

STERICYCLE INC

Form 10-K/A

August 09, 2016

UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K/A

(Amendment No. 1)

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

For the fiscal year ended December 31, 2015

or

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

For the transition period from            to

Commission File Number 1-37556

Stericycle, Inc.

(Exact name of registrant as specified in its charter)

Delaware

(State or other jurisdiction of incorporation or organization)

28161 North Keith Drive

Lake Forest, Illinois 60045

(Address of principal executive offices, including zip code)

(847) 367-5910

(Registrant's telephone number, including area code)

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

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

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

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

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

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

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

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

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

Large accelerated filer  Accelerated filer

Non-accelerated filer  Smaller reporting company

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

State the aggregate market value of voting and non-voting common equity held by non-affiliates computed by reference to the price at which common equity was last sold as of the last business day of the registrant's most recently completed second fiscal quarter (June 30, 2015): \$11,358,678,595.

On February 19, 2016, there were 84,647,029 shares of the Registrant's Common Stock outstanding.

---

## EXPLANATORY NOTE

Stericycle, Inc. (the “Company,” “we” or “our”) is filing this amended Annual Report on Form 10-K/A because the Audit Committee of our Board of Directors determined that the consolidated financial statements for the quarters ended March 31, 2015, June 30, 2015 and September 30, 2015, originally included in the Company’s Quarterly Reports on Form 10-Q for each of the respective quarterly periods, should no longer be relied upon due to errors in the timing of recognition of certain loss reserves. This Form 10-K/A is being filed to present amended and restated quarterly financial information in Note 20, Selected Quarterly Financial Data (Unaudited) for 2015, originally included in the Company’s Annual Report on Form 10-K filed on March 15, 2016 (the “Original Form 10-K”), and to disclose additional information regarding the Company’s internal control over financial reporting and disclosure controls and procedures related to these errors.

The errors in timing of recognition of certain loss reserves relate to the Company’s settlement of two previously disclosed litigation matters: first, a class action complaint filed in the Circuit Court of Cook County, Illinois captioned Sawyer v. Stericycle, Inc., et al., Case No. 2015 CH 07190 (the “TCPA Action”), alleging that from 2010 to 2014, the Company violated the Telephone Consumer Protection Act of 1991, as amended by the Junk Fax Prevention Act of 2005; and second, a qui tam action filed in the U.S. District Court for the Northern District of Illinois captioned United States of America ex rel. Jennifer D. Perez v. Stericycle, Inc., Case No. 1:08-cv-2390 (the “Qui Tam Action”), alleging that from January 1, 2003 to June 30, 2014, the Company improperly increased its service price to certain government customers without their consent or contractual authorization, in violation of the False Claims Act and similar state statutes.

The identified accounting errors related to the timing of recognition of loss reserves between quarterly periods and had no effect on the Company’s audited annual results for the fiscal year ended December 31, 2015.

We originally recorded \$45.0 million in accrued liabilities related to the TCPA Action in the second quarter of 2015; we are now of the view that this amount should have been recorded in the first quarter of 2015. In addition, we originally recorded \$28.5 million in accrued liabilities related to the Qui Tam Action in the third quarter of 2015; we are now of the view that this amount also should have been recorded in the first quarter of 2015.

The impact of the restatement is as follows:

- the estimated loss contingency for the first quarter of fiscal 2015 was understated by \$73.5 million, resulting in an overstatement of net income of \$46.5 million for the three month period ended March 31, 2015;
- the estimated loss contingency for the second quarter of fiscal 2015 was overstated by \$45.0 million, resulting in an understatement of net income of \$27.4 million for the three month period ended June 30, 2015. For the six month period ended June 30, 2015, the estimated loss contingency was understated by \$28.5 million, resulting in an overstatement of net income of \$19.1 million for the six month period ended June 30, 2015; and
- the estimated loss contingency for the third quarter of fiscal 2015 was overstated by \$28.5 million, resulting in an understatement of net income of \$17.2 million for the three month period ended September 30, 2015.

Accordingly, we are filing this Form 10-K/A to correct the errors presented in Note 20 - Selected Quarterly Financial Data (Unaudited) of the Original Form 10-K.

The Company’s controls related to the accounting for loss contingencies were inadequate to ensure that loss reserves were recorded timely in the appropriate period. We are also filing this Form 10-K/A to revise the COSO Component – Risk Assessment material weakness described in Management’s Report on Internal Control Over Financial Reporting as described in our Original Form 10-K to encompass the accounting for loss contingencies. Our Independent Registered Public Accounting Firm has also revised its opinion report with respect to the effectiveness of internal control over financial reporting.



Edgar Filing: STERICYCLE INC - Form 10-K/A

The following sections of the Original Form 10-K have been amended and restated and are included in this Form 10-K/A:

- 1)Item 8 of Part II, Financial Statements and Supplementary Data;
- 2)Item 15 of Part IV, Exhibits and Financial Statement Schedules.

Specifically, the following sections within Item 8 of Part II have been amended or restated:

- 1)Management’s Report on Internal Control Over Financial Reporting;
- 2)Report of Independent Registered Public Accounting Firm on Internal Control Over Financial Reporting;
- 3)Note 19 – Legal Proceedings; and
- 4)Note 20 – Selected Quarterly Financial Data.

The Company has also included the signature page, the certifications of our Chief Executive Officer and Chief Financial Officer in Exhibits 31.3, 31.4, and 32.1, the consent of the independent registered public accounting firm in Exhibit 23.1, and financial statements formatted in Extensible Business Reporting Language (XBRL) in Exhibits 101.

Except as described above, no other amendments have been made to the Original Form 10-K. The Company has not updated the disclosures contained herein to reflect events that have occurred since the date of the Original Form 10-K. Accordingly, this amended annual report on Form 10-K/A should be read in conjunction with the Company’s other filings made with the SEC subsequent to the filing of the Original Form 10-K, including any amendments to those filings.

Stericycle, Inc.

Table of Contents

|  | Page No. |
|--|----------|
| <u>PART II.</u>  |          |
| <u>Item 8. Financial Statements and Supplementary Data</u> | 1        |
| <u>PART IV.</u>  |          |
| <u>Item 15. Exhibits and Financial Statement Schedules</u> | 41       |
| <u>Signatures</u>  | 48       |

---

## PART II

### Item 8. Financial Statements and Supplementary Data

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

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

- pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the Company;
- provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with U.S. generally accepted accounting principles, and that receipts and expenditures of the Company are being made only in accordance with authorizations of management and directors of the Company; and
- provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the Company's assets that could have a material effect on the financial statements.

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

The Company acquired Shred-it International ULC ("Shred-it") on October 1, 2015. Due to the timing of the acquisition, the Company has excluded the acquired operations of Shred-it from its assessment of the effectiveness of the Company's internal control over financial reporting. Shred-it represented 32% of the Company's assets as of December 31, 2015 and 6% of the Company's revenues for the year ended December 31, 2015.

The Company's management assessed the effectiveness of the Company's internal control over financial reporting as of December 31, 2015. In making this assessment, management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) in Internal Control-Integrated Framework (the "COSO Framework"). Based upon that evaluation, our Chief Executive Officer and Chief Financial Officer have concluded that there were material weaknesses in internal controls over financial reporting described below.

#### COSO Component - Risk Assessment

The Company's risk assessment process did not operate effectively, resulting in a material weakness pertaining to this component of the COSO Framework. Specifically, the Company did not sufficiently identify risks associated with certain routine processes and related information systems, including revenue, and certain non-routine transactions, including the accounting for loss contingencies. In addition, the Company did not properly design and implement appropriate process-level internal controls at the Environmental Solutions component of the Domestic Regulated and

Compliance Services segment. The Environmental Solutions component primarily consists of the PSC Environmental Services, LLC component acquired on April 22, 2014, which was excluded from management assessment of internal controls over financial reporting as of December 31, 2014. The material weakness relating to the risk assessment component of the internal control framework contributed to the other material weaknesses described below.

1

---



COSO Component - Control Activities

Revenue - The design and operating effectiveness of revenue control activities are inadequate to ensure that revenue transactions are properly measured and recorded in the appropriate period.

Environmental Solutions - The design and operating effectiveness of control activities at the Environmental Solutions component of the Domestic Regulated and Compliance Services segment of the business were inadequate to ensure the component's financial statements were appropriately stated.

Conclusion

Management concluded that there is a reasonable possibility that a material misstatement could occur in the consolidated financial statements if the control deficiencies were not remediated. Accordingly, management concluded that the matters described above are material weaknesses in the Company's internal control over financial reporting and that the Company did not maintain effective internal control over financial reporting as of December 31, 2015.

The Company's independent registered public accounting firm has issued an opinion on the Company's internal control over financial reporting. That report appears on page 3.

Stericycle, Inc.

Lake Forest, IL

August 9, 2016

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

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

We have audited Stericycle, Inc. and Subsidiaries' (the Company) internal control over financial reporting as of December 31, 2015, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework). The Company's management is responsible for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management's Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

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

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

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

As indicated in the accompanying Management's Report on Internal Control over Financial Reporting, management's assessment of and conclusion on the effectiveness of internal control over financial reporting did not include the internal controls of Shred-it International ULC ("Shred-it") which is included in the 2015 consolidated financial statements of the Company and constituted 32% of the Company's assets as of December 31, 2015 and 6% of the Company's revenues for the year then ended. Our audit of internal control over financial reporting of the Company also did not include an evaluation of the internal control over financial reporting of Shred-it.

A material weakness is a deficiency, or combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the company's annual or interim financial statements will not be prevented or detected on a timely basis. The following material weaknesses have been identified and included in management's assessment. Management has identified material weaknesses in controls related to the Company's revenue process, the Environmental Solutions component of the Domestic Regulated and Compliance Services component of the Domestic Regulated and Compliance Services segment, and in its risk

assessment process pertaining to this component of the COSO Framework. Specifically, the Company did not sufficiently identify risks associated with certain routine processes and related information systems, including revenue, and certain non-routine transactions, including accounting for loss contingencies. We also have audited, in accordance with the standards of the

3

---

Public Company Accounting Oversight Board (United States), the consolidated balance sheets of Stericycle, Inc. and Subsidiaries as of December 31, 2015 and 2014, and the related consolidated statements of income, comprehensive income, changes in equity, and cash flows for each of the three years in the period ended December 31, 2015, and our report dated March 15, 2016 expressed an unqualified opinion thereon. The material weaknesses were considered in determining the nature, timing and extent of audit tests applied in our audit of the 2015 consolidated financial statements, and this report does not affect our report dated March 15, 2016, which expressed an unqualified opinion on those financial statements.

In our opinion, because of the effect of the material weaknesses described above on the achievement of the objectives of the control criteria, Stericycle, Inc. and Subsidiaries has not maintained effective internal control over financial reporting as of December 31, 2015, based on the COSO criteria.

/s/ Ernst & Young LLP

Chicago, Illinois

March 15, 2016, except for the revision to the risk assessment material weakness, to include the accounting for loss contingencies, described in the sixth paragraph above, as to which the date is August 9, 2016

Report of Independent Registered Public Accounting Firm

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

We have audited the accompanying consolidated balance sheets of Stericycle, Inc. and Subsidiaries as of December 31, 2015 and 2014, and the related consolidated statements of income, comprehensive income, changes in equity, and cash flows for each of the three years in the period ended December 31, 2015. Our audits also included the financial statement schedule listed in the Index at Item 15(a). These financial statements and schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and schedule based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Stericycle, Inc. and Subsidiaries at December 31, 2015 and 2014, and the consolidated results of their operations and their cash flows for each of the three years in the period ended December 31, 2015, in conformity with U.S. generally accepted accounting principles. Also, in our opinion, the related financial statement schedule, when considered in relation to the basic financial statements taken as a whole, presents fairly in all material respects the information set forth therein.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), Stericycle Inc. and Subsidiaries' internal control over financial reporting as of December 31, 2015, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) and our report dated March 15, 2016, except for the revision to the risk assessment material weakness, to include the accounting for loss contingencies, described in the sixth paragraph of that report, as to which the date is August 9, 2016, expressed an adverse opinion thereon.

/s/ Ernst & Young LLP

Chicago, Illinois

March 15, 2016

## STERICYCLE, INC. AND SUBSIDIARIES

## CONSOLIDATED BALANCE SHEETS

In thousands, except share and per share data

|  | December 31, |             |
|--|--------------|-------------|
|  | 2015         | 2014        |
| <b>ASSETS</b>  |              |             |
| Current Assets:  |              |             |
| Cash and cash equivalents  | \$55,634     | \$22,236    |
| Short-term investments   | 69           | 380         |
| Accounts receivable, less allowance for doubtful accounts of \$22,329 in 2015 and \$19,083 in 2014   | 614,494      | 465,473     |
| Prepaid expenses   | 46,740       | 30,632      |
| Other current assets   | 44,891       | 33,173      |
| Total Current Assets   | 761,828      | 551,894     |
| Property, Plant and Equipment, less accumulated depreciation of \$426,019 in 2015 and \$364,124 in 2014  | 665,602      | 460,408     |
| Goodwill   | 3,758,177    | 2,418,832   |
| Intangible assets, less accumulated amortization of \$151,025 in 2015 and \$114,922 in 2014  | 1,842,561    | 909,645     |
| Other assets   | 49,282       | 32,523      |
| Total Assets   | \$7,077,450  | \$4,373,302 |
| <b>LIABILITIES AND EQUITY</b>  |              |             |
| Current Liabilities:   |              |             |
| Current portion of long-term debt  | \$161,409    | \$131,969   |
| Accounts payable   | 149,202      | 114,596     |
| Accrued liabilities  | 197,329      | 131,743     |
| Deferred revenues  | 16,989       | 21,624      |
| Other current liabilities  | 62,420       | 60,975      |
| Total Current Liabilities  | 587,349      | 460,907     |
| Long-term debt, net of current portion   | 3,052,639    | 1,527,246   |
| Deferred income taxes  | 608,272      | 403,847     |
| Other liabilities  | 81,352       | 64,117      |
| Equity:  |              |             |
| Preferred stock (par value \$0.01 per share, 1,000,000 shares authorized), Mandatory Convertible Preferred Stock, Series A, 770,000 issued and outstanding in 2015 | 8            | —           |
| Common stock (par value \$0.01 per share, 120,000,000 shares authorized, 84,852,584 issued and outstanding in 2015 and 84,883,517 issued and outstanding in 2014)  | 849          | 849         |
| Additional paid-in capital   | 1,143,020    | 289,211     |
| Accumulated other comprehensive loss   | (282,631 )   | (138,419 )  |
| Retained earnings  | 1,868,645    | 1,743,371   |
| Total Stericycle, Inc.'s Equity  | 2,729,891    | 1,895,012   |
| Noncontrolling interest  | 17,947       | 22,173      |
| Total Equity   | 2,747,838    | 1,917,185   |
| Total Liabilities and Equity   | \$7,077,450  | \$4,373,302 |

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

6

---

## STERICYCLE, INC. AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF INCOME

In thousands, except share and per share data

|   | Years Ended December 31, |             |             |
|---|--------------------------|-------------|-------------|
|   | 2015                     | 2014        | 2013        |
| Revenues  | \$2,985,908              | \$2,555,601 | \$2,142,807 |
| Costs and Expenses:   |                          |             |             |
| Cost of revenues (exclusive of depreciation shown below)  | 1,658,081                | 1,404,712   | 1,128,170   |
| Depreciation - cost of revenues   | 61,642                   | 56,478      | 50,003      |
| Selling, general and administrative expenses (exclusive of depreciation and amortization shown below) | 712,803                  | 489,937     | 390,610     |
| Depreciation – SG&A   | 20,272                   | 15,446      | 11,338      |
| Amortization  | 45,498                   | 32,692      | 27,067      |
| Total Costs and Expenses  | 2,498,296                | 1,999,265   | 1,607,188   |
| Income from Operations  | 487,612                  | 556,336     | 535,619     |
| Other Income (Expense):   |                          |             |             |
| Interest income   | 224                      | 120         | 294         |
| Interest expense  | (77,498 )                | (66,142 )   | (55,243 )   |
| Other income/ (expense), net  | 569                      | (2,746 )    | (2,924 )    |
| Total Other Expense   | (76,705 )                | (68,768 )   | (57,873 )   |
| Income Before Income Taxes  | 410,907                  | 487,568     | 477,746     |
| Income tax expense  | 142,894                  | 159,422     | 164,662     |
| Net Income  | 268,013                  | 328,146     | 313,084     |
| Less: net income attributable to noncontrolling interests   | 967                      | 1,690       | 1,712       |
| Net Income Attributable to Stericycle, Inc.   | 267,046                  | 326,456     | 311,372     |
| Less: mandatory convertible preferred stock dividend  | 10,106                   | —           | —           |
| Net Income Attributable to Stericycle, Inc. Common Shareholders                                       | \$256,940                | \$326,456   | \$311,372   |
| Earnings Per Common Share Attributable to Stericycle, Inc. Common Shareholders:                       |                          |             |             |
| Basic   | \$3.02                   | \$3.84      | \$3.62      |
| Diluted   | \$2.98                   | \$3.79      | \$3.56      |
| Weighted Average Number of Common Shares Outstanding:   |                          |             |             |
| Basic   | 84,944,841               | 84,932,792  | 85,902,550  |
| Diluted   | 86,162,609               | 86,233,612  | 87,391,988  |

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



## STERICYCLE, INC. AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

In thousands

|  | Years Ended December 31, |           |           |
|--|--------------------------|-----------|-----------|
|  | 2015                     | 2014      | 2013      |
| Net Income   | \$268,013                | \$328,146 | \$313,084 |
| Other Comprehensive Income/ (Loss):  |                          |           |           |
| Foreign currency translation adjustments   | (140,648)                | (82,871)  | (19,160)  |
| Amortization of cash flow hedge into income, net of tax (\$452, \$209 and \$200) for the years ended December 31, 2015, 2014 and 2013, respectively) | 716                      | 339       | 314       |
| Change in fair value of cash flow hedge, net of tax (\$2,623, \$813 and \$0 for the years ended December 31, 2015, 2014 and 2013, respectively)      | (4,119)                  | (2,069)   | —         |
| Total Other Comprehensive Loss   | (144,051)                | (84,601)  | (18,846)  |
| Comprehensive Income   | 123,962                  | 243,545   | 294,238   |
| Less: comprehensive loss/ (income) attributable to noncontrolling interests  | 1,128                    | (960)     | 270       |
| Comprehensive Income Attributable to Stericycle, Inc. Common Shareholders  | \$122,834                | \$244,505 | \$293,968 |

