

STERICYCLE INC  
Form 10-Q  
November 07, 2008

**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549**

**FORM 10-Q**

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

**For the quarterly period ended September 30, 2008 or**

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

**For the transition period from \_\_\_\_\_ to \_\_\_\_\_**

**Commission File Number 0-21229**

**Stericycle, Inc.**

*(Exact name of registrant as specified in its charter)*

**Delaware**

*(State or other jurisdiction of incorporation or organization)*

**36-3640402**

*(IRS Employer Identification Number)*

**28161 North Keith Drive**

**Lake Forest, Illinois 60045**

*(Address of principal executive offices, including zip code)*

**(847) 367-5910**

*(Registrant's telephone number, including area code)*

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

Edgar Filing: STERICYCLE INC - Form 10-Q

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

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

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

As of November 3, 2008 there were 85,568,566 shares of the registrant's Common Stock outstanding.

---

**Stericycle, Inc.**

**Table of Contents**

	<b><u>Page</u></b> <b><u>No.</u></b>
<b>PART I. Financial Information</b>	
Item 1. Financial Statements	
Condensed Consolidated Balance Sheets as of September 30, 2008 (Unaudited) and December 31, 2007 (Audited)	1
Condensed Consolidated Statements of Income for the three and nine months ended September 30, 2008 and 2007 (Unaudited)	2
Condensed Consolidated Statements of Cash Flows for the nine months ended September 30, 2008 and 2007 (Unaudited)	3
Notes to Condensed Consolidated Financial Statements (Unaudited)	4
Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations	13
Item 3. Qualitative and Quantitative Disclosures about Market Risk	19
Item 4. Controls and Procedures	20
<b>PART II. Other Information</b>	

Edgar Filing: STERICYCLE INC - Form 10-Q

Item 1. Legal Proceedings	21
Item 2. Changes in Securities, Uses of Proceeds and Issuer Purchases of Equity Securities	21
Item 6. Exhibits	22
<b>Signatures</b>	22
<b>Certifications</b>	23

**PART I. FINANCIAL INFORMATION****ITEM 1. FINANCIAL STATEMENTS****STERICYCLE, INC. AND SUBSIDIARIES****CONDENSED CONSOLIDATED BALANCE SHEETS**

In thousands, except share and per share data

	<b>September 30, 2008 (Unaudited)</b>	<b>December 31, 2007 (Audited)</b>
<b>ASSETS</b>		
<b>Current Assets:</b>		
Cash and cash equivalents	\$ 7,043	\$ 17,108
Short-term investments	1,205	1,256
Accounts receivable, less allowance for doubtful		
accounts of \$6,365 in 2008 and \$6,157 in 2007	174,871	157,435
Deferred income taxes	17,694	13,510
Other current assets	23,028	20,967
<b>Total Current Assets</b>	<b>223,841</b>	<b>210,276</b>
<b>Property, Plant and Equipment, net</b>	<b>208,807</b>	<b>193,039</b>
<b>Other Assets:</b>		
Goodwill	1,105,016	1,033,333
Intangible assets, less accumulated amortization of		
\$13,942 in 2008 and \$12,230 in 2007	163,390	152,689
Other	20,574	18,822
<b>Total Other Assets</b>	<b>1,288,980</b>	<b>1,204,844</b>
<b>Total Assets</b>	<b>\$ 1,721,628</b>	<b>\$ 1,608,159</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
<b>Current liabilities:</b>		
Current portion of long-term debt	\$ 34,282	\$ 22,003

