STERICYCLE INC
Form 10-Q
August 07, 2009

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

FORM 10-Q

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

For the quarterly period ended June 30, 2009 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	**36-3640402**
(State or other jurisdiction of incorporation or organization)	*(IRS Employer Identification Number)*

28161 North Keith Drive
Lake Forest, Illinois 60045
(Address of principal executive offices, including zip code)

(847) 367-5910
(Registrant's telephone number, including area code)

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 [X] NO [ ]

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

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

Large accelerated filer [X]

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 [X]

As of July 31, 2009 there were 85,050,980 shares of the registrant's Common Stock outstanding.

Stericycle, Inc.

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PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

STERICYCLE, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS

In thousands, except share and per share data

	June 30, 2009 (Unaudited)	December 31, 2008 (Audited)
ASSETS		
Current Assets:		
Cash and cash equivalents	$ **2,682**	$ 9,095
Short-term investments	**977**	1,408
Accounts receivable, less allowance for doubtful accounts of $7,357 in 2009 and $6,616 in 2008	**163,263**	168,598
Deferred income taxes	**11,121**	16,821
Prepaid expenses and other current assets	**30,660**	28,508
Total Current Assets	**208,703**	224,430
Property, Plant and Equipment, net	**216,971**	207,144
Other Assets:		
Goodwill	**1,188,946**	1,135,778
Intangible assets, less accumulated amortization of $15,633 in 2009 and $14,116 in 2008	**203,995**	170,624
Other	**23,067**	21,322
Total Other Assets	**1,416,008**	1,327,724
Total Assets	$ **1,841,682**	$ 1,759,298
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Current portion of long-term debt	$ **43,917**	$ 38,880
Accounts payable	**29,821**	33,612
Accrued liabilities	**77,788**	93,487
Deferred revenues	**14,165**	13,663

Total Current Liabilities	**165,691**	179,642
Long-term debt, net of current portion	**741,641**	753,846
Deferred income taxes	**161,698**	147,287
Other liabilities	**6,033**	8,043
Shareholders' Equity:		
Common stock (par value $.01 per share, 120,000,000 shares authorized, 85,033,935 issued and outstanding in 2009, 85,252,879 issued and outstanding in 2008)	**850**	852
Additional paid-in capital	**58,092**	67,776
Accumulated other comprehensive loss	**(10,807)**	(32,075)
Retained earnings	**718,484**	633,927
Total Shareholders' Equity	**766,619**	670,480
Total Liabilities and Shareholders' Equity	$ **1,841,682**	$ 1,759,298

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

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STERICYCLE, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF INCOME

(Unaudited)

In thousands, except share and per share data

	Three Months Ended June 30,		Six Months Ended June 30,	
	2009	**2008**	**2009**	**2008**
Revenues	**$ 289,268**	$ 277,786	**$ 566,358**	$ 532,570
Costs and Expenses:				
Cost of revenues	**145,618**	148,394	**288,212**	283,515
Selling, general and administrative expenses	**53,047**	49,711	**103,778**	95,476
Depreciation and amortization	**9,660**	8,292	**18,504**	16,637
Transactional expenses related to acquisitions	**1,330**	--	**1,940**	--
Arbitration settlement and related costs	**--**	147	**--**	5,499
Acquisition integration expenses	**73**	316	**184**	1,029
Total Costs and Expenses	**209,728**	206,860	**412,618**	402,156
Income from Operations	**79,540**	70,926	**153,740**	130,414
Other Income (Expense):				
Interest income	**49**	157	**223**	559
Interest expense	**(8,200)**	(8,139)	**(16,299)**	(16,267)
Other expense, net	**(920)**	(518)	**(1,729)**	(961)
Total Other Expense	**(9,071)**	(8,500)	**(17,805)**	(16,669)
Income Before Income Taxes	**70,469**	62,426	**135,935**	113,745
Income Tax Expense	**26,567**	23,741	**51,378**	43,396
Net Income	**$ 43,902**	$ 38,685	**$ 84,557**	$ 70,349

