Stericycle®

2003 Annual Report

Experts in infection control & healthcare compliance services

Dear Fellow Shareholders:

2003 was another record year for Stericycle. We continued to set new financial records, increased the market penetration of our new Steri-Safe℠ OSHA compliance program, successfully completed 6 acquisitions, enjoyed strong growth in our base business, and significantly strengthened our balance sheet. We are confident that Stericycle is positioned for continued revenue and profit growth in 2004 and beyond.

Our revenues in 2003 grew to over $453.2 million, a 12.9% increase over 2002. Gross margins increased to 43.4% from 41.0% in 2002. Operating income rose 25.4% to $126.4 million compared to $100.8 million in 2002. Operating margins for the year were 27.9%, versus 25.1% in 2002. Our after-tax net income increased by 43.9% to $65.8 million. Our diluted earnings per share, was $1.43, up 41.3% from $1.01 in 2002.

ACCOMPLISHMENTS IN 2003

In addition to achieving record financial results in 2003, we continued to strengthen Stericycle's industry leadership position by successfully expanding the penetration of our new Steri-Safe℠ OSHA compliance program for small quantity generators throughout the United States. We now have approximately 70,000 Steri-Safe℠ subscribers up from approximately 50,000 a year ago. We are the only national provider of integrated medical waste and compliance services in North America. Other accomplishments in 2003 include:

STRONG GROWTH. Our focus on improving the margins on our large quantity generator business (primarily hospitals) was very successful, as we were able to increase absolute dollar gross margin income despite a year over year decrease in internal revenue growth of 2.3%. Our small quantity generator business revenues grew internally at approximately 10% as a result of our focused direct selling efforts and our innovative Steri-Safe℠ OSHA compliance program. We integrated the acquisitions of medical waste businesses, the largest of which was Scherer Healthcare (BioSystems) in January 2003, into our existing collection route, transfer station and treatment plant infrastructure. Finally, we strengthened our position in international markets. We successfully concluded the contracts and required permitting to add a third ETD treatment facility placement in Japan.

DEBT REDUCTION. We continued to generate strong free cash flow from operations. In 2003, we utilized $61.0 million of the $121.1 million of cash generated to reduce our debt, dramatically improving the strength of our balance sheet. Our debt to total capitalization continued to decline, falling to 28.1% at the end of 2003 from 39.1% the previous year.

PRIORITIES FOR 2004

By expanding on Stericycle's industry leadership position in 2003, we are confident that we have built the operating platform needed to drive future growth and explore new frontiers for our business. Our priorities for 2004 are as follows:

REVENUE GROWTH. Our primary focus in the large quantity generator segment will be launching the BioSystems sharps management program through our national network. We will maintain our discipline of acquiring new business only if it meets our margin thresholds and we will continue to focus on our gross margin dollar improvement project. Our marketing efforts to small quantity generators will concentrate on selling our Steri-Safe℠ OSHA compliance services and infectious waste management services. We will also continue to transition our accounts to subscription billing from billing on a pick-up basis, a change that will benefit both our customers and us. We will continue to actively pursue "tuck-in" acquisitions in 2004 and international growth opportunities. We will remain focused on pursuing attractive international market opportunities for our intellectual property that can provide value to our shareholders in the years to come. We will also begin to offer a variety of innovative infection control and compliance management products and services that we believe can help our customers reduce their risks and costs.

PROFIT GROWTH. We are committed to continuing our track record of improving our operating margins. Productivity will remain a key focus for our team. We will seek to further improve our collection route densities, reduce our long haul transportation costs, and reduce our plant operating costs. Our continuous improvement culture encourages the sharing of best practices and productivity improvement ideas across our entire organization.

SERVICE INNOVATION. During 2004, we will continue to fulfill our commitment to customer responsiveness by exploring new service offerings to both our large and small quantity generator customers. Our innovative Steri-Safe℠ OSHA compliance services that help customers enjoy a safer workplace in a cost effective manner, and new outsourcing programs like our BioSystems sharps management program, are just some of the additional services that we will be offering in the future.

We remain very excited about our future. Stericycle is the clear leader in providing medical waste management and OSHA compliance services. We will continue to focus on the many growth opportunities our industry leadership position affords us and will continue to refine the efficiency of our operations. We thank you for your support.

Jack W. Schuler
Chairman

Mark C. Miller
President and CEO

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

FORM 10-K

(MARK ONE)

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

For the fiscal year ended December 31, 2003

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)	(I.R.S. 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)

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

Securities registered pursuant to Section 12(g) of the Act:
Common Stock, $0.01 par value
(title of class)

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 such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

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

Indicate by check mark whether the Registrant is an accelerated filer (as defined in Exchange Act Rule 12b-2). Yes ☒ No ☐

The aggregate market value of the registrant's voting and non-voting common equity held by non-affiliates on March 10, 2004, based upon the last reported sales price of the registrant's common stock on The Nasdaq National Market on that date, was $1,845,785,294.

On March 10, 2004, there were 43,390,730 shares of the Registrant's Common Stock outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Information required by Items 10, 11 and 12 of Part III of this Report is incorporated by reference from the Registrant's definitive Proxy Statement for the 2004 Annual Meeting of Stockholders to be held on May 11, 2004.

Stericycle, Inc.

2003 ANNUAL REPORT ON FORM 10-K

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PART I

Item 1. Business

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

Company Overview

We are the largest regulated medical waste management company in North America, serving approximately 301,000 customers throughout the United States, Puerto Rico, Canada and Mexico. We have a fully integrated, national medical waste management network. Our network includes 41 treatment/collection centers and 100 additional transfer and collection sites. We use this network to provide a broad range of services, which we have expanded to include: (i) OSHA compliance services for health care providers, (ii) software for hospitals to monitor accreditation readiness, (iii) software for hospitals to monitor nosocomial, or hospital-acquired, infections, and (iv) a pharmaceutical returns service for pharmacies to manage their expired medications. Our medical waste treatment technologies include our proprietary electro-thermal-deactivation system ("ETD") as well as traditional methods such as autoclaving and incineration.

We benefit from significant customer diversification, with no single customer accounting for more than 2% of revenues, and our top 10 customers accounting for approximately 8% of revenues. Our two principal groups of customers include approximately 295,500 small medical waste generators such as outpatient clinics, medical and dental offices and long-term and sub-acute care facilities and approximately 5,500 large medical waste generators such as hospitals, blood banks and pharmaceutical manufacturers.

We believe that the services we offer are compelling to our customers because they allow our customers to avoid the significant capital and operating costs that they would incur if they were internally to manage their regulated medical waste. Moreover, by outsourcing these waste management services and by purchasing OSHA compliance and other consulting services from us, our customers may reduce or eliminate their risk of the large fines associated with regulatory non-compliance.

Industry Overview

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

We believe that the United States market for our regulated medical waste services is approximately $3.0 billion and in excess of $10.0 billion globally. Industry growth is driven by a number of factors. These factors include:

Pressure To Reduce Healthcare Costs. The health care industry is under pressure to reduce costs and improve efficiency. To accomplish this reduction, it is using outside contractors to perform some services, including medical waste management and infection control and compliance. We believe that our services can help health care providers reduce costs by reducing their handling and compliance costs, reducing their potential liability related to employee exposure to bloodborne pathogens and other infectious material, and reducing the amount of time and money invested in infection control and compliance.

Shift to Off-Site Treatment. We believe that managed care and other health care cost-containment pressures are causing patient care to continue to shift from institutional higher-cost acute-care settings to less expensive, smaller, off-site treatment alternatives. Many common diseases and conditions are now being treated in smaller non-institutional settings. We believe that these non-institutional alternate-site health care expenditures will continue to grow as cost-cutting pressures increase.

Aging of U.S. Population. According to industry statistics, the "baby boom" generation (born between 1946 and 1964) constitutes approximately 30% of the United States population. The relative size of this generation will continue to result in an increase in the average age of the population, while falling mortality rates ensure that the average person will live longer. As people age, they typically require more medical attention and a wider variety of tests and procedures. In addition, as technology improves, more tests and procedures become available. All of these factors lead to increased generation of medical waste.

Environmental and Safety Regulation. We believe that many businesses, which are not currently using outsourced medical waste services, are unaware of the need for proper training of employees and the U.S. Occupational Safety and Health Administration, or OSHA, requirements regarding the handling of medical waste. These businesses include manufacturing facilities, schools, restaurants, casinos, hotels and generally all businesses where employees may come into contact with bloodborne pathogens. In addition, home health care is currently unregulated and may become subject to similar bloodborne pathogen regulations in the future.

Our industry is subject to extensive regulation beyond the MWTA. For example, the stringent Clean Air Act regulations adopted in 1997 limit the discharge into the atmosphere of pollutants released by medical waste incineration. These regulations have increased the costs of operating medical waste incinerators and have resulted in significant closures of on-site treatment facilities, thereby increasing the demand for off-site treatment services. In addition, OSHA has issued regulations concerning employee exposure to bloodborne pathogens and other potentially infectious materials that require, among other things, special procedures for the handling and disposal of medical waste and annual training of all personnel who may be exposed to blood and other body fluids. These regulations underlie the expansion of our service offerings to include OSHA compliance services for health care providers.

Competitive Strengths

We believe that we benefit from the following competitive strengths, among others:

Broad Range of Services. We offer our customers a broad range of services to help them develop internal systems and processes, which allow them to manage their medical waste efficiently and safely from the point of generation through treatment and disposal. For example, we have developed programs to help train our customers' employees on the proper methods of handling medical waste in order to reduce potential employee exposure. Other services include those designed to help clients ensure and maintain compliance with OSHA regulations, sharps management services (BioSystems), JCAHO accreditation readiness, infection control tracking and pharmaceutical returns. We also supply specially designed containers for use by most of our large account customers, including our Steri-Tub® container, a reusable leak and puncture-resistant container, which we developed and patented.

Established National Network. Our 41 treatment/collection centers in 25 states, Puerto Rico, Canada and Mexico give us a national network. The extensive federal, state and local laws and regulations governing the regulated medical waste industry typically require some type of governmental approval for new facilities. These approvals are frequently opposed by elected officials, local residents or citizen groups, and can be difficult to obtain. We have significant experience in obtaining and maintaining these permits, authorizations and other types of governmental approvals. We believe that a network similar in scale and scope to ours would be extremely expensive and time-consuming for a national competitor to develop.

Low-Cost Operations. We are often the low-cost provider within the areas we serve. Our low costs result from our vertically integrated network and our broad geographic presence. As a result, we are able to: increase our route densities, which permits our drivers to make more stops per shift; minimize the distance traveled by our collection vehicles to treatment facilities; and increase the utilization of our equipment and facilities to treat more of the waste that we collect internally. We believe that our vertically integrated operations provide us with a competitive advantage over smaller, less integrated competitors.

Diverse Customer Base and Revenue Stability. We have developed strong contracts and service agreements with a diverse network of established customers. Our top 10 customers account for approximately 8% of revenues, and no single customer accounts for more than 2% of revenues. We believe that our diverse customer base would mitigate the impact of the loss of any particular customer. We are also generally protected from regulatory changes and other factors, which affect our costs, because our contracts typically contain provisions that allow us to adjust our prices to reflect any additional costs caused by changes in regulations.

Strong Sales Network and Proprietary Database. We use both telemarketing and direct sales efforts to obtain new customers. In addition, we have a large database of potential new small account customers, which we believe gives us a competitive advantage in identifying and reaching this higher-margin sector.

