

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

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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.

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**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

	<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

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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**

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

**Taxes**

<b>Income Tax Expense</b>	<b>23,237</b>	20,161	<b>66,633</b>	58,902
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<b>Net Income</b>	<b>\$ 39,227</b>	\$ 32,895	<b>\$ 109,576</b>	\$ 94,280
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**Earnings Per Common Share:**

Basic	<b>\$ 0.46</b>	\$ 0.38	<b>\$ 1.27</b>	\$ 1.07
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Diluted	<b>\$ 0.45</b>	\$ 0.37	<b>\$ 1.24</b>	\$ 1.05
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**Weighted Average Number of****Common Shares Outstanding:**

Basic	<b>85,449,871</b>	87,299,448	<b>86,127,097</b>	87,735,838
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Diluted	<b>87,864,210</b>	89,794,892	<b>88,578,506</b>	90,068,563
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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.

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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>	<b>2007</b>
Expected term (in years)	<b>5.5</b>	5.0	<b>5.5</b>	5.0
Expected volatility	<b>25.69%</b>	26.10%	<b>26.27%</b>	27.07%
Expected dividend yield	<b>0.00%</b>	0.00%	<b>0.00%</b>	0.00%
Risk free interest rate	<b>3.17%</b>	4.29%	<b>2.77%</b>	4.53%

	<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>
Weighted average grant date fair value of the stock options granted	<b>\$14.42</b>	\$13.04	<b>\$13.53</b>	\$11.38

Stock option activity for the nine months ended September 30, 2008, was as follows:

	<b>Number of Options</b>	<b>Weighted Average Exercise Price per Share</b>	<b>Weighted Average Remaining Contractual Life</b> (in years)	<b>Aggregate Intrinsic Value</b>
Outstanding at December 31, 2007	7,258,795	\$ 25.44		
Granted	1,181,214	53.84		
Exercised	(746,683)	18.35		
Cancelled or expired	(157,376)	33.42		
Outstanding at September 30, 2008	<b>7,535,950</b>	<b>\$ 30.40</b>	<b>6.71</b>	<b>\$ 214,891,473</b>
Exercisable at September 30, 2008	<b>3,946,765</b>	<b>\$ 22.68</b>	<b>5.45</b>	<b>\$ 143,009,245</b>
Vested and expected to vest in the future at September 30, 2008	<b>6,804,015</b>	<b>\$ 29.17</b>	<b>6.53</b>	<b>\$ 202,387,772</b>

**In millions**

	<b>Three Months Ended September 30,</b>		<b>Nine Months Ended September 30,</b>	
	<b>2008</b>	<b>2007</b>	<b>2008</b>	<b>2007</b>
Total intrinsic value of options				
exercised	<b>\$7.7</b>	\$4.6	<b>\$28.9</b>	\$17.4

Intrinsic value is measured using the fair market value at the date of the exercise (for options exercised) or at September 30, 2008 (for outstanding options), less the applicable exercise price.

As of September 30, 2008, there was \$14.2 million of total unrecognized compensation expense, related to non-vested stock options, which is expected to be recognized over a weighted average period of 1.75 years.

**NOTE 5 COMMON STOCK**

During the quarter ended March 31, 2008, we repurchased and subsequently cancelled 1,482,185 shares of common stock. The weighted average repurchase price was \$53.56 per share.

During the quarter ended June 30, 2008, we repurchased and subsequently cancelled 984,533 shares of common stock. The weighted average repurchase price was \$52.49 per share, with \$9.9 million of cash paid for the repurchase settling at the beginning of July 2008.

During the quarter ended September 30, 2008, we repurchased and subsequently cancelled 182,381 shares of common stock. The weighted average repurchase price was \$50.70 per share.