Earnings Per Common Share:								
Basic	**$**	**0.52**	$	0.45	**$**	**1.00**	$	0.81
Diluted	**$**	**0.51**	$	0.44	**$**	**0.97**	$	0.79
Weighted Average Number of								
Common Shares Outstanding:								
Basic		**84,919,498**		86,093,711		**84,914,145**		86,469,432
Diluted		**86,843,260**		88,484,943		**86,843,043**		88,944,593

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

STERICYCLE, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

In thousands

	Six Months Ended June 30,	
	2009	**2008**
OPERATING ACTIVITIES:		
Net income	**$ 84,557**	$ 70,349
Adjustments to reconcile net income to net cash provided		
by operating activities:		
Loss on sale of assets	**62**	--
Write-off of note receivable related to joint venture	**--**	798
Stock compensation expense	**7,092**	5,987
Excess tax benefit of stock options exercised	**(551)**	(4,523)
Depreciation	**16,118**	14,793
Amortization	**2,386**	1,844
Deferred income taxes	**11,976**	11,222
Changes in operating assets and liabilities, net of effect of		
acquisitions and divestitures:		
Accounts receivable	**12,302**	(9,304)
Accounts payable	**(7,806)**	(9,575)
Accrued liabilities	**(1,620)**	10,748
Deferred revenues	**181**	2,982
Other assets	**1,505**	(686)
Net cash provided by operating activities	**126,202**	94,635
INVESTING ACTIVITIES:		
Payments for acquisitions,		
net of cash acquired	**(60,519)**	(33,399)
Proceeds from maturity of short-term investments	**513**	129
Proceeds from sale of property and equipment	**448**	--

Capital expenditures	**(17,904)**	(22,977)
Net cash used in investing activities	**(77,462)**	(56,247)
FINANCING ACTIVITIES:		
Repayment of long-term debt	**(11,383)**	(3,760)
Net repayments on senior credit facility	**(71,762)**	(29,700)
Proceeds from term loan	**50,000**	--
Proceeds from private placement of long-term note	**--**	100,000
Payments of deferred financing costs	**(888)**	(236)
Principal payments on capital lease obligations	**(122)**	(199)
Purchase/ cancellation of treasury stock	**(29,975)**	(121,195)
Proceeds from other issuance of common stock	**9,163**	9,737
Excess tax benefit of stock options exercised	**551**	4,523
Net cash used in financing activities	**(54,416)**	(40,830)
Effect of exchange rate changes on cash	**(737)**	(2,271)
Net decrease in cash and cash equivalents	**(6,413)**	(4,713)
Cash and cash equivalents at beginning of period	**9,095**	17,108
Cash and cash equivalents at end of period	**$ 2,682**	$ 12,395
NON-CASH ACTIVITIES:		
Net issuance of notes payable for certain acquisitions	**$ 20,756**	$ 30,544

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, 2008, as filed with our Annual Report on Form 10-K for the year ended December 31, 2008. The results of operations for the six months ended June 30, 2009 are not necessarily indicative of the results that may be achieved for the entire year ending December 31, 2009.

NOTE 2 ACQUISITIONS

During the quarter ended March 31, 2009, we acquired selected assets of three domestic regulated waste businesses and completed the funding on a 2008 acquisition.

During the quarter ended June 30, 2009, we completed seven acquisitions. Domestically, we acquired five regulated waste businesses four of which were selected assets and one was a stock purchase. Internationally, we acquired all of the stock of two regulated waste businesses one located in the United Kingdom and the other located in Romania.

The aggregate purchase price of our acquisitions during the six months ended June 30, 2009 was approximately $81.3 million, of which approximately $14.2 million in cash payments related to transactions that closed in 2008 and were disbursed in 2009. The purchase price of our 2009 acquisitions was approximately $67.1 million, of which $46.3 million was paid in cash and $20.8 million was paid by the issuance of promissory notes. For financial reporting purposes, our 2009 acquisitions were accounted for using the acquisition 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.

On May 9, 2009, we and our wholly-owned subsidiary, ATMW Acquisition Corp., entered into an agreement and plan of merger with MedServe, Inc. a Delaware corporation, and Avista Capital Partners, L.P., a Delaware limited partnership, as the stockholders representative. Pursuant to the merger agreement and upon completion of the merger, our subsidiary will be merged with and into MedServe and MedServe will become a wholly-owned subsidiary of ours. MedServe is privately held. It is engaged in the collection, transportation, treatment and disposal of medical waste, hazardous waste, universal waste and other regulated wastes, sharps management services, safety and compliance training services, and other related businesses.

