construction**

All references in this Agreement to Section or Sections refer to the corresponding section or sections of this Agreement. All words used in this Agreement shall be construed to be of the appropriate gender or number as the context requires. Unless otherwise expressly provided, the word including does not limit the preceding words or terms.

10.9 **Counterparts**

This Agreement may be executed in one or more counterparts, including by facsimile signature, each of which shall be considered an original copy of this Agreement and all of which, when taken together, shall be considered to constitute one and the same agreement.

10.10 **Governing Law**

This Agreement shall be governed and construed in accordance with the laws of the State of Texas, without regard to the laws that might be applicable under conflicts of law principles.

10.11 **Binding Effect**

This Agreement shall apply to, be binding in all respects upon and inure to the benefit of Parties and their respective successors and permitted assigns.

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In witness, the Parties have executed this Agreement.

Stericycle, Inc.

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

TMW Acquisition Corporation

By /s/ Frank J.M. ten Brink
Frank J.M. ten Brink
Vice President

MedSolutions, Inc.

By /s/ Matthew H. Fleeger
Mathew H. Fleeger
President and Chief Executive Officer

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Annex I
Definitions

Acquisition Proposal means an inquiry, offer or proposal (other than the transaction contemplated by this Agreement) regarding any of the following matters:

(a) an investment in the Company representing (on a post-investment basis) more than 25% of the Company s capital stock or a purchase from the Company of more than 25% of the shares of its capital stock or any debt securities convertible into or exchangeable for more than 25% of the shares of its capital stock;

(b) a merger, consolidation, share exchange, recapitalization, business combination or other similar transaction involving all of the Company s equity interests or all shares of the Company Common Stock;

(c) the sale, lease, exchange, mortgage, pledge, transfer or other disposition of all or substantially all the Company s assets in a single transaction or a series of related transactions;

(d) a tender offer or exchange offer for 25% or more of the outstanding shares of the Company s capital stock or the filing of a registration statement under the Securities Act of 1933 in connection with such a tender offer or exchange offer; or

(e) any public announcement of a proposal, plan or intention to do, or any agreement to engage in, any of the matters described in the preceding clauses (a), (b), (c) or (d).

Adjusted Current Assets is defined in Section 7.4(a).

Adjusted Liabilities means the Company s consolidated total Liabilities as of the Closing Date determined in accordance with GAAP increased by (i) severance payments and other termination liabilities under employment agreements with the Company s employees or otherwise and (ii) the Company s unpaid Transaction Expenses (except, in the case of both (i) and (ii), to the extent already accrued), and reduced by (iii) the first $100,000 of the Company s unpaid Transaction Expenses.

Annualized Additional Revenues means the annualized gross revenues of the Company (or Parent or any affiliate of Parent), net of returns, rebates and chargebacks (Net Revenues), during the Measurement Period from such of the Customer Contracts listed on **Exhibit E** that (a) remain in force at the end of the Measurement Period or (b) were terminated by the Company (or Parent or any affiliate of Parent) prior to the expiration of the Measurement Period for any reason other than non-payment by the customer relating thereto. These Net Revenues shall be annualized on a Contract-by-Contract basis as follows: (i) if there are three full months of service, the Net Revenues for the three months shall be annualized by multiplying them by 4; (ii) if there are only two full months of service, the Net Revenues for the two months shall be annualized by multiplying them by 6; (iii) if there is only one full month of service, the Net Revenues for that month shall be annualized by multiplying them by 12; and (iv) if there is less than one full month of service, the average weekly Net Revenues for such month shall be annualized by multiplying them by 52. The Net Revenues so determined shall then be reduced by the amount of Net Revenues from that Customer Contract reflected in the Company s Base Revenue Run Rate (which amounts are shown on **Exhibit E** for the Customer Contracts listed thereon as of the date of this Agreement); provided, however, that in no event shall the Net Revenues so determined be reduced to

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less than $0. **Exhibit E** may be amended by the Company at any time prior to the Effective Time of the Merger to add an additional Customer Contract, and the Net Revenues with respect to any such additional Customer Contract shall be determined in accordance with the method set forth in this definition of Annualized Additional Revenues.

Authorized Officer means a corporate officer of a corporation who is duly authorized to perform the specified action.

Base Revenue Run Rate means $15,655,352.

Books and Records means books, records, ledgers, files, documents, correspondence, lists, reports, creative materials, advertising and promotional materials and other printed or written materials.

Business means Company s business of collecting, transporting, treating and disposing of medical waste.

Business Day shall mean any day other than a Saturday, Sunday, or any day on which banks located in Dallas, Texas are authorized to be closed by applicable law.

Cash Consideration Per Share is defined in Section 2.4(e).

Certificate of Merger is defined in Section 2.3(b).

Cleanup Liability means any Liability under any Environmental Law for corrective action, including any investigation, cleanup, removal, containment or other remedial or response action or activity of the type covered by the Comprehensive Environmental Response, Compensation and Liability Act of 1980.

Closing is defined in Section 2.2.

Closing Date is defined in Section 2.2.

Closing Documents means, in respect of a Party, the documents, instruments and agreements that it is required to deliver or enter into at Closing pursuant to the terms of this Agreement.

Company means MedSolutions, Inc., a Texas corporation.

Company Closing Conditions is defined in Section 6.2.

Company Common Stock means the Company s common stock, par value $.001 per share.

Company Convertible Debentures means (i) the Company s 15% Convertible Redeemable Subordinated Debentures, (ii) the Company s 10% Convertible Redeemable Debentures and (iii) all other debentures, promissory notes and other debt instruments and securities convertible into or exchangeable for shares of Company Common Stock.

Company Preferred Stock means the Company s preferred stock, par value $.001 per share, 500,000 shares of which have been designated as Series A 10% Convertible Preferred Stock.

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Company SEC Reports is defined in Section 3.7.

Company Shares is defined in Section 2.4(e).

Company Stock Certificate is defined in Section 2.5(b).

Company Stock Option means an option to purchase shares of Company Common Stock, whether granted under the Company s 2002 Stock Plan or otherwise.

Consent means any approval, consent, ratification, waiver or other authorization (including any Permit).

Contract means any legally binding contract, agreement, obligation, promise or undertaking (whether written or oral, and whether express or implied).

Copyrights means all copyrights and copyrightable works, and all related applications, registrations and renewals in the United States Copyright Office.

Customer Contract means a Contract with a customer relating to the collection, transportation, treatment or disposal of medical waste, including sharps and sharps containers.

Default means, in respect of a Contract, a breach or violation of or default under the Contract, or the occurrence of an event which with notice or the passage of time (or both) would constitute a breach, violation or default or permit termination, modification or acceleration of the Contract.

Dissenting Share means a share of Company Common Stock which is issued and outstanding immediately prior to the Effective Time and which is held by a Shareholder who did not vote in favor of or consent in writing to the Merger and who is entitled to exercise the rights of a dissenting owner under Section 5.11 et seq. of the TBCA.

Dissenting Shareholder means a Shareholder who holds a Dissenting Share.

Effective Time is defined in Section 2.4(a).

Employee Benefit Plan means (i) an employee pension plan as defined in § 3(2) of ERISA, (ii) an employee welfare benefit plan as defined in § 3(1) of ERISA or (iii) any other employee benefit or fringe benefit plan or program, whether established by Law, a written agreement or other instrument, or custom or informal understanding.

EMSI is defined in Section 3.4(h).

Environmental Laws means the Comprehensive Environmental Response, Compensation and Liability Act of 1980 and Resource Conservation and Recovery Act of 1976, and all other applicable Laws relating to or imposing Liability or standards of conduct for the use, handling, generation, manufacturing, distribution, processing, collection, transportation, transfer, storage, treatment, disposal, clean-up, or Release of Hazardous Materials.

Environmental Liability means any Cleanup Liability or any other Liability under any Environmental Law or Occupational Safety and Health Law, including any Liability arising from a

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Release of Hazardous Materials at, on, in or under any Facility or other Real Property.

Equipment means machinery, equipment, spare parts, furniture, fixtures and other items of tangible personal property of any type or kind used, held for use or useful in the conduct of the Business (but not including inventories or Leasehold Improvements).

Equipment Lease means a Contract for the lease of Equipment or for the purchase of Equipment under a conditional sales or title retention agreement.

ERISA means the Employee Retirement Income Security Act of 1974, as amended, and the related regulations issued by the Internal Revenue Service and Department of Labor.

Exchange Act means the Securities Exchange Act of 1934, as amended, and the related rules and regulations promulgated by the SEC.

Excess Litigation Expenses is defined in Section 7.7(a).

Exchange Fund is defined in Section 2.5(a).

Facility means any office, manufacturing facility, warehouse or other location or site that any Target Company currently leases, operates, occupies or uses, or that it formerly leased, operated, occupied or used, in the conduct of the Business.

Facility Lease means a lease of or other right to operate, occupy or use a Facility that any Company currently leases, operates, occupies or uses in connection with the conduct of the Business.

GAAP means United States generally accepted accounting principles.

Governmental Authority means (i) any federal, state, provincial, local, municipal, foreign or other government and (ii) any governmental or quasi-governmental body of any kind (including any administrative or regulatory agency, department, branch, commission or other entity).

Hazardous Materials means any waste or other substance of any kind that is listed, defined, designated or classified under any Law or Order as hazardous, radioactive or toxic.

Holdback Escrow Agent is defined in Section 7.3(c).

Internal Revenue Code means the U.S. Internal Revenue Code of 1986, as amended.

Intellectual Property means the Patents, Marks, Copyrights and Proprietary Information.

Joint Disclosure Document means the disclosure document combining (i) the definitive proxy statement for the Shareholders Meeting and (ii) the final prospectus relating to the registration of the Parent Notes under the Securities Act.

Judgment Satisfaction Payment is defined in Section 7.7(a).

Knowledge means the actual awareness of a particular fact or other specified matter. As applied to the Company, the term means the actual awareness of the particular fact or other specified matter by

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Matthew H. Fleeger, J. Steven Evans, or Alan E. Larosee. As applied to Parent or MergerSub, the term means the actual awareness of the particular fact or other specified matter by Frank J.M. ten Brink or any other executive officer of Parent or officer of MergerSub.

Law means any law, ordinance, code, regulation, rule, or judicial decision of any Governmental Authority.

Leasehold Improvements means depreciable or amortizable improvements made by (or on behalf of) the tenant under a Facility Lease which belong to the tenant and not to the landlord.

Letter of Transmittal is defined in Section 2.5(b).

Liability means any liability or obligation, whether or not known or unknown, absolute or contingent, liquidated or unliquidated, or due or to become due.

Liability Excess is defined in Section 7.4(b).

Lien means any lien, security interest, claim, community property interest, equitable interest, option, pledge, right of first refusal or other encumbrance.

Litigation is defined in Section 7.7(a).

Marks means trade marks, service marks, trade names, assumed names, brand names and logotypes (including translations, adaptations, derivations and combinations) and related applications, registrations and renewals.

Material Adverse Effect means, when used in respect of the Company or in respect of a representation and warranty by the Company, any adverse change, circumstance or effect that, individually or in the aggregate with all other adverse changes, circumstances and effects, is or is reasonably likely to be materially adverse to the business, operations, assets, liabilities, financial condition or results of operations of Company and the Subsidiaries taken as a whole or on the ability of Company to consummate the transactions contemplated by this Agreement. The term does not include (i) any change, circumstance, event or effect that relates to or results primarily from the announcement or other disclosure or consummation of the transactions contemplated by this Agreement or (ii) changes in general economic conditions, financial markets or conditions generally affecting the medical waste management industry.

Material Contract means (i) a Contract disclosed in a Company SEC Report or a Schedule to Article 3 or (ii) of a type described in clause (10) of Item 601 of Regulation S-K under the Securities Act.

Measurement Period means the period of three calendar months beginning with the month following the month in which Closing occurs.

Measured Revenues means the sum of the Company s Base Revenue Run Rate and Annualized Additional Revenues.

Merger is defined in Section 2.1.

Merger Consideration is defined in Section 2.4(e).

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MergerSub means TMW Acquisition Corporation, a Texas corporation and wholly owned subsidiary of Parent.

Net Revenues is defined within the definition of Annualized Additional Revenues above.

Note Consideration Per Share is defined in Section 2.4(e).

Notice means any written notice, demand, charge or complaint from any Person.

Objection Period is defined in Section 8.3(b).

Occupational Safety and Health Laws means the Occupational Safety and Health Act of 1970, as amended, and all other applicable Laws and Orders intended to provide safe and healthful working conditions and to reduce occupational safety and health hazards.

Officer s Certificate means a certificate signed by an Authorized Officer whose responsibilities extend to the subject matter of the certificate.

Order means any order, judgment, decree, ruling, consent decree, settlement agreement, stipulation or injunction entered or issued by any court, Governmental Authority or arbitrator.

Ordinary Course of Business means, in respect of a Party, an action taken by it which is consistent with its past practices and is taken in the ordinary course of the normal day-to-day operations.

Organizational Documents means the certificate or articles of incorporation and by-laws of a corporation, each as amended to date.

Outside Date means September 30, 2007.

Parent means Stericycle, Inc., a Delaware corporation.

Parent Closing Conditions is defined in Section 6.1.

Parent Note is defined in Section 2.4(e).

Parent SEC Reports is defined in Section 4.6.

Party means both Parent and MergerSub (or either one of them, as the context requires) or the Company, and Parties means all of them.

Patents means patents, patent applications and patent disclosures and related reissuances, continuations, continuations-in-part, revisions, extensions and reexaminations.

Paying Agent is defined in Section 2.5(a).

Permit means any approval, consent, license, permit, registration, certificate, waiver, confirmation or other authorization issued, granted or otherwise made available by any Governmental Authority.

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Permitted Lien means (i) any Lien for Taxes that are not yet due and payable or (ii) any carrier s, warehouseman s, mechanic s, materialman s, repairman s, landlord s, lessor s or similar statutory Lien incidental to the Ordinary Course of Business.

Person means any individual, corporation, general or limited partnership, limited liability company, joint venture, association, organization, estate, trust or other entity or any Governmental Authority.

Post-Closing Schedule is defined in Section 7.4(c).

Proprietary Information means trade secrets and proprietary or confidential business information, including: (i) ideas, formulas, discoveries and inventions (whether patentable or unpatentable, and whether or not reduced to practice), (ii) know-how, and (iii) computer source codes, programs, software and documentation.

Pro Rata Basis, with respect to any item, shall mean a pro rata portion thereof based on a Shareholder s ownership of Company Common Stock.

Real Property means land or an interest in land (other than an interest in a Facility Lease).

Registration Statement is defined in Section 5.3(b).

Release means a spill, leak, emission, discharge, deposit, dumping or other release into the environment, whether intentional or unintentional.

Resolved Liability Payment is defined in Section 7.7(a).

Revenues Schedule is defined in Section 7.5(c).

Schedule means a schedule to this Agreement.

SEC means the Securities and Exchange Commission.

Securities Act means the Securities Act of 1933, as amended, and the related rules and regulations promulgated by the SEC.

Shareholder means a Person who is the owner of record of one or more shares of Company Common Stock as of Closing.

Shareholder Approval means the adoption of this Agreement by the affirmative approval of the holders of a majority of the outstanding shares of Company Common Stock as of the record date fixed for such action.

Shareholder Representative means Matthew H. Fleeger and Winship B. Moody, Sr., collectively.

Shareholder Representative Holdback Account is defined in Section 7.3(c).

Shareholders Meeting is defined in Section 5.4.

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Subsidiary means EMSI, SharpSolutions, Inc., ShredSolutions, Inc., Positive Impact Waste Servicing, Inc., SteriLogic Waste Systems, Inc. and EnviroClean Transport Services, Inc., and **Subsidiaries** means all of them.

Suit means any action, suit, proceeding or arbitration (whether civil, criminal, administrative or investigative in nature, and whether formal or informal) by, before or in any court, Governmental Authority or arbitrator.

Superior Company Proposal means any proposal made by a third party to acquire more than 50% of the voting power of the equity securities or more than 50% of the assets of Company, pursuant to a tender or exchange offer, merger, consolidation, liquidation or dissolution, recapitalization, sale of assets or otherwise, that, after consultation with Company s financial advisor and after considering, among other things, (i) the likelihood and timing of consummation of the proposed transaction and (ii) any amendments to or modifications of this Agreement that Parent has offered or proposed within 5 calendar days after learning of the third party s proposal, the board of directors of the Company determines in its good faith judgment to be more favorable from a financial point of view to Company Shareholders than the transactions contemplated by this Agreement.

Surviving Corporation is defined in Section 2.1.

Takeover Statutes is defined in Section 3.25.

Target Company means Company or any Subsidiary, and **Target Companies** means the Company and all Subsidiaries.

Tax means any federal, state, provincial, local, municipal or foreign tax, charge, fee, levy, or similar assessment or liability, imposed by any Governmental Authority, including without limitation, income, franchise, gross receipts, capital stock, profits, withholding, social security, unemployment, real property, personal property, stamp, excise, occupation, sales, use, transfer, value added, estimated or other tax (including any related interest, fines, penalties and additions), and any transferee liability in respect of Taxes and any liability in respect of Taxes imposed by contract, Tax sharing agreement, Tax reimbursement agreement, or any similar agreement.

Tax Return means any return (including any information return), report, statement, form or other document required to be filed with or submitted to any Governmental Authority in connection with the determination, assessment, collection or payment of any Tax.

TBCA means the Texas Business Corporation Act.

Texas BOC means the Texas Business Organizations Code.

Threatened means, in respect of a Suit, that Parent (in respect of a Notice to Parent) or Company (in respect of Notice to a Target Company) has Knowledge that Notice has been given that the Suit will be, or is likely to be, initiated in the foreseeable future.

Transaction Expenses means all out-of-pocket expenses (including all fees and expenses of counsel, accountants, investment bankers, experts and consultants) incurred by a Party or on its behalf in connection with, or related to, the authorization, preparation, negotiation, execution and performance of this Agreement and the transactions contemplated by this Agreement.

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Voting Agreement means that certain Voting Agreement dated as of the date of this Agreement, entered into by Parent, MergerSub and the shareholders of the Company signatory thereto.

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P.O. Box 222097
Dallas, Texas 75222-2097

972-723-9500 Phone
972-723-9501 Fax

June 30, 2007
Board of Directors of MedSolutions, Inc.
c/o Mr. J. Steven Evans, CPA
MedSolutions, Inc.
12750 Merit Drive
Park Central VII
Suite 770
Dallas, Texas 75251
Dear Mr. Evans:

Pursuant to your request, we have completed our valuation consulting services to provide an independent fairness opinion in regard to the fair market value of the equity to be acquired by Stericycle, Inc. (Stericycle) from MedSolutions, Inc. (MedSolutions or the Company) by means of a proposed reverse subsidiary merger transaction (the Transaction) to be closed by the end of August 2007. The date of the valuation and fairness opinion will be as of June 30, 2007 (the Valuation Date).

We understand that the results of our analysis will be used in evaluating the fairness of the acquisition price paid by Stericycle to the MedSolutions shareholders. The analysis should not be (1) used for any other purposes than those stated above, or (2) be distributed to third parties (except for the Company s financial and legal advisors); without the express written consent of Van Amburgh Valuation Associates, Inc. (VAVA Inc.).

We define fair market value as the price at which property would exchange between a willing buyer and a willing seller, neither being under compulsion to buy or sell, and each being aware of all relevant facts. Our value opinion does not constitute a fairness opinion as we have not performed the work necessary to issue such an opinion.

The proposed valuation and fairness opinion were produced in compliance with the valuation standards contained in the Uniform Standards of Professional Appraisal Practice (USPAP). In order to ensure compliance with requirements imposed by the Internal Revenue Service (IRS), we inform you that any U.S. Federal tax advice contained in the proposed valuation assignment is not intended or written to be used, and cannot be used, for the purpose of: (1) avoiding penalties under the Internal Revenue Code of 1986, as amended or (2) promoting, marketing, or recommending to another party any transaction or tax related matter.