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

## STERICYCLE, INC. AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF CASH FLOWS

In thousands

|  | Years Ended December 31, |             |            |
|--|--------------------------|-------------|------------|
|  | 2015                     | 2014        | 2013       |
| <b>OPERATING ACTIVITIES:</b>   |                          |             |            |
| Net income   | \$268,013                | \$328,146   | \$313,084  |
| Adjustments to reconcile net income to net cash provided by operating activities:            |                          |             |            |
| Stock compensation expense   | 21,750                   | 17,773      | 17,457     |
| Excess tax benefit of stock options exercised  | (16,897 )                | (17,906 )   | (17,153 )  |
| Depreciation   | 81,914                   | 71,924      | 61,341     |
| Amortization   | 45,498                   | 32,692      | 27,067     |
| Deferred income taxes  | (10,294 )                | 16,550      | 30,930     |
| Other, net   | 7,467                    | 8,932       | 1,103      |
| Changes in operating assets and liabilities, net of effect of acquisitions and divestitures: |                          |             |            |
| Accounts receivable  | (55,890 )                | (34,116 )   | (54,767 )  |
| Accounts payable   | 26,366                   | (5,712 )    | 7          |
| Accrued liabilities  | 26,060                   | 21,279      | 4,547      |
| Deferred revenues  | (4,615 )                 | 1,017       | (1,319 )   |
| Other assets and liabilities   | 956                      | 7,921       | 23,010     |
| Net cash provided by operating activities  | 390,328                  | 448,500     | 405,307    |
| <b>INVESTING ACTIVITIES:</b>   |                          |             |            |
| Payments for acquisitions, net of cash acquired  | (2,419,437)              | (374,321 )  | (161,936 ) |
| Proceeds from/ (purchases of) investments  | 294                      | (1,957 )    | 73         |
| Capital expenditures   | (114,761 )               | (86,496 )   | (73,109 )  |
| Net cash used in investing activities  | (2,533,904)              | (462,774 )  | (234,972 ) |
| <b>FINANCING ACTIVITIES:</b>   |                          |             |            |
| Repayments of long-term debt and other obligations   | (93,172 )                | (101,231 )  | (88,507 )  |
| Proceeds from foreign bank debt  | 53,747                   | 205,086     | 218,968    |
| Repayments of foreign bank debt  | (87,308 )                | (193,284 )  | (201,967 ) |
| Proceeds from term loan  | 1,550,000                | —           | —          |
| Repayment of term loan   | (300,000 )               | —           | —          |
| Proceeds from private placement of long-term note  | 600,000                  | —           | —          |
| Repayments of private placement of long-term note  | (100,000 )               | —           | —          |
| Proceeds from senior credit facility   | 1,907,402                | 1,413,026   | 1,029,718  |
| Repayments of senior credit facility   | (2,004,385)              | (1,216,031) | (984,979 ) |
| Payments of capital lease obligations  | (3,865 )                 | (5,826 )    | (4,024 )   |
| Payments of deferred financing costs   | (9,903 )                 | (2,280 )    | —          |
| Payment of cash flow hedge   | (8,833 )                 | —           | —          |
| Purchases and cancellations of treasury stock  | (130,576 )               | (194,066 )  | (163,700 ) |
| Proceeds from issuance of mandatory convertible preferred stock                              | 746,900                  | —           | —          |
| Dividends paid on mandatory convertible preferred stock                                      | (10,106 )                | —           | —          |
| Proceeds from issuance of common stock   | 60,124                   | 51,852      | 42,345     |

Edgar Filing: STERICYCLE INC - Form 10-K/A

|  |           |           |            |
|--|-----------|-----------|------------|
| Excess tax benefit of stock options exercised                | 16,897    | 17,906    | 17,153     |
| Payments to noncontrolling interests                         | (5,714 )  | (5,201 )  | (1,026 )   |
| Net cash provided by/ (used in) financing activities         | 2,181,208 | (30,049 ) | (136,019 ) |
| Effect of exchange rate changes on cash and cash equivalents | (4,234 )  | (608 )    | (1,809 )   |
| Net increase/ (decrease) in cash and cash equivalents        | 33,398    | (44,931 ) | 32,507     |
| Cash and cash equivalents at beginning of period             | 22,236    | 67,167    | 34,660     |
| Cash and cash equivalents at end of period                   | \$55,634  | \$22,236  | \$67,167   |

NON-CASH ACTIVITIES:

|  |          |           |           |
|--|----------|-----------|-----------|
| Issuances of obligations for acquisitions            | \$80,189 | \$145,938 | \$100,101 |
| Issuances of obligations for noncontrolling interest | —        | —         | 6,119     |

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

## STERICYCLE, INC. AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

Years Ended December 31, 2015, 2014 and 2013

In thousands

|   | Stericycle, Inc. Equity Preferred Stock |        | Common Stock |        |            | Additional Paid-In Capital | Retained Earnings | Accumulated Other Comprehensive Income (Loss) |          | Noncontrolling Interest | Total Equity |
|---|---|--------|--------------|--------|------------|----------------------------|-------------------|---|----------|-------------------------|--------------|
|   | Shares                                  | Amount | Shares       | Amount | Capital    |                            |                   | Income (Loss)                                 | Interest |                         |              |
| Balance at January 1, 2013  | —                                       | \$ —   | 85,988       | \$ 860 | \$ 116,720 | \$ 1,463,277               | \$ (39,064 )      | \$ 15,530                                     |          | \$ 1,557,323            |              |
| Net income  |   |        |              |        |            | 311,372                    |                   | 1,712   |          | 313,084                 |              |
| Currency translation adjustment   |   |        |              |        |            |                            | (17,718 )         | (1,442 )                                      |          | (19,160 )               |              |
| Change in qualifying cash flow hedge, net of tax                              |   |        |              |        |            |                            | 314               |   |          | 314                     |              |
| Issuance of common stock for exercise of options and employee stock purchases |   |        | 973          | 10     | 47,991     |                            |                   |   |          | 48,001                  |              |
| Purchase and cancellation of treasury stock                                   |   |        | (1,461 )     | (15 )  |            |                            | (163,685 )        |   |          | (163,700 )              |              |
| Stock compensation expense  |   |        |              |        | 17,457     |                            |                   |   |          | 17,457                  |              |
| Excess tax benefit of stock options exercised                                 |   |        |              |        | 17,153     |                            |                   |   |          | 17,153                  |              |
| Noncontrolling interests attributable to acquisitions                         |   |        |              |        |            |                            |                   | 4,211   |          | 4,211                   |              |
| Reduction to noncontrolling interests due to                                  |   |        |              |        | (4,211 )   |                            |                   | (2,934 )                                      |          | (7,145 )                |              |

Edgar Filing: STERICYCLE INC - Form 10-K/A

|   |   |   |          |       |         |            |            |          |            |
|---|---|---|----------|-------|---------|------------|------------|----------|------------|
| additional ownership  |   |   |          |       |         |            |            |          |            |
| Balance at December 31, 2013  | — | — | 85,500   | 855   | 195,110 | 1,610,964  | (56,468 )  | 17,077   | 1,767,538  |
| Net income  |   |   |          |       |         | 326,456    |            | 1,690    | 328,146    |
| Currency translation adjustment   |   |   |          |       |         |            | (80,221 )  | (2,650 ) | (82,871 )  |
| Change in qualifying cash flow hedge, net of tax  |   |   |          |       |         |            | (1,730 )   |          | (1,730 )   |
| Issuance of common stock for exercise of options, restricted stock units and employee stock purchases |   |   | 1,061    | 11    | 58,551  |            |            |          | 58,562     |
| Purchase and cancellation of treasury stock   |   |   | (1,677 ) | (17 ) |         | (194,049 ) |            |          | (194,066 ) |
| Stock compensation expense  |   |   |          |       | 17,773  |            |            |          | 17,773     |
| Excess tax benefit of stock options exercised   |   |   |          |       | 17,906  |            |            |          | 17,906     |
| Noncontrolling interests attributable to acquisitions   |   |   |          |       |         |            |            | 6,781    | 6,781      |
| Reduction to noncontrolling interests due to additional ownership                                     |   |   |          |       | (129 )  |            |            | (725 )   | (854 )     |
| Balance at December 31, 2014  | — | — | 84,884   | 849   | 289,211 | 1,743,371  | (138,419 ) | 22,173   | 1,917,185  |
| Net income  |   |   |          |       |         | 267,046    |            | 967      | 268,013    |
| Currency translation adjustment   |   |   |          |       |         |            | (140,809 ) | 161      | (140,648 ) |
| Change in qualifying cash flow hedge, net of tax  |   |   |          |       |         |            | (3,403 )   |          | (3,403 )   |
| Issuance of common stock for  |   |   | 973      | 10    | 68,630  |            |            |          | 68,640     |

|  |     |      |          |        |              |              |               |           |              |
|--|-----|------|----------|--------|--------------|--------------|---------------|-----------|--------------|
| exercise of options, restricted stock units and employee stock purchases |     |      |          |        |              |              |               |           |              |
| Issuance of mandatory convertible preferred stock                        | 770 | 8    |          |        | 746,892      |              |               |           | 746,900      |
| Purchase and cancellation of treasury stock                              |     |      | (1,004 ) | (10 )  |              |              | (131,666 )    |           | (131,676 )   |
| Preferred stock dividend   |     |      |          |        |              |              | (10,106 )     |           | (10,106 )    |
| Stock compensation expense   |     |      |          |        | 21,750       |              |               |           | 21,750       |
| Excess tax benefit of stock options exercised                            |     |      |          |        | 16,897       |              |               |           | 16,897       |
| Reduction to noncontrolling interests due to additional ownership        |     |      |          |        | (360 )       |              |               | (5,354 )  | (5,714 )     |
| Balance at December 31, 2015   | 770 | \$ 8 | 84,853   | \$ 849 | \$ 1,143,020 | \$ 1,868,645 | \$ (282,631 ) | \$ 17,947 | \$ 2,747,838 |

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

STERICYCLE, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

NOTE 1 — DESCRIPTION OF BUSINESS

We were incorporated in 1989 and presently serve a diverse customer base of more than 1,000,000 customers throughout the United States, Argentina, Austria, Australia, Belgium, Brazil, Canada, Chile, France, Germany, Ireland, Japan, Luxembourg, Mexico, the Netherlands, Portugal, Romania, Republic of Korea, Singapore, South Africa, Spain, and the United Kingdom.

We lease office space for our corporate offices in Lake Forest, Illinois. Domestically, we own or lease 114 processing facilities, which are primarily autoclaves for medical waste and shredders for secure information destruction. All of our processing facilities also serve as collection sites. We own or lease 218 additional transfer sites, 21 additional sales/administrative sites, and 83 other service facilities. Internationally, we own or lease 139 processing facilities, the majority of which use autoclave waste processing technology. We also own or lease 140 additional transfer sites, 62 additional sales/administrative sites, 54 other service facilities, and 3 landfills.

We are a business-to-business services provider with a focus on regulated and compliance solutions for healthcare, retail, and commercial businesses. This includes the collection and processing of regulated and specialized waste for disposal and the collection of personal and confidential information for secure destruction, plus a variety of training, consulting, recall/return, communication, and compliance services.

Our solutions for regulated or specialty waste streams include: medical waste disposal, pharmaceutical waste disposal, hazardous waste management, sustainability solutions for expired or unused inventory, and secure information destruction of documents or e-media. Our compliance solutions include: training and consulting through our Steri-Safe® and Clinical Services programs as well as inbound/outbound communications, data reporting, and other regulatory compliance services. Our regulated recall and returns management solutions consist of communication, logistics, and data management services to support the recall, withdrawal, or return of expired or recalled products.

We have 14,170 employees in the United States, of which 419 are covered by collective bargaining agreements. Internationally, we have 11,302 employees, of which approximately 2,703 are covered by collective bargaining agreements, primarily in Latin America.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

**Principles of Consolidation:** The consolidated financial statements include the accounts of Stericycle, Inc. and its subsidiaries.

**Revenue Recognition:** Revenues for our regulated medical waste management services, other than our compliance services, and secure information destruction services are recognized at the time of waste collection. Our compliance service revenues are recognized evenly over the contractual service period. Payments received in advance are deferred and recognized as services are provided. Revenues from hazardous waste services are recorded at the time waste is received at our processing facility. Revenues from regulated recall and returns management services and communication solutions are recorded at the time services are performed. Revenues from product sales are recognized at the time the goods are shipped to the ordering customer. Charges related to sales taxes and international value added tax ("VAT") and other similar pass through taxes are not included as revenue.



**Acquisition Accounting:** Acquisition accounting requires us to recognize assets and liabilities at their fair value. The process of determining fair value requires time to complete, therefore we will make some estimates at the time of acquisition. These estimates are primarily for amortizable intangibles and, if appropriate, an associated deferred tax liability. These estimates are based on historical experience and allow us to recognize amortization expense until the final valuation is complete.

**Goodwill and Other Identifiable Intangible Assets:** Goodwill associated with the excess of the purchase price over the fair value of the net assets acquired is not amortized, but is subject to an annual impairment test. In accordance with applicable accounting standards, we evaluate on at least an annual basis, using the fair value of reporting units, whether goodwill is impaired. If we were to determine that a significant impairment has occurred, we would be required to incur non-cash charges of the impaired portion of goodwill that could have a material adverse effect on our results of operations in the period in which the impairment charge occurs. During the quarter ended June 30, 2015, we performed our annual goodwill impairment evaluation for our three reporting units, Domestic Regulated and Compliance Services, Domestic Regulated Recall and Returns Management Services, and International Regulated and Compliance Services. We calculate the fair value of our reporting units using an income method and validate those results using a market approach. Both the income and market approaches indicated no impairment to goodwill in any of our three reporting units. See Note 11 - Goodwill and Other Intangible Assets in the Notes to the Consolidated Financial Statements for more information about goodwill and the annual impairment test.

We have determined that our permits have indefinite lives due to our ability to renew these permits with minimal additional cost, and therefore they are not amortized. We also have a tradename that we have determined has an indefinite life. Our indefinite lived intangible assets are tested for impairment annually at December 31, or more frequently, if circumstances indicate that they may be impaired. We use a qualitative assessment, as provided for under the FASB Accounting Standards Codification Topic 350, Intangibles - Goodwill and Other, to determine if is more likely than not that the asset is impaired. If there is an indication of impairment, we test the recoverability of the asset using either a discounted income or cost savings model to calculate fair value. The calculated fair value is based upon, among other things, certain assumptions about expected future operating performance, internal and external processing costs, and an appropriate discount rate determined by management. Our estimates of discounted income may differ from actual income due to, among other things, inaccuracies in economic estimates. See Note 11 - Goodwill and Other Intangible Assets in the Notes to the Consolidated Financial Statements for more information about indefinite lived intangible assets.

Our finite-lived intangible assets are amortized over their useful lives using straight-line method. We have determined that our customer relationships have useful lives from 10 to 40 years based upon the type of customer, with a weighted average remaining useful life of 19.2 years. We have covenants not-to-compete intangibles with useful lives from 5 to 14 years, with a weighted average remaining useful life of 3.7 years. We have tradename intangibles with useful lives from 15 to 40 years, with a weighted average remaining useful life of 17.2 years. Other intangibles mainly consist of landfill air rights with a weighted average remaining useful life of 19.1 years. These assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may be less than its undiscounted estimated future cash flows. See Note 11 - Goodwill and Other Intangible Assets in the Notes to the Consolidated Financial Statements for more information about our intangible assets other than goodwill.

**Valuation of Intangibles:** Valuation of our intangible assets other than goodwill is derived using a discounted income and cost savings approach. Financial information such as revenues, costs, assets and liabilities, and other assumptions related to the intangible asset are input into a standard valuation model to determine a stream of income attributable to that intangible. The income stream is then discounted to the present to arrive at a valuation. We perform annual impairment tests on our indefinite lived intangible assets.

Our customer relationship valuation model, using the multi-period excess earnings method, assumes straight-line revenue loss. The calculation of determining a revenue loss rate starts with a base-line revenue point and then tracks revenue by customer, assuming no further revenue growth, to a point of zero

revenues. A calculation of base-line revenue to zero revenue determines the useful life of customer relationships. Determining an accurate consumption of benefits from acquired customer relationships cannot be reliably determined because the services we provide to acquired customers changes from the base-line revenues over an extended period of time due to factors such as volume increase, price increase, and complementary service offerings. Therefore we amortize our finite-lived intangible assets using the straight-line method consistent with our valuation model.

**Income Taxes:** We are subject to income taxes in both the U.S. and numerous foreign jurisdictions. We compute our provision for income taxes using the asset and liability method, under which deferred tax assets and liabilities are recognized for the expected future tax consequences of temporary differences between the financial reporting and tax basis of assets and liabilities and for operating loss and tax credit carry-forwards. Deferred tax assets and liabilities are measured using the currently enacted tax rates that are expected to apply to taxable income for the years in which those tax assets and liabilities are expected to be realized or settled. Significant judgments are required in order to determine the realizability of these deferred tax assets. In assessing the need for a valuation allowance, we evaluate all significant available positive and negative evidence, including historical operating results, estimates of future taxable income and the existence of prudent and feasible tax planning strategies. Changes in the expectations regarding the realization of deferred tax assets could materially impact income tax expense in future periods. Undistributed earnings of foreign subsidiaries are considered permanently reinvested, and therefore no deferred taxes are recorded thereon. To provide for uncertain tax positions, we maintain a reserve for tax benefits assumed that do not meet a threshold of "more likely than not" to be sustained. Management believes the amount provided for uncertain tax positions is adequate.

**Accounts Receivable:** Accounts receivable consist of amounts due to us from our normal business activities and are carried at their estimated collectible amounts. Our accounts receivable balance includes amounts related to VAT and similar international pass-through taxes. We do not require collateral as part of our standard trade credit policy. Accounts receivable balances are determined to be past due when the amount is overdue based on the contractual terms with the customer. We maintain an allowance for doubtful accounts to reflect the expected uncollectability of accounts receivable based on past collection history and specific risks identified among uncollected accounts. Accounts receivable are written off against the allowance for doubtful accounts when we have determined that the receivable will not be collected and/or when the account has been referred to a third party collection agency. No single customer accounts for more than approximately 1.5% of our accounts receivable. Bad debt expense was \$13.7 million, \$9.9 million and \$4.8 million for the years ended December 31, 2015, 2014 and 2013, respectively.