**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**

	<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>
Numerator:				
Numerator for basic earnings per share				
Net income	\$ 39,227	\$ 32,895	\$ 109,576	\$ 94,280
Denominator:				
Denominator for basic earnings per				
share weighted average shares	85,449,871	87,299,448	86,127,097	87,735,838
Effect of diluted securities:				
Employee stock options	2,413,148	2,488,915	2,450,250	2,328,004
Warrants	1,191	6,529	1,159	4,721
Dilutive potential share	2,414,339	2,495,444	2,451,409	2,332,725
Denominator for diluted earnings per				
share-adjusted weighted average				
shares and after assumed conversions	87,864,210	89,794,892	88,578,506	90,068,563
Earnings per share Basic	\$ 0.46	\$ 0.38	\$ 1.27	\$ 1.07
Earnings per share Diluted	\$ 0.45	\$ 0.37	\$ 1.24	\$ 1.05

**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 nine months ended September 30, 2008 and 2007:

**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>
Net income	\$ <b>39,227</b>	\$ 32,895	\$ <b>109,576</b>	\$ 94,280
Other comprehensive income:				
Currency translation adjustments	<b>(20,188)</b>	4,094	<b>(20,579)</b>	8,660
Net (loss)/ gain on derivative instruments	<b>(342)</b>	596	<b>(231)</b>	144
Other comprehensive (loss)/ income	<b>(20,530)</b>	4,690	<b>(20,810)</b>	8,804
Total comprehensive income	\$ <b>18,697</b>	\$ 37,585	\$ <b>88,766</b>	\$ 103,084

**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 \$4.6 million with JPMorganChase Bank N.A. that expires in May 2009.

**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 nine months ended September 30, 2008 were as follows:

**In thousands**

	<b>United States</b>	<b>Foreign Countries</b>	<b>Total</b>
Balance as of January 1, 2008	\$ 842,978	\$ 190,355	\$ 1,033,333
Changes due to currency fluctuation	--	<b>(12,905)</b>	<b>(12,905)</b>
Changes in goodwill on 2007 acquisitions	<b>(2,904)</b>	<b>1,850</b>	<b>(1,054)</b>
Goodwill on 2008 acquisitions	<b>70,972</b>	<b>14,670</b>	<b>85,642</b>
Balance as of September 30, 2008	<b>\$ 911,046</b>	<b>\$ 193,970</b>	<b>\$ 1,105,016</b>

During the quarter ended June 30, 2008, we performed our annual goodwill impairment evaluation for our three reporting units, Domestic Regulated Medical Waste, Domestic Regulated Returns Management, and Foreign Countries, and determined that none of our recorded goodwill was impaired. 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.

As we previously reported, on April 19, 2008 Stericycle and Daniels Corporation (UK) Limited ( Daniels UK ), a subsidiary of Daniels Sharpsmart Pty Limited ( Daniels ), and certain affiliated companies entered into a settlement of arbitration proceedings in the United Kingdom prior to any award by the arbitrator. At the same time, we entered into settlements with other subsidiaries of Daniels resolving various disputes, and we finalized the payment of the legal fees that SteriCorp Limited had been awarded under the arbitrator's award. In connection with these net settlements, we recognized a total pre-tax expense of \$5.6 million, or an after-tax expense of \$3.5 million for the nine months ended September 30, 2008.

## NOTE 11 NEW ACCOUNTING STANDARDS

Effective January 1, 2008, we adopted Statement of Financial Accounting Standards ( SFAS ) No. 157, Fair Value Measurements ( SFAS No. 157 ), for all financial assets and liabilities and for nonfinancial assets and liabilities that are recognized or disclosed at fair value in the financial statements on a recurring basis. Financial Accounting Standards Board ( FASB ) Staff Position ( FSP ) No. 157-2 delayed the adoption date for nonfinancial assets and liabilities that are measured at fair value on a non-recurring basis, such as goodwill and identifiable intangible assets until January 1, 2009. We do not believe the adoption of SFAS No. 157 for our non-financial assets and liabilities, effective January 1, 2009, will have a material impact on our consolidated financial statements. Our adoption of SFAS No. 157 did not require a cumulative effect adjustment to the opening balance of our retained earnings. See Note 13 - Fair Value Measurements.