Experienced Senior Management Team. Our five most senior executives and the Chairman of our Board of Directors collectively have over 100 years of management experience in the health care, consumer, and waste management industries. Mark C. Miller, our Chief Executive Officer, had more than 15 years of management experience at Abbott Laboratories before joining us in 1992 and has led Stericycle during our growth from an early stage venture capital funded company. Richard T. Kogler joined us in late 1998 as Executive Vice President and Chief Operating Officer. Mr. Kogler had previously served in senior roles with American Disposal Services, Inc. and Waste Management, Inc. Frank J.M. ten Brink, our Executive Vice President and Chief Financial Officer, had served as chief financial officer of Telular Corporation and Hexacomb Corporation before joining us in June 1997. Richard L. Foss, our Executive Vice President for Corporate Development, joined us in March 2003, and had previously served in various management and marketing positions at Motorola, Inc. and The Proctor & Gamble Company. Shan S. Sacranie, our Executive Vice President, International, joined us in May 2003 after serving in various management positions with Honeywell Inc. Jack W. Schuler, our Chairman, is also currently chairman of the board of directors of Ventana Medical Systems, Inc. and is on the board of directors of Medtronic, Inc. Mr. Schuler was previously president and chief operating officer of Abbott Laboratories.

Business Strategy

Our goals are to strengthen our position as a leading provider of integrated medical waste and compliance services and to continue to improve our profitability. Components of our strategy to achieve these goals include:

Improve Margins. We intend to continue actively to work to improve our margins by increasing our base of small account customers and focusing on service strategies that more efficiently meet the needs of our large account customers. We have successfully raised the percentage of our revenues from small account customers from 33% of domestic revenues in the fourth quarter of 1996 to 62% in the fourth quarter of 2003, which has contributed to an increase in our operating income margins. Small account customers typically do not produce a sufficient volume of regulated medical waste on an individual basis to justify capital expenditures on their own waste treatment facilities or the expense of hiring regulatory compliance personnel. We believe that the number of small account customers and the opportunities for sales of ancillary services and products to both large and small account customers will continue to grow.

Expand Range of Services and Products. We believe that we have the opportunity to expand our business by increasing the range of products and services that we offer to our existing customers. For example, through our Steri-Safe℠ program, we now offer OSHA compliance services to health care providers, and our mercury mailback program enables customers to manage wastes that should be handled separately. Our acquisition of Scherer Healthcare, Inc. in January 2003 provided the opportunity to market its BioSystems sharps management program in new geographic service areas, and we are in the process of introducing (i) software for hospitals to monitor accreditation readiness, (ii) software for hospitals to monitor nosocomial, or hospital-acquired, infections, and (iii) a pharmaceutical returns service for hospital pharmacies to manage their expired medications.

Seek Complementary Acquisitions. As described below, we actively seek strategic opportunities to acquire businesses that expand our national network of treatment centers and increase our customer and product base. We also consider acquisitions that can leverage the skills and infrastructure that we have in place, for example, our acquisition of the BioSystems sharps management program. We believe that strategic acquisitions can enable us to gain operating efficiencies through increased utilization of our service infrastructure as well as to expand our services offered to our customers and to expand the product offerings and geographic service areas in which we operate.

Capitalize on Outsourcing Due to Clean Air Regulations. The Clean Air Act regulations have increased both the capital costs required to bring many existing incinerators into compliance and the operating costs of continued compliance. Many hospitals have shut down their incinerators in response to the regulations adopted in 1997, which limit the discharge into the atmosphere of pollutants released by medical waste incineration. We plan to continue to capitalize on the movement by hospitals to outsource medical waste treatment rather than incur the cost of installing the air pollution control systems necessary to comply with these EPA regulations. We also plan to continue to offer back-up contracts providing interim service when large quantity customers cannot operate their own on-site treatment equipment.

Acquisitions

Evaluation and Integration. We believe that our management team has substantial experience in evaluating potential acquisition candidates and determining whether a particular medical waste management or related service business can be successfully integrated into our business. In determining whether to proceed with a business acquisition, we evaluate a number of factors including:

- the financial impact of the proposed acquisition, including the effect on our cash flow and earnings per share;
- the historical and projected financial results of the target company;
- the purchase price negotiated with the seller and our expected internal rate of return;
- the composition and size of the target company’s customer base;
- the efficiencies that we can achieve by integrating the target company with one or more of our existing operations;
- the potential for enhancing or expanding our geographic service area and allowing us to make other acquisitions in the same service area;
- the experience, reputation and personality of the target company’s management;
- the target company’s reputation for customer service and relationships with the communities that it serves; and
- whether the acquisition gives us any strategic advantages over our competition.

We have established an efficient procedure for integrating newly acquired companies into our business while minimizing disruption of our operations. Once a business is acquired, we implement programs designed to improve customer service, sales, marketing, routing, equipment utilization, employee productivity, operating efficiencies and overall profitability.

Acquisitions History. We completed a total of 72 acquisitions from 1993 through 2003, the most significant of which was our acquisition in November 1999 of the medical waste business of Browning Ferris Industries, Inc. in the United States, Canada and Puerto Rico. Prior to this acquisition, BFI had been the largest provider of regulated medical waste services in the United States.

Our principal acquisition during 2003 was that of Scherer Healthcare, Inc., which we completed in January. Scherer operated two business lines: (i) consumer healthcare products and (ii) waste management services, with the latter focused on the containment, control, collection and processing of sharp-edged medical waste. Scherer's reusable sharps programs were marketed through its BioSystems subsidiaries in 10 northeastern and Mid-Atlantic states.

We also completed four other acquisitions from providers of regulated medical waste services in 2003. In January, we completed the acquisition of selected assets of Kuglen Services, Ltd., LLP, which operated in southeast Texas, and in June, we completed the acquisition of selected assets of Environmental Management Group, Inc., which operated in Kentucky and Ohio. In June, our majority-owned subsidiary, 3CI Complete Compliance Corporation ("3CI"), completed the acquisition of selected assets of PMT USA, Inc. d/b/a Air & Sea Environmental, which operated in southeast Texas. In September, we completed the acquisition of selected assets of NAWA Medical Disposal, L.L.C., which operated in southwest Texas. In November, our wholly-owned Canadian subsidiary, completed the acquisition of selected assets of Enviro-Med Canada, Inc., which operated in northern Ontario.

In addition in December 2003, we acquired substantially all of the assets of Pharmacy Software Solutions, Inc. ("PSSI"). PSSI was engaged in the business of developing, marketing and supporting software programs used for pharmaceutical returns by retail and hospital pharmacies and pharmaceutical companies.

Services and Operations

Our services and operations are comprised of collection, transportation, treatment, and disposal services together with related training and education programs, consulting services and product sales. We have 41 treatment and 100 additional transfer and collection facilities located in 25 states, Puerto Rico, Canada and Mexico that serve approximately 301,000 customers, consisting of approximately 295,500 small account customers and approximately 5,500 large account customers. We develop programs to help our customers handle, separate and contain medical waste. We also advise our health care customers on the proper methods of recording and documenting their medical waste management to comply with federal, state and local regulations. In addition, we offer training and consulting services to our health care customers to assist them in reducing the amount of medical waste they generate and to improve safety and OSHA regulatory compliance in their workplace.

Collection and Transportation. We consider efficiency of collection and transportation to be a critical element of our operations because it represents the largest component of our operating costs. We try to maximize the number of stops on each route. We use a tracking system for our collection vehicles that helps to improve efficiency. We try to match the size of our collection vehicles to the amount of medical waste to be collected at a particular stop or on a particular route. We collect reusable containers or corrugated boxes of medical waste from our customers at intervals depending upon customer requirements, terms of service and volume of medical waste produced. The waste is then transported directly to one of our treatment facilities or to one of our transfer stations where it is combined with other medical waste and transported to a treatment facility. In some select circumstances we transport medical waste to other specially licensed medical waste treatment facilities. Where permitted, in some states we transport small quantities of specific hazardous substances, such as photographic fixer, lead foils and dental amalgam, from certain of our customers to a metal recycling operation.

The use of transfer stations is another important component of our collection and transportation operations. We utilize transfer stations in a "hub and spoke" configuration, which allows us to expand our geographic service area and increase the volume of medical waste that can be treated at a particular facility. Smaller loads of waste containers are temporarily held at the transfer stations until they can be consolidated into full truckloads and transported to a treatment facility.

As part of our collection operations, we supply specially designed containers for use by most of our large account customers and many of our larger small account customers. We have developed a reusable leak and puncture-resistant container, made from virgin and recycled plastic, which we call the Steri-Tub® container. The plastic container enables our customers to reduce costs by reducing the number of times that medical waste is handled, eliminating the cost of corrugated boxes and potentially reducing liability resulting from human contact with medical waste. The plastic containers are designed to maximize the loads that will fit within the cargo compartments of standard trucks and trailers. We believe that these features make the Steri-Tub® plastic container superior to our competitors' reusable containers. If a customer generates a large volume of waste, we may place a large temporary storage container or trailer on the customer's premises. In order to maximize regulatory compliance and minimize potential liability, we will not accept medical waste unless it is properly packaged by customers in containers that we have either supplied or approved.

Treatment and Disposal. Upon arrival at a treatment facility, containers or boxes of medical waste are typically scanned to verify that they do not contain any unacceptable substances like radioactive material. Any container or box that is discovered to contain unacceptable waste is returned to the customer. In some cases our operating permits require that unacceptable waste be reported to regulatory authorities. After inspection, the waste is treated using one of our various treatment technologies. Upon completion of the particular process, the resulting waste or incinerator ash is transported for resource recovery, recycling or disposal in a landfill operated by parties unaffiliated with us. We do not own any landfills. After the plastic containers such as Steri-Tub® containers have been emptied, they are washed, sanitized and returned to customers for re-use.

Consulting Services. Before our trucks pick up medical waste, our integrated waste management approach attempts to "build in" efficiencies that will yield logistical advantages. For example, our consulting services can assist our customers in reducing the volume of medical waste that they generate. In addition, we provide customers with the documentation necessary for regulatory compliance with laws, which, if they complete the documentation properly, will reduce interruptions to their businesses to verify compliance.

Documentation. We provide complete documentation to our customers for all medical waste that we collect, including the name of the generator, date of pick-up and date of delivery to a treatment facility. We believe that our documentation system meets all applicable federal, state and local regulations including those mandated by the U.S. Department of Transportation, or DOT. This documentation is sometimes used by our customers to show compliance with applicable regulations. These customers will often pay for us to store, retrieve and reprint old manifests and other documentation. We believe that our ability to offer document archiving and retrieval services represents a competitive advantage.

Marketing and Sales

Marketing Strategy. We use both telemarketing and direct sales efforts to obtain new customers. In addition, we have developed a large database of potential new small account customers, which we believe gives us a competitive advantage in identifying and reaching these higher-margin accounts.

Our more than 1,200 drivers also may participate in our marketing and sales efforts by actively soliciting small account customers while they service their routes.

Small Account Customers. We have targeted small account customers as a growth area. We believe that these customers offer a higher profit potential compared to other potential customers. Typical small account customers are individual or small groups of doctors, dentists and other health care providers who are widely dispersed and generate only small amounts of medical waste. These customers are very concerned about having the medical waste picked up and disposed of in compliance with applicable state and federal regulations. We believe that these customers view the potential risks of non-compliance with applicable state and federal medical waste regulations as disproportionate to the cost of the services that we provide. We believe that this factor has been the basis for the significantly higher gross margins that we have achieved with our small account customers relative to our large account customers.

Steri-Safe^{SM}. Our Steri-Safe^{SM} OSHA compliance program, which, after market testing in 1999, we began to offer to select new and existing small account customers in 2000, provides an integrated medical waste management and compliance-assistance service for small account customers and other healthcare providers who typically lack the internal personnel and systems to comply with OSHA bloodborne regulations. Customers for our Steri-Safe^{SM} service pay a predetermined subscription fee in advance for medical waste collection and treatment services and can also choose from available packages of training and education services and products designed to help them to comply with OSHA regulations. During 2003, we continued to convert many of our customers to use of the Steri-Safe^{SM} program, and by the end of the year approximately 70,000 small account customers were on the new subscription model. We believe that the implementation of our Steri-Safe^{SM} service will provide us with new and enhanced opportunities to leverage our existing customer base through the program's prepayment structure and diversified product and service offerings.