**Stock-Based Compensation:** We issue stock options and restricted stock units ("RSU") to employees and directors as an integral part of our compensation programs. Stock options cost is measured at the grant date using the Black-Scholes model and is recognized as expense over the vesting period. Determining the fair value of stock options at the grant date requires estimating the expected volatility of our stock, the expected term of the award, and the risk-free rate. Our stock's expected volatility and the expected term of the awards are based upon historical experience. The risk-free interest rate assumption is based upon the U.S. Treasury yield rates of a comparable period. The fair value of RSU is based on the closing price of the Company's common stock on the date of grant and is amortized to expense over the service period. If factors change and we employ different assumptions, stock-based compensation expense may differ significantly from what we have recorded in the past.

**Litigation:** We operate in a highly regulated industry and deal with regulatory inquiries or investigations from time to time that may be instituted for a variety of reasons. We are also involved in a variety of civil litigation from time to time. Liabilities from litigation are accrued when known, probable and estimable.

**Share Repurchases:** Purchase price over par value for share repurchases are allocated to retained earnings.

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

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

|                                |               |
|--------------------------------|---------------|
| Building and improvements      | 5 to 50 years |
| Machinery and equipment        | 2 to 30 years |
| Containers                     | 2 to 20 years |
| Vehicles                       | 2 to 10 years |
| Office equipment and furniture | 2 to 20 years |
| Software                       | 2 to 15 years |

Our containers have a weighted average remaining useful life of 12.5 years.

Environmental Remediation Liabilities: We record a liability for environmental remediation when such liability becomes probable and the costs or damages can be reasonably estimated. We accrue environmental remediation costs, on an undiscounted basis, associated with identified sites where an assessment has indicated that cleanup costs are probable and can be reasonably estimated, but the timing of such payments is not fixed and determinable. Such accruals are based on currently available information, estimated timing of remedial actions, existing technology, and enacted laws and regulations.

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

Financial Instruments: Our financial instruments consist of cash and cash equivalents, short-term investments, accounts receivable and payable, derivatives, and long-term debt. At December 31, 2015, the fair value of the Company's debt obligations was estimated at \$3.22 billion, compared to a carrying amount of \$3.21 billion. This fair value was estimated using market interest rates for comparable instruments. The Company has no current plans to retire a significant amount of its debt prior to maturity. Financial instruments, which potentially subject us to concentrations of credit risk, consist principally of accounts receivable. Credit risk on trade receivables is minimized as a result of the large size of our customer base. No single customer represents greater than approximately 1.5% of total accounts receivable. We perform ongoing credit evaluation of our customers and maintain allowances for potential credit losses. For any contracts in loss positions, losses are recorded when probable and estimable. These losses, when incurred, have been within the range of our expectations.

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

results could differ from our estimates.

Future estimated expenses may fluctuate depending on changes in foreign currency rates. The estimates for payments due on long-term debt, lease payments under capital leases, accrued liabilities, contingent consideration liabilities, intangible assets amortization expense, and rental payments are based upon foreign exchange rates at December 31, 2015.

14

---

Foreign Currency Translation: Assets and liabilities of foreign affiliates that use the local currency as their functional currency are translated at the exchange rate on the last day of the accounting period, and income statement accounts are translated at the average rates during the period. Related translation adjustments are reported as a component of accumulated other comprehensive loss in Stericycle, Inc.'s equity.

#### New Accounting Standards:

##### Accounting Standards Recently Adopted

##### Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity

On January 1, 2015, we adopted Accounting Standards Update ("ASU") No. 2014-08, "Presentation of Financial Statements (Topic 205): Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity," guidance on the presentation and disclosures of reporting discontinued operations. The new guidance defines a discontinued operation as a disposal of a component or group of components that is disposed of or is classified as held for sale and "represents a strategic shift that has (or will have) a major effect on an entity's operations and financial results." For disposals of individually significant components that do not qualify as discontinued operations, an entity must disclose pre-tax earnings of the disposed component. The Company has not disposed of a component of our entity and therefore the implementation of this guidance did not affect our financial position, results of operations, or disclosure requirements.

##### Simplifying the Accounting for Measurement-Period Adjustments

As of December 31, 2015, we early adopted ASU No. 2015-16, "Business Combinations (Topic 805): Simplifying the Accounting for Measurement-Period Adjustments," guidance that eliminates the requirement that an acquirer in a business combination account for measurement-period adjustments retrospectively. Instead, an acquirer will recognize measurement-period adjustments during the period in which it determines the amount of the adjustment. The implementation of this guidance did not materially impact our financial statements.

##### Balance Sheet Classification of Deferred Taxes

As of December 31, 2015, we early adopted ASU No. 2015-17, "Income Taxes (Topic 740): Balance Sheet Classification of Deferred Taxes," guidance that requires companies to classify all deferred tax assets and liabilities as noncurrent on the balance sheet instead of separating deferred taxes into current and noncurrent amounts. At December 31, 2014, we have reclassified \$28.3 million of current deferred tax assets to noncurrent deferred tax liabilities to conform to the current period balance sheet presentation. Other than the change in balance sheet presentation, there were no other impacts.

##### Accounting in the Cloud

As of December 31, 2015, we adopted ASU No. 2015-05, "Intangible - Goodwill and Other - Internal-Use Software (Subtotal 350-40): Customer's Accounting Fees Paid in a Cloud Computing Arrangement," guidance to determine whether customers in a cloud computing arrangement should account for a contract as a software license or as a service contract. The guidance applies only to internal-use software to which a customer obtains access in a hosting arrangement. The standard will be effective for financial statements issued for annual periods beginning after December 15, 2015, with early adoption permitted. We have evaluated our contracts and determined that our cloud computing arrangements do not include a software license criteria and therefore are properly treated as service contracts.





## Accounting Standards Issued But Not Yet Adopted

## Interest-Imputation of Interest

In April 2015, the FASB issued ASU No. 2015-03, "Interest - Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs," guidance that requires debt issuance costs related to a recognized debt liability to be presented in the balance sheet as a direct deduction from the debt liability rather than as an asset. The recognition and measurement guidance for debt issuance costs are not affected by the accounting standard update. The standard will be effective for annual periods and interim periods within those annual periods beginning after December 15, 2015, with early adoption permitted. The revised standard will be adopted by the Company on January 1, 2016, will be applied retrospectively and will require reclassifications within the Company's consolidated balance sheets and statements of cash flows. The revised standard only affects presentation and therefore will not have an impact on the Company's results of operations.

## Revenue From Contracts With Customers

In May 2014, the FASB issued ASU No. 2014-09, "Revenue from Contracts with Customers" (Topic 606), guidance to provide a single, comprehensive revenue recognition model for all contracts with customers. The revenue guidance contains principles that an entity will apply to determine the measurement of revenue and timing of when it is recognized. The underlying principle is that an entity will recognize revenue to depict the transfer of goods or services to customers at an amount that the entity expects to be entitled to in exchange for those goods or services. The amended authoritative guidance associated with revenue recognition is effective for the Company on January 1, 2018. The amended guidance may be applied retrospectively for all periods presented or retrospectively with the cumulative effect of initially applying the amended guidance recognized at the date of initial application. We are in the process of assessing the provisions of the new revenue recognition standard and have not determined whether the adoption will have a material impact on our consolidated financial statements.

## NOTE 3 – ACQUISITIONS

The following table summarizes the locations of our acquisitions for the years ended December 31, 2015, 2014 and 2013:

| Acquisition Locations | 2015 | 2014 | 2013 |
|-----------------------|------|------|------|
| United States         | 19   | 17   | 13   |
| Argentina             | —    | 2    | 3    |
| Brazil                | 2    | 3    | 2    |
| Canada                | 2    | 2    | 3    |
| Chile                 | —    | 3    | 1    |
| Ireland               | 1    | —    | —    |
| Japan                 | —    | 2    | 3    |
| Mexico                | 3    | —    | 1    |
| Netherlands           | 2    | —    | —    |
| Portugal              | —    | 5    | 2    |

Edgar Filing: STERICYCLE INC - Form 10-K/A

|                   |    |    |    |
|-------------------|----|----|----|
| Romania           | 4  | 3  | 6  |
| Republic of Korea | 6  | 1  | —  |
| Spain             | 4  | 3  | 3  |
| United Kingdom    | —  | 3  | 12 |
| Total             | 43 | 44 | 49 |

During 2015, we completed 43 acquisitions, of which 19 were domestic and 24 were international. Domestically, we acquired selected assets of eleven regulated waste businesses, 100% of the stock of two regulated waste businesses, selected assets of one communication services business and 100% of the stock of another communication services business. Additionally, we acquired selected assets of four secure information destruction businesses.

In Brazil, we acquired 100% of the stock of two regulated waste businesses. In Canada, we acquired 100% of the stock of one communication services and one secure information destruction business. In Ireland, we acquired 100% of the stock of one regulated waste business. In Mexico, we acquired 100% of the stock of two regulated waste businesses and selected assets of another. In the Netherlands, which represents a new market for us, we acquired 100% of the stock of one regulated waste business and selected assets of another. In Romania, we acquired selected assets of three regulated waste businesses and 100% of the stock of another. In the Republic of Korea, we acquired selected assets of six regulated waste businesses. In Spain, we acquired selected assets of four regulated waste businesses.

The following table summarizes the aggregate purchase price paid for acquisitions and other adjustments of consideration to be paid for acquisitions during the years ended December 31, 2015, 2014 and 2013:

| In thousands             | 2015        | 2014      | 2013      |
|--------------------------|-------------|-----------|-----------|
| Cash                     | \$2,419,437 | \$374,321 | \$161,936 |
| Promissory notes         | 64,072      | 125,229   | 64,581    |
| Deferred consideration   | 3,172       | 3,535     | 31,149    |
| Contingent consideration | 12,945      | 17,174    | 4,371     |
| Total purchase price     | \$2,499,626 | \$520,259 | \$262,037 |

For financial reporting purposes, our acquisitions were accounted for using the acquisition method of accounting. These acquisitions resulted in the recognition of goodwill in our financial statements reflecting the premium paid to acquire businesses that we believe are complementary to our existing operations and fit our growth strategy. During the twelve months ended December 31, 2015, we recognized a net increase in goodwill of \$1.42 billion excluding the effect of foreign currency translation (see Note 11 – Goodwill and Other Intangible Assets in the Notes to the Consolidated Financial Statements). A net increase of \$1.13 billion was assigned to our United States reportable segment, and a net increase of \$289.1 million was assigned to our International reportable segment. Approximately \$528.6 million of the goodwill recognized during the twelve months ended December 31, 2015 will be deductible for income taxes.

During the twelve months ended December 31, 2015, we recognized a net increase in intangible assets from acquisitions of \$1.05 billion, excluding the effect of foreign currency translation. The changes include \$599.4 million in the estimated fair value of acquired customer relationships with amortizable lives of 10 to 40 years, \$1.4 million in permits with indefinite lives, \$423.3 million in tradenames with indefinite lives, and \$27.9 million in other intangibles with amortizable lives of 3 to 20 years.

The purchase prices for these acquisitions in excess of acquired tangible and identifiable intangible assets have been primarily allocated to goodwill, and are preliminary pending the completion of certain intangible asset valuations and completion accounts. The following table summarizes the preliminary purchase price allocation for current period acquisitions and other adjustments to purchase price allocations during the years ended December 31, 2015, 2014 and 2013:

| In thousands | 2015 | 2014 | 2013 |
|--------------|------|------|------|
|--------------|------|------|------|

Edgar Filing: STERICYCLE INC - Form 10-K/A

|                                       |              |            |            |
|---------------------------------------|--------------|------------|------------|
| Fixed assets                          | \$ 198,145   | \$ 98,916  | \$ 15,582  |
| Intangibles                           | 1,052,016    | 276,798    | 92,398     |
| Goodwill                              | 1,422,673    | 235,597    | 179,795    |
| Accounts receivable                   | 135,800      | 68,019     | 19,920     |
| Net other assets/ (liabilities)       | 18,133       | (11,702 )  | 3,260      |
| Environmental remediation liabilities | —            | (32,383 )  | —          |
| Current liabilities                   | (91,522 )    | (67,334 )  | (23,200 )  |
| Debt                                  | (4,966 )     | (22,102 )  | (7,512 )   |
| Net deferred tax liabilities          | (230,653 )   | (18,769 )  | (13,995 )  |
| Noncontrolling interests              | —            | (6,781 )   | (4,211 )   |
| Total purchase price allocation       | \$ 2,499,626 | \$ 520,259 | \$ 262,037 |

During the twelve months ended December 31, 2015, 2014 and 2013 the Company incurred \$39.1 million, \$13.3 million, and \$10.3 million, respectively, of acquisition related expenses. These expenses are included with “Selling, general and administrative expenses” (“SG&A”) on our Consolidated Statements of Income.

Included in the acquisitions discussed above, is the acquisition of Shred-it International ULC, an Alberta unlimited liability corporation (“SII”), Shredit JV LP, an Ontario limited partnership (“Shred-it JV”), Boost GP Corp., an Ontario corporation (“Boost GP”), and Boost Holdings LP, an Ontario limited partnership (together with SII, Shred-it JV and Boost GP, “Shred-it”). On October 1, 2015, we acquired Shred-it for an aggregate purchase price of \$2.3 billion in cash. Shred-it is the global leader in secure information destruction, a highly complementary service to our regulated waste and compliance services and will provide operational synergies stemming from our core competencies in route logistics and lean management systems.

The following table summarizes the preliminary purchase price allocation by major asset acquired and liability assumed, as well as the amount of goodwill recognized for Shred-it acquisition and in aggregate for all other 2015 acquisitions:

| In thousands                    | Shred-it     |                    | Total        |
|---------------------------------|--------------|--------------------|--------------|
|                                 | Acquisition  | Other Acquisitions |              |
| Fixed assets                    | \$ 174,250   | \$ 23,895          | \$ 198,145   |
| Intangibles                     | 955,000      | 97,016             | 1,052,016    |
| Goodwill                        | 1,333,046    | 89,627             | 1,422,673    |
| Accounts receivable             | 117,541      | 18,259             | 135,800      |
| Net other assets/ (liabilities) | 16,738       | 1,395              | 18,133       |
| Current liabilities             | (72,178 )    | (19,344 )          | (91,522 )    |
| Debt                            | —            | (4,966 )           | (4,966 )     |
| Net deferred tax liabilities    | (220,505 )   | (10,148 )          | (230,653 )   |
| Total purchase price allocation | \$ 2,303,892 | \$ 195,734         | \$ 2,499,626 |

The amounts in the table above are subject to change upon finalization of asset valuations and completion accounts. We used various techniques to determine fair value:

- For fixed assets, we used a Market Approach to make preliminary estimates of fair value.
- For customer relationships, we used an Income Approach using the Multi-Period Excess Earnings Method (“MPEEM”) to make preliminary estimates of fair value of \$534.0 million.
- For the Shred-it tradename, we used an Income Approach using the Relief from Royalties method to make preliminary estimates of fair value of \$421.0 million.

The results of operations of these acquired businesses have been included in the consolidated statements of income from the date of the acquisition. Our revenues for the twelve months ended December 31, 2015 from the aggregate acquisitions during 2015 was approximately \$258.5 million, of which \$177.4 million was from the Shred-it acquisition. Our pro forma earnings include estimates for intangible asset amortization expense but does not include estimated synergies as the timing and realizability of synergies is uncertain.

The pro forma results have been prepared for comparative purposes only and are not necessarily indicative of the results of operations as they would have been had the acquisitions occurred on the assumed dates. The following consolidated pro forma information on the impact of the 2015 acquisitions to our consolidated revenues and net income is based on the assumption that these acquisitions all occurred on January 1, 2014:

|            | Years Ended December |             |
|------------|----------------------|-------------|
|            | 2015                 | 2014        |
| Revenues   | \$3,569,490          | \$3,397,646 |
| Net income | 307,994              | 375,339     |

## NOTE 4 – FAIR VALUE MEASUREMENTS

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

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

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

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

Financial assets and liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurement. Our assessment of the significance of a particular input to the fair value measurement requires judgment, and may affect the valuation of assets and liabilities and their placement within the fair value hierarchy levels. The impact of our creditworthiness has been considered in the fair value measurements noted below. In addition, the fair value measurement of a liability must reflect the nonperformance risk of an entity. There were no movements of items between fair value hierarchies.

In thousands

|                                  | Total as of       | Fair Value Measurements Using |                 |                 |
|----------------------------------|-------------------|-------------------------------|-----------------|-----------------|
|                                  |                   | Level 1                       | Level 2         | Level 3         |
|                                  | December 31, 2015 | Inputs                        | Inputs          | Inputs          |
| <b>Assets:</b>                   |                   |                               |                 |                 |
| Cash and cash equivalents        | \$ 55,634         | \$55,634                      | \$—             | \$—             |
| Short-term investments           | 69                | 69                            | —               | —               |
| Derivative financial instruments | 1,207             | —                             | 1,207           | —               |
| <b>Total assets</b>              | <b>\$ 56,910</b>  | <b>\$55,703</b>               | <b>\$ 1,207</b> | <b>\$—</b>      |
| <b>Liabilities:</b>              |                   |                               |                 |                 |
| Contingent considerations        | \$ 25,390         | \$—                           | \$—             | \$25,390        |
| Derivative financial instruments | —                 | —                             | —               | —               |
| <b>Total liabilities</b>         | <b>\$ 25,390</b>  | <b>\$—</b>                    | <b>\$—</b>      | <b>\$25,390</b> |

In thousands

Edgar Filing: STERICYCLE INC - Form 10-K/A

|                                  | Total as of       | Fair Value Measurements Using |                |                 |
|----------------------------------|-------------------|-------------------------------|----------------|-----------------|
|                                  |                   | Level 1                       | Level 2        | Level 3         |
|                                  | December 31, 2014 | Inputs                        | Inputs         | Inputs          |
| <b>Assets:</b>                   |                   |                               |                |                 |
| Cash and cash equivalents        | \$ 22,236         | \$22,236                      | \$—            | \$—             |
| Short-term investments           | 380               | 380                           | —              | —               |
| Derivative financial instruments | 515               | —                             | 515            | —               |
| <b>Total assets</b>              | <b>\$ 23,131</b>  | <b>\$22,616</b>               | <b>\$515</b>   | <b>\$—</b>      |
| <b>Liabilities:</b>              |                   |                               |                |                 |
| Contingent considerations        | \$ 19,941         | \$—                           | \$—            | \$19,941        |
| Derivative financial instruments | 2,408             | —                             | 2,408          | —               |
| <b>Total liabilities</b>         | <b>\$ 22,349</b>  | <b>\$—</b>                    | <b>\$2,408</b> | <b>\$19,941</b> |

For our derivative financial instruments, we use a market approach valuation technique based on observable market transactions of spot and forward rates.