The total merger consideration payable by us is $185 million in cash, subject to reduction for MedServe s indebtedness as of the closing date, MedServe s expenses in connection with the transaction, and other expenses related to the transaction. In addition, $27.8 million of the merger consideration will be deposited in escrow to cover indemnification obligations of the MedServe stockholders under the merger agreement.

Concurrently with the parties execution of the merger agreement, MedServe stockholders holding a majority of its outstanding shares entitled to vote delivered their written consent approving the merger agreement and the merger.

The merger is subject to customary closing conditions and regulatory reviews, including clearance under the Hart-Scott-Rodino Antitrust Improvements Act of 1976 (See Note 10 Legal Proceedings).

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 2002. The Internal Revenue Service (IRS) concluded an examination of the Company's U.S. income tax return for 2004; subsequent tax years remain open and subject to examination by the IRS. Our subsidiaries in foreign countries have tax years open ranging from 2002 through 2008.

The total amount of unrecognized tax benefits as of June 30, 2009 and 2008 was $8.2 million and $3.7 million, respectively, which included immaterial amounts of interest and penalties reflected as a liability on the balance sheet. The amount of unrecognized tax benefits that, if recognized, would affect the effective tax rate is approximately $8.2 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.

The following table summarizes the changes in unrecognized tax positions during the six months ended June 30, 2009:

In thousands		
Unrecognized tax positions, January 1, 2009	$	5,318
Gross increases- tax positions in prior period		**1,830**
Gross increases- tax positions in current period		**1,042**
Unrecognized tax positions, June 30, 2009	**$**	**8,190**

NOTE 4 STOCK BASED COMPENSATION

At June 30, 2009, we had stock options outstanding under the following plans:

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2009	**2008**	**2009**	**2008**
Stock options	$ **3,464**	$ 2,789	$ **6,758**	$ 5,718
Employee Stock Purchase Program	**166**	134	**333**	269
Total pre-tax expense	$ **3,630**	$ 2,923	$ **7,091**	$ 5,987

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

In thousands

	Three Months Ended June 30,		Six Months Ended June 30,	
	2009	**2008**	**2009**	**2008**
Tax benefit recognized in income statement	$ **1,452**	$ 1,158	$ **2,754**	$ 2,369
Excess tax benefit realized	**287**	4,546	**551**	4,523

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 of a comparable period.

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2009	**2008**	**2009**	**2008**
Expected term (in years)	**5.5**	5.5	**5.5**	5.5
Expected volatility	**28.90%**	25.41%	**28.28%**	26.29%
Expected dividend yield	**0.00%**	0.00%	**0.00%**	0.00%
Risk free interest rate	**2.34%**	3.76%	**2.12%**	2.76%

The weighted average grant date fair value of the stock options granted during the three and six months ended June 30, 2009 and 2008, was $13.87 and $16.33, and $11.89 and $13.51, respectively.

Stock option activity for the six months ended June 30, 2009, was as follows:

	Number of Options	Weighted Average Exercise Price per Share	Weighted Average Remaining Contractual Life (in years)	Aggregate Intrinsic Value
Outstanding at December 31, 2008	7,297,399	$ 30.97		
Granted	1,290,631	47.14		
Exercised	(352,091)	23.86		
Cancelled or expired	(165,677)	41.81		
Outstanding at June 30, 2009	**8,070,262**	**$ 33.64**	**6.63**	**$ 147,128,775**
Exercisable at June 30, 2009	**4,530,129**	**$ 26.53**	**5.35**	**$ 114,240,479**
Vested and expected to vest in the future at June 30, 2009	**7,257,425**	**$ 32.38**	**6.41**	**$ 141,326,380**

The total intrinsic value of options exercised for the three and six months ended June 30, 2009 and 2008 was $4.7 million and $14.7 million, and $8.9 million and $21.2 million, respectively. Intrinsic value is measured using the fair market value at the date of the exercise (for options exercised) or at June 30, 2009 (for outstanding options), less the applicable exercise price.