We also operate several "mail-back" programs through which we can reach small account customers located in outlying areas that would be inefficient to serve using our regular route structure.

Large Account Customers. We believe that we have been successful in serving large account customers and plan to continue to serve those customers as long as satisfactory levels of profitability can be maintained. Our marketing and sales efforts to large account customers are conducted by full-time account executives whose responsibilities include identifying and attracting new customers and serving our existing account base of approximately 5,500 large account customers. In addition to securing new contracts, our marketing and sales personnel provide consulting services to our health care customers, assisting them in reducing the amount of medical waste that they generate, training their employees on safety issues and implementing programs to audit, classify and segregate medical waste in a proper manner.

We believe that the implementation of more stringent Clean Air Act and other federal regulations directly and indirectly affecting medical waste will continue to enable us to improve our marketing efforts to large account customers because the additional costs that they will incur to comply with these regulations will make the costs of our services more attractive, particularly in the event they use their own incinerators.

National Accounts. As a result of our extensive geographic coverage, we are capable of servicing national account customers (i.e., customers requiring medical waste disposal services at various geographically dispersed locations). We will continue to selectively focus on national accounts.

Contract and Service Agreements. We have long-term contracts with substantially all of our customers. We negotiate individual service agreements with each large account and small account customer. Although we have a standard form of agreement, particularly for small account customers, terms may vary depending upon the customer's service requirements and the volume of medical waste generated and, in some jurisdictions, requirements imposed by statute or regulation. Service agreements typically include provisions relating to the types of containers, frequency of collection, pricing, treatment of waste and documentation for tracking purposes. Each agreement also specifies the customer's obligation to pack its medical waste in approved containers. Substantially all of our agreements with small account customers have an automatic renewal provisions unless the customer notifies us to the contrary prior to the expiration of the current term of the contract.

Service agreements are generally for a period of one to five years, although customers may terminate on written notice. Many payment options are available, including flat monthly, quarterly or annual charges. We may set our prices on the basis of the number of containers that we collect, the weight of the medical waste that we collect and treat, the number of collection stops that we make on the customer's route, the number of collection stops that we make for a particular multi-site customer, the products and compliance services we provide and other factors.

We have a diverse customer base, with no single customer accounting for more than 2% of revenues, and our top 10 customers accounting for approximately 8% of revenues.

New Initiatives

In early 2004 we began the rollout of the BioSystems sharps management program to new cities in the United States. BioSystems provides full service sharps management solutions to hospitals. Through the utilization of unique reusable sharps containers and handling process, BioSystems provides safe environmentally friendly and cost effective sharps management programs.

In the first quarter of 2004, we announced three new product and service initiatives that we will begin to offer later in 2004:

Stericycle JRepository™ is a software tool that automates continuous Joint Commission on Accreditation of Healthcare Organizations (JCAHO) survey readiness for hospitals and hospital systems. Stericycle JRepository™ includes various modules: a hospital-wide assessment process linked to the 2004 JCAHO standards; customizable surveys; corrective action plans; checklists; and event reporting and tracking.

Stericycle Infection Control Management Software is an infection surveillance and outbreak management tool for infection control professionals. Every year, hospital-acquired, or nosocomial, infections account for tens of thousands of deaths and billions of dollars in health care costs, and infection control is one of JCAHO's 2004 national patient safety goals. Our software standardizes the infection-tracking process, monitors for potential outbreaks and makes it easier for infection control professionals to manage infection information.

Stericycle Direct Return™ is a proprietary service that helps hospital pharmacies manage their expired medications. Our service uses manufacturer product and return policy information to improve manufacturer return credits, enhance inventory management capabilities and deliver online business information for better decision-making.

International

We have expanded beyond the United States and Canada. In 1996, we entered into an agreement with a Brazilian company, Companhia Auxiliar de Viação e Obras, or CAVO, to assist in exploring opportunities for the commercialization of our medical waste management technology in South America. This relationship was expanded in July 1998, when we entered into an agreement for an exclusive license to use our ETD technology in Brazil and for the sale to CAVO of two fully integrated ETD processing lines for use in treating medical waste in the Sao Paulo, Brazil metropolitan market.

In 1998, we formed Medam S.A. de C.V., or Medam, a Mexican joint venture, to utilize our ETD technology to treat medical waste primarily in the Mexico City market. Medam's treatment facility, is the largest medical waste treatment facility permitted to date in Mexico. In September 1999, we increased our interest in Medam from 24.5% to 49.0%, and in July 2000, we acquired a further 15.5% to give us a 64.5% interest in the joint venture. In August 2001, Medam completed the acquisition of a Mexico City-based medical waste management company, Tecnicas Medio Ambientales Winco S.A. de C.V., and in March 2002, Medam completed the acquisition of a majority of the stock of Ecotermica de Oriente, S.A. de C.V.

In 1999, we established a joint venture in Argentina, Medam, B.A. Srl, to utilize our ETD technology to treat medical waste primarily in the Buenos Aires market. We also entered into agreements to supply ETD equipment and license ETD technology and other proprietary rights to Medam B.A., and to provide consulting assistance to Medam B.A. in the installation, start-up and validation of the ETD processing equipment in the joint venture's treatment facility.

In June 2000, we entered into agreements with Aso Cement Co., Ltd. and Aso Mining Co., Ltd., to establish an ETD treatment facility in Japan. Under these agreements, we supplied ETD treatment equipment to Aso and provide ongoing consulting assistance in the operation of the ETD equipment. In addition, we exclusively licensed to Aso our ETD technology and other proprietary rights for use in certain territories within Japan.

In August 2000, we established a joint venture, Evertrade Medical Waste (Proprietary) Limited, a South Africa corporation, to utilize our ETD technology to treat medical waste in the Republic of South Africa. We also entered into agreements to supply ETD equipment and license ETD technology and other proprietary rights to Evertrade Medical Waste, and to provide consulting assistance to Evertrade Medical Waste in the operation of the ETD processing equipment in the joint venture's treatment facility in South Africa. We also established a joint venture, Evertrade Medical Waste Manufacturing Limited, a South Africa corporation, to manufacture reusable tubs in South Africa. We are in the process of restructuring our involvement in our South African joint ventures and anticipate that our local partners will acquire our joint venture interests.

In August 2001, we concluded an agreement with SteriCorp Limited, an Australian company, under which we provided financing to SteriCorp through the purchase of convertible notes, licensed our ETD technology to it for use in Australia, New Zealand, Malaysia, Indonesia and Thailand, and agreed to sell to it an ETD processing line and assist in its installation.

In October 2002, we announced that we had entered into agreements with Medical Safety Systems of Hokkaido, Japan to establish an ETD processing facility in Japan. Under these agreements, we have supplied ETD processing equipment and provide ongoing consulting assistance to Medical Safety Systems in the operation of the ETD equipment. In addition, we exclusively licensed to Medical Safety Systems our ETD technology and other proprietary rights for use in certain territories within Japan.

In December 2003, we entered into agreements with Shiraishi Sogyo Kabushiki Kaisha, of Tochigi, Japan to establish an ETD treatment facility in Japan. Under these agreements, we are supplying ETD treatment equipment to Shiraishi and provide ongoing consulting assistance in the operation of the ETD equipment. In addition, we exclusively licensed to Shiraishi our ETD technology and other proprietary rights for use in certain territories within Japan.

Treatment Technologies

We currently use both non-incineration technologies (our proprietary ETD technology and autoclaving) and incineration technologies for treating regulated medical waste.

Stericycle was founded on the belief that there was a need for safe, secure, and environmentally responsible management of regulated medical waste. From our beginning we have championed the use of non-incineration, alternate treatment technologies such as our patented ETD process. While we recognize that some state regulations as currently in force mandate that some types of medical waste must be incinerated, we also know from years of experience working with our customers that there are ways to reduce the amount of waste that is ultimately incinerated. The most effective strategy that we have seen involves comprehensive waste minimization and segregation education of our customers. Working in cooperation with our customers, we have made tremendous strides in shifting away from incineration and moving towards alternate treatment technologies. At the end of 2003, incineration constituted less than 12% of our treatment capacity.

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

ETD Treatment Process. ETD includes a system for grinding medical waste. After grinding, ETD uses an oscillating field of low-frequency radio waves to heat medical waste to temperatures that destroy pathogens such as viruses, bacteria, fungi and yeast, without melting the plastic content of the waste. ETD employs low-frequency radio waves because they can penetrate deeper than high-frequency waves, like microwaves, which can penetrate medical waste of a typical density only to a depth of approximately five inches. ETD uses frequencies that match the physical properties of medical waste, enabling the ETD treatment process to kill pathogens at temperatures as low as 90° C. Although ETD is effective in destroying pathogens present in anatomical waste, we do not currently treat segregated anatomical waste using the ETD process.

We believe that ETD offers advantages over many other methods of treating medical waste. We believe that it is easier to get permits for ETD facilities than for incineration facilities because ETD does not produce regulated air or water emissions. ETD facilities also can be more cost-effective to construct than incinerators or autoclaves with shredding capability. ETD also renders medical waste unrecognizable and thus more acceptable for landfills and reduces the volume of waste as well.

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

Competition

The medical waste services industry is highly competitive. It consists of many different types of service providers, including a large number of regional and local companies. Another major source of competition is the on-site treatment of medical waste by some large-quantity generators, particularly hospitals.

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

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

Governmental Regulation

We operate within the medical waste management industry, which is subject to extensive and frequently changing federal, state and local laws and regulations. This statutory and regulatory framework imposes compliance burdens and risks on us, including requirements to obtain and maintain government permits. These permits grant us the authority, among other things:

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

Our permits must be periodically renewed and are subject to modification or revocation by the regulatory authority. We are also subject to regulations that govern the definition, generation, segregation, handling, packaging, transportation, treatment, storage and disposal of medical waste. We are also subject to extensive regulations designed to minimize employee exposure to medical waste. In addition, we are subject to foreign laws and regulations.

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

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

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

Clean Air Act Regulations. In August 1997, the EPA adopted regulations under the Clean Air Act Amendments of 1990 that limit the discharge into the atmosphere of pollutants released by medical waste incineration. These regulations required every state to submit to the EPA for approval a plan to meet minimum emission standards for these pollutants. See "—State and Local Regulation." We currently operate eight incinerators. We believe these incinerators are in compliance with applicable state requirements.

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

- exposure to bloodborne pathogens and other potentially infectious materials;
- lock out/tag out procedures;
- medical surveillance requirements;
- use of respirators and personal protective equipment;
- emergency planning;
- hazard communication;
- noise;
- ergonomics; and
- forklift safety.

We require our employees to receive new employee training, annual refresher training and training in their specific tasks. As part of our medical surveillance program, employees receive pre-employment physicals, including drug testing, biannually required medical surveillance and exit physicals. We also subscribe to a drug-free workplace policy.

Resource Conservation and Recovery Act of 1976. In 1976, Congress passed the Resource Conservation and Recovery Act of 1976, or RCRA, as a response to growing public concern about problems associated with the handling and disposal of solid and hazardous waste. RCRA required the EPA to promulgate regulations identifying hazardous wastes. RCRA also created standards for the generation, transportation, treatment, storage and disposal of solid and hazardous wastes. These standards included a documentation program for the transportation of hazardous wastes and a permit system for solid and hazardous waste disposal facilities. Medical wastes are currently considered non-hazardous solid wastes under RCRA. However, some substances collected by us from some of our customers, including photographic fixer developer solutions, lead foils and dental amalgam, are considered hazardous wastes.