We recorded a \$1.2 million asset related to the fair value of the U.S. dollar-Canadian dollar foreign currency swap which was classified as other assets at December 31, 2015. The objective of the swap is to offset the foreign exchange risk to the U.S. dollar equivalent cash outflows for our Canadian subsidiary.

In March 2015, we cash settled a treasury lock hedge for \$8.8 million of which \$5.3 million, net of \$3.5 million tax, was recognized in accumulated other comprehensive income. The purpose was to lock in the interest rate on the issuance of private placement debt in July 2015 and to eliminate interest rate risk.

We had contingent consideration liabilities recorded using Level 3 inputs in the amount of \$25.4 million, of which \$9.1 million was classified as current liabilities at December 31, 2015. Contingent consideration liabilities were \$19.9 million at December 31, 2014. Contingent consideration represents amounts expected to be paid as part of acquisition consideration only if certain future events occur. These events are usually targets for revenues or earnings related to the business acquired. We arrive at the fair value of contingent consideration by applying a weighted probability of potential outcomes to the maximum possible payout. The calculation of these potential outcomes is dependent on both past financial performance and management assumptions about future performance. If the financial performance measures were all fully met, our maximum liability would be \$44.8 million at December 31, 2015. Contingent consideration liabilities are reassessed each quarter and are reflected in the Consolidated Balance Sheets in current liabilities within "Other current liabilities" and in non-current liabilities within "Other liabilities." Changes to contingent consideration are reflected in the table below:

| In thousands   |           |
|--|-----------|
| Contingent consideration at January 1, 2015                                      | \$ 19,941 |
| Increases due to acquisitions  | 12,945    |
| Decrease due to payments   | (1,853 )  |
| Changes due to foreign currency fluctuations                                     | (5,003 )  |
| Changes in fair value reflected in Selling, general, and administrative expenses | (640 )    |
| Contingent consideration at December 31, 2015                                    | \$ 25,390 |

Fair Value of Debt: At December 31, 2015, the fair value of the Company's debt obligations was estimated, using Level 2 inputs, at \$3.22 billion compared to a carrying amount of \$3.21 billion. At December 31, 2014, the fair value of the Company's debt obligations was estimated, using Level 2 inputs, at \$1.67 billion compared to a carrying amount of \$1.66 billion. The fair values were estimated using an income approach by applying market interest rates for comparable instruments. The Company has no current plans to retire a significant amount of its debt prior to maturity.

#### NOTE 5 – INCOME TAXES

The U.S. and International components of income before income taxes consisted of the following for the years ended December 31, 2015, 2014 and 2013:

In thousands

Edgar Filing: STERICYCLE INC - Form 10-K/A

|                                  | 2015      | 2014      | 2013      |
|----------------------------------|-----------|-----------|-----------|
| United States                    | \$378,815 | \$441,029 | \$407,315 |
| Foreign                          | 32,092    | 46,539    | 70,431    |
| Total income before income taxes | \$410,907 | \$487,568 | \$477,746 |

Significant components of our income tax expense for the years ended December 31, 2015, 2014 and 2013 are as follows:

| In thousands                         | 2015             | 2014             | 2013             |
|--------------------------------------|------------------|------------------|------------------|
| <b>Current</b>                       |                  |                  |                  |
| United States - federal              | \$105,941        | \$118,217        | \$103,751        |
| United States - state and local      | 15,544           | 13,023           | 11,683           |
| Foreign                              | 16,512           | 14,930           | 24,486           |
|                                      | 137,997          | 146,170          | 139,920          |
| <b>Deferred</b>                      |                  |                  |                  |
| United States - federal              | 23,762           | 29,730           | 31,808           |
| United States - state and local      | 2,504            | 948              | 5,510            |
| Foreign                              | (21,369 )        | (15,339 )        | (10,246 )        |
| Foreign - changes in statutory rates | —                | (2,087 )         | (2,330 )         |
|                                      | 4,897            | 13,252           | 24,742           |
| <b>Total provision</b>               | <b>\$142,894</b> | <b>\$159,422</b> | <b>\$164,662</b> |

A reconciliation of the income tax provision computed at the federal statutory rate to the effective tax rate for the years ended December 31, 2015, 2014 and 2013 are as follows:

|   | 2015         | 2014         | 2013         |
|---|--------------|--------------|--------------|
| Federal statutory income tax rate   | 35.0%        | 35.0%        | 35.0%        |
| Effect of:  |              |              |              |
| State and local taxes, net of federal tax effect                              | 3.1 %        | 1.9 %        | 2.3 %        |
| Foreign tax rates   | (0.4)%       | (0.5)%       | (0.8)%       |
| Change in deferred tax assets from an increase in tax basis of foreign assets | (2.2)%       | (1.8)%       | — %          |
| Other   | (0.7)%       | (1.9)%       | (2.0)%       |
| <b>Effective tax rate</b>   | <b>34.8%</b> | <b>32.7%</b> | <b>34.5%</b> |

Cash payments for income taxes were \$125.1 million, \$128.1 million, and \$102.1 million for the years ended December 31, 2015, 2014 and 2013, respectively.

Our deferred tax liabilities and assets at December 31, 2015 and 2014 were as follows:

| In thousands                     | 2015        | 2014        |
|----------------------------------|-------------|-------------|
| <b>Deferred tax liabilities:</b> |             |             |
| Property, plant and equipment    | \$(44,914 ) | \$(41,071 ) |
| Goodwill and intangibles         | (719,789)   | (453,854)   |
| Other                            | (5,747 )    | —           |

Edgar Filing: STERICYCLE INC - Form 10-K/A

|                                       |             |             |
|---------------------------------------|-------------|-------------|
| Total deferred tax liabilities        | (770,450)   | (494,925)   |
| Deferred tax assets:                  |             |             |
| Accrued liabilities                   | 69,895      | 32,664      |
| Stock based compensation              | 74,794      | 21,139      |
| Other                                 | —           | 17,922      |
| Net operating tax loss carry-forwards | 37,976      | 20,017      |
| Less: valuation allowance             | (17,585 )   | (56 )       |
| Total deferred tax assets             | 165,080     | 91,686      |
| Net deferred tax liabilities          | \$(605,370) | \$(403,239) |

At December 31, 2015, net operating loss carry-forwards for U.S. federal and state income tax purposes have been fully utilized, excluding net operating loss carry-forwards related to our acquisitions. The net operating loss carry-forwards from foreign and domestic acquisitions are approximately \$120.5 million and certain of these net operating loss carry-forwards begin to expire in 2017. The tax benefit of these net operating losses is approximately \$38.0 million at December 31, 2015, on which a valuation allowance of \$17.6 million was recorded offsetting such tax benefit.

Undistributed earnings of foreign subsidiaries are considered permanently reinvested, and therefore no deferred taxes are recorded thereon. The cumulative amounts of such earnings are approximately \$582 million at December 31, 2015, and it is not practicable to estimate the amount of tax that may be payable upon distribution assuming repatriation.

We and our subsidiaries file U.S. federal income tax returns and income tax returns in various states and foreign jurisdictions. With a few exceptions, we are no longer subject to U.S. federal, state, local, or non-U.S. income tax examinations by tax authorities for years before 2011. In 2014, the Internal Revenue Service concluded an audit of our 2010 Corporate Income Tax return with no significant adjustments.

The Company has recorded accruals to cover certain unrecognized tax positions. Such unrecognized tax positions relate to additional taxes that the Company may be required to pay in various tax jurisdictions. During the course of examinations by various taxing authorities, proposed adjustments may be asserted. The Company evaluates such items on a case-by-case basis and adjusts the accrual for unrecognized tax positions as deemed necessary. The estimated amount of liability associated with the Company's unrecognized tax positions that may significantly increase or decrease within the next twelve months cannot be reasonably estimated.

The total amount of unrecognized tax positions at December 31, 2015 is \$24.9 million. Acquisition activity has contributed to this amount. The amount of unrecognized tax positions that, if recognized, would affect the effective tax rate is approximately \$19.6 million. We recognized interest and penalties accrued related to income tax reserves in the amount of \$0.7 million and \$0.3 million, for the years ended December 31, 2015 and 2014, respectively, as a component of income tax expense.

The following table summarizes the changes in unrecognized tax positions during the years ended December 31, 2015 and 2014:

| In thousands                                   |           |
|--|-----------|
| Unrecognized tax positions, January 1, 2014    | \$ 14,910 |
| Gross increases—tax positions in prior periods | 200       |
| Gross decreases—tax positions in prior periods | (762 )    |
| Gross increases—current period tax positions   | 3,081     |
| Settlement                                     | (1,165 )  |
| Lapse of statute of limitations                | (1,169 )  |
| Unrecognized tax positions, December 31, 2014  | \$ 15,095 |
| Gross increases—tax positions in prior periods | 7,239     |
| Gross decreases—tax positions in prior periods | (793 )    |
| Gross increases—current period tax positions   | 5,976     |
| Settlement                                     | (200 )    |
| Lapse of statute of limitations                | (2,375 )  |
| Unrecognized tax positions, December 31, 2015  | \$ 24,942 |

The table above reflects \$5.3 million in gross increases for tax positions in prior periods, which relate to recently acquired uncertain tax positions. The securities purchase agreement provides that the Vendor is liable for and has indemnified Stericycle against all income tax liabilities for periods prior to the acquisition. Stericycle will be responsible for unrecognized tax benefits and related interest and penalties for periods after the acquisition.

NOTE 6 – STOCK BASED COMPENSATION

At December 31, 2015, we had the following active stock option plans:

- the 2014 Incentive Stock Plan, which our stockholders approved in May 2014;
- the 2011 Incentive Stock Plan, which our stockholders approved in May 2011;
- the 2008 Incentive Stock Plan, which our stockholders approved in May 2008;
- the 2005 Incentive Stock Plan, which our stockholders approved in April 2005;

22

---

- the 2000 Non-statutory Stock Option Plan, which expired in February 2010;
- the Employee Stock Purchase Plan ("ESPP"), which our stockholders approved in May 2001.

At December 31, 2015, we have reserved a total of 8,637,762 shares for issuance under these plans.

In terms of the stock options authorized, the 2014 Plan, 2011 Plan, 2008 Plan, and the 2005 Plan provide for the grant of non-statutory stock options ("NSOs") and incentive stock options ("ISOs") intended to qualify under section 422 of the Internal Revenue Code; and the 2000 Plan provides for the grant of NSOs.

The 2014, 2011, 2008 and 2005 Plans authorize awards to our officers, employees and consultants, and following the expiration of the Directors Plan in May 2006, to our directors; and the 2000 Plan authorized awards to our employees and consultants but not to our officers and directors.

The exercise price per share of an option granted under any of our stock option plans may not be less than the closing price of a share of our common stock on the date of grant. The maximum term of an option granted under any plan may not exceed 8 or 10 years. An option may be exercised only when it is vested and, in the case of an option granted to an employee (including an officer), only while he or she remains an employee and for a limited period following the termination of his or her employment. New shares are issued upon exercise of stock options.

#### Employee Stock Purchase Plan:

In October 2000, our Board of Directors adopted the Employee Stock Purchase Plan ("ESPP"), which our stock holders approved in May 2001, and was made effective as of July 1, 2001. The ESPP authorizes 900,000 shares of our common stock, which substantially most employees may purchase through payroll deductions at a price equal to 85% of the lower of the fair market values of the stock as of the beginning or the end of the six -month offering periods. An employee's payroll deductions, and stock purchase, may not exceed \$5,000 during any offering period. During 2015, 2014 and 2013, 68,039 shares, 60,189 shares, and 52,956 shares respectively, were issued through the ESPP. At December 31, 2015, we had 191,464 shares available for issuance under the ESPP plan.

#### Stock Based Compensation Expense:

During 2015, there were no changes to our stock compensation plans or modifications to outstanding stock-based awards which would change the value of any awards outstanding. Compensation expense for all stock-based compensation awards granted subsequent to January 1, 2006 is based on the grant-date fair value determined in accordance with the provisions of FASB accounting standards for share-based payments.

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

| In thousands  | Years Ended December 31, |        |        |
|---|--------------------------|--------|--------|
|   | 2015                     | 2014   | 2013   |
| Cost of revenues - stock option plan                    | \$92                     | \$52   | \$120  |
| Selling, general and administrative - stock option plan | 18,541                   | 15,214 | 15,212 |
| Selling, general and administrative - RSUs              | 1,484                    | 1,267  | 1,116  |
| Selling, general and administrative - ESPP              | 1,633                    | 1,240  | 1,009  |

|                       |          |          |          |
|-----------------------|----------|----------|----------|
| Total pre-tax expense | \$21,750 | \$17,773 | \$17,457 |
|-----------------------|----------|----------|----------|

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

| In thousands                                   | Years Ended December 31, |         |         |
|--|--------------------------|---------|---------|
|  | 2015                     | 2014    | 2013    |
| Tax benefit recognized in Statements of Income | \$5,567                  | \$4,849 | \$4,518 |
| Excess tax benefit realized                    | 16,897                   | 17,906  | 17,153  |



## Stock Options:

Options granted to directors vest in one year and options granted to officers and employees generally vest over five years. Expense related to the graded vesting options is recognized using the straight-line method over the vesting period.

Stock option activity for the year ended December 31, 2015, is summarized as follows:

|  | Weighted           |
|--|--------------------|
|  | Average            |
|  | Exercise           |
|  | Number of          |
|  | Price per          |
|  | Options            |
|  | Share              |
| Outstanding at beginning of year                 | 5,377,857 \$ 80.88 |
| Granted  | 1,056,490 130.56   |
| Exercised  | (906,104 ) 66.93   |
| Forfeited  | (188,927 ) 111.07  |
| Canceled or expired                              | (4,513 ) 84.52     |
| Outstanding at December 31, 2015                 | 5,334,803 92.02    |
| Exercisable at December 31, 2015                 | 2,747,266 73.22    |
| Vested and expected to vest at December 31, 2015 | 5,135,286 91.00    |

At December 31, 2015, there was \$46.3 million of total unrecognized compensation expense related to non-vested option awards, which is expected to be recognized over a weighted average period of 2.86 years.

The following table sets forth the total intrinsic value of options exercised for the years ended December 31:

| In thousands  | 2015     | 2014     | 2013     |
|---|----------|----------|----------|
| Total exercise intrinsic value of options exercised | \$62,625 | \$65,884 | \$55,757 |

The total exercise intrinsic value represents the total pre-tax value (the difference between the sales price on the trading day the option was exercised and the exercise price associated with the respective option).

The following table sets forth the information related to outstanding and exercisable options for the years ended December 31:

Edgar Filing: STERICYCLE INC - Form 10-K/A

|   | 2015      | 2014      | 2013      |
|---|-----------|-----------|-----------|
| Weighted average remaining contractual life of outstanding options (in years) | 5.70      | 6.10      | 6.60      |
| Total aggregate intrinsic value of outstanding options (in thousands)         | \$162,400 | \$269,900 | \$254,200 |
| Weighted average remaining contractual life of exercisable options (in years) | 4.70      | 5.10      | 5.30      |
| Total aggregate intrinsic value of exercisable options (in thousands)         | \$130,600 | \$178,300 | \$161,100 |

The total aggregate intrinsic value represents the total pre-tax intrinsic value (the difference between our closing stock price on the last day of trading for the year ended December 31, 2015 and the exercise price, multiplied by the number of in-the-money options) that would have been received by the option holders assuming all option holders had exercised their options on December 31, 2015; this amount changes based on the fair market value of our stock.

Options outstanding and exercisable at December 31, 2015 by price range are presented below:

| Range of Exercise Price | Options Outstanding |                                 | Options Exercisable             |           |                                 |
|-------------------------|---------------------|---------------------------------|---------------------------------|-----------|---------------------------------|
|                         | Shares              | Average Remaining Life in Years | Weighted Average Exercise Price | Shares    | Weighted Average Exercise Price |
| \$29.54 - \$51.55       | 912,043             | 3.15                            | \$ 47.61                        | 912,043   | \$ 47.61                        |
| \$52.05 - \$85.00       | 956,708             | 4.22                            | 72.90                           | 817,286   | 70.84                           |
| \$85.02 - \$85.76       | 10,650              | 6.25                            | 85.40                           | 5,750     | 85.37                           |
| \$86.24 - \$86.24       | 604,758             | 6.09                            | 86.24                           | 302,334   | 86.24                           |
| \$86.83 - \$95.03       | 142,097             | 6.02                            | 89.83                           | 110,895   | 89.11                           |
| \$95.87 - \$95.87       | 781,470             | 7.12                            | 95.87                           | 299,599   | 95.87                           |
| \$95.92 - \$115.51      | 162,252             | 7.25                            | 110.41                          | 102,739   | 109.94                          |
| \$115.69 - \$115.69     | 732,411             | 6.14                            | 115.69                          | 147,361   | 115.69                          |
| \$115.82 - \$130.11     | 128,583             | 7.68                            | 122.59                          | 15,954    | 117.80                          |
| \$130.19 - \$141.56     | 903,831             | 7.33                            | 131.20                          | 33,305    | 133.49                          |
| \$29.54 - \$141.56      | 5,334,803           | 5.70                            | \$ 92.02                        | 2,747,266 | \$ 73.22                        |

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

|   | Years Ended December 31, |         |           |
|---|--------------------------|---------|-----------|
|   | 2015                     | 2014    | 2013      |
| Stock options granted (shares)            | 1,056,490                | 981,583 | 1,057,630 |
| Weighted average fair value at grant date | \$22.90                  | \$21.31 | \$22.02   |
| Assumptions:                              |                          |         |           |
| Expected term (in years)                  | 4.79                     | 4.76    | 5.81      |
| Expected volatility                       | 16.71                    | % 17.23 | % 27.03   |
| Expected dividend yield                   | —                        | % —     | % —       |
| Risk free interest rate                   | 1.47                     | % 1.53  | % 1.00    |

#### Restricted Stock Units:

The fair value of restricted stock units ("RSUs") is based on the closing price of the Company's common stock on the date of grant and is amortized to expense over the service period. RSUs vest and released at the end of three or five years. Our 2008, 2011 and 2014 Plans include a share reserve related to RSUs granted at a 2 -1 ratio. The following table sets forth the information related to RSUs for the years ended December 31:

|   | 2015    | 2014    | 2013    |
|---|---------|---------|---------|
| Total aggregate intrinsic value of outstanding units (in thousands) | \$8,441 | \$8,337 | \$8,185 |
| Per share fair value of units granted                               | 114.27  | 115.67  | 96.40   |

A summary of the status of our non-vested RSUs and changes during the year ended December 31, 2015, are as follows:

|                                 | Number<br>of<br>Units | Weighted<br>Average Grant<br>Date Fair Value |
|---------------------------------|-----------------------|--|
| Non-vested at beginning of year | 63,600                | \$ 96.04                                     |
| Granted                         | 12,124                | 114.27                                       |
| Forfeited                       | (4,273 )              | 101.20                                       |
| Non-vested at December 31, 2015 | 71,451                | 101.29                                       |

At December 31, 2015, there was \$3.8 million of total unrecognized compensation expense related to RSUs, which is expected to be recognized over a weighted average period of 2.20 years. There were no units that vested during the year ended December 31, 2015. The fair value of units that vested during the years ended December 31, 2014 and 2013 was \$2.0 million and \$1.2 million, respectively.