Edgar Filing: STERICYCLE INC - Form 10-Q

Accounts payable	31,597	40,049
Accrued liabilities	91,424	75,571
Deferred revenues	14,136	12,095
<b>Total Current Liabilities</b>	<b>171,439</b>	<b>149,718</b>
Long-term debt, net of current portion	701,679	613,781
Deferred income taxes	151,604	125,041
Other liabilities	3,417	5,544
<b>Shareholders' Equity:</b>		
Common stock (par value \$.01 per share, 120,000,000		
shares authorized, 85,559,658 issued and outstanding		
in 2008, 87,410,653 issued and outstanding in 2007)	856	874
Additional paid-in capital	88,128	197,462
Accumulated other comprehensive income	9,710	30,520
Retained earnings	594,795	485,219
<b>Total Shareholders' Equity</b>	<b>693,489</b>	<b>714,075</b>
<b>Total Liabilities and Shareholders' Equity</b>	<b>\$ 1,721,628</b>	<b>\$ 1,608,159</b>

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

**STERICYCLE, INC. AND SUBSIDIARIES**  
**CONDENSED CONSOLIDATED STATEMENTS OF INCOME**

(Unaudited)

In thousands, except share and per share data

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2008	2007	2008	2007
<b>Revenues</b>	\$ 277,098	\$ 237,323	\$ 809,668	\$ 681,217
<b>Costs and Expenses:</b>				
Cost of revenues	147,809	124,799	431,324	358,995
Selling, general and				
administrative expenses	48,824	42,496	144,300	121,391
Depreciation and				
amortization	8,651	7,808	25,288	22,654
Gain on sale of assets	--	--	--	(1,898)
Impairment of permit	--	--	--	228
Impairment of fixed assets	--	--	--	1,261
Arbitration settlement and				
related costs	96	--	5,595	--
Acquisition integration				
expenses	210	360	1,239	1,279
<b>Total Costs and</b>				
<b>Expenses</b>	<b>205,590</b>	<b>175,463</b>	<b>607,746</b>	<b>503,910</b>
<b>Income from Operations</b>	<b>71,508</b>	<b>61,860</b>	<b>201,922</b>	<b>177,307</b>
<b>Other Income (Expense):</b>				
Interest income	185	307	744	1,245
Interest expense	(8,618)	(8,864)	(24,885)	(24,840)
Insurance proceeds	--	--	--	500
Other expense, net	(611)	(247)	(1,572)	(1,030)
<b>Total Other Expense</b>	<b>(9,044)</b>	<b>(8,804)</b>	<b>(25,713)</b>	<b>(24,125)</b>
<b>Income Before Income</b>	<b>62,464</b>	<b>53,056</b>	<b>176,209</b>	<b>153,182</b>

**Taxes**

<b>Income Tax Expense</b>	<b>23,237</b>	20,161	<b>66,633</b>	58,902
---------------------------	---------------	--------	---------------	--------

<b>Net Income</b>	<b>\$ 39,227</b>	\$ 32,895	<b>\$ 109,576</b>	\$ 94,280
-------------------	------------------	-----------	-------------------	-----------

**Earnings Per Common Share:**

Basic	<b>\$ 0.46</b>	\$ 0.38	<b>\$ 1.27</b>	\$ 1.07
-------	----------------	---------	----------------	---------

Diluted	<b>\$ 0.45</b>	\$ 0.37	<b>\$ 1.24</b>	\$ 1.05
---------	----------------	---------	----------------	---------

**Weighted Average Number of****Common Shares Outstanding:**

Basic	<b>85,449,871</b>	87,299,448	<b>86,127,097</b>	87,735,838
-------	-------------------	------------	-------------------	------------

Diluted	<b>87,864,210</b>	89,794,892	<b>88,578,506</b>	90,068,563
---------	-------------------	------------	-------------------	------------