We have assumed and relied upon, without independent verification, the accuracy and completeness of the financial and other information discussed with or reviewed by us in arriving at our opinion. With respect to the financial forecasts of the Company provided to or

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discussed with us, we have assumed, at the direction of the Management of the Company and without independent verification or investigation, that such forecasts have been reasonably prepared on bases reflecting the best currently available information, estimates and judgments of the Management of the Company as to the future financial performances of the Company. In arriving at our opinion, we have not conducted a physical inspection of the properties and facilities of the Company and have not made nor obtained any evaluations or appraisals of the assets or liabilities (including, without limitation, any potential environmental liabilities), contingent or otherwise, of the Company. We have also assumed that the Transaction will be consummated in accordance with the terms of the Agreement.

Our opinion is necessarily based upon market, economic and other conditions as they exist on, and can be evaluated as of, the date of this letter. We express no opinion as to the underlying valuation, future performance or long-term viability of the Company. Our opinion solely addresses the fairness from a financial point of view of the consideration to the holders of Common Stock of the Company. Our opinion does not address the relative merits of the Transaction as compared to other transactions or business strategies that might be available to the Company, nor does it address the Company s underlying business decision to proceed with the Transaction. It should be understood that, although subsequent developments may affect this opinion, we do not have any obligation to update or revise the opinion.

We have not acted as financial advisor to the Company in connection with the Transaction and while we will receive a fee for our services, no portion of the fee is contingent upon the consummation of the Transaction.

The elements we examined during our study are outlined in Internal Revenue Service Revenue Ruling 59-60. This was a landmark ruling by the IRS, which recommends that the following factors be examined in conducting a closely held stock valuation:

- The nature of the business and the history of the enterprise from its inception;
- The economic outlook in general and the condition and outlook of the specific industry in particular;
- The book value of the stock and the financial condition of the business;
- The earning capacity of the company;
- The dividend-paying capacity of the company;
- Whether or not the enterprise has goodwill or other intangible value;
- Prior sales of the stock and the size of the block of stock to be valued; and
- The market price of stocks of corporations engaged in the same or a similar line of business having their stocks actively traded on an exchange or over-the-counter market.

Our conclusions relied on both historical facts and projections of future events. We relied on certain forecasted data, or the assumptions underlying the forecasted data, as supplied by management and other sources deemed reliable. It should be noted that there typically will be differences between forecasted and actual results because events and circumstances frequently do not occur as expected, and those differences may be material. Our analyses, opinions, and conclusions were also developed in conformance with the requirements of the Principles of Appraisal Practice and Code of Ethics of the American Society of Appraisers and the Uniform Standards of Professional Appraisal Practice as issued by The Appraisal Foundation.

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In order to perform a proper valuation and fairness opinion, it was necessary to review the operations of the business. First, a brief analysis of the background and qualifications of present management was performed. Then, the Company s business was reviewed. This review was followed by an analysis of operations during the most recent five years which included the Company s revenue sources, profitability levels, and financial structure and position. Finally an evaluation of operating factors, the organization and structure of the Company, and various agreements and transactions was made. The Company s audited and unaudited financial statements (as reported) for the years ended December 31, 2003 through 2006 and the three month periods ended March 31, 2007 and March 31, 2006 were reviewed and analyzed. The analysis is presented as Exhibit 1 of this letter report.

No financial data was provided by management of the Company for periods subsequent to March 31, 2007. Thus, this fairness opinion is based upon the assumption that there were no significant events impacting the Company s historical profitability between March 31, 2007 and the Valuation Date.

As part of the analysis, we identified certain items of income and expense that are reasonably deemed to be non-recurring, extraordinary, or non-operational. These items were eliminated in the estimation of a set of adjusted, or normalized financial statements. The adjusted financial statement analysis, in the same format as the reported analysis, is presented as Exhibit 2 of this letter report.

MedSolutions, Inc. is a Texas corporation that was organized on November 11, 1993. The Company is a diversified holding company that provides complete and effective waste management outsource solutions marketed and serviced through four wholly-owned subsidiaries and one substantially owned subsidiary. Through EnviroClean Management Services, Inc. (EMSI), from which the Company historically derived virtually all of its revenue, MedSolutions is primarily engaged in regulated medical waste (RMW) management services, which include collecting, transporting, treating and disposing of regulated medical waste from a variety of healthcare customers. Through SharpsSolutions, Inc. (SharpsSolutions), the Company offers a reusable sharps container service program to healthcare facilities that are expected to virtually eliminate the current method of utilizing disposable sharps containers. Through ShredSolutions, Inc., the Company markets a fully integrated, comprehensive service for the collection, transportation and destruction of Protected Healthcare Information (PHI) and other confidential documents, primarily those generated by healthcare providers and regulated under the Health Insurance Portability and Accountability Act (HIPAA). Through Positive Impact Waste Servicing, Inc. doing business as EnviroClean On-Site, MedSolutions provides a patented mobile treatment process that uses Cold-Ster®, a proprietary dry chemical product approved by the U.S. Environmental Protection Agency (EPA) for the treatment of RMW. Through the acquisition of SteriLogic Waste Systems, Inc., located in Syracuse, New York (SteriLogic), MedSolutions operates a regulated medical waste management company that provides collection, transportation and disposal of regulated medical waste services in addition to providing a reusable sharps container program to its customers who are primarily located in the States of New York and Pennsylvania. SteriLogic also designs, manufactures and markets reusable sharps containers to medical waste service providers who provide a reusable sharps container program to their medical waste customers. Certain industry data and forecasts for the subject industry are presented as Exhibit 3 of this letter report.

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The next step was to develop a working understanding of the present and anticipated future postures of the general economy and the Company s specific industry. Then a summation of yields and returns available to a willing buyer from various debt and equity issues was presented in order to provide a benchmark from which to judge the merits of investing in the Company rather than investing in these alternative issues.

After the basic operations of the Company were documented and the economic framework for both the general economy and the Company s industry were evaluated, three separate approaches were considered in order to determine a reasonable range of fair market value for the Company. The range of fair market value estimates were then compared to the actual consideration paid in the proposed reverse subsidiary merger transaction to determine if the proposed transaction is fair to the target shareholders.

The Transaction

The subject transaction involved the acquisition by means of a reverse subsidiary merger, of the total outstanding common stock of MedSolutions by Stericycle. A total of 27,174,135 MedSolutions shares were acquired at an equity purchase price of $2.00 per share ($54,348,270 total consideration). The $2.00 per common share transaction price is payable as follows: $0.50 per common share in cash ($13,587,067.50 total) and $1.50 per common share in seven-year purchase notes issued pro rata to the MedSolutions shareholders ($40,761,202.50 principal). The transaction is required to be approved by the MedSolutions Board of Directors. Management of the Company has represented that the present value of the cash consideration and notes receivable was $44,684,891, assuming a 4.50% interest rate on the notes receivable and assuming a 9.25% annual discount rate on the notes receivable. The cash portion of the purchase price was not discounted in the $44,684,891 calculation.

Valuation and Fairness Opinion

The first valuation analysis was based upon the Discounted Debt-Free Net Cash Flow (Income) Approach to Value. This approach involved a projection of future revenues and expenses based upon present operations and expectations. The calculated earnings stream was discounted back to present value at discount rates ranging from 14% to 16%, a weighted average cost of capital (discount rate) range believed to balance the potential risks with the potential rewards as viewed by an objective investor. Values in a range from $37,100,000 (16% discount rate) to $45,400,000 (14% discount rate) were determined using this approach. The assumptions and calculations associated with the Discounted Debt-Free Net Cash Flow (Income) Approach to Value are presented as Exhibit 4 of this letter report.

The second analysis considered was based upon the Guideline Company (Market) Approach to Value. Values determined from recent minority public guideline company trades, private sale transactions, possible transaction indicators, planned trades, and/or trades of equivalent assets were considered under this approach. Fair market value estimates in a range from $38,600,000 to $41,700,000 were determined using this approach. The assumptions and calculations associated with the Guideline Company (Market) Approach to Value are presented as Exhibit 5 of this letter report.

The third analysis was based upon the Adjusted Book Value (Cost) Approach to Value. This analysis required adjusting each asset and each actual and potential liability to present fair market value in order to establish the present estimated cost of duplicating the assets and

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liabilities of the business. The value indicated by the Adjusted Book Value (Cost) Approach often understates the fair market value of the subject company because it does not consider goodwill and other elements of intangible value. Due to the earnings potential of the Company and the presence of significant intangible asset value, the Adjusted Book Value (Cost) Approach to Value was calculated more for informational purposes than for value indication purposes. The book value of the Company s shareholders equity was $4,606,561, as of March 31, 2007.

After these three approaches to value were considered, the applicability and practical application of each were examined and other relevant facts were weighted. Based upon VAVA Inc. personnel s experience in valuing public and privately-held companies, the most representative value of 100% of the Company s common stock, as of the Valuation Date, was in a range from $37,100,000 to $45,400,000. The average of the midpoints of the income approach and market approach fair market value indications was $40,700,000. The level of value of the Company was deemed to represent enterprise control.

Based upon the facts, assumptions and limiting conditions and procedures described in this letter report and the supporting Exhibits, it is our opinion that the total consideration to be paid by Stericycle, Inc. for the outstanding MedSolutions, Inc. common stock (27,174,135 common shares outstanding) by means of a proposed reverse subsidiary merger transaction to be closed by the end of August 2007, was fair, from a financial point of view, to the shareholders of the Company.

This opinion is delivered to the Board of Directors of the Company solely for its use in considering the Transaction and may not be used for any other purpose except as described in the engagement letter between the Company and VAVA Inc. dated March 13, 2007. We note that we have been retained only by the Company and, subject to applicable law, our engagement is not deemed to be on behalf of, and does not confer any rights upon, any stockholder of the Company or any other person. This opinion may not be reproduced, disseminated, quoted or referred to in any manner, without the prior written consent of VAVA Inc., except to the permitted users listed in this letter report.

This fairness opinion and all estimates of value are subject to the attached **Fundamental Assumptions and Limiting Conditions** and **Appraiser s Certification**. The field notes from which this fairness opinion and valuation were prepared are retained in our files and are available for inspection upon request. If you have any questions concerning this analysis, we would be pleased to discuss them with you at your convenience.

Respectfully submitted,

VAN AMBURGH VALUATION ASSOCIATES, INC.

By: */s/ Michael B. Van Amburgh*
Michael B. Van Amburgh, ASA

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ANNEX C
APPRAISAL AND DISSENTERS RIGHTS
UNDER THE TEXAS BUSINESS CORPORATION ACT
ARTICLE 5.12 OF THE TEXAS BUSINESS CORPORATIONS ACT

5.12. Procedure for Dissent by Shareholders as to Said Corporate Actions

A. Any shareholder of any domestic corporation who has the right to dissent from any of the corporate actions referred to in Article 5.11 of this Act may exercise that right to dissent only by complying with the following procedures:

(1) (a) With respect to proposed corporate action that is submitted to a vote of shareholders at a meeting, the shareholder shall file with the corporation, prior to the meeting, a written objection to the action, setting out that the shareholder s right to dissent will be exercised if the action is effective and giving the shareholder s address, to which notice thereof shall be delivered or mailed in that event. If the action is effected and the shareholder shall not have voted in favor of the action, the corporation, in the case of action other than a merger, or the surviving or new corporation (foreign or domestic) or other entity that is liable to discharge the shareholder s right of dissent, in the case of a merger, shall, within ten (10) days after the action is effected, deliver or mail to the shareholder written notice that the action has been effected, and the shareholder may, within ten (10) days from the delivery or mailing of the notice, make written demand on the existing, surviving, or new corporation (foreign or domestic) or other entity, as the case may be, for payment of the fair value of the shareholder s shares. The fair value of the shares shall be the value thereof as of the day immediately preceding the meeting, excluding any appreciation or depreciation in anticipation of the proposed action. The demand shall state the number and class of the shares owned by the shareholder and the fair value of the shares as estimated by the shareholder. Any shareholder failing to make demand within the ten (10) day period shall be bound by the action.

(b) With respect to proposed corporate action that is approved pursuant to Section A of Article 9.10 of this Act, the corporation, in the case of action other than a merger, and the surviving or new corporation (foreign or domestic) or other entity that is liable to discharge the shareholder s right of dissent, in the case of a merger, shall, within ten (10) days after the date the action is effected, mail to each shareholder of record as of the effective date of the action notice of the fact and date of the action and that the shareholder may exercise the shareholder s right to dissent from the action. The notice shall be accompanied by a copy of this Article and any articles or documents filed by the corporation with the Secretary of State to effect the action. If the shareholder shall not have consented to the taking of the action, the shareholder may, within 20 days after the mailing of the notice, make written demand on the existing, surviving, or new corporation (foreign or domestic) or other entity, as the case may be, for payment of the fair value of the shareholder s shares. The fair value of the shares shall be the value thereof as of the date the written consent authorizing the action was delivered to the corporation pursuant to Section A of Article 9.10 of this Act, excluding any appreciation or depreciation in anticipation of the action. The demand shall state the number and class of shares owned by the dissenting shareholder and the fair value of the shares as estimated by the shareholder. Any shareholder failing to make demand within the 20 day period shall be bound by the action.

(2) Within 20 days after receipt by the existing, surviving, or new corporation (foreign or domestic) or other entity, as the case may be, of a demand for payment made by a dissenting

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shareholder in accordance with Subsection (1) of this Section, the corporation (foreign or domestic) or other entity shall deliver or mail to the shareholder a written notice that shall either set out that the corporation (foreign or domestic) or other entity accepts the amount claimed in the demand and agrees to pay that amount within 90 days after the date on which the action was effected, and, in the case of shares represented by certificates, upon the surrender of the certificates duly endorsed, or shall contain an estimate by the corporation (foreign or domestic) or other entity of the fair value of the shares, together with an offer to pay the amount of that estimate within 90 days after the date on which the action was effected, upon receipt of notice within 60 days after that date from the shareholder that the shareholder agrees to accept that amount and, in the case of shares represented by certificates, upon the surrender of the certificates duly endorsed.

(3) If, within 60 days after the date on which the corporate action was effected, the value of the shares is agreed upon between the shareholder and the existing, surviving, or new corporation (foreign or domestic) or other entity, as the case may be, payment for the shares shall be made within 90 days after the date on which the action was effected and, in the case of shares represented by certificates, upon surrender of the certificates duly endorsed. Upon payment of the agreed value, the shareholder shall cease to have any interest in the shares or in the corporation.

B. If, within the period of 60 days after the date on which the corporate action was effected, the shareholder and the existing, surviving, or new corporation (foreign or domestic) or other entity, as the case may be, do not so agree, then the shareholder or the corporation (foreign or domestic) or other entity may, within 60 days after the expiration of the 60 day period, file a petition in any court of competent jurisdiction in the county in which the principal office of the domestic corporation is located, asking for a finding and determination of the fair value of the shareholder s shares. Upon the filing of any such petition by the shareholder, service of a copy thereof shall be made upon the corporation (foreign or domestic) or other entity, which shall, within ten (10) days after service, file in the office of the clerk of the court in which the petition was filed a list containing the names and addresses of all shareholders of the domestic corporation who have demanded payment for their shares and with whom agreements as to the value of their shares have not been reached by the corporation (foreign or domestic) or other entity. If the petition shall be filed by the corporation (foreign or domestic) or other entity, the petition shall be accompanied by such a list. The clerk of the court shall give notice of the time and place fixed for the hearing of the petition by registered mail to the corporation (foreign or domestic) or other entity and to the shareholders named on the list at the addresses therein stated. The forms of the notices by mail shall be approved by the court. All shareholders thus notified and the corporation (foreign or domestic) or other entity shall thereafter be bound by the final judgment of the court.

C. After the hearing of the petition, the court shall determine the shareholders who have complied with the provisions of this Article and have become entitled to the valuation of and payment for their shares, and shall appoint one or more qualified appraisers to determine that value. The appraisers shall have power to examine any of the books and records of the corporation the shares of which they are charged with the duty of valuing, and they shall make a determination of the fair value of the shares upon such investigation as to them may seem proper. The appraisers shall also afford a reasonable opportunity to the parties interested to submit to them pertinent evidence as to the value of the shares. The appraisers shall also have such power and authority as may be conferred on Masters in Chancery by the Rules of Civil Procedure or by the order of their appointment.

D. The appraisers shall determine the fair value of the shares of the shareholders adjudged by the court to be entitled to payment for their shares and shall file their report of that value in the office of the clerk of the court. Notice of the filing of the report shall be given by the clerk to the parties in interest. The report shall be subject to exceptions to be heard before the court both upon the law and the facts. The court shall by its judgment determine the fair value of the shares of the shareholders entitled to payment

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for their shares and shall direct the payment of that value by the existing, surviving, or new corporation (foreign or domestic) or other entity, together with interest thereon, beginning 91 days after the date on which the applicable corporate action from which the shareholder elected to dissent was effected to the date of such judgment, to the shareholders entitled to payment. The judgment shall be payable to the holders of uncertificated shares immediately but to the holders of shares represented by certificates only upon, and simultaneously with, the surrender to the existing, surviving, or new corporation (foreign or domestic) or other entity, as the case may be, of duly endorsed certificates for those shares. Upon payment of the judgment, the dissenting shareholders shall cease to have any interest in those shares or in the corporation. The court shall allow the appraisers a reasonable fee as court costs, and all court costs shall be allotted between the parties in the manner that the court determines to be fair and equitable.

E. Shares acquired by the existing, surviving, or new corporation (foreign or domestic) or other entity, as the case may be, pursuant to the payment of the agreed value of the shares or pursuant to payment of the judgment entered for the value of the shares, as in this Article provided, shall, in the case of a merger, be treated as provided in the plan of merger and, in all other cases, may be held and disposed of by the corporation as in the case of other treasury shares.

F. The provisions of this Article shall not apply to a merger if, on the date of the filing of the articles of merger, the surviving corporation is the owner of all the outstanding shares of the other corporations, domestic or foreign, that are parties to the merger.

G. In the absence of fraud in the transaction, the remedy provided by this Article to a shareholder objecting to any corporate action referred to in Article 5.11 of this Act is the exclusive remedy for the recovery of the value of his shares or money damages to the shareholder with respect to the action. If the existing, surviving, or new corporation (foreign or domestic) or other entity, as the case may be, complies with the requirements of this Article, any shareholder who fails to comply with the requirements of this Article shall not be entitled to bring suit for the recovery of the value of his shares or money damages to the shareholder with respect to the action.

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ANNEX D
FORM OF 4.5% NOTE INDENTURE

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Indenture
Stericycle, Inc.
and
LaSalle Bank National Association,
as Trustee
Dated as of July 12, 2007
4.5% Promissory Notes Due 2014

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Cross Reference Table

TIA Section		Indenture Section
310	(a)(1)	7.10
	(a)(2)	7.10
	(a)(3)	N/A
	(a)(4)	N/A
	(a)(5)	N/A
	(b)	7.08; 7.10
	(c)	N/A
311	(a)	7.11
	(b)	7.11
	(c)	N/A
312	(a)	2.05
	(b)	9.02
	(c)	9.02
313	(a)	7.06
	(b)(1)	N/A
	(b)(2)	7.06
	(c)	7.06
	(d)	7.06
314	(a)(1)	4.02
	(a)(2)	4.02; 9.01
	(a)(3)	4.02
	(a)(4)	4.03
	(b)	N/A
	(c)	2.02; 7.02(b); 8.01(3); 9.03; 9.04
	(d)	N/A
	(e)	9.04
	(f)	4.03
315	(a)(1)	7.01(b)(1)
	(a)(2)	7.01(b)(2)
	(b)	7.05; 9.01
	(c)	7.01(a)
	(d)(1)	7.01(c)(1)
	(d)(2)	7.01(c)(2)
	(d)(3)	6.05; 7.01(c)(3)
	(e)	6.09
316	(a)(last sentence)	2.09
	(a)(1)(A)	6.05
	(a)(1)(B)	6.04
	(a)(2)	N/A
	(b)	6.07
	(c)	8.04

317	(a)(1)	6.03
	(a)(2)	6.10
	(b)	2.04
318	(a)	1.04

N/A means not applicable.

Note: This Cross-Reference Table shall not, for any purpose, be deemed to be part of this Indenture.