#### NOTE 7 – PREFERRED STOCK

At December 31, 2015, we had 1,000,000 authorized shares of preferred stock and 770,000 shares issued and outstanding under Mandatory Convertible Preferred Stock. At December 31 2014, we had 1,000,000 authorized shares of preferred stock and no shares issued or outstanding.

**Series A Mandatory Convertible Preferred Stock Offering:** On September 15, 2015, we completed a registered public offering of 7,700,000 depository shares, each representing a 1/10th interest in a share of our 5.25% Series A Mandatory Convertible Preferred Stock, par value \$0.01 per share (the "Series A Preferred Stock"), at a public offering price of \$100.00 per depository share for total gross proceeds of \$770.0 million. Net proceeds were \$746.9 million after deducting underwriting discounts, commissions and expenses. We used the net proceeds from this offering to fund a portion of the purchase price paid for our acquisition of Shred-it (see Note 3 - Acquisitions in the Notes to the Consolidated Financial Statements for more information).

Unless earlier converted or redeemed, each share of the Series A Preferred Stock will automatically convert into between 5.8716 and 7.3394 shares of our common stock, subject to anti-dilution and other adjustments, on the mandatory conversion date, which is expected to be September 15, 2018. The number of shares of our common stock issuable on conversion will be determined based on the volume-weighted average price of our common stock over the 20 trading day period commencing on and including the 23rd scheduled trading day prior to September 15, 2018. Subject to certain restrictions, at any time prior to September 15, 2018, holders of the Series A Preferred Stock may elect to convert all or a portion of their shares into common stock at the minimum conversion rate of 5.8716 shares of common stock per share of Series A Preferred Stock, subject to adjustment.

Dividends on shares of the Series A Preferred Stock are payable on a cumulative basis when, as and if declared by our board of directors, or an authorized committee thereof, at an annual rate of 5.25% on the liquidation preference of \$1,000 per share (and, correspondingly, \$100.00 per share with respect to the depository shares). The dividends may be payable in cash, or subject to certain limitations, in shares of our common stock, or any combination of cash and shares of our common stock, on March 15, June 15, September 15 and December 15 of each year, commencing on December 15, 2015, and to, and including, September 15, 2018.

#### NOTE 8 – EARNINGS PER COMMON SHARE

Basic earnings per share is computed by dividing income available to common shareholders by the weighted-average number of shares of common stock outstanding during the period. Diluted earnings per share is computed by dividing income available to common shareholders by the weighted-average number of shares of common stock outstanding during the period increased to include the number of additional shares of common stock that would have been outstanding if the potentially dilutive securities had been issued. Potentially dilutive securities include outstanding stock options, shares to be purchased under the Company's employee stock purchase plan, RSUs, and the assumed conversion of mandatory convertible preferred stock. The effect of potentially dilutive securities is reflected in diluted earnings per share by application of the "treasury stock method" for outstanding restricted stock awards and stock options. Under the treasury stock method, an increase in the fair market value of the Company's common stock can result in a greater dilutive effect from potentially dilutive securities. For the issue of the mandatory convertible preferred stock, we use "if-converted method." Under the if-converted method, the preferred dividend applicable to convertible preferred stock is added back to net income attributable to Stericycle, the numerator. The Mandatory Convertible Preferred shares are assumed to be converted to common shares at the beginning of the period or, if later,

at the time of issuance, and the resulting common shares are included in the denominator. In applying the if-converted method, conversion shall not be assumed for purposes of computing diluted EPS if the effect would be anti-dilutive.

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

|   | Years Ended December 31, |            |            |
|---|--------------------------|------------|------------|
|   | 2015                     | 2014       | 2013       |
| <b>Numerator:</b>   |                          |            |            |
| Net income attributable to Stericycle, Inc.   | \$267,046                | \$326,456  | \$311,372  |
| Less: mandatory convertible preferred stock dividend  | 10,106                   | —          | —          |
| Numerator for basic earnings per share attributable to Stericycle, Inc. common shareholders             | 256,940                  | 326,456    | 311,372    |
| <b>Denominator:</b>   |                          |            |            |
| Denominator for basic earnings per share-weighted average shares  | 84,944,841               | 84,932,792 | 85,902,550 |
| <b>Effect of diluted securities:</b>  |                          |            |            |
| Employee stock options  | 1,217,768                | 1,300,820  | 1,489,438  |
| Mandatory convertible preferred stock (1)   | —                        | —          | —          |
| Denominator for diluted earnings per share-adjusted weighted average shares and after assumed exercises | 86,162,609               | 86,233,612 | 87,391,988 |
| Earnings per share – Basic  | \$3.02                   | \$3.84     | \$3.62     |
| Earnings per share – Diluted  | \$2.98                   | \$3.79     | \$3.56     |

(1) In 2015, the weighted average common shares issuable upon the assumed conversion of the mandatory convertible preferred stock totaling 1,648,318 shares were excluded from the computation of diluted earnings per share as such conversion would have been anti-dilutive.

In 2015, 2014 and 2013, options to purchase 818,093 shares, 830,755 shares, and 846,808 shares, respectively, at exercise prices of \$117.09 - \$141.56, \$105.12 - \$132.95, and \$94.76 - \$119.19 were not included in the computation of diluted earnings per share because the effect would have been anti-dilutive.

For additional information regarding outstanding employee stock options, see Note 6 - Stock Based Compensation in the Notes to the Consolidated Financial Statements.

#### NOTE 9 – ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)

The following table sets forth the changes in the components of accumulated other comprehensive income for 2015, 2014 and 2013:

In thousands

|  | Unrealized Gains<br>(Losses) on Cash<br>Currency Translation<br>Adjustments | Flow Hedges | Accumulated Other<br>Comprehensive<br>Income/ (Loss) |
|--|---|-------------|--|
|--|---|-------------|--|

Edgar Filing: STERICYCLE INC - Form 10-K/A

|                                      |               |             |               |
|--------------------------------------|---------------|-------------|---------------|
| Beginning balance at January 1, 2013 | \$ (37,292 )  | \$ (1,772 ) | \$ (39,064 )  |
| Period change                        | (17,718 )     | 314         | (17,404 )     |
| Ending balance at December 31, 2013  | \$ (55,010 )  | \$ (1,458 ) | \$ (56,468 )  |
| Period change                        | (80,221 )     | (1,730 )    | (81,951 )     |
| Ending balance at December 31, 2014  | \$ (135,231 ) | \$ (3,188 ) | \$ (138,419 ) |
| Period change                        | (140,809 )    | (3,403 )    | (144,212 )    |
| Ending balance at December 31, 2015  | \$ (276,040 ) | \$ (6,591 ) | \$ (282,631 ) |

The net tax impact of the unrealized gains/ (losses) on cash flow hedges in accumulated other comprehensive income at December 31, 2015, 2014 and 2013 was \$2.2 million, \$0.6 million, and \$0.2 million, respectively. Translation adjustments are not tax-effected as the Company's net investment in foreign subsidiaries and all related foreign earnings are deemed permanently invested.



## NOTE 10 – PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment at December 31, 2015 and 2014 consisted of the following items:

| In thousands                       | 2015       | 2014      |
|------------------------------------|------------|-----------|
| Land and improvements              | \$65,621   | \$63,600  |
| Building and improvements          | 166,874    | 142,680   |
| Machinery and equipment            | 314,252    | 250,684   |
| Vehicles                           | 136,379    | 56,650    |
| Containers                         | 190,454    | 155,238   |
| Office equipment and furniture     | 117,632    | 80,158    |
| Software                           | 46,979     | 40,291    |
| Construction in progress           | 53,430     | 35,231    |
| Total property, plant & equipment  | 1,091,621  | 824,532   |
| Less: accumulated depreciation     | (426,019 ) | (364,124) |
| Property, plant and equipment, net | \$665,602  | \$460,408 |

## NOTE 11 – GOODWILL AND OTHER INTANGIBLE ASSETS

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

Goodwill:

We have two geographical reportable segments, "United States" and "International," both of which have goodwill. We have retroactively reclassified \$4.3 million of goodwill related to Puerto Rico from the United States segment to the International segment. The changes in the carrying amount of goodwill since January 1, 2014, by reportable segment, were as follows:

| In thousands                                 | United      |               | Total       |
|--|-------------|---------------|-------------|
|  | States      | International |             |
| Balance at January 1, 2014                   | \$1,673,810 | \$ 557,772    | \$2,231,582 |
| Goodwill acquired during year                | 169,754     | 88,263        | 258,017     |
| Purchase accounting allocation adjustments   | (4,825 )    | (17,595 )     | (22,420 )   |
| Changes due to foreign currency fluctuations | —           | (48,347 )     | (48,347 )   |
| Balance at December 31, 2014                 | 1,838,739   | 580,093       | 2,418,832   |
| Goodwill acquired during year                | 1,177,431   | 273,519       | 1,450,950   |
| Purchase accounting allocation adjustments   | (43,895 )   | 15,618        | (28,277 )   |
| Goodwill other changes                       | —           | (440 )        | (440 )      |
| Changes due to foreign currency fluctuations | —           | (82,888 )     | (82,888 )   |

|                              |             |            |             |
|------------------------------|-------------|------------|-------------|
| Balance at December 31, 2015 | \$2,972,275 | \$ 785,902 | \$3,758,177 |
|------------------------------|-------------|------------|-------------|

Current year adjustments to goodwill for certain 2014 acquisitions are primarily due to the finalization of intangible asset valuations.

During the quarter ended June 30, 2015, we performed our annual goodwill impairment evaluation for our three reporting units: Domestic Regulated and Compliance Services, Domestic Regulated Recall and Returns Management Services, and International Regulated and Compliance Services. We calculated fair value for our reporting units using an income method and validated those results using a market approach. Both the income and market approaches indicated no impairment to goodwill to any of our three reporting units.

**Income Approach:** The income approach uses expected future cash flows of each reporting unit and discounts those cash flows to present values. Expected future cash flows are calculated using management assumptions of internal growth, capital expenditures, and cost efficiencies. Future acquisitions are not included in the expected future cash flows. We use a discount rate based on our Company calculated weighted average cost of capital which is adjusted for each of our reporting units based on size risk premium and country risk premium. Significant assumptions used in the income approach include realization of future cash flows and the discount rate used to present value those cash flows.

The results of our goodwill impairment test using the income approach indicated the fair value of our Domestic Regulated and Compliance Services and Recall and Returns Management Services reporting units exceeded book value by a substantial amount; in excess of 100%. Our International Regulated and Compliance Services reporting units' fair value exceeded book value by approximately 88% and had \$589.3 million in assigned goodwill at June 30, 2015.

**Market Approach:** Our market approach begins by calculating the market capitalization of the Company using the average stock price for the prior twelve months and the outstanding share count at June 30, 2015. We then look at the Company's Earnings Before Interest, Tax, Depreciation, and Amortization ("EBITDA"), adjusted for stock compensation expense and other items, such as changes in the fair value of contingent consideration, restructuring and plant conversion expense, and litigation settlements, for the prior twelve months. The calculated market capitalization is divided by the modified EBITDA to arrive at a valuation multiple. The fair value of each reporting unit is then calculated by taking the product of the valuation multiple and the trailing twelve months' modified EBITDA of that reporting unit. The fair value was then compared to the reporting units' book value and determined to be in excess of the book value. We believe that starting with the fair value of the company as a whole is a reasonable measure as that fair value is then allocated to each reporting unit based on that reporting unit's individual earnings. A sustained drop in our stock price would have a negative impact to our fair value calculations. A temporary drop in earnings of a reporting unit would have a negative impact to our fair value calculations.

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

**Other Intangible Assets:**

At December 31, 2015 and 2014, the values of other intangible assets were as follows:

| In thousands                         | 2015         |              |              | 2014       |              |            |
|--------------------------------------|--------------|--------------|--------------|------------|--------------|------------|
|                                      | Gross        |              |              | Gross      |              |            |
|                                      | Carrying     | Accumulated  | Net          | Carrying   | Accumulated  | Net        |
|                                      | Amount       | Amortization | Value        | Amount     | Amortization | Value      |
| <b>Amortizable intangibles:</b>      |              |              |              |            |              |            |
| Customer relationships               | \$ 1,304,388 | \$ 144,020   | \$ 1,160,368 | \$ 755,148 | \$ 107,365   | \$ 647,783 |
| Covenants not-to-compete             | 6,878        | 5,141        | 1,737        | 8,474      | 5,688        | 2,786      |
| Tradenames                           | 3,819        | 948          | 2,871        | 6,062      | 1,313        | 4,749      |
| Other                                | 18,902       | 916          | 17,986       | 1,150      | 556          | 594        |
| <b>Indefinite lived intangibles:</b> |              |              |              |            |              |            |

Edgar Filing: STERICYCLE INC - Form 10-K/A

|                   |             |            |             |             |            |           |
|-------------------|-------------|------------|-------------|-------------|------------|-----------|
| Operating permits | 233,101     | —          | 233,101     | 247,933     | —          | 247,933   |
| Tradenames        | 426,498     | —          | 426,498     | 5,800       | —          | 5,800     |
| Total             | \$1,993,586 | \$ 151,025 | \$1,842,561 | \$1,024,567 | \$ 114,922 | \$909,645 |

The changes in the carrying amount of intangible assets since January 1, 2014 were as follows:

| In thousands                                 | Total       |
|--|-------------|
| Balance as of January 1, 2014                | \$720,035   |
| Intangible assets acquired during the year   | 277,041     |
| Impairments during the year                  | (9,863 )    |
| Amortization during the year                 | (32,692 )   |
| Changes due to foreign currency fluctuations | (44,876 )   |
| Balance as of December 31, 2014              | 909,645     |
| Intangible assets acquired during the year   | 1,052,016   |
| Impairments during the year                  | (4,177 )    |
| Amortization during the year                 | (45,498 )   |
| Changes due to foreign currency fluctuations | (69,425 )   |
| Balance at December 31, 2015                 | \$1,842,561 |

In 2015 and 2014, \$4.2 million and \$9.9 million of intangibles were impaired, respectively, due to rationalizing certain of our domestic and international operations. Intangibles impaired in 2015 included \$0.2 million of customer relationships, \$1.3 million of tradenames and \$2.7 million of operating permits. These expenses are reflected as part of SG&A on our Consolidated Statements of Income. Under generally accepted accounting principles, a fair value must be assigned to all acquired assets based on a theoretical "market participant" regardless of the acquirers' intended use for these assets. This accounting treatment can lead to the recognition of losses when a company disposes of acquired assets. We complete our annual impairment analysis of our indefinite lived intangibles during the quarter ended December 31 of each year, or more frequently, if circumstances indicate that they may be impaired.

Our finite-lived intangible assets are amortized over their useful lives. We have determined that our customer relationships have useful lives from 10 to 40 years based upon the type of customer, with a weighted average remaining useful life of 19.2 years. We have covenants not-to-compete intangibles with useful lives from 5 to 14 years, with a weighted average remaining useful life of 3.7 years. We have tradename intangibles with useful lives from 15 to 40 years, with a weighted average remaining useful life of 17.2 years. Other intangibles mainly consist of landfill air rights with a weighted average remaining useful life of 19.1 years. We have determined that our permits have indefinite lives due to our ability to renew these permits with minimal additional cost, and therefore these are not amortized. We also have a tradename that we have determined has an indefinite life.

During the years ended December 31, 2015, 2014 and 2013 the aggregate amortization expense was \$45.5 million, \$32.7 million and \$27.1 million, respectively.

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

| In thousands |          |
|--------------|----------|
| 2016         | \$72,174 |
| 2017         | 71,507   |
| 2018         | 71,459   |

|      |        |
|------|--------|
| 2019 | 71,302 |
| 2020 | 71,012 |

Future amortization expense may fluctuate depending on changes in foreign currency rates, future acquisitions, or changes to the estimated amortizable life of the intangibles. The estimates for amortization expense noted above are based upon foreign exchange rates at December 31, 2015.

## NOTE 12 – ACCRUED LIABILITIES

Accrued liabilities at December 31, 2015 and 2014 consisted of the following items:

| In thousands                              | 2015      | 2014      |
|---|-----------|-----------|
| Accrued compensation                      | \$62,721  | \$37,932  |
| Accrued insurance                         | 43,390    | 40,387    |
| Accrued taxes                             | 27,363    | 17,847    |
| Accrued interest                          | 13,829    | 9,096     |
| Accrued professional services liabilities | 6,948     | 3,703     |
| Accrued liabilities - other               | 43,078    | 22,778    |
| Total accrued liabilities                 | \$197,329 | \$131,743 |

## NOTE 13 – ENVIRONMENTAL REMEDIATION LIABILITIES

We record a liability for environmental remediation when such liability becomes probable and the costs or damages can be reasonably estimated. We accrue environmental remediation costs, on an undiscounted basis, associated with identified sites where an assessment has indicated that cleanup costs are probable and can be reasonably estimated, but the timing of such payments is not fixed and determinable. Such accruals are based on currently available information, estimated timing of remedial actions, existing technology, and enacted laws and regulations. The liability for environmental remediation is included in the Consolidated Balance Sheets in current liabilities within "Accrued liabilities" and in noncurrent liabilities within "Other liabilities."

At December 31, 2015, the total environmental remediation liabilities recorded were \$30.8 million, of which \$2.1 million was classified as accrued liabilities and \$28.7 million was classified as other liabilities.