We use landfills operated by parties unrelated to us for the disposal of treated medical waste from our ETD facilities and for the disposal of incinerator ash and autoclaved waste. We do not own or operate any landfills. Waste is not regulated as hazardous under RCRA unless it contains hazardous substances exceeding certain quantities or concentration levels, meets specified descriptions, or exhibits specific hazardous characteristics. Following treatment, waste from our ETD and autoclave facilities is disposed of as nonhazardous waste. At our incineration facilities, we test ash from the incineration process to determine whether it must be disposed of as hazardous waste.

We employ quality control measures to check incoming medical waste for specific types of hazardous substances. Our customer agreements also require our customers to exclude different kinds of hazardous substances or radioactive materials from the medical waste they provide us. We use a different type of contract for the relatively small number of customers from whom we pick up hazardous wastes.

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

DOT regulations also require that a transporter be capable of responding on a 24-hour-a-day basis in the event of an accident, spill, or release to the environment of a hazardous material. We have entered into an agreement with CHEMTREC, an organization that provides 24-hour emergency spill notification in the United States and Canada, to provide this service, and we also have agreements with several emergency response organizations to provide spill cleanup services in some of our service areas.

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

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

United States Postal Service. We have obtained permits from the U.S. Postal Service to conduct our “mail-back” programs, pursuant to which customers mail approved “sharps” (needles, knives, broken glass and the like) containers directly to our treatment facilities.

State and Local Regulation. We conduct business in numerous states. Each state has its own regulations related to the handling, treatment and storage of medical waste. Although there are many differences among the various state laws and regulations, many states have followed the medical waste model under the MWTA and have implemented programs under RCRA. In each of the states where we operate a treatment facility or a transfer station, we are required to comply with numerous state and local laws and regulations as well as our operating plan for each site. State agencies involved in regulating the medical waste industry are frequently the departments of health and environmental protection agencies. In addition, many local governments have ordinances, local laws and regulations, such as zoning and health regulations, that affect our operations.

States usually regulate medical waste as a solid or "special" waste and not as a hazardous waste under RCRA. State definitions of medical waste include:

- microbiological waste (cultures and stocks of infectious agents);
- pathology waste (human body parts from surgical procedures and autopsies);
- blood and blood products; and
- sharps.

Most states require segregation of different types of medical waste at the hospital or other location where they were created. A majority of states require that the universal biohazard symbol or a label appear on medical waste containers. Storage regulations may apply to the party generating the waste, the treatment facility, the transport vehicle, or all three. Storage rules seek to identify and secure the storage area for public safety as well as set standards for the manner and length of storage. Many states require employee training for safe environmental cleanup through emergency spill and decontamination plans. Many states also require that transporters carry spill equipment in their vehicles. Those states whose regulatory framework relies on the MWTA model have tracking document systems in place. One state (Washington) regulates the prices that we may charge. We maintain numerous governmental permits and licenses to conduct our business. Our permits vary from state to state based upon our activities within that state and on the applicable state and local laws and regulations. These permits include:

- transport permits for solid waste, medical waste and hazardous substances;
- permits to construct and operate treatment facilities;
- permits to construct and operate transfer stations;
- permits governing discharge of sanitary water and registration of equipment under air regulations;
- approvals for the use of ETD and other technologies to treat medical waste; and
- various business operator's licenses.

We believe that we are currently in compliance in all material respects with our permits and applicable laws and regulations.

Pursuant to medical waste incinerator regulations adopted by the EPA in 1997, every state was required by September 1998 to adopt a plan to comply with federal guidelines which, among other things, limit the release of some airborne pollutants from medical waste incinerators to levels prescribed by the EPA. Each state's implementation plan must be at least as restrictive as the federal emissions standards. We believe that all of our remaining incinerators are in compliance with applicable state requirements. See "—Governmental Regulation —Federal Regulation—Clean Air Act Regulations."

Foreign and Territorial Regulation. We presently conduct business in several provinces in Canada. Our activities in Canada are governed at the federal level by the Canadian Transportation of Dangerous Goods Act and the Canadian Environmental Protection Act, and at the provincial level by comparable legislation. The

Canadian Environmental Protection Act regulates, among other things, the cross border movement of medical waste. The federal Transportation of Dangerous Goods Act regulates the movement of dangerous goods, including infectious substances, by all modes of transportation. It imposes joint and several liability on all persons who are responsible for, or who caused or contributed to the release of any dangerous substance into the environment. Any business engaged in a regulated activity is presumed to be liable for any release, unless the business can demonstrate that it acted reasonably.

Provincial legislation typically regulates the storage, transportation and disposal of waste, including biomedical waste, and imposes strict, joint and several liability for all the costs of cleanup of contaminated sites.

We presently conduct business in the United States territory of Puerto Rico. Our storage and treatment activities in Puerto Rico are governed at the territorial level by the Puerto Rico Environmental Quality Board, while the U.S. DOT regulates the transportation of medical waste in Puerto Rico and applies the regulations promulgated under the Hazardous Materials Transportation Authorization Act of 1994.

We believe that we have obtained all permits required by Canadian federal and provincial legislation and by federal and territorial legislation applicable to Puerto Rico.

We also conduct business in Mexico, Argentina and South Africa through joint ventures. We believe that our joint venture operations are in compliance with all material applicable laws, rules and regulations.

If we expand our operations into other foreign jurisdictions, we will be required to comply with the laws and regulations of each of these jurisdictions.

Permitting Process. Each state in which we currently operate, and each state, in which we may operate in the future, has a specific permitting process. After we have identified a geographic area in which we want to locate a treatment or transfer facility, we identify one or more locations for a potential new site. Typically, we will develop a site contingent on obtaining zoning approval and local and state operating authority. Most communities rely on state authorities to provide operating rules and safeguards for their community. Usually the state provides public notice of the project and, if enough public interest is shown, a public hearing may be held. If we are successful in meeting all regulatory requirements, the state may issue a permit to construct the treatment facility or transfer station. Once the facility is constructed, the state may again issue public notice of its intent to issue an operating permit and may provide an opportunity for public opposition or other action that may impede our ability to construct or operate the planned facility. Permitting for transportation operations frequently involves registration of vehicles, inspection of equipment, and background investigations on our officers and directors.

We have been successful in obtaining permits for our current medical waste transfer, treatment and processing facilities and for our transportation operations. Several of our past attempts to construct and operate medical waste treatment facilities, however, have met with significant community opposition. In some of these cases, we have withdrawn our permit application.

Patents and Proprietary Rights

We consider the protection of our technology to be important to our business. Our policy is to protect our technology by a variety of means, including applying for patents in the United States and in some foreign countries.

We hold 18 United States patents relating to the ETD treatment process and other aspects of processing medical waste. We have filed or have been assigned patent applications in several foreign countries and we have received patents in Australia, Canada, France, Hong Kong, Ireland, Mexico, Russia, South Korea and the United Kingdom.

The term of the first-to-end of our existing United States patents relating to our ETD treatment process will currently end in May 2009 and the term of the last-to-end will currently end in January 2019.

We own federal registrations of the trademarks "Steri-Fuel®," "Steri-Plastic®," and "Steri-Tub®," the service mark Stericycle® and a service mark consisting of a nine-circle design.

Potential Liability and Insurance

The medical waste industry involves potentially significant risks of statutory, contractual, tort and common law liability claims. Potential liability claims could involve, for example:

- cleanup costs;
- personal injury;
- damage to the environment;
- employee matters;
- property damage; or
- alleged negligence or professional errors or omissions in the planning or performance of work.

We could also be subject to fines or penalties in connection with violations of regulatory requirements.

We carry $26 million of liability insurance (including umbrella coverage), and under a separate policy, $10 million of aggregate pollution and legal liability insurance ($5 million per incident), which we consider sufficient to meet regulatory and customer requirements and to protect our employees, assets and operations. Our pollution liability insurance excludes liabilities under CERCLA. There can be no assurance that we will not face claims under CERCLA or similar state laws resulting in substantial liability for which we are uninsured and which could have a material adverse effect on our business.

Our insurance programs utilize large deductible plans offered by a commercial insurance company. Large deductible plans allow us the benefits of cost-effective risk financing while protecting us from catastrophic risk with specific stop loss insurance limiting the amount of self-funded exposure for any one loss and aggregate stop loss insurance limiting the self-funding exposure for any one year.

Employees

As of December 31, 2003, we had 2,845 full-time and 41 part-time employees (including employees of our subsidiaries). Approximately 255 of our drivers, transportation helpers and plant workers are covered by a total of eight collective bargaining agreements with local unions of the International Brotherhood of Teamsters. These agreements expire at various dates from June 2004 to October 2008. We consider our employee relations to be satisfactory.

Website Access

We maintain an Internet website, *http://www.stericycle.com*, providing a variety of information about us. Our annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and amendments to those reports, that we file with the Securities and Exchange Commission are available, as soon as reasonably practicable after filing, at the investors' page on our website, *http://www.stericycle.com/investor.htm*, or by a direct link to our filings on the SEC's free website, *http://www.sec.gov*.

Item 2. Facilities

We lease office space for our corporate offices in Lake Forest, Illinois. We own or lease four ETD treatment facilities, eight incineration facilities, 27 autoclave facilities and two facilities that use a combination of these methods or other methods. All of our treatment facilities also serve as collection sites. We own or lease 100 additional transfer and collection sites, seven additional sales/administrative sites and three facilities for storage of supplies. This listing includes eight sites owned or leased by our majority-owned subsidiary, 3CI Complete Compliance Corporation ("3CI"). We consider that these facilities are adequate for our present and anticipated needs. Substantially all of our owned facilities are pledged to secure our indebtedness under our senior credit facility.

We do not own or operate any landfills or any other type of disposal site. After treatment, all remaining waste materials are transported to unaffiliated parties for permanent disposal.

Item 3. Legal Proceedings

We operate in a highly regulated industry and are exposed to regulatory inquiries or investigations from time to time. Government authorities can initiate investigations for a variety of reasons. We have been involved in several legal and administrative proceedings that have been settled or otherwise resolved on terms acceptable to us, without having a material adverse effect on our business.

In September 2002, we entered into a consent decree implementing the terms of settlement with the Arizona Attorney General's office of an antitrust investigation relating to our December 1997 sale and purchase of medical waste assets in Utah and Arizona with BFI and our subsequent failure to provide treatment services to certain third-party haulers of medical waste at our treatment facilities in Arizona and Utah. Under the consent decree, we are required to pay a total of $0.3 million in civil penalties and attorneys' fees in quarterly installments over a three-year period, with an initial payment of $0.1 million. We are also required to provide up to 50,000 pounds per month of treatment services to third-party haulers at our Chandler, Arizona treatment facility for a five-year period at commercially competitive prices. In addition, we are required for a two-year period to rebate 25% of the amounts billed and collected from the two third-party haulers whose complaints prompted the initial investigation. The consent decree expressly stated that we did not admit to the truth of any of the substantive allegations in the underlying complaint by the Arizona Attorney General's office.

In January 2003, we reached a definitive settlement of the antitrust investigation by the Utah Attorney General's office relating to the same issues. Under the terms of the consent decree incorporating this settlement, we agreed to pay a total of $0.6 million to the Attorney General's office over a three-year period. We also agreed to make certain operational changes in Utah to enhance competition, including providing incineration treatment services to third party haulers at our Salt Lake City treatment facility. The consent decree expressly stated that we did not admit that we had violated any Utah or federal antitrust laws.

In January 2003, we were sued in federal court in Arizona by a private plaintiff claiming anticompetitive conduct in Arizona, Colorado and Utah from November 1997 to the present and seeking certification of the lawsuit as a class action on behalf of all customers of ours and of BFI in the three-state area during the period in question. Over the next three months, four similar suits were filed in federal court in Utah, Arizona, Colorado and New Mexico. In February and May 2003, two additional suits were filed in federal court in Utah and Arizona claiming substantially the same anticompetitive conduct but not seeking class action certification. In December 2003, an eighth suit was filed in federal court in Utah claiming monopolistic and other anticompetitive conduct in California during the prior four years and seeking certification of the suit as a class action on behalf of all California customers of ours during this four-year period. These eight suits have now been consolidated before the same judge in federal court in Utah. The first five suits have been consolidated under one consolidated class action complaint; the next two suits have been consolidated for discovery purposes; and the eighth suit has been coordinated for discovery purposes. We believe that none of these eight suits has any merit.