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Indenture

This Indenture dated as of July 12, 2007 between Stericycle, Inc., a Delaware corporation (Company), and LaSalle Bank National Association (the Trustee).

Each party agrees as follows for the benefit of the other party and for the equal and ratable benefit of the Holders of the Company s 4.5% Promissory Notes due 2014 (the Notes). The initial holders of the Notes are shareholders and option holders of MedSolutions, Inc. who elect to receive the Notes pursuant to the terms of the Merger Agreement (as defined in Section 1.01):

Article 1
Definitions and Rules of Construction;
Applicability of the Trust Indenture Act

Section 1.01 Definitions

3.5% Notes means the Company s 3.5% Promissory Notes (Letter of Credit Supported) due 2014 issued under the Other Indenture.

Affiliate means any Person controlling or controlled by or under common control with the referenced Person. Control for this definition means the power to direct the management and policies of a Person, directly or indirectly, whether through the ownership of voting securities, by contract, or otherwise. The terms controlling and controlled have meanings correlative to the foregoing.

Agent means any Registrar or Paying Agent.

Board means the Board of Directors of the Person or any officer or committee thereof authorized to act for such Board.

Business Day means a day that is not a Legal Holiday.

Company means the party named as such above until a successor which duly assumes the obligations upon the Notes and under the Indenture replaces it and thereafter means the successor.

Default means any event which is, or after notice or passage of time would be, an Event of Default.

Effective Time means Effective Time as defined in the Merger Agreement.

Exchange Act means the Securities Exchange Act of 1934, as amended.

Expense Payment Principal Reduction means a reduction in the aggregate principal of the Notes and the 3.5% Notes pursuant to Section 2.5(a) of the Merger Agreement.

Holder or **Noteholder** means a Person in whose name a Note is registered.

Indenture means this Indenture as amended from time to time, including the terms of the Notes and any amendments thereto.

Indemnification Claim Payment Reduction means a reduction in the aggregate amounts next becoming due under the Notes and the 3.5% Notes pursuant to Section 8.4 of the Merger Agreement.

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Litigation Payment Principal Reduction means a reduction in the aggregate principal of the Notes and the 3.5% Notes pursuant to Section 7.7(b) of the Merger Agreement.

Maturity Date means the seventh anniversary of the Effective Time of the Merger.

Merger means Merger as defined in the Merger Agreement.

Merger Agreement means the Merger Agreement dated July 6, 2007 entered into by the Company, TMW Acquisition Corporation, a Texas corporation, and MedSolutions, Inc., a Texas corporation.

Merger Consideration Principal Reduction means a reduction in the aggregate principal of the Notes and the 3.5% Notes pursuant to Section 7.6(b)(2) or Section 7.6(c) of the Merger Agreement.

Notes means the Notes described above issued under this Indenture.

Officers Certificate means a certificate signed by two Officers, one of whom must be the President and Chief Executive Officer, the Chief Financial Officer, or an Executive Vice President or other Vice President of the Company. See Sections 9.03 and 9.04.

Opinion of Counsel means a written opinion from legal counsel who is acceptable to the Trustee. See Sections 9.03 and 9.04.

Other Indenture means the Indenture dated as of ___, 2007 between the Company and LaSalle Bank National Association, as Trustee for the 3.5% Notes.

Person means any individual, corporation, partnership, joint venture, association, limited liability company, joint stock company, trust, unincorporated organization or government or other agency or political subdivision thereof.

Proceeding means a liquidation, dissolution, bankruptcy, insolvency, reorganization, receivership or similar proceeding under Bankruptcy Law, an assignment for the benefit of creditors, any marshalling of assets or liabilities, or winding up or dissolution, but shall not include any transaction permitted by and made in compliance with Article 5.

SEC means the U.S. Securities and Exchange Commission.

Shareholder Representative means the Person or Persons from time to time serving as the Shareholder Representative pursuant to Section 7.3 of the Merger Agreement. The persons initially serving as the Shareholder Representative are Matthew H. Fleeger and Winship B. Moody, Sr.

TIA means the Trust Indenture Act of 1939 (15 U.S.C. §§ 77aaa-77bbbb), as amended, as in effect on the date of this Indenture, except as provided in Sections 1.04 and 9.03.

Trust Officer means any officer or assistant officer of the Trustee assigned by the Trustee to administer its corporate trust matters or to whom a matter concerning the Indenture may be referred.

Trustee means the party named as such above until a successor replaces it and thereafter means the successor.

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Section 1.02 Other Definitions

Term	Defined in Section
Bankruptcy Law	6.01
Custodian	6.01
Event of Default	6.01
Legal Holiday	9.06
Notice	9.01
Officer	9.09
Paying Agent	2.03
Prepayment Date	3.01
Proceeding	1.01
Registrar	2.03

Section 1.03 Rules of Construction

Unless the context otherwise requires:

(1) a term defined in Section 1.01 or 1.02 has the meaning assigned to it therein, and terms defined in the TIA have the meanings assigned to them in the TIA;

(2) an accounting term not otherwise defined has the meaning assigned to it in accordance with generally accepted accounting principles in the United States;

(3) or is not exclusive;

(4) words in the singular include the plural, and words in the plural include the singular;

(5) provisions apply to successive events and transactions;

(6) herein, hereof and other words of similar import refer to this Indenture as a whole and not to any particular Article, Section or other subdivision; and

(7) including means including without limitation.

Section 1.04 Trust Indenture Act

The provisions of TIA Sections 310 through 317 that impose duties on any Person (including the provisions automatically deemed included herein unless expressly excluded by this Indenture) are a part of and govern this Indenture upon and so long as the Indenture and Notes are subject to the TIA. If any provision of this Indenture limits, qualifies or conflicts with such duties, the imposed duties shall control. If a provision of the TIA requires or permits a provision of this Indenture and the TIA provision is amended, then the Indenture provision shall be automatically amended to like effect.

Article 2
The Notes

Section 2.01 Form and Dating

The Notes and the certificate of authentication shall be substantially in the form of Exhibit A, which is hereby incorporated in and expressly made a part of this Indenture. The Notes may have

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notations, legends or endorsements required by law, stock exchange rule, automated quotation system, agreements to which the Company is subject, or usage. Each Note shall be dated the date of its authentication.

Section 2.02 Execution and Authentication

Two Officers shall sign the Notes for the Company by manual or facsimile signature.

If an Officer whose signature is on a Note no longer holds that office at the time the Note is authenticated, the Note is still valid.

A Note shall not be valid until an authorized signatory of the Trustee manually signs the certificate of authentication on the Note. The signature shall be conclusive evidence that the Note has been authenticated under this Indenture.

The Trustee shall authenticate Notes for original issue up to the amount stated in paragraph 4 of Exhibit A in accordance with an Officers Certificate of the Company. The aggregate principal amount of Notes outstanding at any time may not exceed that amount except as provided in Section 2.07.

The Trustee may appoint an authenticating agent acceptable to the Company to authenticate Notes. An authenticating agent may authenticate Notes whenever the Trustee may do so. Each reference in this Indenture to authentication by the Trustee includes authentication by such agent. An authenticating agent has the same rights as an Agent to deal with the Company or an Affiliate.

Section 2.03 Agents

The Company shall maintain an office or agency where Notes may be presented for registration of transfer or for exchange (Registrar) and where Notes may be presented for payment (Paying Agent). Whenever the Company must issue or deliver Notes pursuant to this Indenture, the Trustee shall authenticate the Notes at the Company s request. The Registrar shall keep a register of the Notes and of their transfer and exchange.

The Company may appoint more than one Registrar or Paying Agent. The Company shall notify the Trustee of the name and address of any Agent not a party to this Indenture. If the Company does not appoint another Registrar or Paying Agent, the Trustee shall act as such.

Section 2.04 Paying Agent To Hold Money in Trust

On or prior to each due date of the principal and interest on any Note, the Company shall deposit with the Paying Agent a sum sufficient to pay such principal and interest when so becoming due. The Company shall require each Paying Agent (other than the Trustee) to agree in writing that the Paying Agent will hold in trust for the benefit of Noteholders or the Trustee all money held by the Paying Agent for the payment of the principal of or interest on the Notes, and will notify the Trustee of any Default by the Company in making any such payment. While any such Default continues, the Trustee may require a Paying Agent to pay all money held by it to the Trustee. The Company at any time may require a Paying Agent to pay all money held by it to the Trustee and to account for any funds disbursed by the Paying Agent. Upon complying with this Section, the Paying Agent shall have no further liability for the money delivered to the Trustee. If the Company or any Affiliate acts as Paying Agent, it shall segregate the money held by it as Paying Agent and hold it as a separate trust fund.

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Section 2.05 Noteholder Lists

The Trustee shall preserve in as current a form as is reasonably practicable the most recent list available to it of the names and addresses of Noteholders. If the Trustee is not the Registrar, the Company shall furnish to the Trustee, in writing at least 10 Business Days before each interest payment date and again no more than six months later, and at such other times as the Trustee may request, a list in such form and as of such date as the Trustee may reasonably require of the names and addresses of Noteholders.

Section 2.06 Transfer and Exchange

The Notes shall be issued in registered form and shall be transferable only upon surrender of a Note for registration of transfer. When a Note is presented to the Registrar with a request to register a transfer or to exchange the Note for an equal principal amount of Notes of other denominations, the Registrar shall register the transfer or make the exchange if its requirements for such transactions are met and to the extent that the Note has not been prepaid. The Company may charge a reasonable fee for any registration of transfer or exchange but not for any exchange pursuant to Section 2.10, 3.06 or 9.05.

All Notes issued upon any transfer or exchange pursuant to the terms of this Indenture will evidence the same debt and will be entitled to the same benefits under this Indenture as the Notes surrendered upon such transfer or exchange.

Section 2.07 Replacement Notes

If the Holder of a Note claims that the Note has been lost, destroyed or wrongfully taken, then, in the absence of notice to the Company that the Note has been acquired by a protected purchaser(as protected purchaser is defined in Article 8 of the Illinois Uniform Commercial Code), the Company shall issue a replacement Note. If required by the Trustee or the Company, an indemnity bond must be provided which is sufficient in the judgment of both to protect the Company, the Trustee and the Agents from any loss which any of them may suffer if a Note is replaced. The Company or the Trustee may charge the Holder for its expenses in replacing a Note.

Every replacement Note is an additional obligation of the Company.

Section 2.08 Outstanding Notes

Notes outstanding at any time are all Notes authenticated by the Trustee except for those canceled by the Registrar, those delivered to it for cancellation and those described in this Section as not outstanding. A Note does not cease to be outstanding because the Company or an Affiliate holds the Note.

If a Note is replaced pursuant to Section 2.07, it ceases to be outstanding unless the Company receives proof satisfactory to it that the replaced Note is held by a protected purchaser.

If Notes are considered paid under Section 4.01, they cease to be outstanding and interest on them ceases to accrue.

Section 2.09 Treasury Notes Disregarded for Certain Purposes

In determining whether the Holders of the required principal amount of Notes have concurred in any direction, waiver or consent, Notes owned by the Company or an Affiliate shall be disregarded and deemed not to be outstanding, except that, for the purposes of determining whether the Trustee shall be protected in relying on any such direction, waiver or consent, only Notes which the Trustee knows are so

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owned shall be so disregarded. Notes so owned which have been pledged in good faith shall not be disregarded if the pledgee establishes to the satisfaction of the Trustee the pledgee s right to deliver any such direction, waiver or consent with respect to the Notes and that the pledgee is not the Company or any other obligor upon the Notes or any Affiliate of the Company or of such other obligor.

Section 2.10 Temporary Notes

Until definitive Notes are ready for delivery, the Company may use temporary Notes. Temporary Notes shall be substantially in the form of definitive Notes but may have variations that the Company considers appropriate for temporary Notes. Without unreasonable delay, the Company shall deliver definitive Notes in exchange for temporary Notes.

Section 2.11 Cancellation

The Company at any time may deliver Notes to the Trustee for cancellation. The Paying Agent, if not the Trustee, shall forward to the Trustee any Notes surrendered to it for payment. The Trustee shall cancel all Notes surrendered for registration of transfer, exchange, payment or cancellation and shall dispose of canceled Notes according to its standard procedures or as the Company otherwise directs. The Company may not issue new Notes to replace Notes that it has paid or that have been delivered to the Trustee for cancellation.

Section 2.12 Principal Reduction

The principal of the Notes is subject to reduction, retroactive to the date of issuance of the Notes, by reason of a Merger Consideration Principal Reduction.

The principal of the Notes is also subject to reduction, effective as of the date of payment, by reason of an Expense Payment Principal Reduction or a Litigation Payment Principal Reduction.

In the event of a Merger Consideration Principal Reduction, Expense Payment Principal Reduction or Litigation Payment Principal Reduction, the aggregate principal of all outstanding Notes and all outstanding 3.5% Notes shall be reduced on a pro rata basis.

The Company shall promptly give notice to the Trustee of any Merger Consideration Principal Reduction, Expense Payment Principal Reduction or Litigation Payment Principal Reduction (and concurrently send a copy of its notice to the Shareholder Representative).

Section 2.13 Payment Reduction

Payments under the Notes are subject to reduction, in respect of the payments otherwise next becoming due under the Notes, by reason of an Indemnification Claim Payment Reduction. This reduction is in the nature of a dollar-for-dollar offset.

In the event of an Indemnification Claim Payment Reduction, payments otherwise next becoming due under all outstanding Notes and all outstanding 3.5% Notes shall be reduced on a pro rata basis.

The Company shall promptly give notice to the Trustee of any Indemnification Claim Payment Reduction (and concurrently send a copy of its notice to the Shareholder Representative).

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Article 3
Payments

Section 3.01 Notice to Trustee

If Notes are to be prepaid pursuant to paragraph 7 of the Notes, the Company shall notify the Trustee of the prepayment date (the Prepayment Date) and the principal amount of Notes to be prepaid. The Company may not prepay any portion of the principal of the Notes unless it also concurrently prepays an equivalent fractional portion of the principal of the 3.5% Notes.

The Company shall give the notice provided for in this Section at least 50 days before the Prepayment Date unless a shorter period is satisfactory to the Trustee. The record date relating to such prepayment shall be selected by the Company and given to the Trustee, which record date shall be not less than 15 days prior to the Prepayment Date.

Section 3.02 Pro Rata Prepayment

If Notes are to be prepaid in part, the prepayment shall be made in respect of all outstanding Notes on a pro rata basis determined by their respective principal amounts.

Section 3.03 Notice of Payment

At least 30 days but not more than 60 days before any Prepayment Date, and at least 30 days but not more than 60 days before the Maturity Date, the Company shall mail a notice of payment to each Holder whose Notes are to be paid.

The notice shall state that it is a notice of payment and shall state:

(1) the payment date;

(2) in the case of a prepayment, the principal amount (or percentage of the principal amount) of the Holder s Note to be prepaid;

(3) the name and address of the Paying Agent;

(4) that Notes must be surrendered to the Paying Agent to collect the amount to be paid; and

(5) that, unless the Company defaults in making such payment or the Paying Agent is prohibited from making such payment pursuant to the terms of this Indenture, interest on the Notes, or in the case of a prepayment, interest on the prepaid principal amount of the Notes, shall cease to accrue on and after the Maturity Date or the Prepayment Date, as the case may be.

At the Company s request, the Trustee shall give the notice of payment in the Company s name and at its expense.

Section 3.04 Effect of Notice of Payment

In the case of a prepayment, once notice of payment is mailed, Notes become due and payable on the Prepayment Date for the prepayment amount. Upon surrender to the Paying Agent, Notes shall be paid as stated in the notice, plus accrued interest to the Prepayment Date. Failure to give notice or any

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defect in the notice to any Holder shall not affect the validity of the notice to any other Holder.

Section 3.05 Deposit of Payment Amount

On or before the Prepayment Date or the Maturity Date, as the case may be, the Company shall deposit with the Paying Agent money sufficient to pay the principal amount to be prepaid, in the case of a prepayment, or the entire principal amount, in the case of a payment at maturity, together with accrued interest through the Prepayment Date or the Maturity Date, as the case may be, on all Notes to be paid on that date other than Notes or portions of Notes called for payment which have been delivered by the Company to the Registrar for cancellation.

Unless the Company shall default in the payment of Notes (and accrued interest) called for payment, interest on Notes, or in the case of a prepayment, interest on the prepaid principal amount of Notes, shall cease to accrue on after the Maturity Date or the Prepayment Date, as the case may be.

Section 3.06 Notes Prepaid in Part

Upon surrender of a Note that is prepaid in part, the Company shall deliver to the Holder (at the Company s expense) a new Note equal in principal amount to the portion of the Note surrendered that was not prepaid.

Section 3.07 Repayment to Company

The Trustee and the Paying Agent shall pay to the Company upon request any money held by them for payment of principal or interest that remains unclaimed for one year after the right to such money has matured. After payment to the Company, Noteholders entitled to the money shall look to the Company for payment as unsecured general creditors unless an abandoned property law designates another Person.

Article 4
Covenants

Section 4.01 Payment of Notes

The Company shall pay the principal of and interest on the Notes on the dates and in the manner provided in the Notes and this Indenture. Principal and interest shall be considered paid on the date due if the Paying Agent holds in accordance with this Indenture on that date money sufficient to pay all principal and interest then due and the Paying Agent is not prohibited from paying such money to the Holders on such date pursuant to the terms of this Indenture.

The Company shall pay interest on overdue principal at the rate borne by the Notes; it shall pay interest on overdue interest at the same rate to the extent lawful.

Section 4.02 SEC Reports

The Company shall file with the Trustee within 15 days after it files them with the SEC copies of the annual reports and of the information, documents and other reports which the Company is required to file with the SEC pursuant to Section 13 or 15(d) of the Exchange Act. The Company will also comply with the other provisions of TIA Section 314(a). Delivery of such reports, information and documents to the Trustee is for informational purposes only and the Trustee s receipt of such shall not constitute notice or constructive notice of any information contained therein or determinable from information contained therein, including the Company s compliance with any of its covenants hereunder (as to which the

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Trustee is entitled to rely exclusively on Officers Certificates).

Section 4.03 Compliance Certificate

The Company shall deliver to the Trustee, within 105 days after the end of each fiscal year of the Company, a brief certificate signed by the principal executive officer, principal financial officer or principal accounting officer of the Company, as to the signer s knowledge of the Company s compliance with all conditions and covenants contained in this Indenture (determined without regard to any period of grace or requirement of notice provided herein).

Section 4.04 Notice of Certain Events

The Company shall give prompt written notice to the Trustee and any Paying Agent of (i) any Proceeding, (ii) any Default or Event of Default, and (iii) any cure or waiver of any Default or Event of Default.

Article 5
Successors

Section 5.01 When Company May Merge, etc.

The Company shall not consolidate or merge with or into, or transfer all or substantially all of its assets to, any Person unless:

(1) either the Company shall be the resulting or surviving entity or such Person is a corporation organized and existing under the laws of the United States, a State thereof or the District of Columbia;

(2) if the Company is not the resulting or surviving entity, such Person assumes by supplemental indenture all the obligations of the Company under the Notes and this Indenture; and

(3) immediately before and immediately after the transaction no Default exists.

The Company shall deliver to the Trustee prior to the proposed transaction an Officers Certificate and an Opinion of Counsel, each of which shall state that such consolidation, merger or transfer and such supplemental indenture comply with this Article 5 and that all conditions precedent herein provided for relating to such transaction have been complied with.

Section 5.02 Successor Corporation Substituted

Upon any consolidation or merger, or any transfer of all or substantially all of the assets of the Company in accordance with Section 5.01, the successor corporation formed by such consolidation or into which the Company is merged or to which such transfer is made shall succeed to, and be substituted for, and may exercise every right and power of, the Company under this Indenture and the Notes with the same effect as if such successor corporation had been named as the Company herein and in the Notes. Thereafter the obligations of the Company under the Notes and Indenture shall terminate except for, in the case of a transfer, the obligation to pay the principal of and interest on the Notes.