In February 2007, the FASB issued SFAS No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities - Including an amendment of FASB Statement No. 115" ( SFAS No. 159 ). SFAS No. 159 allows measurement at fair value of eligible financial assets and liabilities that are not otherwise measured at fair value. If the fair value option for an eligible item is elected, unrealized gains and losses for that item are reported in current earnings at each subsequent reporting date. SFAS No. 159 also establishes presentation and disclosure requirements designed to draw comparisons between the different measurement attributes that we elect for similar types of assets and liabilities. SFAS No. 159 is effective for fiscal years beginning after November 15, 2007. We do not have any financial assets or liabilities for which we elect the fair value option under SFAS No. 159.

In December 2007, the FASB issued 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 will require the company to recognize expenses to the income statement that were previously accounted for as purchase accounting and reflected on the balance sheet. This accounting standard is effective for financial statements issued for fiscal years beginning after December 15, 2008. 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 impact of the adoption of SFAS 141(R) is not reasonably estimable.

In March 2008, the FASB issued 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. This statement is effective for fiscal years beginning after November 15, 2008. As SFAS No. 161 only requires enhanced disclosures, this standard will have no impact on the financial position, results of operations, or cash flows of the Company.

## 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		Nine Months Ended	
	September 30,		September 30,	
	2008	2007	2008	2007
Regulated medical waste management services	\$ 194,141	\$ 161,855	\$ 556,955	\$ 466,794
Regulated returns management services	16,125	22,258	58,576	62,568
Total revenue	210,266	184,113	615,531	529,362
Net interest expense	6,740	7,283	19,326	19,947
Income before income taxes	51,809	45,874	151,559	132,418
Income taxes	20,335	18,958	59,595	52,794
Net income	\$ 31,474	\$ 26,916	\$ 91,964	\$ 79,624
Depreciation and	\$ 6,186	\$ 5,681	\$ 17,668	\$ 16,383

amortization

*Detailed information for our Foreign Countries reporting segment is as follows:***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>
Regulated medical waste management				
services	\$ <b>66,832</b>	\$ 53,210	\$ <b>194,137</b>	\$ 151,855
Net interest expense	<b>1,693</b>	1,274	<b>4,815</b>	3,648
Income before income taxes	<b>10,655</b>	7,182	<b>24,650</b>	20,764
Income taxes	<b>2,902</b>	1,203	<b>7,038</b>	6,108
Net income	\$ <b>7,753</b>	\$ 5,979	\$ <b>17,612</b>	\$ 14,656
Depreciation and amortization	\$ <b>2,465</b>	\$ 2,127	\$ <b>7,620</b>	\$ 6,271

### NOTE 13 FAIR VALUE MEASUREMENTS

We adopted 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 September 30, 2008, we have \$7.0 million in cash and cash equivalents, and \$1.2 million of short-term investments that we carry on our books at fair value using Level 1 inputs. 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 liability of \$0.6 million as of September 30, 2008. There were no movements of items between fair value hierarchies.

Subsequent to the date of the balance sheet presented, we entered into three interest rate derivative transactions that effectively fix the interest rate on the applicable notional amounts of our variable rate debt as follows (dollars in thousands):

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<b>Date Entered</b>	<b>Notional Amount</b>	<b>Fixed Interest Rate</b>	<b>Variable Interest Rate</b>	<b>Effective Date</b>	<b>Expiration Date</b>
October 2008	\$ 125,000	2.79%	1 Month Libor	October 2008	October 2009
October 2008	\$ 75,000	2.79%	1 Month Libor	October 2008	April 2010
October 2008	\$ 25,000	2.94%	1 Month Libor	October 2008	October 2010

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. We will apply hedge accounting to account for these instruments with changes in the fair value of the swap agreements recorded as a component of other comprehensive income.

#### **NOTE 14 NEW BORROWINGS**

On April 15, 2008, we entered into a note purchase agreement with nine institutional purchasers whereby we issued and sold to the purchasers \$100 million of our 5.64% senior notes due April 15, 2015 (the Notes). The notes bear interest at the fixed rate of 5.64% per annum. Interest is payable in arrears semi-annually on April 15 and October 15 beginning on October 15, 2008, and principal is payable at the maturity of the notes on April 15, 2015.