As of June 30, 2009, there was $26.7 million of total unrecognized compensation expense, related to non-vested stock options, which is expected to be recognized over a weighted average period of 1.93 years.

NOTE 5 COMMON STOCK

During the quarters ended March 31, 2009 and 2008, we repurchased on the open market, and subsequently cancelled, 536,346 and 1,482,185 shares of common stock, respectively. The weighted average repurchase price was $47.59 and $53.56 per share, respectively.

During the quarters ended June 30, 2009 and 2008, we repurchased on the open market, and subsequently cancelled, 40,162 and 984,533 shares of common stock, respectively. The weighted average repurchase price was $48.51 and $52.49 per share, respectively.

During the quarter ended March 31, 2009, we settled in cash $2.5 million of share repurchases that were executed in December 2008.

NOTE 6 NET INCOME PER COMMON SHARE

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

In thousands, except share and per share data

	Three Months Ended June 30,		Six Months Ended June 30,	
	2009	**2008**	**2009**	**2008**
Numerator:				
Numerator for basic earnings per share				
Net income	**$ 43,902**	$ 38,685	**$ 84,557**	$ 70,349
Denominator:				
Denominator for basic earnings per				
share weighted average shares	**84,919,498**	86,093,711	**84,914,145**	86,469,432
Effect of diluted securities:				
Employee stock options	**1,923,762**	2,390,096	**1,928,898**	2,466,859
Warrants	**--**	1,136	**--**	8,302
Dilutive potential share	**1,923,762**	2,391,232	**1,928,898**	2,475,161
Denominator for diluted earnings per				
share-adjusted weighted average				
shares and after assumed conversions	**86,843,260**	88,484,943	**86,843,043**	88,944,593

Earnings per share	Basic	**$**	**0.52**	$	0.45	**$**	**1.00**	$	0.81
Earnings per share	Diluted	**$**	**0.51**	$	0.44	**$**	**0.97**	$	0.79

NOTE 7 COMPREHENSIVE INCOME

The components of total comprehensive income are net income, the change in cumulative currency translation adjustments and gains and losses on derivative instruments qualifying as cash flow hedges. The following table sets forth the components of total comprehensive income for the three and six months ended June 30, 2009 and 2008:

In thousands

	Three Months Ended June 30,		Six Months Ended June 30,	
	2009	**2008**	**2009**	**2008**
Net income	**$ 43,902**	$ 38,685	**$ 84,557**	$ 70,349
Other comprehensive income/ (loss):				

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Currency translation adjustments	**25,604**	1,718	**20,261**	(391)
Net gain/ (loss) on derivative instruments, net of tax	**634**	(128)	**1,007**	111
Other comprehensive income/ (loss)	**26,238**	1,590	**21,268**	(280)
Total comprehensive income	**$ 70,140**	$ 40,275	**$ 105,825**	$ 70,069

NOTE 8 GUARANTEE

We have guaranteed a loan to JPMorganChase Bank N.A. on behalf of Shiraishi-Sogyo Co. Ltd (Shiraishi). Shiraishi is a customer in Japan that is expanding their medical waste management business and has a one year loan with a current balance of $5.1 million with JPMorganChase Bank N.A. that expires in May 2010.

NOTE 9 GOODWILL

We have two geographical reporting segments, United States and Foreign Countries, both of which have goodwill. The changes in the carrying amount of goodwill, for the six months ended June 30, 2009 were as follows:

In thousands

	United States	**Foreign Countries**	**Total**
Balance as of January 1, 2009	$ 972,475	$ 163,303	$ 1,135,778
Changes due to currency fluctuation	**--**	**15,357**	**15,357**
Changes in goodwill on 2008 acquisitions	**(6,108)**	**1,492**	**(4,616)**
Goodwill on 2009 acquisitions	**32,145**	**10,282**	**42,427**
Balance as of June 30, 2009	**$ 998,512**	**$ 190,434**	**$ 1,188,946**