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



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

**In thousands**

	<b>Nine Months Ended September 30,</b>	
	<b>2008</b>	<b>2007</b>
<b>OPERATING ACTIVITIES:</b>		
Net income	\$ 109,576	\$ 94,280
Adjustments to reconcile net income to net cash provided		
by operating activities:		
Gain on sale of assets	--	(1,898)
Impairment of fixed assets	--	1,261
Impairment of permit intangible	--	228
Write-off of note receivable related to joint venture	798	--
Stock compensation expense	8,880	7,855
Excess tax benefit of stock options exercised	(6,165)	(3,414)
Depreciation	22,344	19,975
Amortization	2,944	2,679
Deferred income taxes	18,729	11,958
Changes in operating assets and liabilities, net of effect of		
acquisitions and divestitures:		
Accounts receivable	(13,976)	(13,931)
Accounts payable	(10,205)	6,044
Accrued liabilities	24,451	(445)
Deferred revenues	2,299	1,706
Other assets	(3,398)	1,845
Net cash provided by operating activities	<b>156,277</b>	<b>128,143</b>
<b>INVESTING ACTIVITIES:</b>		
	<b>(46,564)</b>	<b>(78,966)</b>

Payments for acquisitions and international investments,

net of cash acquired

Proceeds from maturity of short-term investments	37	1,763
Proceeds from sale of assets	--	26,453
Capital expenditures	<b>(35,729)</b>	(37,602)
Net cash used in investing activities	<b>(82,256)</b>	(88,352)

**FINANCING ACTIVITIES:**

Repayment of long-term debt	<b>(7,868)</b>	(32,374)
Net (payments) / proceeds on senior credit facility	<b>(52,184)</b>	68,623
Proceeds from private placement of long-term note	<b>100,000</b>	--
Payments of deferred financing costs	<b>(236)</b>	--
Net payments on capital lease obligations	<b>(130)</b>	(49)
Purchase / cancellation of treasury stock	<b>(140,306)</b>	(95,174)
Proceeds from other issuance of common stock	<b>14,688</b>	11,441
Excess tax benefit of stock options exercised	<b>6,165</b>	3,414
Net cash used in financing activities	<b>(79,871)</b>	(44,119)
Effect of exchange rate changes on cash	<b>(4,215)</b>	(1,461)
Net decrease in cash and cash equivalents	<b>(10,065)</b>	(5,789)
Cash and cash equivalents at beginning of period	<b>17,108</b>	13,492
Cash and cash equivalents at end of period	<b>\$ 7,043</b>	\$ 7,703

**NON-CASH ACTIVITIES:**

Net issuance of notes payable for certain acquisitions	<b>\$ 58,977</b>	\$ 54,108
Net issuance of common stock for certain acquisitions	<b>--</b>	365

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



**STERICYCLE, INC. AND SUBSIDIARIES**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**(Unaudited)**

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

**NOTE 1 BASIS OF PRESENTATION**

The accompanying condensed consolidated financial statements have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission. Certain information and footnote disclosures normally included in annual consolidated financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted pursuant to such rules and regulations; but the Company believes the disclosures in the accompanying condensed consolidated financial statements are adequate to make the information presented not misleading. In our opinion, all adjustments necessary for a fair presentation for the periods presented have been reflected and are of a normal recurring nature. These condensed consolidated financial statements should be read in conjunction with the Consolidated Financial Statements and notes thereto for the year ended December 31, 2007, as filed with our Annual Report on Form 10-K for the year ended December 31, 2007. The results of operations for the nine months ended September 30, 2008 are not necessarily indicative of the results that may be achieved for the entire year ending December 31, 2008.

**NOTE 2 ACQUISITIONS AND DIVESTITURE**

During the quarter ended March 31, 2008, we completed two acquisitions. We acquired selected assets of a domestic medical waste business and all the stock of a regulated waste business in Canada. Effective for the month ended March 31, 2008, we dissolved our relationship in a United Kingdom joint venture, White Rose Sharpsmart Limited that was formed in October 2001, prior to our acquisition of White Rose Environmental Limited in June 2004. This joint venture was previously consolidated in our financial statements.

Edgar Filing: STERICYCLE INC - Form 10-Q

During the quarter ended June 30, 2008, we completed three acquisitions. We acquired selected assets of two domestic regulated waste businesses and 90% of the stock of a medical waste business in Chile.