The Notes are unsecured obligations and rank pari passu with our obligations under our senior unsecured credit facility pursuant to our credit agreement with Bank of America, N.A. and the other lenders party to the credit agreement. We applied the proceeds from the sale of the Notes to reduce our borrowings under our senior unsecured credit facility. The Notes contain customary events of default, including our failure to pay any principal, interest or other amount when due, our violation of our affirmative or negative covenants or a breach of our representations and warranties. Upon the occurrence of an event of default, payment of the Notes may be accelerated by the holders of the notes.

## **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 410,245 customers throughout the United States, United Kingdom, Mexico, Canada, Ireland, Argentina, Chile and Puerto Rico. 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 medical waste management services and regulated return management services. Regulated medical waste management services include servicing a variety of customers to remove and process waste while 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. 157 (see Note-13 Fair Value Measurements), there were no material changes in the Company's critical accounting policies since the filing of its 2007 Form 10-K. As discussed in the 2007 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.

### **THREE MONTHS ENDED SEPTEMBER 30, 2008 COMPARED TO THREE MONTHS ENDED SEPTEMBER 30, 2007**

The following summarizes the Company's operations:

#### **In thousands, except per share data**

	<b>Three Months Ended September 30,</b>			
	<b>2008</b>		<b>2007</b>	
	<b>\$</b>	<b>%</b>	<b>\$</b>	<b>%</b>
Revenues	<b>\$ 277,098</b>	<b>100.0</b>	\$ 237,323	100.0
Cost of revenues	<b>154,069</b>	<b>55.6</b>	130,509	55.0
Gross profit	<b>123,029</b>	<b>44.4</b>	106,814	45.0
Selling, general and administrative expenses	<b>51,425</b>	<b>18.6</b>	44,954	18.9
Gain on sale of assets	--	--	--	--
Impairment of permit	--	--	--	--
Impairment of fixed assets	--	--	--	--
Arbitration settlement and related costs	<b>96</b>	--	--	--
Income from operations	<b>71,508</b>	<b>25.8</b>	61,860	26.1
Net interest expense	<b>8,433</b>	<b>3.0</b>	8,557	3.6
Income tax expense	<b>23,237</b>	<b>8.4</b>	20,161	8.5
Net income	<b>\$ 39,227</b>	<b>14.2</b>	\$ 32,895	13.9
Earnings per share- diluted	<b>\$ 0.45</b>		\$ 0.37	



**Revenues:** Our revenues increased \$39.8 million, or 16.8%, to \$277.1 million in 2008 from \$237.3 million in 2007. Domestic revenues increased \$26.2 million, or 14.2%, to \$210.3 million from \$184.1 million in 2007 as internal revenue growth for domestic small account customers increased by \$14.8 million, or approximately 14%, and internal revenue growth for large quantity customers increased by \$6.0 million, or approximately 10%. Internal revenue for returns management decreased by \$6.4 million, and domestic acquisitions less than one year old contributed approximately \$11.8 million to the increase in domestic revenues.

International revenues increased \$13.6 million to \$66.8 million, or 25.6%, from \$53.2 million in 2007. Internal growth in the international segment contributed \$8.5 million, or over 16% in increased revenues, before taking into consideration the effect of

exchange rates and acquisitions. The effect of exchange rate fluctuations negatively impacted international revenues approximately \$1.2 million while acquisitions less than one year old contributed an additional \$6.3 million in international revenues.

**Cost of Revenues:** Our cost of revenues increased \$23.6 million, or 18.1%, to \$154.1 million during 2008 from \$130.5 million during 2007. Our domestic cost of revenues increased \$17.2 million, or 18.3%, to \$111.0 million from \$93.8 million in 2007 as a result of costs related to a proportional increase in revenues from acquisitions and internal growth. Our international cost of revenues increased \$6.4 million, or 17.4% to \$43.1 million from \$36.7 million in 2007 as a result of costs related to proportional increase in revenues from acquisitions and internal revenue growth. Our gross margin percentage decreased to 44.4% during 2008 from 45.0% during 2007 primarily due to an increase in fuel and energy costs.