During the quarter ended June 30, 2009 we performed our annual goodwill impairment evaluation for our three reporting units, Domestic Regulated Waste, Domestic Regulated Returns Management, and Foreign Countries, and determined that none of our recorded goodwill was impaired. During this evaluation we calculated the fair value of the reporting units by multiplying their Earnings Before Interest, Tax, Depreciation and Amortization (EBITDA) for the prior twelve months times by a valuation multiple. The valuation multiple is the average market price of our stock for the prior twelve month period times the outstanding shares at June 30, 2009, divided by the trailing twelve month EBITDA. This EBITDA multiple is an indication of the fair value of the company, per the marketplace. The fair value was then compared to the reporting units book value and determined to be in excess of the book value by a considerable margin. The book value was determined by subtracting their total liabilities from their total assets. We complete our annual impairment analysis of our indefinite lived intangibles (facility permits) during the quarter ended December 31 of each year.

NOTE 10 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 received a request from the U.S. Department of Justice (DOJ) on June 22, 2009 for additional information in connection with their review pursuant to the Hart-Scott-Rodino Antitrust Improvements Act of 1976 (HSR) of our proposed acquisition of MedServe, Inc. We are in the process of complying with the DOJ s request. The effect of the DOJ s request for additional information is to extend the waiting period imposed by HSR until 30 days after we have submitted the requested information, unless the 30-day period is extended voluntarily by the parties or is terminated earlier by the DOJ.

NOTE 11 NEW ACCOUNTING STANDARDS

Effective January 1, 2009 we adopted Statement of Financial Accounting Standards No. 141 (revised 2007), Business Combinations (SFAS No. 141(R)). SFAS No. 141(R) replaces SFAS No. 141, Business Combinations. SFAS No. 141(R) requires the acquiring entity in a business combination to recognize the full fair value of assets acquired and liabilities assumed in the transaction; requires certain contingent assets and liabilities acquired to be recognized at their fair values on the acquisition date; requires contingent consideration to be recognized at its fair value on the acquisition date and changes in the fair value to be recognized in earnings until settled; requires the expensing of most transaction and restructuring costs; and generally requires the reversals of valuation allowances related to acquired deferred tax assets and changes to acquired income tax uncertainties to also be recognized in earnings. This new accounting standard requires the company to recognize expenses to the income statement that were previously accounted for as acquisition accounting and reflected on the balance sheet. Net income for the first six months of 2009 included the effect of $0.7 million of charges related to the adoption of SFAS No. 141(R). Because of the inherent uncertainty of the number, structure and complexity of the acquisitions that we may complete in the future and the magnitude of the transaction expenses that we may incur in completing these acquisitions, the future impact of the adoption of SFAS No. 141(R) is not reasonably estimable.

Effective January 1, 2009 we adopted SFAS Statement No. 160, Noncontrolling Interests in Consolidated Financial Statements (SFAS No. 160). The objective of SFAS No. 160 is to improve the relevance, comparability, and transparency of the financial information that a reporting entity provides in its consolidated financial statements. SFAS No. 160 requires that minority interests be identified and presented on the consolidated statements of income in the equity section, but separate from the parent s equity; that changes in the parent s ownership interest be accounted for consistently and similarly as equity transactions; in a deconsolidation situation, any remaining noncontrolling equity investment and gain or loss on the deconsolidation is to be measured at fair value; that entities provide sufficient disclosures that clearly

distinguish between the ownership interests of the parent and the interests of the noncontrolling owner. For the six months ended June 30, 2009, the adoption of SFAS No. 160 did not result in a material impact to our financial statements.

Effective January 1, 2009 we adopted SFAS Statement No. 161, Disclosures about Derivative Instruments and Hedging Activities (SFAS No. 161), to enhance the disclosure regarding the Company s derivative and hedging activities to improve the transparency of financial reporting. The adoption of SFAS No. 161 did not have a material impact to our financial statements.

In April 2009, FASB issued FSP No. FAS 141(R)-1, Accounting for Assets Acquired and Liabilities Assumed in a Business Combination That Arise from Contingencies (FSP FAS 141(R)-1). The Company adopted FSP FAS 141(R)-1 on January 1, 2009, as required, and it did not have a material impact on our financial statements.