We and four of our officers and directors are parties to a suit filed in state court in Louisiana in July 2002 by a shareholder of our majority-owned subsidiary, 3CI. This suit, which was filed on behalf of the minority shareholders of 3CI and derivatively on behalf of 3CI itself, alleges, among other claims, that we and the four directors of 3CI who are serving as our designees (and who are also officers or directors of ours) unjustly enriched Stericycle at the expense of 3CI and its other shareholders. The plaintiff seeks, among other relief, damages and an order requiring the buyout of 3CI's minority shareholders. In October 2003, the plaintiffs filed an amended complaint adding 3CI as a derivative defendant. This suit is still at a very early stage, with the parties currently conducting preliminary discovery. We believe that the plaintiff's claims are without merit.

In May 2003, 3CI, at the direction of its independent directors, filed a declaratory judgment action in state court in Texas to resolve a disagreement with us over the proper rate of conversion of the shares of 3CI's preferred stock held by our wholly-owned subsidiary, Waste Systems, Inc. ("WSI"). In August 2003, this action was dismissed by the court on procedural grounds, and 3CI refiled its action as a new suit. In September 2003, WSI filed its own action for a judicial interpretation of the conversion provisions of 3CI's preferred stock. Following a hearing, WSI's action was abated by the court in November 2003, leaving 3CI's suit to go forward.

In October 2003, the plaintiff in the Louisiana lawsuit and others answered or intervened in 3CI's Texas lawsuit, naming us as a third-party defendant and making substantially the same claims alleged in the Louisiana lawsuit. We and WSI have denied these claims, and believe that they are without merit.

In September 2003, the full board of 3CI appointed a special committee consisting of 3CI's three independent directors to act on 3CI's behalf in respect of the dispute with us and WSI regarding the conversion rate of 3CI's preferred stock. In January 2004, the full board expanded the special committee's authority to include an investigation of all claims by the plaintiff in the Louisiana lawsuit and by the third-party plaintiffs in the Texas lawsuit, and to act on 3CI's behalf in respect of both lawsuits.

Item 4. Submission of Matters to a Vote of Security Holders

No matter was submitted to a vote of our stockholders during the fourth quarter of 2003.

Supplemental Information

Executive Officers of the Registrant

The following table contains certain information regarding our five current executive officers:

Name	Position	Age
Mark C. Miller	President, Chief Executive Officer and a Director	48
Richard T. Kogler	Executive Vice President and Chief Operating Officer	44
Frank J.M. ten Brink	Executive Vice President and Chief Financial Officer	47
Richard L. Foss	Executive Vice President of Corporate Development	49
Shan S. Sacranie	Executive Vice President, International	51

Mark C. Miller has served as our President and Chief Executive Officer and a director since joining us in May 1992. From May 1989 until he joined us, Mr. Miller served as vice president for the Pacific, Asia and Africa in the International Division of Abbott Laboratories, which he joined in 1976 and where he held a number of management and marketing positions. He is a director of Ventana Medical Systems, Inc. and Lake Forest Hospital. Mr. Miller received a B.S. degree in computer science from Purdue University, where he graduated Phi Beta Kappa.

Richard T. Kogler joined us as Chief Operating Officer in December 1998. From May 1995 through October 1998, Mr. Kogler was vice president and chief operating officer of American Disposal Services, Inc., a solid waste management company. From October 1984 through May 1995, Mr. Kogler served in a variety of management positions with Waste Management, Inc. Mr. Kogler received a B.A. degree in chemistry from St. Louis University.

Frank J.M. ten Brink has served as our Executive Vice President, Finance and Chief Financial Officer since June 1997. From 1991 until 1996 he served as chief financial officer of Hexacomb Corporation, and from 1996 until joining us, he served as chief financial officer of Telular Corporation. Prior to 1991, he held various financial management positions with Interlake Corporation and Continental Bank of Illinois. Mr. ten Brink received a B.B.A. degree in international business and a M.B.A. degree in finance from the University of Oregon.

Richard L. Foss has served as our Executive Vice President for Corporate Development since February 2003. From 1999 to 2002, Mr. Foss was a vice president and director of worldwide product marketing in the personal communication sector at Motorola Inc., and from 1977 until 1999, he held a number of management and marketing positions at The Proctor & Gamble Company, including serving as a vice president and general manager in the health care segment. Mr. Foss received a B.S. degree in chemistry and an M.B.A degree from Rensselear Polytechnic Institute.

Shan S. Sacranie joined us in May 2003 and became our Executive Vice President, International in November 2003. From 2001 to 2002 he was chief executive for Appliance Controls Group, Inc. and from 1995 to 2001, he was president of Oak Industries Inc. From 1978 to 1995 he held a number of management positions for Honeywell. Mr. Sacranie holds a B.A. degree (Hons) in economics from the University of Bombay, an M.B.A. degree from Minnesota State University and a J.D. degree from the William Mitchell College of Law.

PART II

Item 5. Market for the Registrant's Common Equity and Related Stockholder Matters

As of March 10, 2004, we had approximately 209 stockholders of record.

The following table provides the high and low sales prices of our common stock (adjusted for the May 31, 2002 2-for-1 stock split) for each calendar quarter during our two most recent fiscal years:

Quarter	High	Low
First quarter 2002	33.995	25.000
Second quarter 2002	40.540	28.775
Third quarter 2002	36.890	28.350
Fourth quarter 2002	38.240	30.550
First quarter 2003	39.690	32.050
Second quarter 2003	42.520	35.830
Third quarter 2003	49.600	38.270
Fourth quarter 2003	52.010	43.160

At the close of business on May 31, 2002 we recorded a 2-for-1 stock split. The stock split was in the form of a stock dividend of one share payable on May 31, 2002 on each share of common stock outstanding on May 16, 2002. All share and earnings per share information in this report is reported on a post-split basis. We did not pay any cash dividends during 2003 and have never paid any dividends on our capital stock. We currently expect that we will retain future earnings for use in the operation and expansion of our business and do not anticipate paying any cash dividends in the foreseeable future. We are prohibited from paying cash dividends under the terms of our senior credit facility and the indenture pursuant to which we issued our 12⅜% senior subordinated notes due 2009. See Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations."

Item 6. Selected Financial Data

	Year Ended December 31,				
	1999	2000	2001	2002	2003
	(Dollars in thousands except per share amounts)				
Statements of Operations Data (1)					
Revenues	$ 132,848	$323,722	$359,024	$401,519	$453,225
Income from operations	12,284	63,466	73,294	100,832	126,397
Net income	13,968	14,511	14,710	45,724	65,781
Net income applicable to common stock	13,628	11,968	12,167	45,037	65,781
Diluted net income per share of common stock (2)	0.92	0.72	0.70	1.01	1.43
Depreciation and amortization	9,879	23,469	25,234	14,981	17,255
Other Data					
Cash provided by operating activities	$ 11,777	$ 10,469	$ 64,550	$ 96,947	$121,103
Cash used in investing activities	(425,628)	(15,600)	(36,673)	(49,470)	(57,635)
Cash provided by (used in) financing activities	431,912	(11,547)	(17,806)	(51,921)	(64,036)
Balance Sheet Data (at December 31) (1)					
Cash, cash equivalents and short-term investments	$ 19,629	$ 2,947	$ 13,017	$ 8,887	$ 7,881
Total assets	595,786	597,982	614,530	667,095	707,462
Long-term debt, net of current maturities	355,444	345,104	267,365	224,124	163,016
Convertible redeemable preferred stock	69,195	71,437	44,872	28,049	20,944
Shareholders' equity	$ 118,114	$134,700	$232,510	$326,729	$407,820

(1) See Note 4 to the Consolidated Financial Statements for information concerning our acquisitions during the three years ended December 31, 2003.

(2) See Note 11 to the Consolidated Financial Statements for information concerning the computation of net income per common share. In 1999, net income includes acquisition-related charges of $4.8 million net of tax and a separate tax benefit of $6.3 million, which positively impacted earnings per share ("EPS") by $0.15 per share. In 2000, net income includes acquisition-related charges of $2.7 million net of tax, which negatively impacted EPS by $0.07 per share. In 2001, net income includes acquisition-related costs of $0.2 million net of tax, fixed asset write offs of $2.0 million net of tax and items related to debt restructuring and subordinated debt repurchases, of $7.3 million net of tax, which negatively impacted EPS by $0.23 per share. Of the total of $9.5 million of such items, $5.5 million were non-cash items. In 2002, net income includes acquisition-related costs of $0.2 million net of tax, fixed asset write-offs of $1.8 million net of tax and items related to debt restructuring and subordinated debt repurchases of $1.4 million net of tax, which negatively impacted EPS by $0.08 per share. Of the total of $3.4 million of such items, $2.0 million were non-cash items. In 2003, net income includes acquisition-related costs of $0.4 million net of tax and items related to debt restructuring and subordinated debt repurchase of $2.0 million net of tax, which negatively impacted EPS by $0.04 per share. Of the total of $2.4 million of such items, $0.5 million were non-cash items.

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operation

The following discussion our financial condition and results of operations should be read in conjunction with our consolidated financial statements and related notes in Item 8 of this Report.

Introduction

We are the largest provider of regulated medical waste services in North America. In addition we offer OSHA compliance services for health care providers and will be introducing several new services during 2004, including software for hospitals to monitor accreditation readiness.

We derive our medical waste revenues from services to two principal types of customers: (i) outpatient clinics, medical and dental offices, biomedical companies, municipal entities, long-term and sub-acute care facilities and other smaller-quantity generators of regulated medical waste ("small account" customers) and (ii) hospitals, blood banks, pharmaceutical manufacturers and other larger-quantity generators of regulated medical waste ("large account" customers).

Substantially all of our medical waste services are provided pursuant to customer contracts specifying either scheduled or on-call services, or both. Contracts with small account customers generally provide for annual price increases and have an automatic renewal provision unless the customer notifies us to the contrary prior to the expiration of the current term of the contract. Contracts with hospitals and other large account customers, which may run for more than one year, typically include price escalator provisions, which allow for price increases generally tied to an inflation index or set at a fixed percentage.

As of December 31, 2003, we served approximately 301,000 customers, of which approximately 295,500 were small account customers and approximately 5,500 were large account customers.

Critical Accounting Policies and Procedures

Our discussion and analysis of our financial condition and results of operations are based upon our consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States. The preparation of these financial statements requires that we make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses, and the related disclosure of contingent assets and liabilities (see Note 1 to our consolidated financial statements). We believe that of our significant accounting policies (see Note 2 to our consolidated financial statements), the following ones may involve a higher degree of judgment on our part and greater complexity of reporting.

Revenue Recognition. We recognize revenue for our medical waste services at the time of medical waste collection. Revenue and costs on contracts to supply our proprietary ETD treatment equipment are accounted for by the percentage of completion method, whereby income is recognized based on the estimated stage of completion of the individual contract using the cost-to-cost method. We routinely review total estimated costs to complete each contract and revise the estimated gross margin on the contract as necessary. Payments received in advance are deferred and recognized as services are provided.

Goodwill and Other Identifiable Intangible Assets. Goodwill associated with the excess purchase price over the fair value of assets acquired is not currently amortized. We have determined that our permits have indefinite lives and, accordingly, are not amortized. This position is in accordance with Statements of Financial Accounting Standards No. 142, which became effective for fiscal years beginning after December 15, 2001. Our goodwill and permits are currently tested for impairment annually or more frequently if circumstances indicate that they may be impaired. Other identifiable intangible assets, such as customer lists and covenants not to compete, are currently amortized on the straight-line method over their estimated useful lives. We have determined that our customer lists have 40-year lives. These assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may be less than the undiscounted cash flows (see Note 8 to our consolidated financial statements).