**Selling, General and Administrative Expenses:** Selling, general and administrative expenses, including acquisition related costs, increased approximately \$6.4 million, or 14.4%, to \$51.4 million, for the quarter ended September 30, 2008 from \$45.0 million for the comparable quarter in 2007. As a percentage of revenue, these costs decreased by 0.3% for the quarter ended September 30, 2008 compared to the same period in 2007.

**Income from Operations:** Income from operations increased to \$71.5 million for the quarter ended September 30, 2008 from \$61.9 million for the comparable quarter in 2007, an increase of 15.6%.

**Net Interest Expense:** Net interest expense slightly decreased to \$8.4 million during the quarter ended September 30, 2008 from \$8.6 million during the comparable quarter in 2007 due to lower interest rates on our revolver line of credit.

**Income Tax Expense:** Income tax expense increased to \$23.2 million for the quarter ended September 30, 2008 from \$20.2 million for the comparable quarter in 2007. The increase was due to higher taxable income partially offset by a lower effective tax rate. The effective tax rates for the quarters ended September 30, 2008 and 2007 were 37.2% and 38.0%, respectively.

#### **NINE MONTHS ENDED SEPTEMBER 30, 2008 COMPARED TO NINE MONTHS ENDED SEPTEMBER 30, 2007**

The following summarizes the Company's operations:

**In thousands, except per share data**

	<b>Nine Months Ended September 30,</b>			
	<b>2008</b>		<b>2007</b>	
	<b>\$</b>	<b>%</b>	<b>\$</b>	<b>%</b>
Revenues	<b>\$ 809,668</b>	<b>100.0</b>	<b>\$ 681,217</b>	<b>100.0</b>
Cost of revenues	<b>449,895</b>	<b>55.6</b>	<b>375,650</b>	<b>55.1</b>
Gross profit	<b>359,773</b>	<b>44.4</b>	<b>305,567</b>	<b>44.9</b>
Selling, general and administrative expenses	<b>152,256</b>	<b>18.8</b>	<b>128,669</b>	<b>18.9</b>

Gain on sale of assets	--	--	(1,898)	(0.3)
Impairment of permit	--	--	228	0.0
Impairment of fixed assets	--	--	1,261	0.2
Arbitration settlement and related costs	<b>5,595</b>	<b>0.7</b>	--	--
Income from operations	<b>201,922</b>	<b>24.9</b>	177,307	26.0
Net interest expense	<b>24,141</b>	<b>3.0</b>	23,595	3.4
Income tax expense	<b>66,633</b>	<b>8.2</b>	58,902	8.6
Net income	<b>\$ 109,576</b>	<b>13.5</b>	<b>\$ 94,280</b>	<b>13.8</b>
Earnings per share- diluted	<b>\$ 1.24</b>		<b>\$ 1.05</b>	

**Revenues:** Our revenues increased \$128.5 million, or 18.9%, to \$809.7 million in 2008 from \$681.2 million in 2007. Domestic revenues increased \$86.2 million, or 16.3%, to \$615.5 million from \$529.3 million in 2007 as internal revenue growth for domestic small account customers increased by \$38.5 million, or over 13%, and internal revenue growth for large quantity customers increased by \$15.7 million, or over 9%. Internal revenue for returns management decreased by \$4.2 million, and domestic acquisitions less than one year old contributed approximately \$36.2 million to the increase in domestic revenues.

International revenues increased \$42.3 million, or 27.8%, to \$194.1 million in 2008 from \$151.9 million in 2007. Internal growth in the international segment contributed \$22.7 million, or over 15% in increased revenues, before taking into consideration the effect of exchange rates, acquisitions, and divestitures. The effect of exchange rate fluctuations favorably impacted international revenues approximately \$2.2 million while acquisitions less than one year old contributed an additional \$19.3 million in international revenues. The divestiture of selected Sterile Technologies Group Ltd. plants in the first quarter of 2007 negatively impacted the comparison to 2008 by \$1.9 million.