## NOTE 14 – DEBT

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

| In thousands   | 2015      | 2014    |
|--|-----------|---------|
| Obligations under capital leases   | \$15,024  | \$9,185 |
| \$1.20 billion senior credit facility weighted average rate 1.54%, due in 2019 | 353,763   | 459,975 |
| \$1.25 billion term loan weighted average rate 1.71%, due in 2020              | 1,250,000 | —       |
| \$100 million private placement notes 5.64%, due in 2015                       | —         | 100,000 |
| \$175 million private placement notes 3.89%, due in 2017                       | 175,000   | 175,000 |

Edgar Filing: STERICYCLE INC - Form 10-K/A

|   |                    |                    |
|---|--------------------|--------------------|
| \$125 million private placement notes 2.68%, due in 2019  | 125,000            | 125,000            |
| \$225 million private placement notes 4.47%, due in 2020  | 225,000            | 225,000            |
| \$150 million private placement notes 2.89%, due in 2021  | 150,000            | —                  |
| \$125 million private placement notes 3.26%, due in 2022  | 125,000            | 125,000            |
| \$200 million private placement notes 2.72%, due in 2022  | 200,000            | —                  |
| \$100 million private placement notes 2.79%, due in 2023  | 100,000            | —                  |
| \$150 million private placement notes 3.18%, due in 2023  | 150,000            | —                  |
| Promissory notes and deferred consideration weighted average rate of 2.54% and weighted average maturity of 3.4 years | 239,731            | 279,590            |
| Foreign bank debt weighted average rate 8.98% and weighted average maturity of 2.1 years                              | 105,530            | 160,465            |
| <b>Total debt</b>   | <b>3,214,048</b>   | <b>1,659,215</b>   |
| Less: current portion of total debt   | 161,409            | 131,969            |
| <b>Long-term portion of total debt</b>  | <b>\$3,052,639</b> | <b>\$1,527,246</b> |



Our \$1.20 billion senior credit facility maturing in June 2019, our \$1.25 billion term loan maturing in August 2020, our \$175.0 million private placement notes maturing in October 2017, our \$125.0 million private placement notes maturing in December 2019, our \$225.0 million private placement notes maturing in October 2020, our \$150.0 million private placement maturing in October 2021, our \$125.0 million private placement notes maturing in December 2022, our \$200.0 million private placement notes maturing July 2022, our \$100.0 million private placement notes maturing in July 2023, and our \$150.0 million private placement notes maturing in October 2023 all require us to comply with various financial, reporting and other covenants and restrictions, including a restriction on dividend payments. The financial debt covenants are the same for the senior credit facility, term loan, and the private placement notes. At December 31, 2015, we were in compliance with all of our financial debt covenants. Our senior credit facility, term loan, and the private placement notes rank pari passu to each other and all other unsecured debt obligations.

At December 31, 2015 and 2014, we had \$160.4 million and \$162.9 million, respectively, committed to outstanding letters of credit under our senior credit facility. The unused portion of the revolving credit facility was \$685.8 million and \$577.1 million at December 31, 2015 and 2014, respectively.

On April 30, 2015, we entered into a note purchase agreement with several institutional purchasers pursuant to which we have issued and sold to the purchasers \$200.0 million of our new seven -year 2.72% unsecured senior notes (“Series A”) and \$100.0 million of our new eight -year 2.79% unsecured senior notes (“Series B”). Closing of the issuance and sale of the notes occurred on July 31, 2015.

The Series A notes bear interest at the fixed rate of 2.72% per annum, and the Series B notes bear interest at the fixed rate of 2.79% per annum. Interest will be payable in arrears semi-annually on January 1 and July 1 beginning on January 1, 2016. The principal of the Series A notes will be payable at the maturity of the notes on July 1, 2022, and the principal of the Series B notes will be payable at the maturity of the notes on July 1, 2023. The notes are unsecured obligations.

The Company entered into a Term Loan Credit Agreement dated as of August 21, 2015 (the “Term Loan Credit Agreement”) with Bank of America, N.A., as the Administrative Agent maturing on August 21, 2020. The Term Loan Credit Agreement provides for a term loan credit facility (“Term Loan Credit Facility”) under which the Company may obtain loans up to an aggregate amount of \$1.5 billion. Borrowings under the Term Loan Credit Facility may bear interest at a Base Rate or Eurodollar Rate, respectively, plus the Applicable Rate. The Base Rate is for any day a fluctuating rate per annum equal to the highest of (i) the Federal Funds Rate plus 1/2 of 1.00%, (ii) the rate of interest in effect for such day as publicly announced from time to time by Bank of America as its “prime rate” and (iii) the Eurodollar Rate plus 1.00%. The Applicable Rate depends on the consolidated leverage ratio for the Company and its subsidiaries as set forth in the most recent compliance certificate received by the administrative agent. We used the proceeds from the term loan to fund a portion of the purchase price paid for the Shred-it acquisition (see Note 3 - Acquisitions in the Notes to the Consolidated Financial Statements for more information).

On October 1, 2015, we issued and sold to the purchasers \$150.0 million of new six -year 2.89% unsecured senior notes and \$150.0 million of new eight -year 3.18% unsecured senior notes (collectively, the “Notes”). The Notes bear interest on the unpaid principal thereof from October 1, 2015 at their respective stated rates of interest payable in arrears semi-annually on the first (1st) day of April and October in each year and at maturity, commencing on April 1, 2016. The Notes are unsecured obligations. We used the proceeds from the unsecured senior notes to fund a portion of the purchase price paid for the Shred-it acquisition (see Note 3 - Acquisitions in the Notes to the Consolidated Financial Statements for more information).

Payments due on long-term debt, excluding capital lease obligations, during each of the five years subsequent to December 31, 2015 are as follows:

| In thousands |             |
|--------------|-------------|
| 2016         | \$ 157,227  |
| 2017         | 345,342     |
| 2018         | 215,549     |
| 2019         | 862,803     |
| 2020         | 875,159     |
| Thereafter   | 742,944     |
|              | \$3,199,024 |

We paid interest of \$68.0 million, \$57.8 million, and \$51.0 million for the years ended December 31, 2015, 2014 and 2013, respectively.

Property under capital leases included with property, plant and equipment in the accompanying consolidated balance sheets is as follows at December 31:

| In thousands                   |           |           |
|--------------------------------|-----------|-----------|
|                                | 2015      | 2014      |
| Land                           | \$ 157    | \$ 174    |
| Buildings                      | 804       | 896       |
| Machinery and equipment        | 6,105     | 1,230     |
| Vehicles                       | 15,925    | 13,108    |
| Less: accumulated depreciation | (7,148 )  | (5,375 )  |
|                                | \$ 15,843 | \$ 10,033 |

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

Minimum future lease payments under capital leases are as follows:

| In thousands                                |          |
|---|----------|
| 2016  | \$4,622  |
| 2017  | 5,364    |
| 2018  | 2,041    |
| 2019  | 2,226    |
| 2020  | 1,557    |
| Thereafter                                  | 419      |
| Total minimum lease payments                | 16,229   |
| Less: amounts representing interest         | (1,205 ) |
| Present value of net minimum lease payments | 15,024   |

|   |           |
|---|-----------|
| Less: current portion included in other current liabilities | (4,182 )  |
| Long-term obligations under capital leases                  | \$ 10,842 |

NOTE 15 – LEASE COMMITMENTS

We lease various plant equipment, office furniture and equipment, motor vehicles, office and warehouse space, and landfills under operating lease agreements, which expire at various dates over the next 20 years. The leases for most of the properties contain renewal provisions.

Rent expense for 2015, 2014 and 2013 was \$139.0 million, \$111.5 million, and \$92.4 million, respectively.

Minimum future rental payments under non-cancelable operating leases that have initial or remaining terms in excess of one year at December 31, 2015 for each of the next five years and in the aggregate are as follows:

| In thousands |            |
|--------------|------------|
| 2016         | \$ 104,958 |
| 2017         | 89,284     |
| 2018         | 71,264     |
| 2019         | 52,923     |
| 2020         | 34,078     |
| Thereafter   | 47,168     |
|              | \$ 399,675 |

#### NOTE 16 – PRODUCTS AND SERVICES AND GEOGRAPHIC INFORMATION

The FASB Accounting Standards Codification Topic 280, Segment Reporting, requires segment information to be reported based on information utilized by executive management to internally assess performance and make operating decisions. We have determined that we have two operating and reportable segments based on the organizational structure of our Company and information reviewed by our Chief Operating Decision Maker. These operating and reportable segments are Domestic Regulated and Compliance Services ("Domestic") and International Regulated and Compliance Services ("International"). We are in the process of determining the integration of the Shred-it organization within Stericycle. Currently the operations of Shred-it are part of our Domestic Regulated and Compliance Services and International operating segments, based on the the location of the revenue producing customer.

We have retroactively reclassified immaterial amounts related to Puerto Rico from the United States segment to the International segment.

Summary information for our reportable segments is as follows:

| In thousands                       | Years Ended December 31, |                    |                    |
|------------------------------------|--------------------------|--------------------|--------------------|
|                                    | 2015                     | 2014               | 2013               |
| <b>Revenues:</b>                   |                          |                    |                    |
| United States                      | \$2,165,030              | \$1,788,390        | \$1,498,347        |
| <b>International:</b>              |                          |                    |                    |
| Europe                             | 441,231                  | 407,082            | 341,387            |
| Other international countries      | 379,647                  | 360,129            | 303,073            |
| Total International                | 820,878                  | 767,211            | 644,460            |
| <b>Total</b>                       | <b>\$2,985,908</b>       | <b>\$2,555,601</b> | <b>\$2,142,807</b> |
| <b>Income before income taxes:</b> |                          |                    |                    |
| United States                      | \$382,692                | \$436,958          | \$405,403          |
| International                      | 28,215                   | 50,610             | 72,343             |

Edgar Filing: STERICYCLE INC - Form 10-K/A

|                                     |             |             |             |
|-------------------------------------|-------------|-------------|-------------|
| Total                               | \$410,907   | \$487,568   | \$477,746   |
| Total assets:                       |             |             |             |
| United States                       | \$5,173,779 | \$2,916,296 | \$2,557,224 |
| International                       | 1,903,671   | 1,457,006   | 1,330,749   |
| Total                               | \$7,077,450 | \$4,373,302 | \$3,887,973 |
| Property, Plant and Equipment, net: |             |             |             |
| United States                       | \$434,202   | \$284,788   | \$212,518   |
| International:                      |             |             |             |
| Europe                              | 95,771      | 70,621      | 74,915      |
| Other international countries       | 135,629     | 104,999     | 71,534      |
| Total International                 | 231,400     | 175,620     | 146,449     |
| Total                               | \$665,602   | \$460,408   | \$358,967   |

Revenues are attributable to countries based on the location of customers. Intercompany revenues recorded by the United States for work performed in Canada are eliminated prior to reporting United States revenues. The same accounting principles and critical accounting policies are used in the preparation of the financial statements for both reportable segments.

Detailed information for our United States reportable segment is as follows:

| In thousands                                | Years Ended December 31, |             |             |
|---|--------------------------|-------------|-------------|
|   | 2015                     | 2014        | 2013        |
| Regulated and compliance solutions          | \$2,062,204              | \$1,707,031 | \$1,400,572 |
| Recall and returns solutions                | 102,826                  | 81,359      | 97,775      |
| Total revenues                              | \$2,165,030              | \$1,788,390 | \$1,498,347 |
| Net interest expense                        | 51,680                   | 44,850      | 43,012      |
| Income before income taxes                  | 382,692                  | 436,958     | 405,403     |
| Income taxes                                | 145,815                  | 161,497     | 152,753     |
| Net income attributable to Stericycle, Inc. | \$236,877                | \$275,461   | \$252,650   |
| Depreciation and amortization               | \$78,587                 | \$59,389    | \$49,725    |
| Capital expenditures                        | 53,495                   | 56,507      | 42,760      |

Detailed information for our International reportable segment is as follows:

| In thousands  | Years Ended December 31, |           |           |
|---|--------------------------|-----------|-----------|
|   | 2015                     | 2014      | 2013      |
| Revenues - Regulated and compliance solutions             | \$820,878                | \$767,211 | \$644,460 |
| Net interest expense                                      | 25,594                   | 21,172    | 11,937    |
| Income before income taxes                                | 28,215                   | 50,610    | 72,343    |
| Income taxes  | (2,921 )                 | (2,075 )  | 11,909    |
| Net income  | 31,136                   | 52,685    | 60,434    |
| Less: net income attributable to noncontrolling interests | 967                      | 1,690     | 1,712     |
| Net income attributable to Stericycle, Inc.               | \$30,169                 | \$50,995  | \$58,722  |
| Depreciation and amortization                             | \$48,825                 | \$45,227  | \$38,683  |
| Capital expenditures                                      | 61,266                   | 29,989    | 30,349    |

#### NOTE 17 – RESTRUCTURING CHARGES

During the first quarter of 2015, management began executing a realignment of our operations to reduce labor redundancies and facility costs. As part of this realignment, the Company recorded charges related to severance, fixed

asset and intangible assets impairments, and recognition of lease expense for properties no longer used but for which we have a contractual obligation. The recorded restructuring liabilities are expected to be paid primarily within the current year. While the Company believes the recorded restructuring liabilities are adequate, revisions to current estimates may be recorded in future periods based on new information as it becomes available. There could be additional initiatives in the future to further streamline our operations. As such, the Company expects further expenses related to workforce reductions and other facility rationalization costs when those restructuring plans are finalized and related expenses are estimable.

The following table below highlights \$19.1 million of pre-tax restructuring charges by reporting segment for the year ended December 31, 2015, which are reflected as part of SG&A on our Consolidated Statements of Income:

In thousands

|                                      | Year Ended December 31, 2015 |               |                         |
|--------------------------------------|------------------------------|---------------|-------------------------|
|                                      | United States                | International | Total Charges to Income |
| Employee severance and related costs | \$4,284                      | \$ 4,275      | \$ 8,559                |
| Other costs                          | 2,963                        | 1,494         | 4,457                   |
| Non-cash items:                      |                              |               |                         |
| Fixed assets impairment              | 3,133                        | 70            | 3,203                   |
| Intangible assets impairment         | 2,167                        | 247           | 2,414                   |
| Other                                | —                            | 445           | 445                     |
| Total pre-tax restructuring expenses | \$12,547                     | \$ 6,531      | \$ 19,078               |

The following table summarizes restructuring activity during 2015 which is reflected in the Consolidated Balance Sheets as part of "Accrued liabilities:"

In thousands

|  | Employee Severance and Related Costs | Other Costs | Total    |
|--|--------------------------------------|-------------|----------|
| Liability balance at January 1, 2015   | \$ —                                 | \$—         | \$—      |
| Charges to income                      | 8,559                                | 4,457       | 13,016   |
| Payments                               | (7,469)                              | (2,891)     | (10,360) |
| Other                                  | 14                                   | —           | 14       |
| Liability balance at December 31, 2015 | \$ 1,104                             | \$1,566     | \$2,670  |

#### NOTE 18 – EMPLOYEE BENEFIT PLAN

We have two 401(k) defined contribution retirement savings plans (the “plan(s)”), one of which was part of the recent Shred-it acquisition, covering substantially all domestic employees. The following describes our two domestic plans:

- Each participant may elect to defer a portion of his or her compensation subject to certain limitations. The Company may contribute up to 50% of the first 5% of compensation contributed to the plan by each employee up to a maximum of \$1,750. Our contributions for the years ended December 31, 2015, 2014 and 2013 were \$4.8 million, \$3.6 million, and \$3.0 million, respectively.
- Each participant may elect to defer a portion of his or her compensation subject to certain limitations. The Company may contribute up to 100% of the first 3% of the employee's eligible earnings, plus up to 50% of the next 2% of the employee's eligible earnings, subject to IRS limits. Our contribution for the fourth quarter of 2015 was \$0.9 million.



The Company has several foreign defined contribution plans, which require the Company to contribute a percentage of the participating employee's salary according to local regulations. For the years ended December 31, 2015, 2014 and 2013, total contributions made by the Company for these plans were approximately \$2.1 million, \$1.9 million, and \$0.9 million, respectively.

#### NOTE 19 – LEGAL PROCEEDINGS

We operate in a highly regulated industry and must deal with regulatory inquiries or investigations from time to time that may be instituted for a variety of reasons. We are also involved in a variety of civil litigation from time to time.

We review all of our outstanding legal proceedings with counsel quarterly, and we will disclose an estimate of any reasonably possible loss or range of reasonably possible losses if and when we are able to make such an estimate and the reasonably possible loss or range of reasonably possible losses is material to our financial statements.

Qui Tam Action. As disclosed in our current report on Form 8-K filed on October 14, 2015, we entered into a settlement agreement on October 8, 2015 to resolve all claims made against us in the previously disclosed qui tam (or "whistle blower") action filed in the United States District Court for the Northern District of Illinois captioned United States of America ex rel. Jennifer D. Perez v. Stericycle, Inc., Case No. 1:08-cv-2390 (the "Qui Tam Action"). Originally filed under seal on April 28, 2008 by a former employee of ours ("Relator") on behalf of the federal government, the Qui Tam Action was amended on June 28, 2010 to add the States of California, Delaware, Florida, Illinois, Indiana, Nevada, New Hampshire, New Jersey, New York, North Carolina, Rhode Island, Tennessee, the Commonwealths of Massachusetts and Virginia, and the District of Columbia (except for New Hampshire and New York, the "Government Entities"). The Qui Tam Action was further amended on July 23, 2013 to allege certain claims on behalf of the Government Entities and to drop any claims on behalf of the State of New Hampshire. The State of New York pursued its own investigation under the New York False Claims Act resulting in our settlement announced by the New York Attorney General's office on January 8, 2013. Brought under the federal False Claims Act and comparable state statutes, the Qui Tam Action alleged that, from January 1, 2003 to June 30, 2014, we improperly increased our service price to certain government customers without their consent or contractual authorization. We have denied all liability for the claims made in the Qui Tam Action but have agreed to settle to avoid the expense, burden and inherent risk and uncertainty of litigation.

Under the terms of the settlement agreement entered into with Relator (the "Settlement"), we paid (i) \$26.75 million to a third-party administrator to be allocated among the Government Entities as determined by the Government Entities themselves without any involvement by us and (ii) \$1.75 million in full satisfaction of any claims by Relator and Relator's counsel for attorneys' fees, expenses and costs. We did not admit in the Settlement to any of the allegations in the Qui Tam Action, and the Settlement cannot be used as an admission of wrongdoing or liability on our part. In addition, we are completely released from any and all claims brought by Relator and the Government Entities.