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Article 6
Defaults and Remedies

Section 6.01 Events of Default

An Event of Default occurs if:

(1) the Company fails to pay interest on any Note when the same becomes due and payable and such failure continues for a period of 10 days;

(2) the Company fails to pay the principal of any Note when the same becomes due and payable at maturity;

(3) the Company fails to comply with any of its other agreements in the Notes or this Indenture and such failure continues for the period and after the notice specified below;

(4) the Company pursuant to or within the meaning of any Bankruptcy Law:

(A) commences a voluntary case,

(B) consents to the entry of an order for relief against it in an involuntary case,

(C) consents to the appointment of a Custodian of it or for all or substantially all of its property, or

(D) makes a general assignment for the benefit of its creditors;

(5) a court of competent jurisdiction enters an order or decree under any Bankruptcy Law that:

(A) is for relief against the Company in an involuntary case,

(B) appoints a Custodian of the Company or for all or substantially all of its property, or

(C) orders the liquidation of the Company, and the order or decree remains unstayed and in effect for 60 days; or

(6) an Event of Default has occurred under the 3.5% Notes or the Other Indenture (as Event of Default is defined in the Other Indenture).

The foregoing will constitute Events of Default whatever the reason for any such Event of Default, whether it is voluntary or involuntary, or is effected by operation of law or pursuant to any judgment, decree or order of any court or any order, rule or regulation of any administrative or governmental body.

The term Bankruptcy Law means title 11 of the U.S. Code or any similar Federal or state law for the relief of debtors. The term Custodian means any receiver, trustee, assignee, liquidator or similar official under any Bankruptcy Law.

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A Default under clause (3) is not an Event of Default until the Trustee notifies the Company, or the Shareholder Representative notifies the Company and the Trustee, of the Default and the Company does not cure the Default, or it is not waived, within 30 days after receipt of the notice. The notice must specify the Default, demand that it be remedied to the extent consistent with law, and state that the notice is a Notice of Default.

Section 6.02 Acceleration

If an Event of Default occurs and is continuing, the Trustee by notice to the Company, or the Shareholder Representative by notice to the Company and the Trustee, may declare the principal of and accrued and unpaid interest on all the Notes to be due and payable. The Trustee shall declare the principal of and accrued and interest on all the Notes to be due and payable if the principal of and accrued interest on all the 3.5% Notes have been declared to be due and payable. Upon any such declaration the principal and interest shall be due and payable immediately.

The Shareholder Representative by notice to the Company and the Trustee may rescind an acceleration and its consequences if the rescission would not conflict with any judgment or decree and if all existing Events of Default have been cured or waived except nonpayment of principal or interest that has become due solely because of the acceleration.

Section 6.03 Other Remedies

If an Event of Default occurs and is continuing, the Trustee may pursue any available remedy to collect the payment of principal or interest on the Notes or to enforce the performance of any provision of the Notes or this Indenture.

The Trustee may maintain a proceeding even if it does not possess any of the Notes or does not produce any of them in the proceeding. A delay or omission by the Trustee or any Noteholder or the Shareholder Representative in exercising any right or remedy accruing upon an Event of Default shall not impair the right or remedy or constitute a waiver of or acquiescence in the Event of Default. All remedies are cumulative to the extent permitted by law.

Section 6.04 Waiver of Past Defaults

The Shareholder Representative by notice to the Trustee may waive an existing Default and its consequences except:

(1) a Default in the payment of the principal of or interest on any Note; or

(2) a Default with respect to a provision that under Section 9.02 cannot be amended without the consent of each Noteholder affected.

Section 6.05 Control by Shareholder Representative

The Shareholder Representative may direct the time, method and place of conducting any proceeding for any remedy available to the Trustee or exercising any trust or power conferred on the Trustee. However, the Trustee may refuse to follow any direction that it reasonably believes conflicts with law or this Indenture, that it reasonably believes may be unduly prejudicial to the rights of Noteholders, or would involve the Trustee in personal liability or expense for which the Trustee has not received a satisfactory indemnity.

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Section 6.06 Limitation on Suits

A Noteholder may pursue a remedy with respect to this Indenture or the Notes only if:

(1) the Holder gives to the Trustee notice of a continuing Event of Default;

(2) the Holders of a majority in principal amount of the Notes make a request to the Trustee to pursue the remedy; and

(3) the Trustee either (i) gives to such Holders notice it will not comply with the request, or (ii) does not comply with the request within 30 days after receipt of the request.

A Noteholder may not use this Indenture to prejudice the rights of another Noteholder or to obtain a preference or priority over another Noteholder.

Section 6.07 Rights of Holders To Receive Payment

Notwithstanding any other provision of this Indenture, the right of any Holder of a Note to receive payment of principal and interest on the Note, on or after the respective due dates expressed in the Note, or to bring suit for the enforcement of any such payment on or after such respective dates, shall not be impaired or affected without the consent of the Holder.

Nothing in this Indenture limits or defers the right or ability of Holders to petition for commencement of a case under applicable Bankruptcy Law to the extent consistent with such Bankruptcy Law.

Section 6.08 Priorities

After an Event of Default any money or other property distributable in respect of the Company s obligations under this Indenture shall be paid in the following order:

First: to the Trustee (including any predecessor Trustee) for amounts due under Section 7.07;

Second: to Noteholders for amounts due and unpaid on the Notes for principal and interest, ratably, without preference or priority of any kind, according to the amounts due and payable on the Notes for principal and interest, respectively; and

Third: to the Company.

The Trustee may fix a record date and payment date for any payment to Noteholders.

Section 6.09 Undertaking for Costs

In any suit for the enforcement of any right or remedy under this Indenture or in any suit against the Trustee for any action taken or omitted by it as Trustee, a court in its discretion may require the filing by any party litigant in the suit of an undertaking to pay the costs of the suit, and the court in its discretion may assess reasonable costs, including reasonable attorneys fees, against any party litigant in the suit, having due regard to the merits and good faith of the claims or defenses made by the party litigant. This Section does not apply to a suit by the Trustee, a suit by a Holder pursuant to Section 6.07 or a suit by Holders of more than 10% in principal amount of the Notes.

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Section 6.10 Proof of Claim

In the event of any Proceeding, the Trustee may file a claim for the unpaid balance of the Notes in the form required in the Proceeding and cause the claim to be approved or allowed. Nothing herein contained shall be deemed to authorize the Trustee to authorize or consent to or accept or adopt on behalf of any Noteholder any plan of reorganization, arrangement, adjustment, or composition affecting the Notes or the rights of any Holder thereof, or to authorize the Trustee to vote in respect of the claim of any Noteholder in any Proceeding.

Section 6.11 Actions of a Holder

For the purpose of providing any consent, waiver or instruction to the Company or the Trustee, a Holder or Noteholder shall include a Person who provides to the Company or the Trustee, as the case may be, an affidavit of beneficial ownership of a Note together with a satisfactory indemnity against any loss, liability or expense to such party to the extent that it acts upon such affidavit of beneficial ownership (including any consent, waiver or instructions given by a Person providing such affidavit and indemnity).

Article 7
Trustee

Section 7.01 Duties of Trustee

(a) If an Event of Default has occurred and is continuing, the Trustee shall exercise such of the rights and powers vested in it by this Indenture, and use the same degree of care and skill in their exercise, as a prudent person would exercise or use under the circumstances in the conduct of his or her own affairs.

(b) Except during the continuance of an Event of Default:

(1) The Trustee need perform only those duties that are specifically set forth in this Indenture and no others.

(2) In the absence of bad faith on its part, the Trustee may conclusively rely, as to the truth of the statements and the correctness of the opinions expressed therein, upon certificates or opinions furnished to the Trustee and conforming to the requirements of this Indenture. However, the Trustee shall examine the certificates and opinions to determine whether or not they conform to the requirements of this Indenture.

(c) The Trustee may not be relieved from liability for its own gross negligent action, its own gross negligent failure to act or its own willful misconduct, except that:

(1) This paragraph does not limit the effect of paragraph (b) of this Section.

(2) The Trustee shall not be liable for any error of judgment made in good faith by a Trust Officer, unless it is proved that the Trustee was negligent in ascertaining the pertinent facts.

(3) The Trustee shall not be liable with respect to any action it takes or omits to take in good faith in accordance with a direction received by it pursuant to Section 6.05.

(4) The Trustee may refuse to perform any duty or exercise any right or power which would require it to expend its own funds or risk any liability if it shall reasonably believe that

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repayment of such funds or adequate indemnity against such risk is not reasonably assured to it.

(d) Every provision of this Indenture that in any way relates to the Trustee is subject to paragraphs (a), (b) and (c) of this Section.

(e) The Trustee shall not be liable for interest on any money received by it except as the Trustee may agree with the Company. Money held in trust by the Trustee need not be segregated from other funds except to the extent required by law.

Section 7.02 Rights of Trustee

(a) The Trustee may rely on any document believed by it to be genuine and to have been signed or presented by the proper Person. The Trustee need not investigate any fact or matter stated in the document.

(b) Before the Trustee acts or refrains from acting, it may require an Officers Certificate or an Opinion of Counsel. The Trustee shall not be liable for any action it takes or omits to take in good faith in reliance on the Officers Certificate or an Opinion of Counsel. The Trustee may also consult with counsel on any matter relating to the Indenture or the Notes and the Trustee shall not be liable for any action it takes or omits to take in good faith in reliance on the advice of counsel.

(c) The Trustee may act through agents and shall not be responsible for the misconduct or negligence of any agent appointed with due care.

(d) The Trustee shall not be liable for any action it takes or omits to take in good faith which it believes to be authorized or within its rights or powers.

(e) Except in connection with compliance with TIA Section 310 or 311, the Trustee shall only be charged with knowledge of Trust Officers.

Section 7.03 Individual Rights of Trustee; Disqualification

The Trustee in its individual or any other capacity may become the owner or pledgee of Notes and may otherwise deal with the Company or an Affiliate with the same rights it would have if it were not Trustee. Any Agent may do the same with like rights. However, the Trustee is subject to TIA Sections 310(b) and 311.

Section 7.04 Trustee s Disclaimer

The Trustee shall have no responsibility for the validity or adequacy of this Indenture or the Notes, and it shall not be responsible for any statement in the Notes other than its authentication.

Section 7.05 Notice of Defaults

If a continuing Default is known to the Trustee, the Trustee shall mail to the Shareholder Representative and Noteholders a notice of the Default within 90 days after it occurs. Except in the case of a Default in payment on any Note, the Trustee may withhold the notice from Noteholders if and so long as a committee of its Trust Officers in good faith determines that withholding the notice is in the interests of Noteholders. The Trustee shall mail to Noteholders any notice it receives from Noteholder(s) under Section 6.06, and of any notice the Trustee provides pursuant to Section 6.06(3)(i).

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Section 7.06 Reports by Trustee to Holders

If required pursuant to TIA Section 313(a), within 60 days after the reporting date stated in Section 9.09, the Trustee shall mail to Noteholders a brief report dated as of such reporting date that complies with TIA Section 313(a). The Trustee also shall comply with TIA Section 313(b)(2).

A copy of each report at the time of its mailing to Noteholders shall be filed with the SEC.

Section 7.07 Compensation and Indemnity

The Company shall pay to the Trustee from time to time reasonable compensation for its services, including for any Agent capacity in which it acts. The Trustee s compensation shall not be limited by any law on compensation of a trustee of an express trust. The Company shall reimburse the Trustee upon request for all reasonable out-of-pocket expenses incurred by it. Such expenses shall include the reasonable compensation and out-of-pocket expenses of the Trustee s agents and counsel.

The Company shall indemnify and hold harmless the Trustee against any loss, liability or expense incurred by it including in any Agent capacity in which it acts. The Trustee shall notify the Company promptly of any claim for which it may seek indemnity. The Company shall defend the claim and the Trustee shall cooperate in the defense. The Trustee may have separate counsel and the Company shall pay the reasonable fees and expenses of such counsel. The Company need not pay for any settlement made without its consent, which consent shall not unreasonably be withheld.

The Company need not reimburse any expense or indemnify against any loss or liability incurred by the Trustee through its own gross negligence, willful misconduct or bad faith.

To secure the Company s payment obligations in this Section, the Trustee shall have a lien prior to the Notes on all money or property held or collected by the Trustee, except that held in trust to pay principal and interest on particular Notes.

Without prejudice to its rights hereunder, when the Trustee incurs expenses or renders services after an Event of Default specified in Section 6.01(4) or (5) occurs, the expenses and the compensation for the services are intended to constitute expenses of administration under any Bankruptcy Law.

Section 7.08 Replacement of Trustee

A resignation or removal of the Trustee and appointment of a successor Trustee shall become effective only upon the successor Trustee s acceptance of appointment as provided in this Section.

The Trustee may resign by so notifying the Company. The Company and the Shareholder Representative may remove the Trustee by so notifying the Trustee. The Company by itself may remove the Trustee if:

(1) the Trustee fails to comply with Section 7.10;

(2) the Trustee is adjudged a bankrupt or an insolvent;

(3) a receiver or public officer takes charge of the Trustee or its property; or

(4) the Trustee becomes incapable of acting.

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If the Trustee resigns or is removed or if a vacancy exists in the office of Trustee for any reason, the Company shall promptly appoint a successor Trustee.

If a successor Trustee is not appointed and does not take office within 30 days after the retiring Trustee resigns, the retiring Trustee may appoint a successor Trustee at any time prior to the date on which a successor Trustee takes office. If a successor Trustee does not take office within 45 days after the retiring Trustee resigns or is removed, the retiring Trustee, the Company or, subject to Section 6.09, any Noteholder may petition any court of competent jurisdiction for the appointment of a successor Trustee.

If the Trustee fails to comply with Section 7.10, any Noteholder may petition any court of competent jurisdiction for the removal of the Trustee and the appointment of a successor Trustee. Within one year after a successor Trustee appointed by the Company or a court pursuant to this Section 7.08 takes office, the Holders of a majority in principal amount of the Notes may appoint a successor Trustee to replace such successor Trustee.

A successor Trustee shall deliver a written acceptance of its appointment to the retiring Trustee and to the Company. Thereupon the resignation or removal of the retiring Trustee shall become effective, and the successor Trustee shall have all the rights, powers and duties of the Trustee under this Indenture. The successor Trustee shall mail a notice of its succession to Noteholders. The retiring Trustee shall promptly transfer all property held by it as Trustee to the successor Trustee, subject to the lien provided for in Section 7.07.

Section 7.09 Successor Trustee by Merger, etc.

If the Trustee consolidates, merges or converts into, or transfers all or substantially all of its corporate trust business to, another corporation, the successor corporation without any further act shall be the successor Trustee, if such successor corporation is eligible and qualified under Section 7.10.

Section 7.10 Eligibility

This Indenture shall always have a Trustee who satisfies the requirements of TIA Sections 310(a)(1) and 310(a)(2). The Trustee shall always have a combined capital and surplus as stated in Section 9.09.

Section 7.11 Preferential Collection of Claims Against Company

Upon and so long as the Indenture is qualified under the TIA, the Trustee is subject to TIA Section 311(a), excluding any creditor relationship listed in TIA Section 311(b). A Trustee who has resigned or been removed is subject to TIA Section 311(a) to the extent indicated.

Article 8
Amendments

Section 8.01 Without Consent of Holders

The Company and the Trustee may amend this Indenture or the Notes without the consent of any Noteholder:

(1) to cure any ambiguity, defect or inconsistency;

(2) to comply with Section 5.01; or

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(3) to make any change that does not adversely affect the rights of any Noteholder.

Section 8.02 With Consent of Shareholder Representative or Holders

The Company and the Trustee may amend this Indenture or the Notes with the written consent of the Shareholder Representative. However, without the consent of each Noteholder affected, an amendment under this Section may not:

(1) reduce the interest on (other than pursuant to an Indemnification Claim Payment Reduction) or change the time for payment of interest on any Note;

(2) reduce the principal of (other than pursuant to a Merger Consideration Principal Reduction, Expense Payment Principal Reduction, Litigation Payment Principal Reduction or Indemnification Claim Payment Reduction) or change the fixed maturity of any Note;

(3) change the Maturity Date;

(4) make any Note payable in money other than that stated in the Note; or

(5) make any change in Section 6.04, 6.07 or 8.02 (second sentence).

It shall not be necessary for the consent of the Holders under this Section to approve the particular form of any proposed amendment, but it shall be sufficient if such consent approves the substance thereof.

Section 8.03 Compliance with Trust Indenture Act and Section 9.03

Every amendment to this Indenture or the Notes shall comply with the TIA as then in effect, so long as the Indenture and Notes are subject to the TIA. The Trustee is entitled to, and the Company shall provide, an Opinion of Counsel and Officers Certificate that the Trustee s execution of any amendment or supplemental indenture is permitted under this Article 9.

Section 8.04 Revocation and Effect of Consents and Waivers

A consent to an amendment of this Indenture requiring the consent of each Noteholder affected or a waiver by a Holder of a Note shall bind the Holder and every subsequent Holder of that Note or portion of the Note that evidences the same debt as the consenting Holder s Note, even if notation of the consent or waiver is not made on the Note. However, any such Holder or subsequent Holder may revoke the consent or waiver as to such Holder s Note or portion of the Note if the Trustee receives the notice of revocation before the date the amendment or waiver becomes effective. After an amendment of this Indenture requiring the consent of each Noteholder becomes effective, it shall bind every Noteholder, and after a waiver by a Holder of a Note becomes effective, it shall bind the Holder and every subsequent Holder of that Note or portion of the Note that evidences the same debt as the waiving Holder s Note, even if notation of the waiver is not made on the Note.

The Company may, but shall not be obligated to, fix a record date for the purpose of determining the Noteholders entitled to give their consent or take any other action described above or required or permitted to be taken pursuant to this Indenture. If a record date is fixed, then notwithstanding the immediately preceding paragraph, those Persons who were Noteholders at such record date (or their duly designated proxies), and only those Persons, shall be entitled to give such consent or to revoke any consent previously given or take any such action, whether or not such Persons continue to be Holders

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after such record date. No such consent shall be valid or effective for more than 120 days after such record date.

Section 8.05 Notice of Amendment; Notation on or Exchange of Notes

After any amendment under this Article becomes effective, the Company shall mail to Noteholders a notice briefly describing such amendment. The failure to give such notice to all Noteholders, or any defect therein, shall not impair or affect the validity of an amendment under this Article.

The Company or the Trustee may place an appropriate notation about an amendment or waiver on any Note thereafter authenticated. The Company may issue in exchange for affected Notes new Notes that reflect the amendment or waiver.

Section 8.06 Trustee Protected

The Trustee need not sign any supplemental indenture that adversely affects its rights.

Article 9
Miscellaneous

Section 9.01 Notices

Any notice by one party to the other shall be in writing and sent to the other s address stated in Section 9.09. The notice is duly given if it is delivered in Person or sent by a national courier service which provides next Business Day delivery or by first-class mail.

A party by notice to the other party may designate additional or different addresses for subsequent notices.

Any notice sent to a Noteholder shall be mailed by first-class letter mailed to its address shown on the register kept by the Registrar. Failure to mail a notice to a Noteholder or any defect in a notice mailed to a Noteholder shall not affect the sufficiency of the notice mailed to other Noteholders.

If a notice is delivered or mailed in the manner provided above within the time prescribed, it is duly given, whether or not the addressee receives it.

If the Company mails a notice to Noteholders, it shall deliver or mail a copy to the Trustee, the Shareholder Representative and each Agent at the same time.

A notice includes any communication required by this Indenture.

Section 9.02 Communication by Holders with Other Holders

Noteholders may communicate pursuant to TIA Section 312(b) with other Noteholders with respect to their rights under this Indenture or the Notes. The Company, the Trustee, and Registrar and anyone else shall have the protection of TIA Section 312(c).

Section 9.03 Certificate and Opinion as to Conditions Precedent

Upon any request or application by the Company to the Trustee to take any action under this Indenture, the Company shall furnish to the Trustee:

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(1) an Officers Certificate stating that, in the opinion of the signers, all conditions precedent, if any, provided for in this Indenture relating to the proposed action have been complied with; and

(2) an Opinion of Counsel stating that, in the opinion of such counsel, all such conditions precedent have been complied with.