Accounts Receivable. Accounts receivable consist primarily of amounts due to us from our normal business activities. Accounts receivable balances are determined to be delinquent when the amount is past due based on the contractual terms with the customer. We maintain an allowance for doubtful accounts to reflect the expected uncollectibility of accounts receivable based on past collection history and specific risks identified among uncollected accounts. Accounts receivable are charged to the allowance for doubtful accounts when we have determined that the receivable will not be collected and/or when the account has been referred to a third party collection agency. No single customer accounts for more than 2% of our revenues.

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

Year Ended December 31, 2003 Compared to Year Ended December 31, 2002

The following summarizes (in thousands) our operations:

	Year Ended December 31,			
	2003		2002	
Revenues	$453,225	100.0%	$401,519	100.0%
Cost of revenues	243,170	53.7%	225,056	56.1%
Depreciation	13,430	3.0%	11,954	3.0%
Total cost of revenues	256,600	56.6%	237,010	59.0%
Gross profit	196,625	43.4%	164,509	41.0%
Selling, general and administrative	65,733	14.5%	57,375	14.3%
Depreciation	1,975	0.4%	1,057	0.3%
Amortization	1,850	0.4%	1,970	0.5%
Acquisition related costs	670	0.1%	362	0.1%
Total selling, general and administrative expenses	70,228	15.5%	60,764	15.1%
Write off fixed assets	—	—	2,913	0.7%
Income from operations	126,397	27.9%	100,832	25.1%
Net income	$ 65,781	14.5%	$ 45,724	11.4%
Earnings per share—diluted	$ 1.43		$ 1.01	

Revenues. Our revenues increased $51.7 million, or 12.9%, to $453.2 million during 2003 from $401.5 million during 2002 as we continued to focus our medical waste services on sales to higher-margin small account customers. Revenues generated from the sale of ETD equipment and licensing of technology internationally were $2.8 million during 2003, compared to $6.4 million during 2002. During 2003, acquisitions less than one year old contributed approximately $40.0 million to the increase in our revenues from 2002. For the year, internal growth for small account customers increased approximately 9.5% while revenues from large account customers decreased by approximately 2.5% because of our winnowing of lower-margin accounts.

During 2003, the size of the regulated medical waste market in the United States remained relatively stable. Through our acquisition in January of Scherer Healthcare, Inc. and its BioSystems sharps management program, we were able to expand our service offerings. The Scherer Healthcare acquisition contributed $20.6 million of the approximately $40.0 million in acquisition revenue during 2003.

Cost of Revenues. Our cost of revenues increased $19.6 million or 8.3%, to $256.6 million during 2003, from $237.0 million during 2002. The increase was primarily related to the increase in revenues during 2003 compared to 2002. Our gross margin percentage increased to 43.4% during 2003 from 41.0% during 2002 as we realized improvements from our continuous programs to improve margins on our large quantity business, increased our number of small quantity customers electing our Steri-Safe[SM] program from 50,000 to 70,000 and improved our transportation productivity by increasing route density. These improvements to our gross margins were partially offset by an increase in employee benefit costs, which increased by 1.3 percentage points as a percentage of compensation costs as the cost of healthcare claims increased. This increase resulted in the evaluation of our employee healthcare programs and changes to our third-party administrators and providers, in an effort to manage future cost increases.

Selling, General and Administrative Expenses. Our selling, general and administrative expenses increased to $70.2 million during 2003, from $60.8 million during 2002. This increase was primarily the result of increased spending as a result of the Scherer Healthcare acquisition, marketing our Steri-Safe^{SM} program and starting the national rollout of the BioSystems sharps management program. In addition, as noted in the cost of revenues discussion above, employee benefit costs as a percentage of compensation costs increased by 1.3 percentage points. Amortization decreased to $1.9 million during 2003, from $2.0 million during 2002. Acquisition related costs increased to $0.7 million in 2003 from $0.4 million in 2002. Bad debt expense decreased during 2003 to $2.0 million from $3.4 million in 2002. This decrease was the result of improved collections and decreased write-offs during 2003. Selling, general and administrative expenses as a percentage of revenue increased to 15.5% during 2003 compared to 15.1% in 2002.

Income from Operations. Income from operations increased to $126.4 million during 2003 from $100.8 million during 2002. The increase was due to higher revenues, offset by higher costs of revenues and selling, general and administrative expenses. During the year ended December 31, 2002 we had a non-cash write down of idled incinerator equipment and related spare parts in the amount of $2.9 million. Income from operations as a percentage of revenue increased to 27.9% during 2003 from 25.1% during 2002 as a result of the factors described above.

Interest Expense and Interest Income. Interest expense decreased to $12.8 million during 2003, from $21.5 million during 2002, primarily due to lower debt levels and lower interest rates during the year. Interest income increased to $0.6 million during 2003 compared to $0.4 million in 2002 as a result of higher interest income on notes receivable.

Debt Extinguishments and Refinancing Expenses. During 2003 we repurchased $17.8 million of senior subordinated notes compared to a repurchase of $12.6 million in 2002. As a result in 2003, we incurred $2.8 million in redemption premium expenses and $0.5 million in non-cash accelerated amortization of financing fees associated with the repurchase of the senior subordinated notes compared to $1.8 million and $0.4 million, respectively, in 2002. In addition, we amended our bank credit facility agreement in 2002 and paid $0.2 million in financing fees.

Income Tax Expense. Income tax expense for the years 2003 and 2002 reflects an effective tax rate of approximately 39.5% for federal and state income taxes.

Year Ended December 31, 2002 Compared to Year Ended December 31, 2001

The following summarizes (in thousands) our operations:

	Year Ended December 31,			
	2002		2001	
Revenues	$401,519	100.0%	$359,024	100.0%
Cost of revenues	225,056	56.1%	205,873	57.3%
Depreciation	11,954	3.0%	10,086	2.8%
Total cost of revenues	237,010	59.0%	215,959	60.2%
Gross profit	164,509	41.0%	143,065	39.8%
Selling, general and administrative	57,375	14.3%	50,938	14.2%
Depreciation	1,057	0.3%	1,271	0.4%
Amortization	1,970	0.5%	13,877	3.9%
Acquisition related costs	362	0.1%	356	0.1%
Total selling, general and administrative expenses	60,764	15.1%	66,442	18.5%
Write off fixed assets	2,913	0.7%	3,329	0.9%
Income from operations	100,832	25.1%	73,294	20.4%
Net income	$ 45,724	11.4%	$ 14,710	4.1%
Earnings per share—diluted	$ 1.01		$ 0.35	

Revenues. Our revenues increased $42.5 million, or 11.8%, to $401.5 million during 2002 from $359.0 million during 2001 as we continued to focus our medical waste services on sales to higher-margin small account customers. Revenues generated from the sale of ETD equipment and licensing of technology internationally were $6.4 million during 2002 as compared to $7.7 million during 2001. During 2002, acquisitions less than one year old contributed approximately $18.2 million to the increase in our revenues from 2001. For the year, internal growth for small account customers increased approximately 10.2% while revenues from large account customers increased by approximately 5.2%. The internal growth was fueled by an increasing number of current and new customers selecting our Steri-Safe^{SM} program and increased revenues from our large customers.

Cost of Revenues. Our cost of revenues increased $21.1 million or 9.7%, to $237.0 million during 2002, from $216.0 million during 2001. The increase was primarily related to the increase in revenues during 2002 compared to 2001. Our gross margin percentage increased to 41.0% during 2002 from 39.8% during 2001 as we improved our margins on our large account business and increased our number of small account customers selecting our Steri-Safe^{SM} program to 50,000. This increase was partially offset by a 1.3% increase in insurance, energy and employee benefit costs as a percentage of cost of revenue during 2002.

Selling, General and Administrative Expenses. Our selling, general and administrative expenses decreased to $60.8 million during 2002 from $66.4 million during 2001. This decrease was primarily a result of decreased amortization expense as a result of adopting FAS 142, which was partially offset by higher bad debt and legal expenses, increased marketing expenses related to the Steri-Safe^{SM} program and higher insurance costs. Amortization decreased to $2.0 million during 2002 from $13.9 million during 2001 as a result of the adoption of FAS 142. Bad debt expense increased during 2002 to $3.4 million from $1.8 million in 2001 because of an increase in the allowance for doubtful accounts after an evaluation of the collectibility of our outstanding accounts receivable. Legal expenses increased during 2002 to $2.1 million from $0.7 million in 2001 as a result of the lawsuits in Arizona and Utah. Selling, general and administrative expenses as a percentage of revenue decreased to 15.1% during 2002 compared to 18.5% in 2001.

Income from Operations. Income from operations increased to $100.8 million during 2002 from $73.3 million during 2001. The increase was due to higher revenues combined with lower amortization expense, which was partially offset by higher costs of revenues. During 2002 we had a non-cash write down of incinerator equipment and related spare parts in the amount of $2.9 million compared to a $3.3 million non-cash write down of treatment fixed assets related to our 3CI subsidiary during 2001. Income from operations as a percentage of revenue increased to 25.1% during 2002 from 20.4% during the same period in 2001 as a result of the factors described above.

Interest Expense and Interest Income. Interest expense decreased to $21.5 million during 2002, from $35.4 million during 2001, primarily due to lower debt levels and lower interest rates during the year. Interest income remained constant at $0.4 million during 2002 and 2001.

Debt Extinguishment and Refinancing expenses. During 2002 we repurchased $12.6 million of senior subordinated notes. As a result we incurred $1.8 million in redemption premium expenses and $0.4 million in non-cash accelerated amortization of financing fees associated with the repurchase of the senior subordinated notes. In addition, we amended our senior credit facility in 2002 and paid $0.2 million in financing fees. During 2001 we refinanced our senior credit facility and successfully completed an offering of 2,050,000 shares of common stock. The net proceeds were used to repay $43.8 million in senior subordinated notes. As a result, we paid $1.0 million in refinancing fees and $5.4 million in redemption premium expenses and incurred $4.4 million in non-cash accelerated amortization of financing fees associated with the senior credit facility and $1.4 million in accelerated amortization of financing fees associated with the senior subordinated notes.

Income Tax Expense. Income tax expense for 2002 and 2001 reflects an effective tax rate of approximately 39.5% and 40.0%, respectively, for federal and state income taxes.

Liquidity and Capital Resources

In January 2003, we amended our senior secured credit facility to increase our borrowing capacity by $51.0 million by reclassifying borrowings under our revolving credit facility to Term A loans. As amended, the credit facility consists of a $105 million revolving credit facility, a $112.6 million Term A loan facility and a $47.2 million Term B loan facility. Our borrowings bear interest at fluctuating interest rates determined, at our election in advance for any quarterly or other applicable interest period, by reference to (i) a "base rate" (the higher of the reference rate at Bank of America, N.A. or 0.5% above the rate on overnight federal funds transactions) or (ii) the London Interbank Offered Rate, or LIBOR, plus, in either case, the applicable margin within the relevant range of margins provided in the credit agreement. The applicable margin is based upon our leverage ratio. At December 31, 2003 the margin for interest rates on borrowings under our revolving credit facility and the Term A component is 0.0% on base rate loans and 1.25% on LIBOR loans, and the margin for interest rates on borrowings under the Term B component is 0.75% on base rate loans and 2.25% on LIBOR rate loans.