During the quarter ended September 30, 2008, we completed four acquisitions. We acquired selected assets of three domestic and one Argentinean regulated waste businesses.

The aggregate net purchase price of our acquisitions, including adjustments for purchase accounting, during the nine months ended September 30, 2008 was approximately \$105.5 million, of which \$46.5 million was paid in cash and \$59.0 million

was paid by the issuance of promissory notes. For financial reporting purposes these acquisition transactions were accounted for using the purchase method of accounting. The purchase prices of these acquisitions, in excess of acquired tangible assets, have been primarily allocated to goodwill and are preliminary pending completion of certain intangible asset valuations. The results of operations of these acquired businesses have been included in the consolidated statements of income from the dates of acquisition. These acquisitions resulted in recognition of goodwill in our financial statements reflecting the complementary strategic fit that the acquired businesses brought to us.

### **NOTE 3 INCOME TAXES**

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 2005. Tax years 2005, 2006 and 2007 remain open and subject to examination by the IRS, and our subsidiaries in foreign countries have tax years open ranging from 2003 through 2007.

The Company has recorded accruals to cover certain unresolved tax issues. Such contingent liabilities relate to additional taxes and interest 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 contingent liabilities as deemed necessary.

The total amount of income tax contingency reserve as of September 30, 2008 is \$4.6 million, which includes amounts of interest and penalties and is reflected as a liability on the balance sheet. The amount of income tax contingency reserve that, if recognized, would affect the effective tax rate is approximately \$4.6 million. We recognize interest and penalties accrued related to income tax reserves in income tax expense. This method of accounting is consistent with prior years.

### **NOTE 4 STOCK BASED COMPENSATION**

At September 30, 2008 we had stock options outstanding under the following plans:

- (i)  
the 2008 Incentive Stock Plan, which our stockholders approved in May 2008;
- (ii)  
the 2005 Incentive Stock Plan, which our stockholders approved in April 2005;
- (iii)  
the 2000 Nonstatutory Stock Option Plan, which our Board of Directors adopted in February 2000;
- (iv)  
the 1997 Stock Option Plan, which expired in January 2007;
- (v)  
the Directors Stock Option Plan, which expired in May 2006;
- (vi)  
the 1995 Incentive Compensation Plan, which expired in July 2005;

(vii)

and our Employee Stock Purchase Plan, which our stockholders approved in May 2001.

The following table sets forth the expense related to stock compensation:

**In thousands**

	<b>Three Months Ended</b>		<b>Nine Months Ended</b>	
	<b>September 30,</b>		<b>September 30,</b>	
	<b>2008</b>	<b>2007</b>	<b>2008</b>	<b>2007</b>
Stock options	\$ 2,731	\$ 2,669	\$ 8,449	\$ 7,546
Employee Stock Purchase Plan	162	112	431	309
Total pre-tax expense	\$ 2,893	\$ 2,781	\$ 8,880	\$ 7,855

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

**In thousands**

	<b>Three Months Ended</b>		<b>Nine Months Ended</b>	
	<b>September 30,</b>		<b>September 30,</b>	
	<b>2008</b>	<b>2007</b>	<b>2008</b>	<b>2007</b>
Tax benefit recognized in income				
statement	\$ 805	\$ 1,025	\$ 3,174	\$ 3,413
Excess tax benefit realized	1,642	970	6,165	3,414

The Black-Scholes option-pricing model is used in determining the fair value of each option grant using the assumptions noted in the table below. The expected term of options granted is based on historical experience and represents the period of time that awards granted are expected to be outstanding. Expected volatility is based upon historical volatility of the company's stock. The expected dividend yield is zero. The risk-free interest rate is based upon the U.S. Treasury yield rates for a comparable period.



The assumptions that we used in the Black-Scholes model are as follows:

<b>Three Months Ended</b>		<b>Nine Months Ended</b>	
<b>September 30,</b>		<b>September 30,</b>	
<b>2008</b>	<b>2007</b>	<b>2008</b>	