Section 9.04 Statements Required in Certificate or Opinion

Each certificate or opinion with respect to compliance with a condition or covenant provided for in this Indenture shall include:

(1) a statement that each Person making such certificate or opinion has read such covenant or condition;

(2) a brief statement as to the nature and scope of the examination or investigation upon which the statements or opinions contained in such certificate or opinion are based;

(3) a statement that, in the opinion of such Person, the Person has made such examination or investigation as is necessary to enable such person to express an informed opinion as to whether or not such covenant or condition has been complied with; and

(4) a statement as to whether or not, in the opinion of such Person, such condition or covenant has been complied with.

Section 9.05 Rules by Trustee and Agents

The Trustee may make reasonable rules for action by or a meeting of Noteholders. Any Agent may make reasonable rules and set reasonable requirements for its functions.

Section 9.06 Legal Holidays

A Legal Holiday is a Saturday, a Sunday or a day on which banking institutions are not required to be open. If a payment date is a Legal Holiday at a place of payment, payment may be made at that place on the next succeeding day that is not a Legal Holiday, and no interest shall accrue for the intervening period.

Section 9.07 No Recourse Against Others

A director, officer, employee or stockholder, as such, of the Company shall not have any liability for any obligations of the Company under the Notes or the Indenture or for any claim based on, in respect of or by reason of such obligations or their creation.

Section 9.08 Duplicate Originals

The parties may sign any number of copies, and may execute such in counterparts, of this Indenture. One signed copy is enough to prove this Indenture.

Section 9.09 Variable Provisions

Officer means the Chief Executive Officer, President, any Executive Vice President, any Vice President, the Treasurer, the Secretary, any Assistant Treasurer or any Assistant Secretary of the Company.

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The Company initially appoints the Trustee as Registrar and Paying Agent. The address of the Registrar and Paying Agent shall be the same as the address of the Trustee set forth below in this Section 9.09.

The first certificate pursuant to Section 4.03 shall be for the fiscal year ending on December 31, 2007.

The reporting date for Section 7.06 is December 31 of each year. The first reporting date is December 31, 2007.

The Trustee shall always have a combined capital and surplus of at least $1 billion as set forth in its most recent published annual report of condition. The Trustee will be deemed to be in compliance with the capital and surplus requirement set forth in the preceding sentence if its obligations are guaranteed by a Person which could otherwise act as Trustee hereunder and which meets such capital and surplus requirement and the Trustee has at least the minimum capital and surplus required by TIA Section 310(a)(2).

In determining whether the Trustee has a conflicting interest as defined in TIA Section 310(b)(1), the following is excluded: the Other Indenture.

The Notes are on a par with, and are neither senior nor subordinate in right of payment to, the 3.5% Notes.

The Company s address is:

Stericycle, Inc.
28161 North Keith Drive
Lake Forest, Illinois 60045
Facsimile No.: (847) 367-9462
Attention: Frank J.M. ten Brink
Executive Vice President
and Chief Financial Officer

The Trustee s address is:

LaSalle Bank National Association
135 South LaSalle Street
Suite 1560
Chicago, Illinois 60603
Facsimile No.: (312) 904-2236
Telephone No. (312) 904-5527
Attention: Frank A. Pierson
Global Securities & Trust Services
Stericycle, Inc. 4.5% Promissory Notes due 2014

The Shareholder Representative s address is:

Mr. Matthew H. Fleeger
Mr. Winship B. Moody, Sr.
12750 Merit Drive
Park Central VII, Suite 770
Dallas, Texas 75251
Facsimile No.: (972) 776-8767

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Section 9.10 Governing Law

The laws of the State of Illinois shall govern this Indenture and the Notes.

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Dated: July 12, 2007

Stericycle, Inc.

By /s/ FRANK J.M. TEN BRINK

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

Attest:

By /s/ CRAIG P. COLMAR

Name: Craig P. Colmar

Title: Assistant Secretary

Dated: July 12, 2007

LaSalle Bank National Association, as Trustee

By /s/ ERIK R. BENSON

Name: Erik R. Benson

Title: First Vice President

Attest:

/s/ FRANK A. PIERSON

Name: Frank A. Pierson

Title: Trust Officer

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Exhibit A
(*face of note*)

No. ___ $ ___

Stericycle, Inc.
4.5% Promissory Note Due 2014

Interest Payment Dates: _____, 2008, 2009, 2010, 2011, 2012, 2013 and 2014
Record Dates: _____, 2008, 2009, 2010, 2011, 2012, 2013 and 2014

Stericycle, Inc. promises to pay to _____ , or registered assigns, the sum of _____ Dollars ($_____) on ___, 2014.

See the reverse side and the Indenture referenced for additional provisions of this Note.

Dated: ___, 2007.

Stericycle, Inc.

By

Name:
Title:

By

Name:
Title:

Authenticated:

LaSalle Bank National Association, as Trustee

By

Name:
Title:

D-A-1

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(*back of note*)

Stericycle, Inc.

4.5% Promissory Note Due 2014

1. **Interest**

Stericycle, Inc., a Delaware corporation (the Company), promises to pay interest on the principal amount of this Note at the rate per annum shown above. The Company will pay interest annually on ___ of each year. Interest on this Note will accrue from the most recent date to which interest has been paid or, if no interest has been paid, from the Effective Time of the Merger (as Effective Time and Merger are defined in the Indenture, as defined below). Interest shall be calculated on the basis of a 365-day year.

2. **Method of Payment**

The Company will pay interest on the Notes to the Persons who are registered holders of Notes at the close of business on the record date for the interest payment, except as otherwise provided herein or in the Indenture, even though Notes are cancelled after the record date and on or before the interest payment date. Holders must surrender Notes to a Paying Agent to collect principal payments. The Company will pay principal and interest in money of the United States that at the time of payment is legal tender for payment of public and private debts. However, the Company may pay principal and interest by wire transfer or check payable in such money. It may mail an interest check to a record date holder s registered address.

3. **Agents**

Initially, LaSalle Bank National Association (the Trustee), 135 South LaSalle Street, Suite 1560, Chicago, Illinois 60603 will act as Registrar and Paying Agent. The Company may change any such Agent without notice. The Company or an Affiliate may act in any such capacity. Subject to certain conditions, the Company may change the Trustee.

4. **Indenture**

The Company issued the Notes under an Indenture dated as of July 12, 2007 (the Indenture) between the Company and the Trustee. The terms of the Notes include those stated in the Indenture and those made part of the Indenture by the Trust Indenture Act of 1939 (15 U.S.C. §§ 77aaa-77bbbb) (the Act). The Notes are subject to all such terms, and Noteholders are referred to the Indenture and the Act for a statement of such terms. The Notes are unsecured general obligations of the Company.

5. Reduction in Principal and Reduction in Payments

The principal of the Notes is subject to a reduction in principal, in one case retroactive to the date of issuance, as provided in Section 2.12 of the Indenture.

Payments under the Notes are subject to reduction, in respect of the payments otherwise next becoming due, as provided in Section 2.13 of the Indenture.

6. **Payment at Maturity**

The Company shall pay the entire unpaid principal of the Notes, together with all accrued

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interest, on ___, 2014 (the Maturity Date).

7. **Prepayment**

Except as limited in the Indenture, the Company may prepay all or any portion of the unpaid principal of the Notes without penalty at any time prior to the Maturity Date (the Prepayment Date) provided that the Company also concurrently pays all accrued interest on the principal prepaid.

8. **Notice of Payment**

Notice of payment will be mailed at least 30 days but not more than 60 days before the Prepayment Date or the Maturity Date, as the case may be, to each holder of Notes to be paid on such date at his or her registered address.

9. **Transfer**

The Notes are in registered form without coupons. The transfer of Notes may be registered and Notes may be exchanged as provided in the Indenture. The Registrar may require a holder, among other things, to furnish appropriate endorsements and transfer documents and to pay any taxes required by law.

10. **Persons Deemed Owners**

Subject to Section 6.11 of the Indenture, the registered holder of a Note may be treated as its owner for all purposes.

11. **Amendments and Waivers**

Subject to certain exceptions provided in the Indenture, the Indenture or the Notes may be amended, and any Default may be waived, with the consent of the Shareholder Representative. Without the consent of any Noteholder, the Indenture or the Notes may be amended to cure any ambiguity, defect or inconsistency, to provide for assumption of Company obligations to Noteholders or to make any change that does not adversely affect the rights of any Noteholder.

12. **Successors**

When successors assume all the obligations of the Company under the Notes and the Indenture, the Company will be released from those obligations, except as provided in the Indenture.

13. **Defaults and Remedies**

Subject to the Indenture, if an Event of Default, as defined in the Indenture, occurs and is continuing, the Trustee or the Shareholder Representative may declare all the Notes to be due and payable immediately. Noteholders may not enforce the Indenture or the Notes except as provided in the Indenture. The Trustee may require indemnity satisfactory to it before it enforces the Indenture or the Notes. Subject to certain limitations, the Shareholder Representative may direct the Trustee in its exercise of any trust or power. The Trustee may withhold from Noteholders notice of any continuing Default (except a Default in payment of principal or interest) if it determines that withholding notice is in their interests. The Company must furnish an annual compliance certificate to the Trustee.

14. **Trustee Dealings with Company**

LaSalle Bank National Association, the Trustee under the Indenture, in its individual or any other

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capacity, may make loans to, accept deposits from, and perform services for the Company or its Affiliates, and may otherwise deal with the Company or its Affiliates, as if it were not Trustee, subject to the Indenture and the Act.

15. **No Recourse Against Others**

A director, officer, employee or stockholder, as such, of the Company shall not have any liability for any obligations of the Company under the Notes or the Indenture or for any claim based on, in respect of or by reason of such obligations or their creation. Each Noteholder by accepting a Note waives and releases all such liability. The waiver and release are part of the consideration for the issue of the Notes.

16. **Authentication**

This Note shall not be valid until authenticated by a manual signature of the Trustee.

17. **Abbreviations**

Customary abbreviations may be used in the name of a Noteholder or an assignee, such as: TEN COM (= tenants in common), TEN ENT (= tenants by the entireties), JT TEN (= joint tenants with right of survivorship and not as tenants in common), CUST (= Custodian), and U/G/M/A (= Uniform Gifts to Minors Act).

The Company will furnish to any Noteholder upon written request and without charge a copy of the Indenture. Requests may be made to: Secretary, Stericycle, Inc., 28161 North Keith Drive, Lake Forest, Illinois 60045.

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ANNEX E
FORM OF 3.5% NOTE (LETTER OF CREDIT SUPPORTED) INDENTURE

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Indenture
Stericycle, Inc.
and
LaSalle Bank National Association,
as Trustee
Dated as of July 12, 2007
3.5% Promissory Notes (Letter of Credit Supported) Due 2014

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Cross Reference Table

TIA Section		Indenture Section
310	(a)(1)	7.10
	(a)(2)	7.10
	(a)(3)	N/A
	(a)(4)	N/A
	(a)(5)	N/A
	(b)	7.08; 7.10
	(c)	N/A
311	(a)	7.11
	(b)	7.11
	(c)	N/A
312	(a)	2.05
	(b)	9.02
	(c)	9.02
313	(a)	7.06
	(b)(1)	N/A
	(b)(2)	7.06
	(c)	7.06
	(d)	7.06
314	(a)(1)	4.02
	(a)(2)	4.02; 9.01
	(a)(3)	4.02
	(a)(4)	4.03
	(b)	N/A
	(c)	2.02; 7.02(b); 8.01(3); 9.03; 9.04
	(d)	N/A
	(e)	9.04
	(f)	4.03
315	(a)(1)	7.01(b)(1)
	(a)(2)	7.01(b)(2)
	(b)	7.05; 9.01
	(c)	7.01(a)
	(d)(1)	7.01(c)(1)
	(d)(2)	7.01(c)(2)
	(d)(3)	6.05; 7.01(c)(3)
	(e)	6.09
316	(a)(last sentence)	2.09
	(a)(1)(A)	6.05
	(a)(1)(B)	6.04
	(a)(2)	N/A
	(b)	6.07
	(c)	8.04

317	(a)(1)	6.03
	(a)(2)	6.10
	(b)	2.04
318	(a)	1.04

N/A means not applicable.

Note: This Cross-Reference Table shall not, for any purpose, be deemed to be part of this Indenture.

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Indenture

This Indenture dated as of July 12, 2007 between Stericycle, Inc., a Delaware corporation (Company), and LaSalle Bank National Association (the Trustee).

Each party agrees as follows for the benefit of the other party and for the equal and ratable benefit of the Holders of the Company s 3.5% Promissory Notes (Letter of Credit Supported) due 2014 (the Notes). The initial holders of the Notes are shareholders and option holders of MedSolutions, Inc. who elect to receive the Notes pursuant to the terms of the Merger Agreement (as defined in Section 1.01):

Article 1

Definitions and Rules of Construction;

Applicability of the Trust Indenture Act

Section 1.01 Definitions

4.5% Notes means the Company s 4.5% Promissory Notes due 2014 issued under the Other Indenture.

Affiliate means any Person controlling or controlled by or under common control with the referenced Person. Control for this definition means the power to direct the management and policies of a Person, directly or indirectly, whether through the ownership of voting securities, by contract, or otherwise. The terms controlling and controlled have meanings correlative to the foregoing.

Agent means any Registrar or Paying Agent.

Board means the Board of Directors of the Person or any officer or committee thereof authorized to act for such Board.

Business Day means a day that is not a Legal Holiday.

Company means the party named as such above until a successor which duly assumes the obligations upon the Notes and under the Indenture replaces it and thereafter means the successor.

Default means any event which is, or after notice or passage of time would be, an Event of Default.

Effective Time means Effective Time as defined in the Merger Agreement.

Exchange Act means the Securities Exchange Act of 1934, as amended.

Expense Payment Principal Reduction means a reduction in the aggregate principal of the Notes and the 4.5% Notes pursuant to Section 2.5(a) of the Merger Agreement.

Holder or **Noteholder** means a Person in whose name a Note is registered.

Indenture means this Indenture as amended from time to time, including the terms of the Notes and any amendments thereto.

Indemnification Claim Payment Reduction means a reduction in the aggregate amounts next becoming due under the Notes and the 4.5% Notes pursuant to Section 8.4 of the Merger Agreement.

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Letter of Credit means an irrevocables letter of credit issued to the Trustee as beneficiary to support payment of the Notes. The Letter of Credit shall be in an amount equal to the sum of (i) the aggregate principal amount of the Notes that it supports plus (ii) 375 days accrued interest on that aggregate principal amount. The initial Letter of Credit shall be issued by Comerica Bank, or any other lender party to the Company s Credit Agreement, in form reasonably acceptable to the Trustee and shall be delivered by the Company no later than three Business Days after the Trustee gives the Company notice of the required size of the Letter of Credit (which will depend on the principal amount of the Notes to be issued under this Indenture). The Trustee shall not authenticate any Notes unless and until it has received the Letter of Credit.

Litigation Payment Principal Reduction means a reduction in the aggregate principal of the Notes and the 4.5% Notes pursuant to Section 7.7(b) of the Merger Agreement.

Maturity Date means the seventh anniversary of the Effective Time of the Merger.

Merger means Merger as defined in the Merger Agreement.

Merger Agreement means the Merger Agreement dated July 6, 2007 entered into by the Company, TMW Acquisition Corporation, a Texas corporation, and MedSolutions, Inc., a Texas corporation.

Merger Consideration Principal Reduction means a reduction in the aggregate principal of the Notes and the 4.5% Notes pursuant to Section 7.6(b)(2) or Section 7.6(c) of the Merger Agreement.

Notes means the Notes described above issued under this Indenture.

Officers Certificate means a certificate signed by two Officers, one of whom must be the President and Chief Executive Officer, the Chief Financial Officer, or an Executive Vice President or other Vice President of the Company. See Sections 9.03 and 9.04.

Opinion of Counsel means a written opinion from legal counsel who is acceptable to the Trustee. See Sections 9.03 and 9.04.

Other Indenture means the Indenture dated as of ___, 2007 between the Company and LaSalle Bank National Association, as Trustee for the 4.5% Notes.

Person means any individual, corporation, partnership, joint venture, association, limited liability company, joint stock company, trust, unincorporated organization or government or other agency or political subdivision thereof.

Proceeding means a liquidation, dissolution, bankruptcy, insolvency, reorganization, receivership or similar proceeding under Bankruptcy Law, an assignment for the benefit of creditors, any marshalling of assets or liabilities, or winding up or dissolution, but shall not include any transaction permitted by and made in compliance with Article 5.

SEC means the U.S. Securities and Exchange Commission.

Shareholder Representative means the Person or Persons from time to time serving as the Shareholder Representative pursuant to Section 7.3 of the Merger Agreement. The persons initially serving as the Shareholder Representative are Matthew H. Fleeger and Winship B. Moody, Sr.

TIA means the Trust Indenture Act of 1939 (15 U.S.C. §§ 77aaa-77bbbb), as amended, as in effect on the date of this Indenture, except as provided in Sections 1.04 and 9.03.

Trust Officer means any officer or assistant officer of the Trustee assigned by the Trustee to administer its corporate trust matters or to whom a matter concerning the Indenture may be referred.

Trustee means the party named as such above until a successor replaces it and thereafter means the successor.

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Section 1.02 Other Definitions

Term	Defined in Section
Bankruptcy Law	6.01
Credit Agreement	4.05
Custodian	6.01
Event of Default	6.01
Legal Holiday	9.06
Notice	9.01
Officer	9.09
Paying Agent	2.03
Prepayment Date	3.01
Proceeding	1.01
Registrar	2.03

Section 1.03 Rules of Construction

Unless the context otherwise requires:

(1) a term defined in Section 1.01 or 1.02 has the meaning assigned to it therein, and terms defined in the TIA have the meanings assigned to them in the TIA;

(2) an accounting term not otherwise defined has the meaning assigned to it in accordance with generally accepted accounting principles in the United States;

(3) or is not exclusive;

(4) words in the singular include the plural, and words in the plural include the singular;

(5) provisions apply to successive events and transactions;

(6) herein, hereof and other words of similar import refer to this Indenture as a whole and not to any particular Article, Section or other subdivision; and

(7) including means including without limitation.

Section 1.04 Trust Indenture Act

The provisions of TIA Sections 310 through 317 that impose duties on any Person (including the provisions automatically deemed included herein unless expressly excluded by this Indenture) are a part of and govern this Indenture upon and so long as the Indenture and Notes are subject to the TIA. If any provision of this Indenture limits, qualifies or conflicts with such duties, the imposed duties shall control. If a provision of the TIA requires or permits a provision of this Indenture and the TIA provision is amended, then the Indenture provision shall be automatically amended to like effect.

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Article 2
The Notes

Section 2.01 Form and Dating

The Notes and the certificate of authentication shall be substantially in the form of Exhibit A, which is hereby incorporated in and expressly made a part of this Indenture. The Notes may have notations, legends or endorsements required by law, stock exchange rule, automated quotation system, agreements to which the Company is subject, or usage. Each Note shall be dated the date of its authentication.

Section 2.02 Execution and Authentication

Two Officers shall sign the Notes for the Company by manual or facsimile signature.

If an Officer whose signature is on a Note no longer holds that office at the time the Note is authenticated, the Note is still valid.

A Note shall not be valid until an authorized signatory of the Trustee manually signs the certificate of authentication on the Note. The signature shall be conclusive evidence that the Note has been authenticated under this Indenture.

The Trustee shall authenticate Notes for original issue up to the amount stated in paragraph 4 of Exhibit A in accordance with an Officers Certificate of the Company. The aggregate principal amount of Notes outstanding at any time may not exceed that amount except as provided in Section 2.07.

The Trustee may appoint an authenticating agent acceptable to the Company to authenticate Notes. An authenticating agent may authenticate Notes whenever the Trustee may do so. Each reference in this Indenture to authentication by the Trustee includes authentication by such agent. An authenticating agent has the same rights as an Agent to deal with the Company or an Affiliate.

Section 2.03 Agents

The Company shall maintain an office or agency where Notes may be presented for registration of transfer or for exchange (Registrar) and where Notes may be presented for payment (Paying Agent). Whenever the Company must issue or deliver Notes pursuant to this Indenture, the Trustee shall authenticate the Notes at the Company s request. The Registrar shall keep a register of the Notes and of their transfer and exchange.