In April 2009, FASB issued FSP No. FAS 107-1 and APB 28-1, Interim Disclosures about Fair Value of Financial Instruments (FSP FAS 107-1 and APB 28-1). FSP FAS 107-1 and APB 28-1 amends FASB Statement No. 107, Disclosures about Fair Values of Financial Instruments , and requires a publicly traded entity to include disclosures about the fair value of its financial instruments for its interim reporting periods as well as its annual financial statements. FSP FAS 107-1 and APB 28-1 is effective for interim periods ending after June 15, 2009. We adopted FSP FAS 107-1 and APB 28-1 on June 30, 2009, as required, and it did not have a material impact on our financial statements; however, it did result in enhanced disclosure about the fair value of financial instruments in the Company s interim financial statements.

In May 2009, the FASB issued SFAS No. 165, "Subsequent Events." SFAS No. 165 establishes authoritative accounting and disclosure guidance for recognized and non-recognized subsequent events that occur after the balance sheet date but before financial statements are issued. SFAS No. 165 also requires disclosure of the date through which an entity has evaluated subsequent events and the basis for that date. SFAS No. 165 was effective for our Company beginning with our Quarterly Report on Form 10-Q for the three and six months ended June 30, 2009, and will be applied prospectively. The adoption of SFAS No. 165 did not have a material impact on our consolidated financial statements.

In June 2009, the FASB issued SFAS No. 168, The FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles a replacement of FASB Statement No. 162 (SFAS No. 168). SFAS No. 168 replaces FASB Statement No. 162 to allow the FASB Accounting Standards Codification to become the single source of authoritative U.S. accounting and reporting standards, other than guidance issued by the SEC. The Company adopted SFAS No. 168 on July 1, 2009, as required, and it did not have a material impact on our financial statements.

NOTE 12 GEOGRAPHIC INFORMATION

Management has determined that we have two reportable segments, United States and Foreign Countries based on our consideration of the criteria detailed in SFAS No. 131, Disclosures about Segments of an Enterprise and Related Information. Revenues are attributed to countries based on the location of customers. Inter-company revenues recorded by the United States for work performed in Canada, which are immaterial, 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 reporting segments.

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

In thousands

	Three Months Ended June 30,		Six Months Ended June 30,	
	2009	**2008**	**2009**	**2008**
Regulated waste management services	**$ 207,276**	$ 184,976	**$ 409,627**	$ 362,814
Regulated returns management services	**18,309**	25,999	**37,998**	42,451
Total revenue	**225,585**	210,975	**447,625**	405,265
Net interest expense	**6,744**	6,084	**13,304**	12,586
Income before income taxes	**61,086**	50,794	**118,081**	99,750
Income taxes	**23,647**	21,288	**45,849**	39,260
Net income	**$ 37,439**	$ 29,506	**$ 72,232**	$ 60,490
Depreciation and amortization	**$ 7,205**	$ 5,679	**$ 13,901**	$ 11,482

Detailed information for our Foreign Countries reporting segment is as follows:

In thousands

	Three Months Ended June 30,		Six Months Ended June 30,	
	2009	**2008**	**2009**	**2008**

Regulated waste management				
Services	**$ 63,683**	$ 66,811	**$ 118,733**	$ 127,305
Net interest expense	**1,407**	1,898	**2,772**	3,122
Income before income taxes	**9,383**	11,632	**17,854**	13,995
Income taxes	**2,920**	2,453	**5,529**	4,136
Net income	**$ 6,463**	$ 9,179	**$ 12,325**	$ 9,859
Depreciation and amortization	**$ 2,455**	$ 2,613	**$ 4,603**	$ 5,155

NOTE 13 FAIR VALUE MEASUREMENTS

We adopted SFAS No. 157 Fair Value Measurements (SFAS No. 157) on January 1, 2008, which clarifies that fair value refers to the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants in the market in which the reporting entity transacts. Under SFAS No. 157, fair value should be based on the assumptions market participants would use when pricing the asset or liability and establishes a fair value hierarchy which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. Observable inputs are inputs that market participants would use in pricing the asset or liability developed based on market data obtained from sources independent of our company. Unobservable inputs are those that reflect the company s assumptions about what market participants would use in pricing the asset or liability developed based on the best information available in the circumstances. The three levels of the fair value hierarchy defined by SFAS No. 157 are as follows:

Level 1 Valuations based on quoted prices in active markets for identical assets or liabilities that the entity has the ability to access.