**Cost of Revenues:** Our cost of revenues increased \$74.2 million, or 19.8%, to \$449.9 million during 2008 from \$375.7 million during 2007. Our domestic cost of revenues increased \$52.0 million, or 19.1%, to \$323.6 million from \$271.6 million in 2007 as a result of costs related to a proportional increase in revenues from acquisitions and internal growth. Our international cost of revenues increased \$22.2 million, or 21.3% to \$126.3 million from \$104.1 million in 2007 as a result of costs related to proportional increase in revenues from acquisitions and internal revenue growth. Our gross margin percentage slightly decreased to 44.4% during 2008 from 44.9% during 2007 due to an increase in fuel and energy costs.

***Selling, General and Administrative Expenses:*** Selling, general and administrative expenses, including acquisition related costs, increased \$23.6 million, or 18.3%, to \$152.3 million, for the nine months ended September 30, 2008 from \$128.7 million for the comparable period in 2007. As a percentage of revenue, these costs slightly decreased by 0.1% for the nine months ended September 20, 2008 compared to the same period in 2007.

***Income from Operations:*** Income from operations increased to \$201.9 million for the nine months ended September 30, 2008 from \$177.3 million for the comparable

period in 2007, an increase of 13.9%. During 2008, we recognized a business dispute settlement and related costs of \$5.6 million. During nine months ended September 30, 2007 we recognized a gain on sale of assets of \$1.9 million, partially offset by \$1.3 million in idled assets write-offs and a \$0.2 million write-off of an intangible permit.

**Net Interest Expense:** Net interest expense slightly increased to \$24.1 million during the nine months ended September 30, 2008 from \$23.6 million during the comparable period in 2007 due to increased borrowings partially offset by lower interest rates.

**Income Tax Expense:** Income tax expense increased to \$66.6 million for the nine months ended September 30, 2008 from \$58.9 million for the comparable period in 2007. The increase was due to higher taxable income partially offset by a lower effective tax rate. The effective tax rates for the nine months ended September 30, 2008 and 2007 were 37.8% and 38.5%, respectively.

## LIQUIDITY AND CAPITAL RESOURCES

Our senior credit facility of \$850.0 million maturing in August 2012 requires us to comply with various financial, reporting and other covenants and restrictions, including a restriction on dividend payments. At September 30, 2008, we were in compliance with all of our financial debt covenants. At September 30, 2008 the margin for interest rates on borrowings under our new credit facility was 0.0% on base rate loans (at higher of (i) the federal funds rate plus 0.5% or (ii) the prime rate) and 0.75% on LIBOR loans.

As of September 30, 2008, we had \$412.4 million of borrowings outstanding under our senior unsecured credit facility, which includes foreign currency borrowings of \$9.5 million. In addition, we had \$197.2 million committed to outstanding letters of credit. The weighted average rate of interest on the unsecured revolving credit facility was 3.85% per annum. At September 30, 2008 we had \$323.6 million in other debt outstanding, which includes promissory notes issued in connection with acquisitions during 2004 through 2008, \$100 million in 5.64% notes, other foreign subsidiary bank debt, and capital leases.

On April 15, 2008, we entered into a note purchase agreement (the "note purchase agreement") with nine institutional purchasers pursuant to which we issued and sold to the purchasers \$100 million of our 5.64% senior notes due April 15, 2015 (the "notes"). The notes bear interest at the fixed rate of 5.64% per annum. Interest is payable in arrears semi-annually on April 15 and October 15 beginning on October 15, 2008, and principal is payable at the maturity of the notes on April 15, 2015.

The notes are unsecured obligations and rank pari passu with our obligations under our senior unsecured credit facility pursuant to our credit agreement with Bank of America, N.A. and the other lenders party to the credit agreement. We applied the proceeds from the sale of the notes to reduce our borrowings under our revolving credit facility under our senior unsecured credit facility. The notes contain customary events of default, including our failure to pay any principal, interest or other amount when due, our

violation of our affirmative or negative covenants or a breach of our representations and warranties. Upon the occurrence of an event of default, payment of the notes may be accelerated by the holders of the notes.