The Company may appoint more than one Registrar or Paying Agent. The Company shall notify the Trustee of the name and address of any Agent not a party to this Indenture. If the Company does not appoint another Registrar or Paying Agent, the Trustee shall act as such.

Section 2.04 Paying Agent To Hold Money in Trust

On or prior to each due date of the principal and interest on any Note, the Company shall deposit with the Paying Agent a sum sufficient to pay such principal and interest when so becoming due. The Company shall require each Paying Agent (other than the Trustee) to agree in writing that the Paying Agent will hold in trust for the benefit of Noteholders or the Trustee all money held by the Paying Agent for the payment of the principal of or interest on the Notes, and will notify the Trustee of any Default by the Company in making any such payment. While any such Default continues, the Trustee may require a

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Paying Agent to pay all money held by it to the Trustee. The Company at any time may require a Paying Agent to pay all money held by it to the Trustee and to account for any funds disbursed by the Paying Agent. Upon complying with this Section, the Paying Agent shall have no further liability for the money delivered to the Trustee. If the Company or any Affiliate acts as Paying Agent, it shall segregate the money held by it as Paying Agent and hold it as a separate trust fund.

Section 2.05 Noteholder Lists

The Trustee shall preserve in as current a form as is reasonably practicable the most recent list available to it of the names and addresses of Noteholders. If the Trustee is not the Registrar, the Company shall furnish to the Trustee, in writing at least 10 Business Days before each interest payment date and again no more than six months later, and at such other times as the Trustee may request, a list in such form and as of such date as the Trustee may reasonably require of the names and addresses of Noteholders.

Section 2.06 Transfer and Exchange

The Notes shall be issued in registered form and shall be transferable only upon surrender of a Note for registration of transfer. When a Note is presented to the Registrar with a request to register a transfer or to exchange the Note for an equal principal amount of Notes of other denominations, the Registrar shall register the transfer or make the exchange if its requirements for such transactions are met and to the extent that the Note has not been prepaid. The Company may charge a reasonable fee for any registration of transfer or exchange but not for any exchange pursuant to Section 2.10, 3.06 or 9.05.

All Notes issued upon any transfer or exchange pursuant to the terms of this Indenture will evidence the same debt and will be entitled to the same benefits under this Indenture as the Notes surrendered upon such transfer or exchange.

Section 2.07 Replacement Notes

If the Holder of a Note claims that the Note has been lost, destroyed or wrongfully taken, then, in the absence of notice to the Company that the Note has been acquired by a protected purchaser (as protected purchaser is defined in Article 8 of the Illinois Uniform Commercial Code), the Company shall issue a replacement Note. If required by the Trustee or the Company, an indemnity bond must be provided which is sufficient in the judgment of both to protect the Company, the Trustee and the Agents from any loss which any of them may suffer if a Note is replaced. The Company or the Trustee may charge the Holder for its expenses in replacing a Note.

Every replacement Note is an additional obligation of the Company.

Section 2.08 Outstanding Notes

Notes outstanding at any time are all Notes authenticated by the Trustee except for those canceled by the Registrar, those delivered to it for cancellation and those described in this Section as not outstanding. A Note does not cease to be outstanding because the Company or an Affiliate holds the Note.

If a Note is replaced pursuant to Section 2.07, it ceases to be outstanding unless the Company receives proof satisfactory to it that the replaced Note is held by a protected purchaser.

If Notes are considered paid under Section 4.01, they cease to be outstanding and interest on them ceases to accrue.

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Section 2.09 Treasury Notes Disregarded for Certain Purposes

In determining whether the Holders of the required principal amount of Notes have concurred in any direction, waiver or consent, Notes owned by the Company or an Affiliate shall be disregarded and deemed not to be outstanding, except that, for the purposes of determining whether the Trustee shall be protected in relying on any such direction, waiver or consent, only Notes which the Trustee knows are so owned shall be so disregarded. Notes so owned which have been pledged in good faith shall not be disregarded if the pledgee establishes to the satisfaction of the Trustee the pledgee s right to deliver any such direction, waiver or consent with respect to the Notes and that the pledgee is not the Company or any other obligor upon the Notes or any Affiliate of the Company or of such other obligor.

Section 2.10 Temporary Notes

Until definitive Notes are ready for delivery, the Company may use temporary Notes. Temporary Notes shall be substantially in the form of definitive Notes but may have variations that the Company considers appropriate for temporary Notes. Without unreasonable delay, the Company shall deliver definitive Notes in exchange for temporary Notes.

Section 2.11 Cancellation

The Company at any time may deliver Notes to the Trustee for cancellation. The Paying Agent, if not the Trustee, shall forward to the Trustee any Notes surrendered to it for payment. The Trustee shall cancel all Notes surrendered for registration of transfer, exchange, payment or cancellation and shall dispose of canceled Notes according to its standard procedures or as the Company otherwise directs. The Company may not issue new Notes to replace Notes that it has paid or that have been delivered to the Trustee for cancellation.

Section 2.12 Principal Reduction

The principal of the Notes is subject to reduction, retroactive to the date of issuance of the Notes, by reason of a Merger Consideration Principal Reduction.

The principal of the Notes is also subject to reduction, effective as of the date of payment, by reason of an Expense Payment Principal Reduction or a Litigation Payment Principal Reduction.

In the event of a Merger Consideration Principal Reduction, Expense Payment Principal Reduction or Litigation Payment Principal Reduction, the aggregate principal of all outstanding Notes and all outstanding 4.5% Notes shall be reduced on a pro rata basis.

The Company shall promptly give notice to the Trustee of any Merger Consideration Principal Reduction, Expense Payment Principal Reduction or Litigation Payment Principal Reduction (and concurrently send a copy of its notice to the Shareholder Representative).

Section 2.13 Payment Reduction

Payments under the Notes are subject to reduction, in respect of the payments otherwise next becoming due under the Notes, by reason of an Indemnification Claim Payment Reduction. This reduction is in the nature of a dollar-for-dollar offset.

In the event of an Indemnification Claim Payment Reduction, payments otherwise next becoming due under all outstanding Notes and all outstanding 4.5% Notes shall be reduced on a pro rata basis.

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The Company shall promptly give notice to the Trustee of any Indemnification Claim Payment Reduction (and concurrently send a copy of its notice to the Shareholder Representative).

Article 3
Payments

Section 3.01 Notice to Trustee

If Notes are to be prepaid pursuant to paragraph 7 of the Notes, the Company shall notify the Trustee of the prepayment date (the Prepayment Date) and the principal amount of Notes to be prepaid. The Company may not prepay any portion of the principal of the Notes unless it also concurrently prepays an equivalent fractional portion of the principal of the 3.5% Notes.

The Company shall give the notice provided for in this Section at least 50 days before the Prepayment Date unless a shorter period is satisfactory to the Trustee. The record date relating to such prepayment shall be selected by the Company and given to the Trustee, which record date shall be not less than 15 days prior to the Prepayment Date.

Section 3.02 Pro Rata Prepayment

If Notes are to be prepaid in part, the prepayment shall be made in respect of all outstanding Notes on a pro rata basis determined by their respective principal amounts.

Section 3.03 Notice of Payment

At least 30 days but not more than 60 days before any Prepayment Date, and at least 30 days but not more than 60 days before the Maturity Date, the Company shall mail a notice of payment to each Holder whose Notes are to be paid.

The notice shall state that it is a notice of payment and shall state:

(1) the payment date;

(2) in the case of a prepayment, the principal amount (or percentage of the principal amount) of the Holder s Note to be prepaid;

(3) the name and address of the Paying Agent;

(4) that Notes must be surrendered to the Paying Agent to collect the amount to be paid; and

(5) that, unless the Company defaults in making such payment or the Paying Agent is prohibited from making such payment pursuant to the terms of this Indenture, interest on the Notes, or in the case of a prepayment, interest on the prepaid principal amount of the Notes, shall cease to accrue on and after the Maturity Date or the Prepayment Date, as the case may be.

At the Company s request, the Trustee shall give the notice of payment in the Company s name and at its expense.

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Section 3.04 Effect of Notice of Payment

In the case of a prepayment, once notice of payment is mailed, Notes become due and payable on the Prepayment Date for the prepayment amount. Upon surrender to the Paying Agent, Notes shall be paid as stated in the notice, plus accrued interest to the Prepayment Date. Failure to give notice or any defect in the notice to any Holder shall not affect the validity of the notice to any other Holder.

Section 3.05 Deposit of Payment Amount

On or before the Prepayment Date or the Maturity Date, as the case may be, the Company shall deposit with the Paying Agent money sufficient to pay the principal amount to be prepaid, in the case of a prepayment, or the entire principal amount, in the case of a payment at maturity, together with accrued interest through the Prepayment Date or the Maturity Date, as the case may be, on all Notes to be paid on that date other than Notes or portions of Notes called for payment which have been delivered by the Company to the Registrar for cancellation.

Unless the Company shall default in the payment of Notes (and accrued interest) called for payment, interest on Notes, or in the case of a prepayment, interest on the prepaid principal amount of Notes, shall cease to accrue on after the Maturity Date or the Prepayment Date, as the case may be.

Section 3.06 Notes Prepaid in Part

Upon surrender of a Note that is prepaid in part, the Company shall deliver to the Holder (at the Company s expense) a new Note equal in principal amount to the portion of the Note surrendered that was not prepaid.

Section 3.07 Repayment to Company

The Trustee and the Paying Agent shall pay to the Company upon request any money held by them for payment of principal or interest that remains unclaimed for one year after the right to such money has matured. After payment to the Company, Noteholders entitled to the money shall look to the Company for payment as unsecured general creditors unless an abandoned property law designates another Person.

Article 4

Covenants

Section 4.01 Payment of Notes

The Company shall pay the principal of and interest on the Notes on the dates and in the manner provided in the Notes and this Indenture. Principal and interest shall be considered paid on the date due if the Paying Agent holds in accordance with this Indenture on that date money sufficient to pay all principal and interest then due and the Paying Agent is not prohibited from paying such money to the Holders on such date pursuant to the terms of this Indenture.

The Company shall pay interest on overdue principal at the rate borne by the Notes; it shall pay interest on overdue interest at the same rate to the extent lawful.

Section 4.02 SEC Reports

The Company shall file with the Trustee within 15 days after it files them with the SEC copies of the annual reports and of the information, documents and other reports which the Company is required to

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file with the SEC pursuant to Section 13 or 15(d) of the Exchange Act. The Company will also comply with the other provisions of TIA Section 314(a). Delivery of such reports, information and documents to the Trustee is for informational purposes only and the Trustee s receipt of such shall not constitute notice or constructive notice of any information contained therein or determinable from information contained therein, including the Company s compliance with any of its covenants hereunder (as to which the Trustee is entitled to rely exclusively on Officers Certificates).

Section 4.03 Compliance Certificate

The Company shall deliver to the Trustee, within 105 days after the end of each fiscal year of the Company, a brief certificate signed by the principal executive officer, principal financial officer or principal accounting officer of the Company, as to the signer s knowledge of the Company s compliance with all conditions and covenants contained in this Indenture (determined without regard to any period of grace or requirement of notice provided herein).

Section 4.04 Notice of Certain Events

The Company shall give prompt written notice to the Trustee and any Paying Agent of (i) any Proceeding, (ii) any Default or Event of Default, and (iii) any cure or waiver of any Default or Event of Default.

Section 4.05 Letter of Credit

If the issuer of the current Letter of Credit gives the Trustee, the Company and the Shareholder Representative at least 30 days prior notice of the issuer s intent not to renew the Letter of Credit upon its expiry, the Company shall deliver a new Letter of Credit to the Trustee no later than 15 days prior to the expiry of the current Letter of Credit.

The Company may at any time substitute for the current Letter of Credit a new Letter of Credit, and concurrently with the Company s delivery of the new Letter of Credit to the Trustee, the Trustee shall deliver the replaced Letter of Credit to the Company.

Any new Letter of Credit shall be issued by Bank of America, N.A., any other lender party to the Company s Credit Agreement, or any other bank or financial institution approved by the Shareholder Representative (whose approval shall not be unreasonably withheld), and shall conform in substance to the current Letter of Credit that it replaces.

The Company s Credit Agreement means the Credit Agreement dated as of July 31, 2006, among the the Company, the Company s subsidiaries and the lenders from time to time party to the agreement, and Bank of America, N.A., as administrative agent, as such agreement may have been and may be amended, restated, supplemented or otherwise modified.

Article 5
Successors

Section 5.01 When Company May Merge, etc.

The Company shall not consolidate or merge with or into, or transfer all or substantially all of its assets to, any Person unless:

(1) either the Company shall be the resulting or surviving entity or such Person is a

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corporation organized and existing under the laws of the United States, a State thereof or the District of Columbia;

(2) if the Company is not the resulting or surviving entity, such Person assumes by supplemental indenture all the obligations of the Company under the Notes and this Indenture; and

(3) immediately before and immediately after the transaction no Default exists.

The Company shall deliver to the Trustee prior to the proposed transaction an Officers Certificate and an Opinion of Counsel, each of which shall state that such consolidation, merger or transfer and such supplemental indenture comply with this Article 5 and that all conditions precedent herein provided for relating to such transaction have been complied with.

Section 5.02 Successor Corporation Substituted

Upon any consolidation or merger, or any transfer of all or substantially all of the assets of the Company in accordance with Section 5.01, the successor corporation formed by such consolidation or into which the Company is merged or to which such transfer is made shall succeed to, and be substituted for, and may exercise every right and power of, the Company under this Indenture and the Notes with the same effect as if such successor corporation had been named as the Company herein and in the Notes. Thereafter the obligations of the Company under the Notes and Indenture shall terminate except for, in the case of a transfer, the obligation to pay the principal of and interest on the Notes.

Article 6
Defaults and Remedies

Section 6.01 Events of Default

An Event of Default occurs if:

(1) the Company fails to pay interest on any Note when the same becomes due and payable and such failure continues for a period of 10 days;

(2) the Company fails to pay the principal of any Note when the same becomes due and payable at maturity;

(3) the Company fails to comply with any of its other agreements in the Notes or this Indenture (other than its agreement in Section 4.05 to deliver a new Letter of Credit in the circumstances described) and such failure continues for the period and after the notice specified below;

(4) the Company pursuant to or within the meaning of any Bankruptcy Law:

(A) commences a voluntary case,

(B) consents to the entry of an order for relief against it in an involuntary case,

(C) consents to the appointment of a Custodian of it or for all or substantially all of its property, or

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(D) makes a general assignment for the benefit of its creditors;

(5) a court of competent jurisdiction enters an order or decree under any Bankruptcy Law that:

(A) is for relief against the Company in an involuntary case,

(B) appoints a Custodian of the Company or for all or substantially all of its property, or

(C) orders the liquidation of the Company, and the order or decree remains unstayed and in effect for 60 days;

(6) an Event of Default has occurred under the 4.5% Notes or the Other Indenture (as Event of Default is defined in the Other Indenture); or

(7) the Company fails to comply with its agreement in Section 4.05 to deliver a new Letter of Credit in the circumstances described.

The foregoing will constitute Events of Default whatever the reason for any such Event of Default, whether it is voluntary or involuntary, or is effected by operation of law or pursuant to any judgment, decree or order of any court or any order, rule or regulation of any administrative or governmental body.

The term Bankruptcy Law means title 11 of the U.S. Code or any similar Federal or state law for the relief of debtors. The term Custodian means any receiver, trustee, assignee, liquidator or similar official under any Bankruptcy Law.

A Default under clause (3) is not an Event of Default until the Trustee notifies the Company, or the Shareholder Representative notifies the Company and the Trustee, of the Default and the Company does not cure the Default, or it is not waived, within 30 days after receipt of the notice. The notice must specify the Default, demand that it be remedied to the extent consistent with law, and state that the notice is a Notice of Default.

Section 6.02 Acceleration

If an Event of Default occurs and is continuing, the Trustee by notice to the Company, or the Shareholder Representative by notice to the Company and the Trustee, may declare the principal of and accrued and unpaid interest on all the Notes to be due and payable. The Trustee shall declare the principal of and accrued and interest on all the Notes to be due and payable if the principal of and accrued interest on all the 4.5% Notes have been declared to be due and payable. Upon any such declaration the principal and interest shall be due and payable immediately.

The Shareholder Representative by notice to the Company and the Trustee may rescind an acceleration and its consequences if the rescission would not conflict with any judgment or decree and if all existing Events of Default have been cured or waived except nonpayment of principal or interest that has become due solely because of the acceleration.

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Section 6.03 Other Remedies

If an Event of Default occurs and is continuing, the Trustee may pursue any available remedy to collect the payment of principal or interest on the Notes, including drawing on the Letter of Credit, or to enforce the performance of any provision of the Notes or this Indenture.

The Trustee may maintain a proceeding even if it does not possess any of the Notes or does not produce any of them in the proceeding. A delay or omission by the Trustee or any Noteholder or the Shareholder Representative in exercising any right or remedy accruing upon an Event of Default shall not impair the right or remedy or constitute a waiver of or acquiescence in the Event of Default. All remedies are cumulative to the extent permitted by law.

Section 6.04 Waiver of Past Defaults

The Shareholder Representative by notice to the Trustee may waive an existing Default and its consequences except:

(1) a Default in the payment of the principal of or interest on any Note; or

(2) a Default with respect to a provision that under Section 9.02 cannot be amended without the consent of each Noteholder affected.

Section 6.05 Control by Shareholder Representative

The Shareholder Representative may direct the time, method and place of conducting any proceeding for any remedy available to the Trustee or exercising any trust or power conferred on the Trustee (including drawing on the Letter of Credit). However, the Trustee may refuse to follow any direction that it reasonably believes conflicts with law or this Indenture, is that it reasonably believes may be unduly prejudicial to the rights of Noteholders, or would involve the Trustee in personal liability or expense for which the Trustee has not received a satisfactory indemnity.

Section 6.06 Limitation on Suits

A Noteholder may pursue a remedy with respect to this Indenture or the Notes only if:

(1) the Holder gives to the Trustee notice of a continuing Event of Default;

(2) the Holders of a majority in principal amount of the Notes make a request to the Trustee to pursue the remedy; and

(3) the Trustee either (i) gives to such Holders notice it will not comply with the request, or (ii) does not comply with the request within 30 days after receipt of the request.

A Noteholder may not use this Indenture to prejudice the rights of another Noteholder or to obtain a preference or priority over another Noteholder.

Section 6.07 Rights of Holders To Receive Payment

Notwithstanding any other provision of this Indenture, the right of any Holder of a Note to receive payment of principal and interest on the Note, on or after the respective due dates expressed in the Note, or to bring suit for the enforcement of any such payment on or after such respective dates, shall not

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be impaired or affected without the consent of the Holder.

Nothing in this Indenture limits or defers the right or ability of Holders to petition for commencement of a case under applicable Bankruptcy Law to the extent consistent with such Bankruptcy Law.

Section 6.08 Priorities

After an Event of Default any money or other property distributable in respect of the Company s obligations under this Indenture shall be paid in the following order:

First: to the Trustee (including any predecessor Trustee) for amounts due under Section 7.07;

Second: to Noteholders for amounts due and unpaid on the Notes for principal and interest, ratably, without preference or priority of any kind, according to the amounts due and payable on the Notes for principal and interest, respectively; and

Third: to the Company.

The Trustee may fix a record date and payment date for any payment to Noteholders.

Section 6.09 Undertaking for Costs

In any suit for the enforcement of any right or remedy under this Indenture or in any suit against the Trustee for any action taken or omitted by it as Trustee, a court in its discretion may require the filing by any party litigant in the suit of an undertaking to pay the costs of the suit, and the court in its discretion may assess reasonable costs, including reasonable attorneys fees, against any party litigant in the suit, having due regard to the merits and good faith of the claims or defenses made by the party litigant. This Section does not apply to a suit by the Trustee, a suit by a Holder pursuant to Section 6.07 or a suit by Holders of more than 10% in principal amount of the Notes.