In view of the Settlement, we recorded a pre-tax charge of \$28.5 million during 2015 which is included in SG&A expenses on our Consolidated Statement of Income. We made the payments described above on October 21, 2015 in accordance with the terms of the settlement agreement. On February 1, 2016, the Qui Tam Action was dismissed with prejudice pursuant to the Settlement.

Class Action Lawsuits. As we have previously disclosed, we were served on March 12, 2013 with a class action complaint filed in the U.S. District Court for the Western District of Pennsylvania by an individual plaintiff for itself and on behalf of all other "similarly situated" customers of ours. The complaint alleges, among other things, that we imposed unauthorized or excessive price increases and other charges on our customers in breach of our contracts and in violation of the Illinois Consumer Fraud and Deceptive Business Practices Act. The complaint sought certification of the lawsuit as a class action and the award to class members of appropriate damages and injunctive relief.

The Pennsylvania class action complaint was filed in the wake of a settlement with the State of New York of an investigation under the New York False Claims Act which arose out of the Qui Tam Action described above.

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

On January 29, 2016, the plaintiffs' attorneys filed a Second Amended Consolidated Complaint and a Motion for Class Certification in the MDL Action. The Motion requests that the court certify a class of plaintiffs consisting of certain of our small quantity customers who received rate increases. We intend to strongly contest the Motion.

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

We have not accrued any amounts in respect of these class action lawsuits, and we cannot estimate the reasonably possible loss or the range of reasonably possible losses that we may incur. We are unable to make such an estimate because (i) litigation is by its nature uncertain and unpredictable, (ii) we do not know whether the court will certify any class of plaintiffs or, if any class is certified, how the class would be defined, and (iii) in our judgment, there are no comparable proceedings against other defendants that might provide guidance in making estimates.

**Junk Fax Lawsuit.** As previously disclosed, on May 20, 2015, we entered into a settlement agreement to resolve all claims made against us and certain of our subsidiaries in *Sawyer v. Stericycle, et al.*, Case No. 2015 CH 07190 (the "TCPA Action"), a class action complaint filed in the Circuit Court of Cook County, Illinois (the "Court"). The TCPA Action was the successor lawsuit to the class action complaint filed in the U.S. District Court for the Northern District of Illinois (Case 1:14-cv-02070) that we have previously disclosed and that was dismissed pursuant to the parties' joint stipulation of dismissal. The TCPA Action alleged that from 2010 to 2014 we violated the Telephone Consumer Protection Act of 1991, as amended by the Junk Fax Prevention Act of 2005, by sending facsimile advertisements to plaintiffs or putative class members that either were unsolicited and/or did not contain a valid opt-out notice. We have denied all liability for the claims made in the TCPA Action but have agreed to settle to avoid the expense, burden and inherent risk and uncertainty of litigation.

Under the terms of the settlement agreement entered into with the two class representatives, we agreed to make available a fund of \$45.0 million (the "Settlement Fund") to pay class members who submit a valid claim form within a 90 -day period, to pay an incentive award to each of the class representatives, to pay attorneys' fees and expenses to plaintiffs' attorneys, and to pay fees and costs of a third-party settlement administrator (the "TCPA Settlement"). The plaintiffs' attorneys sought attorneys' fees of one-third of the Settlement Fund, plus out-of-pocket expenses, to be paid from the Settlement Fund. As part of the TCPA Settlement, we did not admit to any of the allegations in the TCPA Action and are completely released from any claims related to faxes sent by us or on our behalf from March 25, 2010 through April 30, 2015. On August 27, 2015, the TCPA Action was dismissed with prejudice.

Based on the claims filed in connection with the TCPA Settlement, we recorded a pre-tax charge of \$28.2 million during 2015 which is included in SG&A expenses on our Consolidated Statement of Income. We made payments totaling \$15.2 million in respect of the incentive awards to each of the class representatives and the attorneys' fees and expenses of plaintiffs' attorneys during August 2015. In December 2015, we paid a total of \$13.0 million in respect of valid claims submitted by class members within the claims period.

**Environmental Matters.** On April 22, 2014, we completed our acquisition of PSC Environmental Services, LLC ("PSC Environmental") and consequently became subject to the legal proceedings in which PSC Environmental was a party on that date. PSC Environmental's operations are regulated by federal, state and local laws enacted to regulate the discharge of materials into the environment, remediate contaminated soil and groundwater or otherwise protect the environment. As a result of this continuing regulation, PSC Environmental frequently becomes a party to legal or administrative proceedings involving various governmental authorities and other interested parties. The issues involved in these proceedings generally relate to alleged violations of existing permits and licenses or alleged responsibility under federal or state Superfund laws to remediate contamination at properties owned either by PSC Environmental or by other parties to which either PSC Environmental or the prior owners of certain of its facilities shipped wastes. From time to time, PSC Environmental may be subject to fines or penalties in regulatory proceedings relating primarily to waste treatment, storage or disposal facilities. We believe that the fines or other penalties that PSC Environmental may pay in connection with any pending regulatory proceedings of this nature will not, individually or in the aggregate, be material to our financial statements.



On February 29, 2016, we entered into a statute of limitations tolling agreement with the United States Attorney's Office for the District of Utah relating to that Office's investigation of the same facts underlying the notice of violation (the "NOV") issued by the State of Utah Division of Air Quality (the "DAQ") that resulted in our December 2014 settlement with the DAQ that we have previously disclosed. The U.S. Attorney's Office is investigating whether the matters forming the basis of the NOV constitute violations of the Clean Air Act and other federal statutes. Under the tolling agreement, the period from March 1, 2016 through July 31, 2016 will be excluded from any calculation of time for the purpose of determining the statute of limitations concerning any charges that we violated federal statutes. The agreement does not constitute an admission of guilt or wrongdoing on our part and cannot be construed as a waiver of any other rights or defenses that we may have in any resulting action or proceeding. We will continue to cooperate with the investigation.

#### NOTE 20 – SELECTED QUARTERLY FINANCIAL DATA (UNAUDITED)

The unaudited quarterly financial data previously presented in the Company's Quarterly Reports on Form 10-Q for the quarters ended March 31, 2015, June 30, 2015 and September 30, 2015 have been restated for errors related to the timing of recognition of loss reserves between quarterly periods associated with the Company's previously disclosed settlement of the TCPA Action and Qui Tam Action. The Company determined that the estimated loss contingency for the first quarter of fiscal 2015 was understated by \$73.5 million, resulting in an overstatement of net income of \$46.5 million for the three month period ended March 31, 2015. The estimated loss contingency for the second quarter of fiscal 2015 was overstated by \$45.0 million, resulting in an understatement of net income of \$27.4 million for the three month period ended June 30, 2015. The estimated loss contingency for the third quarter of fiscal 2015 was overstated by \$28.5 million, resulting in an understatement of net income of \$17.2 million for the three month period ended September 30, 2015. The Company also recorded an immaterial error correction of \$2.0 million related to the tax effects of the loss contingencies described above. The adjustment corrects an understatement of income tax expense for three month period ended September 30, 2015 that was originally reported in the three month period ended December 31, 2015.

The following table summarizes our unaudited consolidated quarterly results of operations for 2015 and 2014:

In thousands, except per share data

|  | First<br>Quarter<br>2015<br>(Restated) | Second<br>Quarter<br>2015<br>(Restated) | Third<br>Quarter<br>2015<br>(Restated) | Fourth<br>Quarter<br>2015<br>(Restated) | 2015<br>Year |
|--|--|---|--|---|--------------|
| Revenues   | \$ 663,319                             | \$ 715,689                              | \$ 718,596                             | \$ 888,304                              | \$ 2,985,908 |
| Gross profit                                     | 281,331                                | 304,824                                 | 299,675                                | 380,355                                 | 1,266,185    |
| Acquisition expenses                             | (3,296 )                               | (2,986 )                                | (33,674 )                              | 818                                     | (39,138 )    |
| Integration expenses                             | (8,886 )                               | (8,924 )                                | (13,447 )                              | (20,432 )                               | (51,689 )    |
| Change in fair value of contingent consideration | 675                                    | (35 )                                   | —                                      | —                                       | 640          |
| Impairment of intangible assets                  | —                                      | —                                       | —                                      | (1,781 )                                | (1,781 )     |

Edgar Filing: STERICYCLE INC - Form 10-K/A

|   |           |          |          |           |           |
|---|-----------|----------|----------|-----------|-----------|
| Restructuring and plant conversion expenses                     | (12,302 ) | (3,058 ) | (2,721 ) | (4,667 )  | (22,748 ) |
| Litigation expenses   | (75,623 ) | 173      | 16,444   | (645 )    | (59,651 ) |
| Net income attributable to Stericycle, Inc.                     | 28,940    | 87,830   | 69,449   | 80,827    | 267,046   |
| Mandatory convertible preferred stock                           | —         | —        | —        | (10,106 ) | (10,106 ) |
| Net income attributable to Stericycle, Inc. common shareholders | 28,940    | 87,830   | 69,449   | 70,721    | 256,940   |
| * Basic earnings per common share                               | 0.34      | 1.03     | 0.82     | 0.83      | 3.02      |
| * Diluted earnings per common share                             | 0.34      | 1.02     | 0.81     | 0.82      | 2.98      |

39

In thousands, except per share data

|  | First     | Second    | Third     | Fourth    |             |
|--|-----------|-----------|-----------|-----------|-------------|
|  | Quarter   | Quarter   | Quarter   | Quarter   | Year        |
|  | 2014      | 2014      | 2014      | 2014      | 2014        |
| Revenues   | \$569,955 | \$640,822 | \$667,877 | \$676,947 | \$2,555,601 |
| Gross profit                                     | 255,469   | 275,304   | 278,669   | 284,969   | 1,094,411   |
| Acquisition expenses                             | (3,221 )  | (3,979 )  | (3,472 )  | (2,661 )  | (13,333 )   |
| Integration expenses                             | (2,485 )  | (4,679 )  | (7,461 )  | (11,343 ) | (25,968 )   |
| Change in fair value of contingent consideration | (4,789 )  | 836       | —         | 5,405     | 1,452       |
| Restructuring and plant conversion expenses      | (574 )    | (1,115 )  | (2,380 )  | (10,495 ) | (14,564 )   |
| Litigation expenses                              | (1,505 )  | (396 )    | (1,342 )  | (3,331 )  | (6,574 )    |
| Net income attributable to Stericycle, Inc.      | 79,149    | 81,936    | 82,845    | 82,526    | 326,456     |
| * Basic earnings per common share                | \$0.93    | \$0.97    | \$0.98    | \$0.97    | \$3.84      |
| * Diluted earnings per common share              | \$0.91    | \$0.95    | \$0.96    | \$0.96    | \$3.79      |

\*EPS calculated on a quarterly basis, and, as such, the amounts may not total the calculated full-year EPS.

## STERICYCLE, INC. AND SUBSIDIARIES

## SCHEDULE II—VALUATION AND QUALIFYING ACCOUNTS

In thousands

|                                 | Balance      | Other      |                 |              | Balance End of |
|---------------------------------|--------------|------------|-----------------|--------------|----------------|
|                                 | Beginning of | Charges to | Charges/        | Write-offs/  | Period         |
| Allowance for doubtful accounts | Period       | Expenses   | (Reversals) (1) | Payments     | Period         |
| 2013                            | \$ 19,443    | \$ 4,823   | \$ 322          | \$ (5,454 )  | \$ 19,134      |
| 2014                            | \$ 19,134    | \$ 9,869   | \$ 842          | \$ (10,762 ) | \$ 19,083      |
| 2015                            | \$ 19,083    | \$ 13,650  | \$ 3,054        | \$ (13,458 ) | \$ 22,329      |

(1) Amounts consist primarily of valuation allowances assumed from acquired companies and currency translation adjustments.

In thousands

| Valuation Allowance on Deferred Tax Assets | Balance      | Additions/   | Other   | Balance End |
|--|--------------|--------------|---------|-------------|
|  | Beginning of | (Deductions) | Changes | of Period   |



Edgar Filing: STERICYCLE INC - Form 10-K/A

|      | Period   | Charged to/<br>(from) Income Tax<br>Expense | to Reserves (2) |            |
|------|----------|---|-----------------|------------|
| 2013 | \$ 3,340 | \$ (1,451)                                  | ) \$ (767)      | ) \$ 1,122 |
| 2014 | \$ 1,122 | \$ —  | \$ (1,066)      | ) \$ 56    |
| 2015 | \$ 56    | \$ 13                                       | \$ 17,516       | \$ 17,585  |

(2) Amounts consist primarily of valuation allowances on acquired deferred tax assets from business combinations.

## PART IV

## Item 15. Exhibits and Financial Statement Schedules

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

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

|   | Page |
|---|------|
| <u>Report of Independent Registered Public Accounting Firm</u>  | 3    |
| <u>Report of Independent Registered Public Accounting Firm</u>  | 5    |
| <u>Consolidated Financial Statements of Stericycle, Inc. and Subsidiaries</u>   | 6    |
| <u>Consolidated Balance Sheets as of December 31, 2015 and 2014</u>   | 6    |
| <u>Consolidated Statements of Income for Each of the Years in the Three-Year Period Ended December 31, 2015</u>               | 7    |
| <u>Consolidated Statements of Comprehensive Income for Each of the Years in the Three-Year Period Ended December 31, 2015</u> | 8    |
| <u>Consolidated Statements of Cash Flows for Each of the Years in the Three-Year Period Ended December 31, 2015</u>           | 9    |
| <u>Consolidated Statements of Changes in Equity for Each of the Years in the Three-Year Period Ended December 31, 2015</u>    | 10   |
| <u>Notes to Consolidated Financial Statements</u>   | 11   |
| <u>Schedule II - Valuation and Qualifying Accounts</u>  | 40   |

All other financial statement schedules have been omitted because they are not applicable to us or the required information is shown in the consolidated financial statements or notes thereto.

We have filed the following exhibits with this report:

| Exhibit Index | Description  | Filed with Electronic Submission |
|---------------|--|----------------------------------|
| 1.1*          | Underwriting Agreement, dated September 9, 2015, among the Registrant, Inc., Merrill Lynch, Pierce, Fenner & Smith Incorporated, Goldman, Sachs & Co. and J.P. Morgan Securities LLC, as representatives of the underwriters named therein (incorporated by reference to Exhibit 1.1 to our current report on Form 8-K filed September 15, 2015) |                                  |
| 2.1*          | Securities Purchase Agreement, dated as of July 15, 2015, among CC Shredding Holdco LLC, CC Dutch Shredding Holdco BV, Birch Hill Equity Partners Management Inc., in its own capacity and in its capacity as the Vendors' Representative, Shred-it International Inc., certain  |                                  |

Funds listed on Appendix A to the Securities Purchase Agreement, certain Co-Investors listed on Appendix B to the Securities Purchase Agreement, certain Management Shareholders listed on Appendix C to the Securities Purchase Agreement, the Option Participants in Boost GP Corp., Shred-it JV LP, Boost GP Corp., Boost Holdings LP, Stericycle, Inc., 1908223 Alberta ULC and 1908249 Alberta ULC (incorporated by reference to Exhibit 2.1 to our current report on Form 8-K filed July 21, 2015)

- 2.2\* Amendment No. 1 dated as of October 1, 2015 to the Securities Purchase Agreement, dated as of July 15, 2015, among CC Shredding Holdco LLC, CC Dutch Shredding Holdco BV, Birch Hill Equity Partners Management Inc., in its own capacity and in its capacity as the Vendors' Representative, Shred-it International Inc., certain Funds listed on Appendix A to the Securities Purchase Agreement, certain Co-Investors listed on Appendix B to the Securities Purchase Agreement, certain Management Shareholders listed on Appendix C to the Securities Purchase Agreement, the Option Participants in Boost GP Corp., Shred-it JV LP, Boost GP Corp., Boost Holdings LP, Stericycle, Inc., 1908223 Alberta ULC and 1908249 Alberta ULC (incorporated by reference to Exhibit 2.1 to our current report on Form 8-K filed October 7, 2015)
- 3(i).1\* Amended and restated certificate of incorporation (incorporated by reference to Exhibit 3.1 to our registration statement on Form S-1 declared effective on August 22, 1996 (Registration No. 333-05665))
- 3(i).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(i).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)

| Exhibit Index    | Description  | Filed with Electronic Submission |
|------------------|--|----------------------------------|
| 3(i).4*          | Third certificate of amendment to amended and restated certificate of incorporation (incorporated by reference to Exhibit 3.4 to our registration statement on Form S-4 declared effective on October 10, 2007 (Registration No. 333-144613))  |                                  |
| 3(i).5*          | Fourth certificate of amendment to amended and restated certificate of incorporation (incorporated by reference to Exhibit 3(i).1 to our quarterly report on Form 10-Q filed August 7, 2014)   |                                  |
| 3(i).6* and 4.2* | Certificate of Elimination of the Certificate of Designations relating to Series A Convertible Preferred Stock, par value 0.01 per share (incorporated by reference to Exhibit 3.1 and 4.1 to our current report on Form 8-K filed September 15, 2015)   |                                  |
| 3(i).7* and 4.3* | Certificate of Designations setting forth the specific rights, preferences, limitations, restrictions and other terms and conditions of the Mandatory Convertible Preferred Stock (incorporated by reference to Exhibit 4.1 to our Registration Statement on Form 8-A filed September 15, 2015)  |                                  |
| 3(ii).1*         | Amended and restated bylaws (incorporated by reference to Exhibit 3(ii).1 to our current report on Form 8-K filed February 17, 2016)   |                                  |
| 4.1*             | Specimen certificate for shares of our common stock, par value \$.01 per share (incorporated by reference to Exhibit 4.1 to our registration statement on Form S-1 declared effective on August 22, 1996 (Registration No. 333-05665))   |                                  |
| 4.4*             | Form of certificate representing the Mandatory Convertible Preferred Stock (see Exhibits 3(i).7 and 4.3)   |                                  |
| 4.5*             | Deposit Agreement, dated as of September 15, 2015, between the Registrant, Wells Fargo Bank, N.A., acting as depositary, and the holders from time to time of the Depositary Shares (incorporated by reference to Exhibit 4.3 to our Registration Statement on Form 8-A filed September 15, 2015)  |                                  |
| 4.6*             | Form of Depositary Share (included in Exhibit 4.5)   |                                  |
| 10.1*            | Second Amended and Restated Credit Agreement dated as of June 3, 2014 entered into by Stericycle, Inc. and certain of its subsidiaries as borrowers, Bank of America, N.A., as administrative agent, swingline lender, a lender and a letter of credit issuer, other lenders party to the credit agreement, JPMorgan Chase Bank, N.A. and HSBC Bank USA, National Association, as syndication agents, and Union Bank, N.A. and Santander Bank, National Association, as co-documentation agents (incorporated by reference to Exhibit 10.1 to our current report on Form 8-K filed June 4, 2014)   |                                  |
| 10.2*            | Second Amendment, dated as of August 13, 2015, to the Second Amended and Restated Credit Agreement dated as of June 3, 2014, entered into by Stericycle, Inc. and certain of its subsidiaries as borrowers, Bank of America, N.A., as administrative agent, swingline lender, lender and letter of credit issuer, JPMorgan Chase Bank, N.A., HSBC Bank USA, National Association and Sumitomo Mitsui Banking Corporation, as lenders and letter of credit issuers, MUFG Union Bank, N.A., Santander Bank, N.A., Sumitomo Mitsui Banking Corporation, U.S. Bank National Association, U.S. Bank National Association, Canada Branch, BMO Harris Financing Inc., COBANK, ACB, The Northern Trust Company, Citibank, N.A., Compass Bank, PNC Bank, National Association, SunTrust Bank, Unicredit Bank AG, New York Branch, and Wells Fargo Bank, National Association, as lenders (incorporated by reference to Exhibit 2.1 to our current report on Form 8-K filed August 19, 2015) |                                  |