Under the credit agreement as amended in January 2003, we extended the maturity of the revolving credit component and the Term A loan component to September 2007 and extended the maturity of the Term B component to September 2008. Both term loans are repayable in quarterly installments on the last business day of March, June, September and December beginning in 2003. The required principal repayments under the Term A loan component are $5.0 million on each quarterly payment date through June 2007, with a final payment of the outstanding principal balance upon maturity in September 2007. The required principal payments under the Term B loan component are $0.2 million on each quarterly payment date through June 2008, with a final payment of the outstanding balance upon maturity in September 2008.

Our amended and restated credit facility is secured by a lien on substantially all of our assets and all of the assets of our subsidiaries (except for the assets of 3CI) and by a pledge of all of the stock of our wholly-owned domestic subsidiaries, all of our stock in 3CI, all of our stock in our Mexican subsidiary and 65% of our stock in our Canadian subsidiary. The amended and restated credit facility also requires us to comply with various financial, reporting and other covenants and restrictions, including a restriction on dividend payments. At December 31, 2003, our material financial debt covenants were as follows:

- The permitted minimum leverage ratio is 3.00:1.00. As of December 31, 2003, our actual leverage ratio was 1.15:1.00.
- The permitted minimum fixed charge coverage ratio is 1.10:1.00. As of December 31, 2003, our actual fixed charge coverage ratio was 1.49:1.00.
- The minimum amount of net worth allowed at December 31, 2003, as defined by the credit agreement, is $346.2 million. As of December 31, 2003, our actual net worth was $428.8 million.

As of December 31, 2003, we had $109.7 million of borrowings outstanding under our senior secured credit facility, consisting of $20.0 million under our revolving credit facility, $62.4 million under our Term A loan facility and $27.3 under the Term B loan facility.

Prior to June 1, 2002, the Series A convertible preferred stock bore preferential dividends, payable in additional shares of Series A convertible preferred stock, at the rate of 3.375% per annum from the date of issuance. Dividends accrued daily and accumulated annually on the anniversary of the initial issuance. In July 2002, we entered into a waiver and amendment agreement with the holders of Series A convertible preferred stock pursuant to which they agreed that, among other things, the 3.375% payment-in-kind dividends ceased to accrue after May 31, 2002.

Working Capital. At December 31, 2003, our working capital was $27.3 million compared to working capital of $40.6 million at December 31, 2002. The decrease in working capital is primarily due to higher accrued insurance and employee compensation liabilities and lower accounts receivable. We have a high deductible insurance program and our accrued liability increases as we add an additional year of exposure to the balance. As noted, we have available a $105.0 million revolving line of credit under our senior secured credit facility and at December 31, 2003 had borrowed $20.0 million under this line.

Net Cash Provided or Used. Net cash provided by operating activities was $121.1 million during the year ended December 31, 2003 compared to $96.9 million for 2002. This increase primarily reflects higher revenues and income, higher accrued liability and deferred income tax balances and better collections of accounts receivable in 2003 compared to 2002, partially offset by increased other asset balances. Net cash provided by operating activities in 2003 included a $10.0 million tax benefit from disqualifying dispositions of stock acquired upon the exercise of incentive stock options.

Net cash used in investing activities for 2003 was $57.6 million compared to $49.5 million for 2002. This increase is primarily attributable to the increase in payments for capital expenditures. Capital expenditures were $21.0 million for 2003, primarily for investments in capital equipment to support a nationwide rollout of the BioSystems sharps management program and other improvements in our infrastructure, compared to $14.8 million for in 2002. As of December 31, 2003 we had approximately 12% of our treatment capacity in incineration and approximately 88% in non-incineration technologies such as our proprietary ETD technology and autoclaving. The implementation of our commitment to move away from incineration may result in a write-down of the incineration equipment as and when we close incinerators that we are currently operating. Our commitment to move away from incineration 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. Cash investments in acquisitions and international joint ventures for 2003 were $37.2 million compared to $34.6 million in 2002. Our largest acquisition in 2003 was Scherer Healthcare, Inc. for $30.2 million in net cash.

Net cash used in financing activities was $64.0 million during 2003 compared to $51.9 million for in 2002. During 2003 we made repayments of $62.1 million in debt and capital leases which consisted of $26.3 million in scheduled repayments and $35.8 million in prepayments. Included in prepayments was $17.8 million in repurchases of our 12⅜% senior subordinated notes.

In addition, at December 31, 2003 we had $2.6 million outstanding related to promissory notes issued in connection with acquisitions during 2000 and 2002, consisting primarily of a 2-year note issued as part of the Micro-Med Industries, Inc. acquisition, which had an outstanding balance of $2.3 million at December 31, 2003.

Senior Subordinated Notes. At December 31, 2003, we had $50.9 million in principal amount of our senior subordinated notes outstanding. These notes bear a fixed rate of interest at 12⅜% per annum, payable semiannually, and will mature on November 15, 2009. Under the trust indenture governing the notes, we have the right, beginning on November 15, 2004, to redeem all or any portion of the outstanding notes at a redemption price equal to varying percentages of the aggregate principal amount of note redeemed, plus accrued interest to the redemption date. For redemptions during the year beginning November 15, 2004, the redemption percentage is 106.1875%.

Contractual Cash Commitments. The following table displays our future contractual cash commitments.

	Total	Less than 1 year	1–3 years	4–5 years	After 5 years
	Payments due by period (in thousands)				
Long term debt	$165,288	$ 3,797	$ 83,321	$78,170	$ —
Capital lease obligations	2,889	1,159	1,695	35	—
Purchasing obligations	1,089	1,089	—	—	—
Operating leases	51,858	15,995	27,189	5,904	2,770
Total contractual cash obligations	$221,124	$22,040	$112,205	$84,109	$2,770

We have not issued any guarantees to other parties that are not recorded on our balance sheet. At December 31, 2003 we had $12.6 million in stand-by letters of credit issued. We anticipate that our operating cash flow, together with borrowings under our senior secured credit facility, will be sufficient to meet our anticipated future operating expenses, capital expenditures and debt service obligations as they become due during the next 12 months and the foreseeable future.

Risk Factors

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

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

The permits that we require, especially those to build and operate treatment plants and transfer facilities, are difficult and time-consuming to obtain. They may also contain conditions or restrictions that limit our ability to operate efficiently, and they may not be issued as quickly as we need (or at all). If we cannot obtain the permits that we need when we need them, or if they contain unfavorable conditions, it could substantially impair our operations and reduce our revenues.

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

Our business requires us to handle materials that may be infectious, poisonous, corrosive or dangerous to life and property in other ways. While we strive to handle such materials with care and in accordance with accepted and safe methods, the possibility of accidents, leaks, spills, and acts of God always exists. Examples of how people and property may be exposed to such materials include:

- truck accidents;
- damaged or leaking containers;
- improper storage of medical waste by customers;
- vandalism, arson or sabotage;
- placement by customers of materials into the waste stream that we are not authorized or able to process, such as nuclear waste and certain body parts and tissues; or
- malfunctioning treatment plant equipment.

Human beings, animals or property might be injured, sickened or damaged by exposure to medical waste. This in turn could result in lawsuits in which we are found liable for such injuries, and substantial damages could be awarded against us.

While we carry liability insurance intended to cover these contingencies, particular instances, claims, damages or events may occur that are not insured against or are inadequately insured against. An uninsured or underinsured loss could be substantial and could impair our profitability and reduce our liquidity.

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

As a company engaged in medical waste management, we face risks of liability for environmental contamination. The federal Comprehensive Environmental Response, Compensation and Liability Act of 1980, or CERCLA, and similar state laws impose strict liability on current or former owners and operators of facilities that release hazardous substances into the environment as well as on the businesses that generate those substances and the businesses that transport them to the facilities. Responsible parties may be liable for substantial investigation and clean-up costs even if they operated their businesses properly and complied with applicable federal and state laws and regulations. Liability under CERCLA may be joint and several, which means that if we were found to be a business with responsibility for a particular CERCLA site, we could be required to pay the entire cost of the investigation and clean-up even though we were not the party responsible for the release of the hazardous substance and even though other companies might also be liable. Our pollution liability insurance excludes liabilities under CERCLA. Thus, if we were to incur liability under CERCLA and if we could not identify other parties responsible under the law whom we can compel to contribute to our expenses, the cost to us could be substantial and could impair our profitability and reduce our liquidity. Our customer service agreements make it clear that the customer is responsible for making sure that only appropriate materials are disposed of. If there were a claim that a customer might be legally liable for, we may not be successful in recovering our damages.

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

We believe that the government's strict enforcement of laws and regulations relating to medical waste collection and treatment has been good for our business. These laws and regulations increased the demand for our services. A relaxation of standards or other changes in governmental regulation of medical waste, such as:

- encouraging the use of landfills without prior treatment of medical waste;

- removing obstacles to the use of incineration and autoclaving, thus allowing the continued use of existing on-site incinerators by medical waste generators without having to incur additional compliance costs; or
- reducing manpower and money used to enforce environmental regulations favorable to our operations;

could increase the number of competitors or reduce the need for our services.

We may be required to pay fines and penalties for violations of environmental regulations or our permits.

From time to time we are subject to governmental proceedings to enforce regulations relating to the handling and treatment of medical waste. We have had to pay fines and penalties and to undertake remedial work at our facilities. We may be subject to similar proceedings in the future. Government enforcement actions also may be initiated against us based on claims that we are violating our permits. Such proceedings could distract management attention from our business operations and any resulting fines or shutdowns could reduce our profitability.

If we are unable to acquire other medical waste businesses, our revenue and profit growth may be slowed.

Historically our growth strategy has been based in part on our ability to acquire other medical waste businesses. We do not know whether in the future we will be able to:

- identify suitable businesses to buy;
- complete the purchase of those businesses on terms acceptable to us;
- improve the operations of the businesses that we buy and successfully integrate their operations into our own; or
- avoid or overcome any concerns expressed by regulators.

We compete with other potential buyers for the acquisition of other medical waste companies. This competition may result in fewer opportunities to purchase companies that are for sale. It may also result in higher purchase prices for the businesses that we want to purchase.

In addition, we cannot be certain that we will:

- have enough money;
- be able to borrow enough money on reasonable terms;
- be able to issue stock or debt instruments (like promissory notes) as consideration for the purchase; or
- be able to raise enough money by issuing stock or through other financing methods; to complete the purchases of the businesses that we want to acquire.

We also do not know whether our growth strategy will continue to be effective. Our business is significantly larger than before, and new acquisitions may not have the desired benefits that we have expected in the past.

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

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

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

The medical waste industry is very competitive. This has required us in the past to reduce our prices, especially to large account customers, and competition may require us to reduce our prices in the future. Substantial price reductions could significantly reduce our earnings. We face important competition from a large number of small, local competitors. Because it requires very little money or technical know-how to compete with us in the collection and transport of medical waste, there are many regional and local companies in the industry. We face competition from these businesses and that competition may exist in each location to which we try to expand in the future. Our competitors could take actions that would hurt our growth strategy, including the support of regulations that could delay or prevent us from obtaining or keeping permits. They might also give financial support to citizens' groups that oppose our plans to locate a treatment or transfer facility at a particular location.

Other sources of competition include large waste generators, such as some hospitals, who maintain their own treatment facilities. These and other yet-unidentified competitors could prevent us from obtaining new customers and could take existing customers away from us.

We require a significant amount of cash to service our substantial indebtedness, which reduces the cash available to finance our internal growth and our acquisition of other medical waste businesses.

We have a large amount of indebtedness. As of December 31, 2003, our total long-term indebtedness was $163.0 million, net of current maturities. We had borrowings of $20.0 million under our revolving credit facility, and we had the ability to utilize a further $85.0 million under the facility. We have scheduled debt service payments under our senior credit facility during 2004, 2005 and 2006 of zero, $9.8 million and $20.0 million, respectively.