Section 6.10 Proof of Claim

In the event of any Proceeding, the Trustee may file a claim for the unpaid balance of the Notes in the form required in the Proceeding and cause the claim to be approved or allowed. Nothing herein contained shall be deemed to authorize the Trustee to authorize or consent to or accept or adopt on behalf of any Noteholder any plan of reorganization, arrangement, adjustment, or composition affecting the Notes or the rights of any Holder thereof, or to authorize the Trustee to vote in respect of the claim of any Noteholder in any Proceeding.

Section 6.11 Actions of a Holder

For the purpose of providing any consent, waiver or instruction to the Company or the Trustee, a Holder or Noteholder shall include a Person who provides to the Company or the Trustee, as the case may be, an affidavit of beneficial ownership of a Note together with a satisfactory indemnity against any loss, liability or expense to such party to the extent that it acts upon such affidavit of beneficial ownership (including any consent, waiver or instructions given by a Person providing such affidavit and indemnity).

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Article 7
Trustee

Section 7.01 Duties of Trustee

(a) If an Event of Default has occurred and is continuing, the Trustee shall exercise such of the rights and powers vested in it by this Indenture, and use the same degree of care and skill in their exercise, as a prudent person would exercise or use under the circumstances in the conduct of his or her own affairs.

(b) Except during the continuance of an Event of Default:

(1) The Trustee need perform only those duties that are specifically set forth in this Indenture and no others.

(2) In the absence of bad faith on its part, the Trustee may conclusively rely, as to the truth of the statements and the correctness of the opinions expressed therein, upon certificates or opinions furnished to the Trustee and conforming to the requirements of this Indenture. However, the Trustee shall examine the certificates and opinions to determine whether or not they conform to the requirements of this Indenture.

(c) The Trustee may not be relieved from liability for its own gross negligent action, its own gross negligent failure to act or its own willful misconduct, except that:

(1) This paragraph does not limit the effect of paragraph (b) of this Section.

(2) The Trustee shall not be liable for any error of judgment made in good faith by a Trust Officer, unless it is proved that the Trustee was negligent in ascertaining the pertinent facts.

(3) The Trustee shall not be liable with respect to any action it takes or omits to take in good faith in accordance with a direction received by it pursuant to Section 6.05.

(4) The Trustee may refuse to perform any duty or exercise any right or power which would require it to expend its own funds or risk any liability if it shall reasonably believe that repayment of such funds or adequate indemnity against such risk is not reasonably assured to it.

(d) Every provision of this Indenture that in any way relates to the Trustee is subject to paragraphs (a), (b) and (c) of this Section.

(e) The Trustee shall not be liable for interest on any money received by it except as the Trustee may agree with the Company. Money held in trust by the Trustee need not be segregated from other funds except to the extent required by law.

Section 7.02 Rights of Trustee

(a) The Trustee may rely on any document believed by it to be genuine and to have been signed or presented by the proper Person. The Trustee need not investigate any fact or matter stated in the document.

(b) Before the Trustee acts or refrains from acting, it may require an Officers Certificate or an

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Opinion of Counsel. The Trustee shall not be liable for any action it takes or omits to take in good faith in reliance on the Officers Certificate or an Opinion of Counsel. The Trustee may also consult with counsel on any matter relating to the Indenture or the Notes and the Trustee shall not be liable for any action it takes or omits to take in good faith in reliance on the advice of counsel.

(c) The Trustee may act through agents and shall not be responsible for the misconduct or negligence of any agent appointed with due care.

(d) The Trustee shall not be liable for any action it takes or omits to take in good faith which it believes to be authorized or within its rights or powers.

(e) Except in connection with compliance with TIA Section 310 or 311, the Trustee shall only be charged with knowledge of Trust Officers.

Section 7.03 Individual Rights of Trustee; Disqualification

The Trustee in its individual or any other capacity may become the owner or pledgee of Notes and may otherwise deal with the Company or an Affiliate with the same rights it would have if it were not Trustee. Any Agent may do the same with like rights. However, the Trustee is subject to TIA Sections 310(b) and 311.

Section 7.04 Trustee s Disclaimer

The Trustee shall have no responsibility for the validity or adequacy of this Indenture or the Notes, and it shall not be responsible for any statement in the Notes other than its authentication.

Section 7.05 Notice of Defaults

If a continuing Default is known to the Trustee, the Trustee shall mail to the Shareholder Representative and Noteholders a notice of the Default within 90 days after it occurs. Except in the case of a Default in payment on any Note, the Trustee may withhold the notice from Noteholders if and so long as a committee of its Trust Officers in good faith determines that withholding the notice is in the interests of Noteholders. The Trustee shall mail to Noteholders any notice it receives from Noteholder(s) under Section 6.06, and of any notice the Trustee provides pursuant to Section 6.06(3)(i).

Section 7.06 Reports by Trustee to Holders

If required pursuant to TIA Section 313(a), within 60 days after the reporting date stated in Section 9.09, the Trustee shall mail to Noteholders a brief report dated as of such reporting date that complies with TIA Section 313(a). The Trustee also shall comply with TIA Section 313(b)(2).

A copy of each report at the time of its mailing to Noteholders shall be filed with the SEC.

Section 7.07 Compensation and Indemnity

The Company shall pay to the Trustee from time to time reasonable compensation for its services, including for any Agent capacity in which it acts. The Trustee s compensation shall not be limited by any law on compensation of a trustee of an express trust. The Company shall reimburse the Trustee upon request for all reasonable out-of-pocket expenses incurred by it. Such expenses shall include the reasonable compensation and out-of-pocket expenses of the Trustee s agents and counsel.

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The Company shall indemnify and hold harmless the Trustee against any loss, liability or expense incurred by it including in any Agent capacity in which it acts. The Trustee shall notify the Company promptly of any claim for which it may seek indemnity. The Company shall defend the claim and the Trustee shall cooperate in the defense. The Trustee may have separate counsel and the Company shall pay the reasonable fees and expenses of such counsel. The Company need not pay for any settlement made without its consent, which consent shall not unreasonably be withheld.

The Company need not reimburse any expense or indemnify against any loss or liability incurred by the Trustee through its own gross negligence, willful misconduct or bad faith.

To secure the Company s payment obligations in this Section, the Trustee shall have a lien prior to the Notes on all money or property held or collected by the Trustee, except that held in trust to pay principal and interest on particular Notes.

Without prejudice to its rights hereunder, when the Trustee incurs expenses or renders services after an Event of Default specified in Section 6.01(4) or (5) occurs, the expenses and the compensation for the services are intended to constitute expenses of administration under any Bankruptcy Law.

Section 7.08 Replacement of Trustee

A resignation or removal of the Trustee and appointment of a successor Trustee shall become effective only upon the successor Trustee s acceptance of appointment as provided in this Section.

The Trustee may resign by so notifying the Company. The Company and the Shareholder Representative may remove the Trustee by so notifying the Trustee. The Company by itself may remove the Trustee if:

(1) the Trustee fails to comply with Section 7.10;

(2) the Trustee is adjudged a bankrupt or an insolvent;

(3) a receiver or public officer takes charge of the Trustee or its property; or

(4) the Trustee becomes incapable of acting.

If the Trustee resigns or is removed or if a vacancy exists in the office of Trustee for any reason, the Company shall promptly appoint a successor Trustee.

If a successor Trustee is not appointed and does not take office within 30 days after the retiring Trustee resigns, the retiring Trustee may appoint a successor Trustee at any time prior to the date on which a successor Trustee takes office. If a successor Trustee does not take office within 45 days after the retiring Trustee resigns or is removed, the retiring Trustee, the Company or, subject to Section 6.09, any Noteholder may petition any court of competent jurisdiction for the appointment of a successor Trustee.

If the Trustee fails to comply with Section 7.10, any Noteholder may petition any court of competent jurisdiction for the removal of the Trustee and the appointment of a successor Trustee. Within one year after a successor Trustee appointed by the Company or a court pursuant to this Section 7.08 takes office, the Holders of a majority in principal amount of the Notes may appoint a successor Trustee to replace such successor Trustee.

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A successor Trustee shall deliver a written acceptance of its appointment to the retiring Trustee and to the Company. Thereupon the resignation or removal of the retiring Trustee shall become effective, and the successor Trustee shall have all the rights, powers and duties of the Trustee under this Indenture. The successor Trustee shall mail a notice of its succession to Noteholders. The retiring Trustee shall promptly transfer all property held by it as Trustee to the successor Trustee, subject to the lien provided for in Section 7.07.

Section 7.09 Successor Trustee by Merger, etc.

If the Trustee consolidates, merges or converts into, or transfers all or substantially all of its corporate trust business to, another corporation, the successor corporation without any further act shall be the successor Trustee, if such successor corporation is eligible and qualified under Section 7.10.

Section 7.10 Eligibility

This Indenture shall always have a Trustee who satisfies the requirements of TIA Sections 310(a)(1) and 310(a)(2). The Trustee shall always have a combined capital and surplus as stated in Section 9.09.

Section 7.11 Preferential Collection of Claims Against Company

Upon and so long as the Indenture is qualified under the TIA, the Trustee is subject to TIA Section 311(a), excluding any creditor relationship listed in TIA Section 311(b). A Trustee who has resigned or been removed is subject to TIA Section 311(a) to the extent indicated.

Article 8
Amendments

Section 8.01 Without Consent of Holders

The Company and the Trustee may amend this Indenture or the Notes without the consent of any Noteholder:

(1) to cure any ambiguity, defect or inconsistency;

(2) to comply with Section 5.01; or

(3) to make any change that does not adversely affect the rights of any Noteholder.

Section 8.02 With Consent of Shareholder Representative or Holders

The Company and the Trustee may amend this Indenture or the Notes with the written consent of the Shareholder Representative. However, without the consent of each Noteholder affected, an amendment under this Section may not:

(1) reduce the interest on (other than pursuant to an Indemnification Claim Payment Reduction) or change the time for payment of interest on any Note;

(2) reduce the principal of (other than pursuant to a Merger Consideration Principal Reduction, Expense Payment Principal Reduction, Litigation Payment Principal Reduction or Indemnification Claim Payment Reduction) or change the fixed maturity of any Note;

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(3) change the Maturity Date;

(4) make any Note payable in money other than that stated in the Note; or

(5) make any change in Section 6.04, 6.07 or 8.02 (second sentence).

It shall not be necessary for the consent of the Holders under this Section to approve the particular form of any proposed amendment, but it shall be sufficient if such consent approves the substance thereof.

Section 8.03 Compliance with Trust Indenture Act and Section 9.03

Every amendment to this Indenture or the Notes shall comply with the TIA as then in effect, so long as the Indenture and Notes are subject to the TIA. The Trustee is entitled to, and the Company shall provide, an Opinion of Counsel and Officers Certificate that the Trustee s execution of any amendment or supplemental indenture is permitted under this Article 9.

Section 8.04 Revocation and Effect of Consents and Waivers

A consent to an amendment of this Indenture requiring the consent of each Noteholder affected or a waiver by a Holder of a Note shall bind the Holder and every subsequent Holder of that Note or portion of the Note that evidences the same debt as the consenting Holder s Note, even if notation of the consent or waiver is not made on the Note. However, any such Holder or subsequent Holder may revoke the consent or waiver as to such Holder s Note or portion of the Note if the Trustee receives the notice of revocation before the date the amendment or waiver becomes effective. After an amendment of this Indenture requiring the consent of each Noteholder becomes effective, it shall bind every Noteholder, and after a waiver by a Holder of a Note becomes effective, it shall bind the Holder and every subsequent Holder of that Note or portion of the Note that evidences the same debt as the waiving Holder s Note, even if notation of the waiver is not made on the Note.

The Company may, but shall not be obligated to, fix a record date for the purpose of determining the Noteholders entitled to give their consent or take any other action described above or required or permitted to be taken pursuant to this Indenture. If a record date is fixed, then notwithstanding the immediately preceding paragraph, those Persons who were Noteholders at such record date (or their duly designated proxies), and only those Persons, shall be entitled to give such consent or to revoke any consent previously given or take any such action, whether or not such Persons continue to be Holders after such record date. No such consent shall be valid or effective for more than 120 days after such record date.

Section 8.05 Notice of Amendment; Notation on or Exchange of Notes

After any amendment under this Article becomes effective, the Company shall mail to Noteholders a notice briefly describing such amendment. The failure to give such notice to all Noteholders, or any defect therein, shall not impair or affect the validity of an amendment under this Article.

The Company or the Trustee may place an appropriate notation about an amendment or waiver on any Note thereafter authenticated. The Company may issue in exchange for affected Notes new Notes that reflect the amendment or waiver.

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Section 8.06 Trustee Protected

The Trustee need not sign any supplemental indenture that adversely affects its rights.

Article 9

Miscellaneous

Section 9.01 Notices

Any notice by one party to the other shall be in writing and sent to the other s address stated in Section 9.09. The notice is duly given if it is delivered in Person or sent by a national courier service which provides next Business Day delivery or by first-class mail.

A party by notice to the other party may designate additional or different addresses for subsequent notices.

Any notice sent to a Noteholder shall be mailed by first-class letter mailed to its address shown on the register kept by the Registrar. Failure to mail a notice to a Noteholder or any defect in a notice mailed to a Noteholder shall not affect the sufficiency of the notice mailed to other Noteholders.

If a notice is delivered or mailed in the manner provided above within the time prescribed, it is duly given, whether or not the addressee receives it.

If the Company mails a notice to Noteholders, it shall deliver or mail a copy to the Trustee, the Shareholder Representative and each Agent at the same time.

A notice includes any communication required by this Indenture.

Section 9.02 Communication by Holders with Other Holders

Noteholders may communicate pursuant to TIA Section 312(b) with other Noteholders with respect to their rights under this Indenture or the Notes. The Company, the Trustee, and Registrar and anyone else shall have the protection of TIA Section 312(c).

Section 9.03 Certificate and Opinion as to Conditions Precedent

Upon any request or application by the Company to the Trustee to take any action under this Indenture, the Company shall furnish to the Trustee:

(1) an Officers Certificate stating that, in the opinion of the signers, all conditions precedent, if any, provided for in this Indenture relating to the proposed action have been complied with; and

(2) an Opinion of Counsel stating that, in the opinion of such counsel, all such conditions precedent have been complied with.

Section 9.04 Statements Required in Certificate or Opinion

Each certificate or opinion with respect to compliance with a condition or covenant provided for in this Indenture shall include:

(1) a statement that each Person making such certificate or opinion has read such

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covenant or condition;

(2) a brief statement as to the nature and scope of the examination or investigation upon which the statements or opinions contained in such certificate or opinion are based;

(3) a statement that, in the opinion of such Person, the Person has made such examination or investigation as is necessary to enable such person to express an informed opinion as to whether or not such covenant or condition has been complied with; and

(4) a statement as to whether or not, in the opinion of such Person, such condition or covenant has been complied with.

Section 9.05 Rules by Trustee and Agents

The Trustee may make reasonable rules for action by or a meeting of Noteholders. Any Agent may make reasonable rules and set reasonable requirements for its functions.

Section 9.06 Legal Holidays

A Legal Holiday is a Saturday, a Sunday or a day on which banking institutions are not required to be open. If a payment date is a Legal Holiday at a place of payment, payment may be made at that place on the next succeeding day that is not a Legal Holiday, and no interest shall accrue for the intervening period.

Section 9.07 No Recourse Against Others

A director, officer, employee or stockholder, as such, of the Company shall not have any liability for any obligations of the Company under the Notes or the Indenture or for any claim based on, in respect of or by reason of such obligations or their creation.

Section 9.08 Duplicate Originals

The parties may sign any number of copies, and may execute such in counterparts, of this Indenture. One signed copy is enough to prove this Indenture.

Section 9.09 Variable Provisions

Officer means the Chief Executive Officer, President, any Executive Vice President, any Vice President, the Treasurer, the Secretary, any Assistant Treasurer or any Assistant Secretary of the Company.

The Company initially appoints the Trustee as Registrar and Paying Agent. The address of the Registrar and Paying Agent shall be the same as the address of the Trustee set forth below in this Section 9.09.

The first certificate pursuant to Section 4.03 shall be for the fiscal year ending on December 31, 2007 .

The reporting date for Section 7.06 is December 31 of each year. The first reporting date is December 31, 2007.

The Trustee shall always have a combined capital and surplus of at least $1 billion as set forth in its most recent published annual report of condition. The Trustee will be deemed to be in compliance with

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the capital and surplus requirement set forth in the preceding sentence if its obligations are guaranteed by a Person which could otherwise act as Trustee hereunder and which meets such capital and surplus requirement and the Trustee has at least the minimum capital and surplus required by TIA Section 310(a)(2).

In determining whether the Trustee has a conflicting interest as defined in TIA Section 310(b)(1), the following is excluded: the Other Indenture.

The Notes are on a par with, and are neither senior nor subordinate in right of payment to, the 4.5% Notes.

The Company s address is:

Stericycle, Inc.
28161 North Keith Drive
Lake Forest, Illinois 60045
Facsimile No.: (847) 367-9462
Attention: Frank J.M. ten Brink
Executive Vice President and Chief Financial Officer

The Trustee s address is:

LaSalle Bank National Association
135 South LaSalle Street
Suite 1560
Chicago, Illinois 60603
Facsimile No.: (312) 904-2236
Telephone No. (312) 904-5527
Attention: Frank A. Pierson
Global Securities & Trust Services
Stericycle, Inc. 3.3% Promissory Notes due 2014

The Shareholder Representative s address is:

Mr. Matthew H. Fleeger
Mr. Winship B. Moody, Sr.
12750 Merit Drive
Park Central VII, Suite 770
Dallas, Texas 75251
Facsimile No.: (972) 776-8767

Section 9.10 Governing Law

The laws of the State of Illinois shall govern this Indenture and the Notes.

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Dated: July 12, 2007

Stericycle, Inc.

By /s/ FRANK J.M. TEN BRINK

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

Attest:

By /s/ CRAIG P. COLMAR

Name: Craig P. Colmar

Title: Assistant Secretary

Dated: July 12, 2007

LaSalle Bank National Association, as Trustee

By /s/ ERIK R. BENSON

Name: Erik R. Benson

Title: First Vice President

Attest:

/s/ FRANK A. PIERSON

Name: Frank A. Pierson

Title: Trust Officer

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Exhibit A
(f*ace of note*)

No. ___ $ ___

Stericycle, Inc.
3.5% Promissory Note (Letter of Credit Supported) Due 2014

Interest Payment Dates: _____, 2008, 2009, 2010, 2011, 2012, 2013 and 2014
Record Dates: _____, 2008, 2009, 2010, 2011, 2012, 2013 and 2014

Stericycle, Inc. promises to pay to _____ , or registered assigns, the sum of _____ Dollars ($___.___) on ___, 2014.

See the reverse side and the Indenture referenced for additional provisions of this Note.

Dated: ___, 2007.

Stericycle, Inc.

By

Name:
Title:

By

Name:
Title:

Authenticated:

LaSalle Bank National Association, as Trustee

By

Name:
Title:

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(*back of note*)

Stericycle, Inc.

3.5% Promissory Note (Letter of Credit Supported) Due 2014

1. **Interest**

Stericycle, Inc., a Delaware corporation (the Company), promises to pay interest on the principal amount of this Note at the rate per annum shown above. The Company will pay interest annually on ___ of each year. Interest on this Note will accrue from the most recent date to which interest has been paid or, if no interest has been paid, from the Effective Time of the Merger (as Effective Time and Merger are defined in the Indenture, as defined below). Interest shall be calculated on the basis of a 365-day year.

2. **Method of Payment**

The Company will pay interest on the Notes to the Persons who are registered holders of Notes at the close of business on the record date for the interest payment, except as otherwise provided herein or in the Indenture, even though Notes are cancelled after the record date and on or before the interest payment date. Holders must surrender Notes to a Paying Agent to collect principal payments. The Company will pay principal and interest in money of the United States that at the time of payment is legal tender for payment of public and private debts. However, the Company may pay principal and interest by wire transfer or check payable in such money. It may mail an interest check to a record date holder s registered address.