Level 2 Valuations based on quoted prices for similar assets or liabilities, quoted prices in markets that are not active, or other inputs that are observable or can be corroborated by observable data for substantially the full term of the assets or liabilities.

Level 3 Valuations based on inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

As required by SFAS No. 157, 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, under SFAS No. 157, the fair value measurement of a liability must reflect the nonperformance risk of an entity.

At June 30, 2009, we have $2.7 million in cash and cash equivalents, and $1.0 million of short-term investments that we carry on our books at fair value using Level 1 inputs. At December 31, 2008, we had $9.1 million in cash and cash equivalents and $1.4 million of short-term investments on our books at fair value using Level 1 inputs.

At June 30, 2009, the fair value of the Company s debt obligations was estimated at $768.4 million, compared to a carrying amount of $785.6 million. At December 31, 2008, the fair value of the Company s debt obligations was estimated at $771.5 million, compared to a carrying amount of $792.7 million. 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.

We have a cash flow hedge with an objective to offset foreign currency exchange risk to the U.S. dollar equivalent cash inflows on the settlement of a GBP denominated intercompany loan. The fair value of the hedge was calculated using Level 2 inputs and was recorded as a current asset of $0.7 million as of June 30, 2009 and as a current asset of

$2.3 million at December 31, 2008.

In October 2008, we entered into three interest rate swap contracts, covering $225 million of our borrowings outstanding under our senior credit facility. The objective of the swap is to reduce the risk of volatile interest expense by fixing the rate. The fair value of the hedge is calculated using Level 2 inputs and is recorded as a liability of $3.1 million at June 30, 2009, of which $2.4 million is current. At December 31, 2008 the fair value of the hedge was recorded as a liability of $4.8 million, of which $2.1 million was current. The fair value was determined using market data inputs to calculate expected future interest rates. The cash streams attributable to the difference between expected future rates and the fixed rate payable is discounted to arrive at the fair value of the three hedges.

There were no movements of items between fair value hierarchies.

NOTE 14 DERIVATIVE INSTRUMENTS

In July 2004, we entered into four forward contracts, of which three have settled as of the balance sheet date and the fourth settled in July 2009, to hedge a GBP Sterling-based intercompany loan between our US-based subsidiary, Stericycle International L.L.C. and our subsidiary in the United Kingdom, Stericycle International Ltd. The subsidiary borrowed the funds for the purchase of White Rose Environmental Ltd. The remaining forward contract settled in July 2009. Initially, we did not elect hedge accounting on the forward contracts and had recognized the change in value of the hedges through other income (expense). This amount was generally offset by the currency adjustment to the intercompany receivable.

On October 1, 2005, we prospectively designated these existing forward contracts as cash flow hedges and are using hedge accounting. The objective of our cash flow hedges is to offset the foreign exchange risk to the U.S. dollar equivalent cash inflows on the settlement of the GBP denominated intercompany loan. At June 30, 2009, the fair market value of the hedge was recorded as a current asset of $0.7 million. As of June 30, 2009, the total notional amount of hedges outstanding is GBP 8.0 million. At June 30, 2009, the hedges were determined to be 100% effective.

In October 2008, Stericycle entered into three interest rate swap contracts covering $225 million of our borrowings outstanding under our senior credit facility. The objective of the swap is to reduce the risk of volatile interest expense by fixing the rate. The contracts are as follows:

In thousands

Notional Amount	Fixed Interest Rate	Variable Interest Rate	Expiration Date
$ 125,000	2.79%	1 Month Libor	October 2009

$	75,000	2.79%	1 Month Libor	April 2010
$	25,000	2.94%	1 Month Libor	October 2010

We entered into the interest rate swaps in order to manage the risk of interest rate changes to our interest expense. The interest rate swaps are designated as cash flow hedges; the notional amounts and all other significant terms of the swap agreement are matched to the provisions and terms of the variable rate debt hedged. The fair market of the three hedges is recorded as a liability of $3.1 million at June 30, 2009, of which $2.4 million is current. At June 30, 2009, the hedges were determined to be 100% effective. Gains or losses on hedges are reclassified into interest expense when the effect of the hedged item is recognized in earnings. The fair market value was determined using market data inputs to calculate expected future interest rates. The cash streams attributable to the difference between expected future rates and the fixed rate payable is discounted to arrive at the fair value of the three hedges.