**Working Capital:** At September 30, 2008, our working capital decreased \$8.2 million to \$52.4 million compared to \$60.6 million at December 31, 2007. Reductions to our working capital include an increase to our accrued compensation of \$4.0 million due to the timing of payroll as well as an increase to accrued income tax of \$3.3 million related to the timing of tax payments. Increased debt levels used for share repurchases and acquisitions led to an increase in short-term debt of \$12.3 million and accrued interest of \$3.4 million. The share repurchases and acquisitions were also the primary reasons for the reduction of \$10.1 million to our ending cash balance. Increases to working capital include an increase to net receivables of \$17.4 million related to higher revenues, and a decrease in accounts payable of \$8.5 million related to the timing of vendor payments.

**Net Cash Provided or Used:** Net cash provided by operating activities increased \$28.1 million, or 22.0%, to \$156.3 million during the nine months ended September 30, 2008 compared to \$128.1 million for the comparable period in 2007. The increase in operating cash was primarily due to collections on higher revenues, which increased 18.9%.

Net cash used in investing activities for the nine months ended September 30, 2008 was \$82.3 million compared to \$88.4 million in the comparable period in 2007. The difference is due to \$26.5 million received from the divestiture of selected plants in the United Kingdom completed in February 2007, offset by \$32.4 million less paid for acquisitions in 2008.

At September 30, 2008 we had approximately 10% of our treatment capacity in North America in incineration and approximately 90% in non-incineration technologies, such as autoclaving, and our proprietary patented ETD technology. The implementation of our commitment to move away from incineration in North America may result in a write-down of the incineration equipment as and when we close incinerators that we are currently operating. The net book value of our North American incinerators is approximately \$6.5 million, or 0.4% of our total assets. Our commitment to move away from incineration in North America is in the nature of a goal to be accomplished over an undetermined number of years. Because of uncertainties relating, among other things, to customer education and acceptance and legal requirements to incinerate portions of the medical waste, we do not have a timetable for this transition or specific plans to close any of our existing incinerators.

Net cash used in financing activities was \$79.9 million during the nine months ended September 30, 2008 compared to \$44.1 million for the comparable period in 2007. As described above, in 2008, we completed the private placement of \$100 million in unsecured seven-year notes, primarily used to pay down our revolver debt. The nine months ending September 30, 2008 had \$24.5 million less in repayment of other long-term debt compared to the same period in 2007. Offsetting the decrease in debt repayment was an additional \$45.1 million for the purchase of treasury stock in 2008.





**Guarantees:** 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 \$4.6 million with JPMorganChase Bank N.A. that expires in May 2009.

### ITEM 3. QUALITATIVE AND QUANTITATIVE DISCLOSURES ABOUT MARKET RISK

We are subject to market risks arising from changes in interest rates. Subsequent to the date of the balance sheet presented, we entered into three interest rate derivative transactions that effectively fix the interest rate on the applicable notional amounts of our variable rate debt as follows (dollars in thousands):

<b>Date Entered</b>	<b>Notional Amount</b>	<b>Fixed Interest Rate</b>	<b>Variable Interest Rate</b>	<b>Effective Date</b>	<b>Expiration Date</b>
October 2008	\$ 125,000	2.79%	1 Month Libor	October 2008	October 2009
October 2008	\$ 75,000	2.79%	1 Month Libor	October 2008	April 2010
October 2008	\$ 25,000	2.94%	1 Month Libor	October 2008	October 2010

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. We will apply hedge accounting to account for these instruments.

Our potential additional interest expense over one year that would result from a hypothetical, instantaneous and unfavorable change of 100 basis points in the interest rate on all of our variable rate obligations would be approximately \$2.2 million on a pre-tax basis.

We have exposure to currency exchange rate fluctuations between the U.S. dollar and U.K. pound sterling ( GBP ) related to an eight million GBP inter-company loan to Stericycle International, Ltd., the parent company of White Rose Environmental. We use cash flow hedge accounting treatment on our forward contracts. Both the intercompany loan balance and the forward contracts are marked to market at the end of each reporting period and the impact on the balances is recorded on the balance sheet to other comprehensive income.