- 10.3\* Term Loan Credit Agreement dated as of August 21, 2015, among Stericycle, Inc., as borrower, Bank of America, N.A., as Administrative Agent and as a lender, and Goldman Sachs Bank USA, JPMorgan Chase Bank, N.A., Santander Bank, N.A., MUFG Union Bank, N.A., Sumitomo Mitsui Banking Corporation, U.S. Bank National Association, BMO Harris Bank N.A., Wells Fargo Bank, National Association, HSBC Bank USA, National Association, HSBC Bank plc, CoBank, ACB, The Northern Trust Company, Compass Bank, PNC Bank, National Association and UniCredit Bank AG, New York Branch, as lenders (incorporated by reference to Exhibit 10.1 to our current report on Form 8-K filed August 27, 2015)

42

---

| Exhibit | Index | Description  | Filed with<br>Electronic<br>Submission |
|---------|-------|--|--|
| 10.4*   |       | <p>Note Purchase Agreement dated as of August 18, 2010 entered into by us, as issuer and seller, and Metropolitan Life Insurance Company, MetLife Insurance Company of Connecticut, Union Fidelity Life Insurance Company, Allstate Life Insurance Company, Allstate Life Insurance Company of New York, American Heritage Life Insurance Company, New York Life Insurance Company, New York Life Insurance and Annuity Corporation, New York Life Insurance and Annuity Corporation Institutionally Owned Life Insurance Separate Account (BOLI 30C), Forethought Life Insurance Company, Hartford Life Insurance Company, Hartford Life and Accident Insurance Company, Hartford Fire Insurance Company, Physicians Life Insurance Company, Nationwide Life Insurance Company, Nationwide Life and Annuity Insurance Company, Massachusetts Mutual Life Insurance Company, C.M. Life Insurance Company, RiverSource Life Insurance Company, Thrivent Financial for Lutherans, The Lincoln National Life Insurance Company, The Northwestern Mutual Life Insurance Company, Jackson National Life Insurance Company, Allianz Life Insurance Company of North America, MONY Life Insurance Company, AXA Equitable Life Insurance Company, CUNA Mutual Insurance Society, Southern Farm Bureau Life Insurance Company, Phoenix Life Insurance Company, PHL Variable Insurance Company, Modern Woodmen of America, United of Omaha Life Insurance Company, Companion Life Insurance Company, Mutual of Omaha Insurance Company, Woodmen of the World Life Insurance Society, Knights of Columbus, Physicians Insurance A Mutual Company, Seabright Insurance Company and Country Life Insurance Company, as purchasers (incorporated by reference to our current report on Form 8-K filed August 27, 2010)</p> |  |
| 10.5*   |       | <p>First Amendment, dated as of August 13, 2015, to the Note Purchase Agreement dated as of August 18, 2010, entered into by Stericycle, Inc. and Metropolitan Life Insurance Company, MetLife Insurance Company of Connecticut, Union Fidelity Life Insurance Company, AllState Life Insurance Company, AllState Life Insurance Company of New York, American Heritage Life Insurance Company, New York Life Insurance Company, New York Life Insurance and Annuity Corporation, New York Life Insurance and Annuity Corporation Institutionally Owned Life Insurance Separate Account (BOLI 30C), Hartford Life Insurance Company, Hartford Life and Accident Insurance Company, Hartford Fire Insurance Company, Nationwide Life Insurance Company, Nationwide Life and Annuity Insurance Company, Massachusetts Mutual Life Insurance Company, C.M. Life Insurance Company, RiverSource Life Insurance Company, Thrivent Financial for Lutherans, The Lincoln National Life Insurance Company, The Northwestern Mutual Life Insurance Company, Jackson National Life Insurance Company, Allianz Life Insurance Company of North America, AXA Equitable Life Insurance Company, Southern Farm Bureau Life Insurance Company, Phoenix Life Insurance Company, PHL Variable Insurance Company, Modern Woodmen of America, United of Omaha Life Insurance Company, Companion Life Insurance Company, Mutual of Omaha Insurance Company, Woodmen of the World Life Insurance Society, Knights of Columbus, Physicians Insurance A Mutual Company, CSAA Insurance Exchange and Country Life Insurance Company (incorporated by reference to Exhibit 2.4 to our current report on Form 8-K filed August 19, 2015)</p>   |  |

| Exhibit Index | Description  | Filed with Electronic Submission |
|---------------|--|----------------------------------|
| 10.6*         | <p>Note Purchase Agreement dated as of October 22, 2012 entered into by us, as issuer and seller, and The Northwestern Mutual Life Insurance Company, Northwestern Long Term Care Insurance Company, The Lincoln National Life Insurance Company, ING USA Annuity and Life Insurance Company, ING Life Insurance and Annuity Company, Reliastar Life Insurance Company, Reliastar Life Insurance Company of New York, Principal Life Insurance Company, Penn Mutual Life Insurance Company, Symetra Life Insurance Company, Jackson National Life Insurance Company, Reassure America Life Insurance Company, Aviva Life and Annuity Company, Royal Neighbors of America, Thrivent Financial for Lutherans, AXA Equitable Life Insurance Company, MONY Life Insurance Company, RiverSource Life Insurance Company (944), RiverSource Life Insurance Co. of New York (904), Western-Southern Life Assurance Company, Columbus Life Insurance Company, Integrity Life Insurance Company, Integrity Life Insurance Company Separate Account GPO, National Integrity Life Insurance Company Separate Account GPO, Great-West Life &amp; Annuity Insurance Company, Great-West Life &amp; Annuity Insurance Company of South Carolina, Hartford Life Insurance Company, The Guardian Life Insurance Company of America, Modern Woodmen of America, National Life Insurance Company, Trinity Universal Insurance Company, Catholic United Financial, Occidental Life Insurance Company of North Carolina, Western Fraternal Life Association, Southern Farm Bureau Life Insurance Company, Woodmen of the World Life Insurance Society, Americo Financial Life &amp; Annuity Insurance Company, American United Life Insurance Company, Ameritas Life Insurance Corp. of New York, Acacia Life Insurance Company, The Union Central Life Insurance Company, USAA Life Insurance Company, Country Life Insurance Company, ProAssurance Indemnity Company, Inc, ProAssurance Casualty Company, and State of Wisconsin Investment Board, as purchasers (incorporated by reference to our current report on Form 8-K filed October 26, 2012)</p> |                                  |
| 10.7*         | <p>First Amendment, dated as of August 13, 2015, to the Note Purchase Agreement dated as of October 22, 2012, entered into by Stericycle, Inc. and The Northwestern Mutual Life Insurance Company, Northwestern Long Term Care Insurance Company, The Lincoln National Life Insurance Company, Penn Mutual Life Insurance Company, Principal Life Insurance Company, Symetra Life Insurance Company, Jackson National Life Insurance Company, Reassure America Life Insurance Company, Athene Annuity and Life Company (f/k/a Aviva Life and Annuity Company), Royal Neighbors of America, Thrivent Financial for Lutherans, AXA Equitable Life Insurance Company, RiverSource Life Insurance Company, RiverSource Life Insurance Co. of New York, Western-Southern Life Assurance Company, Columbus Life Insurance Company, Integrity Life Insurance Company, Integrity Life Insurance Company Separate Account GPO, National Integrity Life Insurance Company Separate Account GPO, Great-West Life &amp; Annuity Insurance Company, Great-West Life &amp; Annuity Insurance Company of South Carolina, Hartford Life Insurance Company, The Guardian Life Insurance Company of America, Modern Woodmen of America, National Life Insurance Company, Trinity Universal Insurance Company, Catholic United Financial, Occidental Life Insurance Company of North Carolina, Western Fraternal Life Association, Southern Farm Life Insurance Company, Woodmen of the World Life Insurance Society, American United Life Insurance Company, Ameritas Life Insurance Corp. successor by merger to Acacia Life Insurance Company, Ameritas Life Insurance Corp. successor by merger to The Union Central Life Insurance Company, Ameritas Life Insurance Corp. of New York, USAA Life Insurance Company, Country Life Insurance Company, ProAssurance Casualty Company, ProAssurance Indemnity Company, Inc. and State of Wisconsin Investment Board (incorporated by reference to Exhibit 2.3 to our current report on</p>   |                                  |

Form 8-K filed August 19, 2015)

44

---



| Exhibit Index | Description  | Filed with Electronic Submission |
|---------------|--|----------------------------------|
| 10.8*         | Note Purchase Agreement dated as of April 30, 2015 entered into by Stericycle, Inc., as issuer and seller, and New York Life Insurance Company, New York Life Insurance and Annuity Corporation, New York Life Insurance and Annuity Corporation Institutionally Owned Life Insurance Separate Account (BOLI 3-2), The Northwestern Mutual Life Insurance Company, The Northwestern Life Insurance Company for its Group Annuity Separate Account, State Farm Life Insurance Company, State Farm Life and Accident Assurance Company, Thrivent Financial for Lutherans, AXA Equitable Life Insurance Company, Great-West Life & Annuity Insurance Company, the Guardian Life Insurance Company of America, Metropolitan Life Insurance Company, MetLife Insurance Company USA, General American Life Insurance Company, First MetLife Investors Insurance Company, MetLife Insurance K.K., Nationwide Life Insurance Company, RiverSource Life Insurance Company, RiverSource Life Insurance Company, RiverSource Life Insurance Co. of New York, Life Insurance Company of the Southwest, State of Wisconsin Investment Board, Catholic Financial Life, GuideOne Mutual Insurance Company and GuideOne Property & Casualty Insurance Company (incorporated by reference to Exhibit 10.1 to our current report on Form 8-K filed May 4, 2015)        |                                  |
| 10.9*         | Second Amendment, dated as of August 13, 2015, to the Note Purchase Agreement dated as of April 30, 2015, entered into by Stericycle, Inc. and New York Life Insurance Company, New York Life Insurance and Annuity Corporation, New York Life Insurance and Annuity Corporation Institutionally Owned Life Insurance Separate Account (BOLI 3-2), The Northwestern Mutual Life Insurance Company, The Northwestern Life Insurance Company for its Group Annuity Separate Account, State Farm Life Insurance Company, State Farm Life and Accident Assurance Company, Thrivent Financial for Lutherans, AXA Equitable Life Insurance Company, Great-West Life & Annuity Insurance Company, The Guardian Life Insurance Company of America, Metropolitan Life Insurance Company, MetLife Insurance Company USA, General American Life Insurance Company, First MetLife Investors Insurance Company, MetLife Insurance K.K., Nationwide Life Insurance Company, RiverSource Life Insurance Company, RiverSource Life Insurance Co. of New York, Life Insurance Company of the Southwest, State of Wisconsin Investment Board, Catholic Financial Life, GuideOne Mutual Insurance Company and GuideOne Property & Casualty Insurance Company (incorporated by reference to Exhibit 2.2 to our current report on Form 8-K filed August 19, 2015)         |                                  |
| 10.10*        | Note Purchase Agreement dated as of October 1, 2015, entered into by Stericycle, Inc. and Metropolitan Life Insurance Company, General American Life Insurance Company, MetLife Insurance Company USA, Erie Family Life Insurance Company, The Northwestern Mutual Life Insurance Company, The Northwestern Mutual Life Insurance Company for its Group Annuity Separate Account, New York Life Insurance Company, New York Life Insurance and Annuity Corporation, New York Life Insurance and Annuity Corporation Institutionally Owned Life Insurance Separate Account (BOLI 3), The Bank of New York Mellon, State Farm Life Insurance Company, State Farm Life and Accident Assurance Company, Nationwide Life Insurance Company, Thrivent Financial for Lutherans, Principal Life Insurance Company, State of Wisconsin Investment Board, Auto-Owners Insurance Company, Auto-Owners Life Insurance Company, American United Life Insurance Company, The State Life Insurance Company, Ameritas Life Insurance Corp., Ameritas Life Insurance Corp. of New York, PHL Variable Insurance Company, Woodmen of the World Life Insurance Society, Horizon Blue Cross Blue Shield of New Jersey and Southern Farm Bureau Life Insurance Company (incorporated by reference to Exhibit 2.2 to our current report on Form 8-K filed. October 7, 2015) |                                  |
| 10.11*†       |  |                                  |

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))

10.12\*† First amendment to Directors Plan (incorporated by reference to Exhibit 10.9 to our annual report on Form 10-K for 2001)

10.13\*† 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)

10.14\*† 1997 Stock Option Plan ("1997 Plan") (incorporated by reference to Exhibit 10.3 to our annual report on Form 10-K for 1997)

45

---

| Exhibit Index | Description  |
|---------------|--|
| 10.15*†       | First amendment to 1997 Plan (incorporated by reference to Exhibit 10.9 to our registration statement on Form S-3 declared effective on February 4, 1999 (Registration No. 333-60591)) |
| 10.16*†       | Second amendment to 1997 Plan (incorporated by reference to Exhibit 10.12 to our annual report on Form 10-K for 2001)  |
| 10.17*†       | Third amendment to 1997 Plan (incorporated by reference to Exhibit 10.16 to our annual report on Form 10-K for 2003)   |
| 10.18*†       | 2000 Non-statutory Stock Option Plan ("2000 Plan") (incorporated by reference to Exhibit 10.13 to our annual report on Form 10-K for 2001)   |
| 10.19*†       | First amendment to 2000 Plan (incorporated by reference to Exhibit 10.14 to our annual report on Form 10-K for 2001)   |
| 10.20*†       | Second amendment to 2000 Plan (incorporated by reference to Exhibit 10.15 to our annual report on Form 10-K for 2001)  |
| 10.21*†       | 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))                |
| 10.22*†       | 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))        |
| 10.23*†       | First amendment to 2005 Plan (incorporated by reference to Exhibit 10.15 to our annual report on Form 10-K for 2008)   |
| 10.24*†       | 2008 Incentive Stock Plan ("2008 Plan") (incorporated by reference to Exhibit 4.1 to our registration statement on Form S-8 filed August 8, 2008 (Registration No. 333-152877))        |
| 10.25*†       | First amendment to 2008 Plan (incorporated by reference to Exhibit 10.19 to our annual report on Form 10-K for 2009)   |
| 10.26*†       | Amendment to 1997 Plan, 2000 Plan, 2005 Plan and 2008 Plan (incorporated by reference to Exhibit 10.21 to our annual report on Form 10-K for 2012)                                     |
| 10.27*†       | 2011 Incentive Stock Plan ("2011 Plan") (incorporated by reference to Exhibit 4.1 to our registration statement on Form S-8 filed August 9, 2011 (Registration No. 333-176165))        |
| 10.28*†       | 2014 Incentive Stock Plan ("2014 Plan") (incorporated by reference to Exhibit 4.1 to our registration statement on Form S-8 filed December 23, 2014 (Registration No. 333-201236))     |
| 10.29*†       | Form of agreement for stock option grant under 2005, 2008, 2011 and 2014 Plans (incorporated by reference to Exhibit 10.20 to our annual report on Form 10-K for 2011)                 |
| 10.30*†       | Form of agreement for restricted stock unit award under 2008, 2011 and 2014 Plans (incorporated by reference to Exhibit 10.21 to our annual report on Form 10-K for 2011)              |
| 10.31*†       | Bonus conversion program (2016 plan year) (incorporated by reference to Exhibit 10.31 to our annual report on Form 10-K for 2015, as filed on March 15, 2016)                          |
| 10.32*†       | Employee Stock Purchase Plan (incorporated by reference to Exhibit 4.1 to our registration statement on Form S-8 filed November 8, 2013 (Registration No. 333-192235))                 |
| 10.33*†       |  |

Edgar Filing: STERICYCLE INC - Form 10-K/A

Plan of Compensation for Outside Directors (incorporated by reference to Exhibit 10.1 to our current report on Form 8-K filed August 11, 2006)

|              |   |   |
|--------------|---|---|
| 10.34*†      | First amendment to Plan of Compensation for Outside Directors (incorporated by reference to Exhibit 10.19 to our annual report on Form 10-K for 2006) |   |
| 14*          | Code of ethics (incorporated by reference to Exhibit 10.14 to our annual report on Form 10-K for 2003)  |   |
| 21*          | Subsidiaries (incorporated by reference to Exhibit 21 to our annual report on Form 10-K for 2015, as filed on March 15, 2016)                         |   |
| 23.1         | Consent of Independent Registered Public Accounting Firm  | X |
| 31.3         | Rule 13a-14(a)/15d-14(a) Certification of Chief Executive Officer   | X |
| 31.4         | Rule 13a-14(a)/15d-14(a) Certification of Chief Financial Officer   | X |
| 32.1         | Section 1350 Certification of Chief Executive Officer and Chief Financial Officer   | X |
| 101.INS XBRL | Instance Document   | X |
| 101.SCH XBRL | Taxonomy Extension Schema Document  | X |
| 101.CAL XBRL | Taxonomy Extension Calculation Linkbase Document  | X |
| 101.DEF XBRL | Taxonomy Definition Linkbase Document   | X |
| 101.LAB XBRL | Taxonomy Extension Label Linkbase Document  | X |
| 101.PRE XBRL | Taxonomy Extension Presentation Linkbase Document   | X |

x Filed herewith

\* Previously filed

46

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

47

---

SIGNATURES

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

Dated: August 9, 2016

STERICYCLE, INC.

(Registrant)

By: /s/ DANIEL V. GINNETTI

Daniel V. Ginnetti

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