NOTE 15 NEW BORROWINGS

On June 24, 2009, we entered into a term loan with Bank of America, N.A. as administrative agent and lender. The initial term loan under the term loan credit agreement was $50 million. During the six-month period following closing, we may request additional term loans up to an aggregate amount of $150 million.

Term loans under the term loan credit agreement bear interest at fluctuating interest rates determined, for any one-month or other applicable interest period, by reference to the London Interbank Offered Rate, or LIBOR, plus the applicable margin provided in the credit agreement. The applicable margin is based on our consolidated leverage ratio and ranges from 2.75% to 3.50%. As of June 30, 2009, the applicable margin was 3.25%. The term loan duration is three years and it matures on June 24, 2012. After the first year, we are required to make quarterly payments not more than 2.5% of the principal amount.

On July 23, 2009 we received under the accordion feature of the term loan an additional $145 million from several lenders and commitments from three additional lenders of another $20 million. This brings the total of the term loan to be $215 million (see Note 16 Subsequent Event, for additional details).

NOTE 16 SUBSEQUENT EVENT

On July 23, 2009, we entered into a first amendment and increase agreement (the first amendment) with respect to the three-year term loan credit agreement dated as of June 24, 2009 that we entered into with Bank of America, N.A., as administrative agent and a lender, other lenders from time to time party to the credit agreement, and a syndication agent to be determined.

The first amendment amends the term loan credit agreement to reflect additional lenders becoming party to the agreement. It also increases the aggregate amount for which we may request additional term loans prior to December

25, 2009 from $150 million to $175 million.

On July 23 and July 30, 2009, we obtained an additional term loan of $165 million concurrently with entering into the first and second amendments. This additional term loan increased our aggregate borrowings under the term loan credit agreement from

$50 million to $215 million and reduced the aggregate amount for which we may request additional term loans from $175 million to $10 million. After the first year, we are required to make quarterly payments not more than 2.5% of the principal amount.

The Company evaluated subsequent events through August 7, 2009, the date of filing this Quarterly Report on Form 10-Q.

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

We were incorporated in 1989 and presently serve a very diverse customer base of approximately 430,000 customers throughout the United States, Argentina, Canada, Chile, Ireland, Mexico, Puerto Rico, Romania and the United Kingdom. We have fully integrated networks including processing centers and transfer and collection sites. We use these networks to provide a broad range of services to our customers including regulated waste management services and regulated return management services. Regulated waste management services include regulated medical waste removal services, sharps management services, products and services for infection control, and safety and compliance programs. Regulated return management services are physical services provided to companies and individual businesses that assist with the handling of products that are being removed from the supply chain due to recalls and expiration. These services also include advanced notification technology that is used to communicate specific instructions to the users of the product. Our waste treatment technologies include autoclaving, incineration, chemical treatment and our proprietary electro-thermal-deactivation system. In addition, we have technology licensing agreements with companies located in Japan, Brazil, and South Africa.

Other than the adoption of SFAS No. 141 (R) Business Combinations, (see Note 11 New Accounting Standards, for the impact on the financial statements), there were no material changes in the Company s critical accounting policies since the filing of its 2008 Form 10-K. As discussed in the 2008 Form 10-K, the preparation of the consolidated financial statements in conformity with accounting principles generally accepted in the United States requires management to make certain estimates and assumptions that affect the amount of reported assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and revenues and expenses during the periods reported. Actual results may differ from those estimates.

During the quarter ending June 30, 2009, we completed our annual goodwill impairment test. The results of that test did not indicate any impairment to our goodwill (see Note 9 - Goodwill, in the Notes to the Condensed Consolidated Financial Statements (Item 1 of Part I)).

THREE MONTHS ENDED JUNE 30, 2009 COMPARED TO THREE MONTHS ENDED JUNE 30, 2008

The following summarizes the Company s operations:

In thousands, except per share data	
	Three Months Ended June 30,
	2009