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

#### ITEM 4. CONTROLS AND PROCEDURES

##### *Disclosure Controls and Procedures*

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

The term disclosure controls and procedures is defined in Rule 13a-14(e) of the Securities Exchange Act of 1934 as controls and other procedures designed to ensure that information required to be disclosed by the issuer in the reports, files or submits under the Act is recorded, processed, summarized and reported, within the time periods specified in the Securities and Exchange Commission s rules and forms. Our disclosure controls and procedures are designed to ensure that material information relating to us and our consolidated subsidiaries is accumulated and communicated to our management, including our Chairman, President and CEO, and our CFO, as appropriate to allow timely decisions regarding our required disclosures.

##### *Internal Control Over Financial Reporting*

During the quarter ended September 30, 2008, there were no changes in our internal controls over financial reporting that have materially affected, or are reasonably likely materially to affect, our internal controls over financial reporting.

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

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

***INCREASES IN TRANSPORTATION AND OTHER OPERATING COSTS, AS WELL AS VARIOUS OTHER FACTORS.***

**PART II. OTHER INFORMATION**

**ITEM 1. LEGAL PROCEEDINGS**

See Note 10, Legal Proceedings, in the Notes to the Condensed Consolidated Financial Statements (Item 1 of Part I).

**ITEM 2. CHANGES IN SECURITIES, USES OF PROCEEDS AND ISSUER PURCHASES OF EQUITY SECURITIES**

In May 2002 our Board of Directors authorized the Company to repurchase up to 6,000,000 shares of our common stock, in the open market or through privately negotiated transactions, at times and in amounts in the Company's discretion.

In February 2005, at a time when we had purchased a total of 2,956,860 shares, the Board authorized us to purchase an additional 2,956,860 shares.

In February 2007, at a time when we had purchased an additional 3,142,080 shares since the prior increase in authorization, the Board authorized us to purchase up to an additional 3,142,080 shares.

In May 2007, at a time when we had purchased an additional 1,187,142 shares since the prior increase in authorization, the Board authorized us to purchase up to an additional 1,187,142 shares.

In May 2008, at a time when we had purchased an additional 2,938,496 shares since the prior increase in authorization, the Board authorized us to purchase up to an additional 2,938,496 shares, thereby again giving the Company the authority to purchase up to a total of 6,000,000 additional shares.

The following table provides information about our purchases during the nine months ended September 30, 2008 of shares of our common stock:

**Issuer Purchase of Equity Securities**

<b>Period</b>	<b>Total Number of Share (or Units) Purchased</b>	<b>Average Price Paid per Share (or Unit)</b>	<b>Number of Shares (or Units) Purchased as Part of Publicly Announced Plans or Programs</b>	<b>Maximum Number (or Approximate Dollar Value) of Shares (or Units) that May Yet Be Purchased Under the Plans or Programs</b>
January 1- January 31, 2008	198,218	\$ 54.91	198,218	4,600,653
February 1- February 29, 2008	891,224	54.10	891,224	3,709,429
March 1- March 31, 2008	392,743	51.65	392,743	3,316,686
April 1- April 30, 2008	23,498	53.26	23,498	3,293,188
May 1- May 31, 2008	231,684	52.23	231,684	6,000,000
June 1- June 30, 2008	729,351	52.54	729,351	5,270,649
July 1- July 31, 2008	179,073	50.53	179,073	5,091,576
August 1- August 31, 2008	--	--	--	5,091,576
September 1- September 30, 2008	3,308	59.73	3,308	5,088,268

**ITEM 6. EXHIBITS**

31.1

Rules 13a-14(a)/15d-14(a) Certification of Mark C. Miller, Chairman, President and Chief Executive Officer

31.2

Rule 13a-14(a)/15d-14(a) Certification of Frank J.M. ten Brink, Executive Vice President and Chief Financial Officer

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Section 1350 Certification of Mark C. Miller, Chairman, President and Chief Executive Officer, and Frank J.M. ten Brink, Executive Vice President and Chief Financial Officer

**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: November 7, 2008

STERICYCLE, INC.  
*(Registrant)*



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

Frank J.M. ten Brink

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