3. **Agents**

Initially, LaSalle Bank National Association (the Trustee), 135 South LaSalle Street, Suite 1560, Chicago, Illinois 60603 will act as Registrar and Paying Agent. The Company may change any such Agent without notice. The Company or an Affiliate may act in any such capacity. Subject to certain conditions, the Company may change the Trustee.

4. **Indenture**

The Company issued the Notes under an Indenture dated as of July 12, 2007 (the Indenture) between the Company and the Trustee. The terms of the Notes include those stated in the Indenture and those made part of the Indenture by the Trust Indenture Act of 1939 (15 U.S.C. §§ 77aaa-77bbbb) (the Act). The Notes are subject to all such terms, and Noteholders are referred to the Indenture and the Act for a statement of such terms. The Notes are unsecured general obligations of the Company.

5. Reduction in Principal and Reduction in Payments

The principal of the Notes is subject to a reduction in principal, in one case retroactive to the date of issuance, as provided in Section 2.12 of the Indenture.

Payments under the Notes are subject to reduction, in respect of the payments otherwise next becoming due, as provided in Section 2.13 of the Indenture.

6. **Payment at Maturity**

The Company shall pay the entire unpaid principal of the Notes, together with all accrued

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interest, on ___, 2014 (the Maturity Date).

7. **Prepayment**

Except as limited in the Indenture, the Company may prepay all or any portion of the unpaid principal of the Notes without penalty at any time prior to the Maturity Date (the Prepayment Date) provided that the Company also concurrently pays all accrued interest on the principal prepaid.

8. **Notice of Payment**

Notice of payment will be mailed at least 30 days but not more than 60 days before the Prepayment Date or the Maturity Date, as the case may be, to each holder of Notes to be paid on such date at his or her registered address.

9. **Transfer**

The Notes are in registered form without coupons. The transfer of Notes may be registered and Notes may be exchanged as provided in the Indenture. The Registrar may require a holder, among other things, to furnish appropriate endorsements and transfer documents and to pay any taxes required by law.

10. **Persons Deemed Owners**

Subject to Section 6.11 of the Indenture, the registered holder of a Note may be treated as its owner for all purposes.

11. **Amendments and Waivers**

Subject to certain exceptions provided in the Indenture, the Indenture or the Notes may be amended, and any Default may be waived, with the consent of the Shareholder Representative. Without the consent of any Noteholder, the Indenture or the Notes may be amended to cure any ambiguity, defect or inconsistency, to provide for assumption of Company obligations to Noteholders or to make any change that does not adversely affect the rights of any Noteholder.

12. **Successors**

When successors assume all the obligations of the Company under the Notes and the Indenture, the Company will be released from those obligations, except as provided in the Indenture.

13. **Defaults and Remedies**

Subject to the Indenture, if an Event of Default, as defined in the Indenture, occurs and is continuing, the Trustee or the Shareholder Representative may declare all the Notes to be due and payable immediately. Noteholders may not enforce the Indenture or the Notes except as provided in the Indenture. The Trustee may require indemnity satisfactory to it before it enforces the Indenture or the Notes. Subject to certain limitations, the Shareholder Representative may direct the Trustee in its exercise of any trust or power. The Trustee may withhold from Noteholders notice of any continuing Default (except a Default in payment of principal or interest) if it determines that withholding notice is in their interests. The Company must furnish an annual compliance certificate to the Trustee.

14. **Trustee Dealings with Company**

LaSalle Bank National Association, the Trustee under the Indenture, in its individual or any other

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capacity, may make loans to, accept deposits from, and perform services for the Company or its Affiliates, and may otherwise deal with the Company or its Affiliates, as if it were not Trustee, subject to the Indenture and the Act.

15. **No Recourse Against Others**

A director, officer, employee or stockholder, as such, of the Company shall not have any liability for any obligations of the Company under the Notes or the Indenture or for any claim based on, in respect of or by reason of such obligations or their creation. Each Noteholder by accepting a Note waives and releases all such liability. The waiver and release are part of the consideration for the issue of the Notes.

16. **Authentication**

This Note shall not be valid until authenticated by a manual signature of the Trustee.

17. **Abbreviations**

Customary abbreviations may be used in the name of a Noteholder or an assignee, such as: TEN COM (= tenants in common), TEN ENT (= tenants by the entireties), JT TEN (= joint tenants with right of survivorship and not as tenants in common), CUST (= Custodian), and U/G/M/A (= Uniform Gifts to Minors Act).

The Company will furnish to any Noteholder upon written request and without charge a copy of the Indenture. Requests may be made to: Secretary, Stericycle, Inc., 28161 North Keith Drive, Lake Forest, Illinois 60045.

PART II
INFORMATION NOT REQUIRED IN PROSPECTUS

Item 20. Indemnification of Directors and Officers

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

Article 5 of our amended and restated bylaws requires us to indemnify our directors, officers, employees and agents to the maximum extent permitted by Delaware law. Article 5 also requires us to advance the litigation expenses of a director or officer upon receipt of his or her written undertaking to repay all amounts advanced if it is ultimately determined that he or she is not entitled to indemnification. We have entered into individual indemnification agreements with each of our directors and officers confirming and supplementing these rights to indemnification.

Section 102(b)(7) of the Delaware General Corporation Law permits a corporation to include a provision in its certificate of incorporation eliminating or limiting the personal liability of a director to the corporation or its stockholders for monetary damages for a breach of the director s fiduciary duty of care. The provision may not eliminate or limit the liability of a director for breaching his or her duty of loyalty, failing to act in good faith, engaging in intentional misconduct or knowingly violating a law, declaring an illegal dividend or approving an illegal stock repurchase, or obtaining an improper personal benefit. Article 10 of our amended and restated certificate of incorporation eliminates the personal liability of our directors to the fullest extent permitted by Section 102(b)(7).

If a director of ours were to breach his or her fiduciary duty of care, neither we nor our stockholders could recover monetary damages from the director, and the only course of action available to our stockholders would be equitable remedies, such as an action to enjoin or rescind the transaction or event involving the breach of the fiduciary duty of care. To the extent that claims against directors are thereby limited to equitable remedies, this provision of our amended and restated certificate of incorporation may reduce the likelihood of derivative litigation against our

directors for breach of their fiduciary duty of care. In addition, equitable remedies may not be effective in many situations. If a stockholder s only remedy is to enjoin the completion of the action in question by the board of directors, this remedy would be ineffective if the stockholder does not become aware of the transaction or event until after its has been completed. In this situation, the stockholder would not have an effective remedy against the directors.

By reason of directors and officers liability insurance that we maintain, our directors and officers are insured against actual liabilities, including liabilities under the federal securities laws, for acts or omissions related to the conduct of their duties.

Item 21. Exhibits and Financial Statement Schedules

(a) **Exhibits**

2.1* Agreement and Plan of Merger dated July 6, 2007 entered into by Stericycle, Inc., TMW Acquisition Corporation and MedSolutions, Inc. (included as Annex A in the proxy statement/prospectus included

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in this registration statement)

3.1 Amended and restated certificate of incorporation (incorporated by reference to Exhibit 3.1 to our 1996 Form S-1)

3.2 First certificate of amendment to amended and restated certificate of incorporation (incorporated by reference to Exhibit 3.1 to our current report on Form 8-K filed November 29, 1999)

3.3 Second certificate of amendment to amended and restated certificate of incorporation (incorporated by reference to Exhibit 3.4 to our annual report on Form 10-K for 2002)

3.4 Amended and restated bylaws (incorporated by reference to Exhibit 3.4 to our annual report on Form 10-K for 2006)

4.1 Form of certificate for shares of our common stock, par value $.01 per share (incorporated by reference to Exhibit 4.1 to our 1996 Form S-1)

4.2* Indenture dated July 12, 2007 between Stericycle, Inc. and LaSalle Bank National Association as trustee in respect of our 4.5% Promissory Notes due 2014 (included as Annex D in the proxy statement/prospectus included in this registration statement)

4.3* Form of our 4.5% Promissory Notes due 2014 (included in Exhibit 4.2)

4.4* Indenture dated July 12, 2007 between Stericycle, Inc. and LaSalle Bank National Association as trustee in respect of our 3.5% Promissory Notes (Letter of Credit Supported) due 2014 (included as Annex E in the proxy statement/prospectus included in this registration statement)

4.5* Form of our 3.5% Promissory Notes (Letter of Credit Supported) due 2014 (included in Exhibit 4.4)

5.1 Opinion of Johnson and Colmar

10.1 Credit Agreement dated as of July 31, 2006 entered into by Stericycle, Inc. and certain of its subsidiaries as borrowers, Bank of America, N.A., as administrative agent, swing line lender, a lender and letter of credit issuer, other lenders party to the Credit Agreement, JPMorgan Chase Bank, N.A., as syndication agent, and Citibank, N.A., Fortis Capital Corp. and The Royal Bank of Scotland plc, as co-documentation agents, with Banc of America Securities LLC, as sole lead arranger and sole book manager (incorporated by reference to our current report on Form 8-K filed August 4, 2006)

10.2 Directors Stock Option Plan (Amended and Restated) (Directors Plan) (incorporated by reference to Exhibit 4.1 to our registration statement on Form S-8 filed August 2, 2001 (Registration No. 333-66542))

10.3 First amendment to Directors Plan (incorporated by reference to Exhibit 10.9 to our annual report on Form 10-K for 2001)

10.4 Form of stock option agreement for option grant under Directors Plan (incorporated by reference to Exhibit 10.1 to our quarterly report on Form 10-Q for the quarter ended September 30, 2004)

10.5 1997 Stock Option Plan (1997 Plan) (incorporated by reference to Exhibit 10.3 to our annual report on Form 10-K for 1997)

10.6 First amendment to 1997 Plan (incorporated by reference to Exhibit 10.9 to our 1999 Form S-3)

10.7 Second amendment to 1997 Plan (incorporated by reference to Exhibit 10.12 to our annual report on Form 10-K for 2001)

10.8 Third amendment to 1997 Plan (incorporated by reference to Exhibit 10.16 to our annual report on Form 10-K for 2003)

10.9 2000 Nonstatutory Stock Option Plan (2000 Plan) (incorporated by reference to Exhibit 10.13 to our annual report on Form 10-K for 2001)

10.10 First amendment to 2000 Plan (incorporated by reference to Exhibit 10.14 to our annual report on Form 10-K for 2001)

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10.11	Second amendment to 2000 Plan (incorporated by reference to Exhibit 10.15 to our annual report on Form 10-K for 2001)
10.12	Third amendment to 2000 Plan (incorporated by reference to Exhibit 4.2 to our registration statement on Form S-8 filed December 20, 2002 (Registration No. 333-102097))
10.13	2005 Incentive Stock Plan (2005 Plan) (incorporated by reference to Exhibit 4.1 to our registration statement on Form S-8 filed August 9, 2005 (Registration No. 333-127353)
10.14	Form of stock option agreement for option grant under 1997 Plan, 2000 Plan and 2005 Plan (incorporated by reference to Exhibit 10.5 to our annual report on Form 10-K for 2005)
10.15	Form of stock option agreement for bonus conversion option grant under 1997 Plan, 2000 Plan and 2005 Plan (incorporated by reference to Exhibit 10.5 to our annual report on Form 10-K for 2005)
10.16	Employee Stock Purchase Plan (ESPP) (incorporated by reference to Exhibit 4.1 to our registration statement on Form S-8 filed August 2, 2001 (Registration No. 333-66544)
10.17	First amendment to ESPP (incorporated by reference to Exhibit 10.21 to our annual report on Form 10-K for 2002)
12*	Ratio of Earnings to Fixed Charges
21	Subsidiaries (incorporated by reference to Exhibit 21 to our annual report on Form 10-K for 2006)
23.1*	Consent of Ernst & Young, LLP
23.2*	Consent of Marcum & Kliegman, LLP
23.3	Consent of Johnson and Colmar (included in Exhibit 5.1)
24.1*	Power of Attorney (included on the signature page to this registration statement)
25.1*	Statement of Eligibility on Form T-1 of LaSalle Bank National Association as trustee under indenture in respect of our 4.5% Promissory Notes due 2014.
25.2*	Statement of Eligibility on Form T-1 of LaSalle Bank National Association as trustee under indenture in respect of our 3.5% Promissory Notes (Letter of Credit Supported) due 2014.

* Filed with this registration statement.

To be filed by amendment.

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

Item 22. Undertakings

The undersigned registrant hereby undertakes that, for purposes of determining any liability under the Securities Act of 1933, each filing of the registrant s annual report pursuant to section 13(a) or section 15(d) of the Securities Exchange Act of 1934 (and, where applicable, each filing of an employee benefit plan s annual report pursuant to section 15(d) of the Securities Exchange Act of 1934) that is incorporated by reference in the registration statement shall be deemed to be a new registration statement relating to the securities offered therein, and the offering of such securities at that time shall be deemed to be the initial bona fide offering thereof.

The undersigned registrant hereby undertakes to respond to requests for information that is incorporated by reference into the prospectus pursuant to Items 4, 10(b), 11 or 13 of this form, within one business day of receipt of such request, and to send the incorporated documents by first class mail or other equally prompt means. This includes information contained in documents filed subsequent to the effective date of the registration statement through the date of responding to the request.

The undersigned registrant hereby undertakes to supply by means of a post-effective amendment all information concerning a transaction, and the company being acquired involved therein, that was not the subject of and included in the registration statement when it became effective.

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Insofar as indemnification for liabilities arising under the Securities Act of 1933 may be permitted to directors, officers or controlling persons of the registrant pursuant to the foregoing provisions, or otherwise, the registrant has been informed that in the opinion of the Securities and Exchange Commission, such indemnification is against public policy as expressed in the Securities Act of 1933 and is, therefore, unenforceable. In the event that a claim for indemnification against such liabilities (other than the payment by the registrant of expenses incurred or paid by a director, officer or controlling person of the registrant in the successful defense of any action, suit or proceeding) is asserted by such director, officer or controlling person in connection with the securities being registered, the registrant will, unless in the opinion of its counsel the matter has been settled by controlling precedent, submit to a court of appropriate jurisdiction the question whether such indemnification by it is against public policy as expressed in the Securities Act of 1933 and will be governed by the final adjudication of such issue.

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SIGNATURES

Pursuant to the requirements of the Securities Act of 1933, the registrant has duly caused this registration statement to be signed on its behalf by the undersigned, thereunto duly authorized, in the City of Lake Forest, State of Illinois, on July 16 , 2007.

Stericycle, Inc.

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

Power of Attorney

Each person whose signature appears below who is then an officer or director of the registrant authorizes Mark C. Miller, Richard T. Kogler and Frank J.M. ten Brink, or any one of them, with full power of substitution and resubstitution, to sign in his name and to file any amendments (including post-effective amendments) to this registration statement and all related documents necessary or advisable to enable the registrant to comply with the Securities Act of 1933 in connection with the registration of the securities that are the subject of this registration statement, which amendments may make such changes in this registration statement (as it may be so amended) as Mark C. Miller, Richard T. Kogler and Frank J.M. ten Brink, or any one of them, may deem appropriate, and to do and perform all other related acts and things necessary to be done.

Pursuant to the requirements of the Securities Act of 1933, as amended, this registration statement has been signed below by the following persons in the capacities and on the dates indicated.

Name	Title	Date
/s/ Jack W. Schuler Jack W. Schuler	Chairman of the Board of Directors	July 16, 2007
/s/ Mark C. Miller Mark C. Miller	President, Chief Executive Officer and a Director (Principal Executive Officer)	July 16, 2007
/s/ Frank J.M. ten Brink Frank J.M. ten Brink	Chief Financial Officer (Principal Finance and Accounting Officer)	July 16, 2007
/s/ Rod F. Dammeyer Rod F. Dammeyer	Director	July 16, 2007
/s/ William K. Hall William K. Hall	Director	July 16, 2007
/s/ Jonathan T. Lord, M.D. Jonathan T. Lord, M.D.	Director	July 16, 2007

/s/ John Patience John Patience	Director	July 16, 2007
/s/ Thomas R. Reusché Thomas R. Reusché	Director	July 16, 2007
/s/ Peter Vardy Peter Vardy	Director	July 16, 2007

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EXHIBIT INDEX

Exhibit No.	
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3.2	First certificate of amendment to amended and restated certificate of incorporation (incorporated by reference to Exhibit 3.1 to our current report on Form 8-K filed November 29, 1999)
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3.4	Amended and restated bylaws (incorporated by reference to Exhibit 3.4 to our annual report on Form 10-K for 2006)
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4.5*	Form of our 3.5% Promissory Notes (Letter of Credit Supported) due 2014 (included in Exhibit 4.4)
5.1	Opinion of Johnson and Colmar
10.1	Credit Agreement dated as of July 31, 2006 entered into by Stericycle, Inc. and certain of its subsidiaries as borrowers, Bank of America, N.A., as administrative agent, swing line lender, a lender and letter of credit issuer, other lenders party to the Credit Agreement, JPMorgan Chase Bank, N.A., as syndication agent, and Citibank, N.A., Fortis Capital Corp. and The Royal Bank of Scotland plc, as co-documentation agents, with Banc of America Securities LLC, as sole lead arranger and sole book manager (incorporated by reference to our current report on Form 8-K filed August 4, 2006)
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10.4	Form of stock option agreement for option grant under Directors Plan (incorporated by reference to Exhibit 10.1 to our quarterly report on Form 10-Q for the quarter ended September 30, 2004)
10.5	1997 Stock Option Plan (1997 Plan) (incorporated by reference to Exhibit 10.3 to our annual report on Form 10-K for 1997)
10.6	First amendment to 1997 Plan (incorporated by reference to Exhibit 10.9 to our 1999 Form S-3)
10.7	Second amendment to 1997 Plan (incorporated by reference to Exhibit 10.12 to our annual report on Form 10-K for 2001)
10.8	Third amendment to 1997 Plan (incorporated by reference to Exhibit 10.16 to our annual report on

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Exhibit No.	
	Form 10-K for 2003)
10.9	2000 Nonstatutory Stock Option Plan (2000 Plan) (incorporated by reference to Exhibit 10.13 to our annual report on Form 10-K for 2001)
10.10	First amendment to 2000 Plan (incorporated by reference to Exhibit 10.14 to our annual report on Form 10-K for 2001)
10.11	Second amendment to 2000 Plan (incorporated by reference to Exhibit 10.15 to our annual report on Form 10-K for 2001)
10.12	Third amendment to 2000 Plan (incorporated by reference to Exhibit 4.2 to our registration statement on Form S-8 filed December 20, 2002 (Registration No. 333-102097))
10.13	2005 Incentive Stock Plan (2005 Plan) (incorporated by reference to Exhibit 4.1 to our registration statement on Form S-8 filed August 9, 2005 (Registration No. 333-127353)
10.14	Form of stock option agreement for option grant under 1997 Plan, 2000 Plan and 2005 Plan (incorporated by reference to Exhibit 10.5 to our annual report on Form 10-K for 2005)
10.15	Form of stock option agreement for bonus conversion option grant under 1997 Plan, 2000 Plan and 2005 Plan (incorporated by reference to Exhibit 10.5 to our annual report on Form 10-K for 2005)
10.16	Employee Stock Purchase Plan (ESPP) (incorporated by reference to Exhibit 4.1 to our registration statement on Form S-8 filed August 2, 2001 (Registration No. 333-66544)
10.17	First amendment to ESPP (incorporated by reference to Exhibit 10.21 to our annual report on Form 10-K for 2002)
12*	Ratio of Earnings to Fixed Charges
21	Subsidiaries (incorporated by reference to Exhibit 21 to our annual report on Form 10-K for 2006)
23.1*	Consent of Ernst & Young, LLP
23.2*	Consent of Marcum & Kliegman, LLP
23.3	Consent of Johnson and Colmar (included in Exhibit 5.1)
24.1*	Power of Attorney (included on the signature page to this registration statement)
25.1*	Statement of Eligibility on Form T-1 of LaSalle Bank National Association as trustee under indenture in respect of our 4.5% Promissory Notes due 2014.
25.2*	Statement of Eligibility on Form T-1 of LaSalle Bank National Association as trustee under indenture in respect of our 3.5% Promissory Notes (Letter of Credit Supported) due 2014.

* Filed with this registration statement.

To be filed by amendment.