Our ability to make payments on our indebtedness, as well as to fund our operations and future growth depends upon our ability to generate cash. Our success in doing so depends upon the results of our operations and upon general economic, financial, competitive, regulatory and other factors beyond our control. Our indebtedness could:

- make us more vulnerable to unfavorable economic conditions;
- make it more difficult to pursue the acquisition of other medical waste management businesses; and
- require us to dedicate or reserve a large portion of our cash flow from operations to making payments on our indebtedness, which would prevent us from using it for other purposes.

Restrictions in our debt instruments may limit our ability to pay dividends, incur additional debt, make acquisitions and make other investments.

Our debt instruments contain covenants that restrict our ability to make distributions to stockholders or other payments unless we satisfy certain financial tests and comply with various financial ratios. If we do not do so, our creditors could declare a default under our debt instruments, and our indebtedness could be declared immediately due and payable. Our ability to comply with the provisions of our debt instruments may be affected by changes in economic or business conditions beyond our control.

Our debt instruments also contain covenants that limit our ability to incur additional indebtedness, acquire other businesses and make capital expenditures, and impose various other restrictions. These covenants could affect our ability to operate our business and may limit our ability to take advantage of potential business opportunities as they arise.

The loss of our senior executives could affect our ability to manage our business profitably.

We depend on a small number of senior executives. Our future success will depend, among other things, upon our ability to keep these executives and to hire other highly qualified employees at all levels. We compete with other potential employers for employees, and we may not be successful in hiring and keeping the executives and other employees that we need. We do not have written employment agreements with our President and Chief Executive Officer or other executive officers, and officers and other key employees could leave us with little or no prior notice, either individually or as part of a group. Our loss or inability to hire key employees could impair our ability to manage our business and direct its growth.

Our expansion into foreign countries exposes us to unfamiliar regulations and may expose us to new obstacles to growth.

We plan to grow both in the United States and in foreign countries. We have established operations in Canada, Mexico and Argentina, and South Africa and have entered into ETD equipment sales and licensing agreements in Australia, Brazil and Japan. Foreign operations carry special risks. Although our business in foreign countries has not yet been affected, our business in the countries in which we currently operate and those in which we may operate in the future could be limited or disrupted by:

- government controls;
- import and export license requirements;
- political or economic insecurity;
- trade restrictions;
- changes in tariffs and taxes;
- exchange rate fluctuations;
- our unfamiliarity with laws, regulations, and customs;
- restrictions on repatriating foreign profits back to the United States;
- difficulties in staffing and managing international operations.

Foreign governments and agencies often establish permit and regulatory standards different from those in the United States. If we cannot obtain foreign regulatory approvals, or if we cannot get them when we expect, our growth and profitability from international operations could be limited. Fluctuations in currency exchange rates and increases in duty rates for ETD equipment could have similar effects.

The competitive advantages of our ETD treatment process and other aspects of our business depend on patents and proprietary rights.

We hold 18 United States patents relating to the ETD treatment process and other aspects of processing medical waste. We have filed or have been assigned patent applications in several foreign countries and we have received patents in Australia, Canada, France, Hong Kong, Mexico, Russia, South Africa, South Korea and the United Kingdom.

Pending or future patent applications may not be granted, issued patents may not provide us with competitive advantages, and our patents may be challenged by other parties. In addition, other companies may develop similar processes or avoid our patents. Litigation or administrative proceedings may be necessary to enforce the patents issued to us or to determine the scope and validity of others' proprietary rights. Any litigation or administrative proceeding could result in substantial cost to us and distraction of our management. A ruling against us in any litigation or administrative proceeding could expose us to new competition and depress our earnings.

Our commercial success also depends on our not infringing patents issued to other parties. Patents belonging to other parties may require us to alter our processes, pay licensing fees or cease using any current or future processes, and as a result, we may be unable to license the technology rights that we may require at a reasonable cost or at all. If we cannot obtain a license to any infringing technology that we currently use, it could have a material adverse effect on our business.

We own registered and unregistered trademarks and service marks. There can be no assurance that our registered or unregistered trademarks or service marks will not infringe upon the rights of other parties. The requirement to change any of our trademarks, service marks or trade names could result in the loss of any goodwill associated with that trademark, service mark or trade name and could entail significant expense.

Our earnings could decline if we write-off intangible assets, such as goodwill.

As a result of purchase accounting for our various acquisitions, our balance sheet at December 31, 2003 contains goodwill, net of accumulated amortization, of $464.9 million and other intangible assets, net of accumulated amortization, of $31.6 million (including indefinite lived intangibles of $11.0 million). In accordance with FAS 142, we evaluate on an ongoing basis, using the fair value of reporting units, whether facts and circumstances indicate any impairment of the value of indefinite-lived intangible assets such as goodwill. As circumstances after an acquisition can change, the value of these intangible assets may not be realized by us. If we were to determine that a significant impairment has occurred, we would be required to incur noncash write-offs of the impaired portion of goodwill and other unamortized intangible assets, which could have a material adverse effect on our results of operations in the period in which the write-off occurs.

Item 7a. Quantitative and Qualitative Disclosures about Market Risk

We are subject to market risks arising from changes in interest rates on our senior secured credit facility. Our interest rate exposure results from changes in LIBOR or the base rate, which are used to determine the applicable interest rates under our term loans and revolving credit facility. Our potential loss 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 $1.0 million. Fluctuations in interest rates will not affect the interest payable on our senior subordinated notes, which is fixed.

In 2001 we entered into interest rate swap agreements that effectively converted a portion of our floating-rate debt to a fixed-rate basis for the subsequent two years, thus reducing the impact of interest rate changes on future interest expense. These swaps expired during the first quarter of 2003. At December 31, 2003 none of our floating rate debt was covered by an interest rate swap agreement.

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

Item 8. Financial Statements and Supplemental Data

Report of Independent Public Auditors

The Board of Directors
Stericycle, Inc.

We have audited the accompanying consolidated balance sheets of Stericycle, Inc. and Subsidiaries as of December 31, 2002 and 2003, and the related consolidated statements of income, changes in shareholders' equity, and cash flows for each of the three years in the period ended December 31, 2003. Our audits also included the financial statement schedule listed in the Index at Items 15(a). These financial statements and schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements and schedule based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Stericycle, Inc. and Subsidiaries at December 31, 2002 and 2003, and the consolidated results of their operations and their cash flows for each of the three years in the period ended December 31, 2003, in conformity with accounting principles generally accepted in the United States. Also, in our opinion, the related financial statement schedule, when considered in relation to the basic financial statements taken as a whole, presents fairly in all material respects the information set forth therein.

As discussed in Note 7 to the financial statements, in the year ended December 31, 2001, the Company changed its method of accounting for derivatives. As discussed in Note 8 to the financial statements, in the year ended December 31, 2002, the Company changed its method of accounting for goodwill.

/s/ Ernst & Young LLP

Chicago, Illinois
February 9, 2004

STERICYCLE, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS
(in thousands, except for share and per share data)

	December 31, 2002	December 31, 2003
ASSETS		
Current assets:		
Cash and cash equivalents	$ 8,375	$ 7,240
Short-term investments	512	641
Accounts receivable, less allowance for doubtful accounts of $3,779 in 2002 and $4,149 in 2003	62,013	59,711
Parts and supplies	4,494	3,244
Prepaid expenses	7,170	7,339
Notes receivable	823	2,223
Deferred tax asset	6,720	12,345
Other	4,249	4,994
Total current assets	94,356	97,737
Property, plant and equipment:		
Land	7,776	7,806
Buildings and improvements	30,396	32,311
Machinery and equipment	86,661	86,991
Office equipment and furniture	11,462	13,210
Construction in progress	4,134	12,144
	140,429	152,462
Less accumulated depreciation	(51,928)	(55,900)
Property, plant and equipment, net	88,501	96,562
Other assets:		
Goodwill, less accumulated amortization of $32,374	447,272	464,946
Intangible assets, less accumulated amortization of $3,609 in 2002 and $5,459 in 2003	20,110	31,642
Notes receivable	7,717	7,717
Other	9,139	8,858
Total other assets	484,238	513,163
Total assets	$667,095	$707,462
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current Liabilities:		
Current portion of long term debt	$ 3,933	$ 4,830
Accounts payable	14,330	15,741
Accrued liabilities	31,810	43,436
Deferred revenue	3,681	4,987
Total current liabilities	53,754	68,994
Long-term debt, net of current portion	224,124	163,016
Deferred income taxes	30,729	42,277
Other liabilities	3,710	4,411
Redeemable preferred stock:		
Series A convertible preferred stock (par value $.01 per share, 75,000 shares authorized, 29,326 shares outstanding 2002 and 22,799 outstanding in 2003, liquidation preference of $31,919 at December 31, 2002 and $24,814 at December 31, 2003)	28,049	20,944
Common shareholders' equity:		
Common stock (par value $.01 per share, 80,000,000 shares authorized, 40,437,023 issued and outstanding in 2002, 41,868,515 issued and outstanding in 2003)	404	420
Additional paid-in capital	277,531	290,631
Treasury stock of 50,000 shares in 2002	(1,435)	—
Accumulated other comprehensive income (loss)	(229)	530
Retained earnings	50,458	116,239
Total shareholders' equity	326,729	407,820
Total liabilities and shareholders' equity	$667,095	$707,462

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

STERICYCLE, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME
(in thousands, except per share data)

	Year Ended December 31, 2001	2002	2003
Revenues	$ 359,024	$ 401,519	$ 453,225
Costs and expenses:			
Cost of revenues	215,959	237,010	256,600
Selling, general and administrative	66,086	60,402	69,558
Write off of fixed assets	3,329	2,913	—
Acquisition related costs	356	362	670
Total costs and expenses	285,730	300,687	326,828
Income from operations	73,294	100,832	126,397
Other income (expense):			
Interest income	366	431	550
Interest expense	(35,417)	(21,539)	(12,848)
Debt extinguishments and refinancing	(12,232)	(2,373)	(3,268)
Other income, net	(1,495)	(1,774)	(2,102)
Total other income (expense)	(48,778)	(25,255)	(17,668)
Income before income taxes	24,516	75,577	108,729
Income tax expense	9,806	29,853	42,948
Net Income	$ 14,710	$ 45,724	$ 65,781
Earnings per share—Basic	$ 0.38	$ 1.19	$ 1.59
Earnings per share—Diluted	$ 0.35	$ 1.01	$ 1.43
Weighted average number of common shares outstanding—Basic	31,817,790	37,868,365	41,439,020
Weighted average number of common shares outstanding—Diluted	42,200,762	45,113,171	46,097,802

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

STERICYCLE, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS
(in thousands)

	Year Ended December 31,		
	2001	**2002**	**2003**
OPERATING ACTIVITIES:			
Net income	$ 14,710	$ 45,724	$ 65,781
Adjustments to reconcile net income to net cash provided by operating activities:			
Stock compensation expense	95	—	76
Write off of fixed assets	3,329	2,913	0
Write off of deferred financing costs	5,859	367	484
Loss on fixed assets	—	341	295
Ineffective portion of cash flow hedges	384	(384)	—
Tax benefit of disqualifying dispositions of stock options	1,697	4,983	10,044
Depreciation	11,357	13,011	15,405
Amortization	13,877	1,970	1,850
Deferred income taxes	9,085	16,199	9,576
Change in operating assets and liabilities, net of effects of acquisitions:			
Accounts receivable	6,741	7,177	5,983
Parts and supplies	(2,743)	1,845	1,720
Prepaid expenses and other assets	(4,776)	(3,445)	(1,710)
Accounts payable	(1,127)	(68)	(515)
Accrued liabilities	1,647	7,553	11,363
Deferred revenue	4,415	(1,239)	751
Net cash provided by operating activities	64,550	96,947	121,103
INVESTING ACTIVITIES:			
Payments for acquisitions and international investments, net of cash acquired	(21,262)	(34,591)	(37,222)
Proceeds from maturity/(purchases) of short-term investments	1	(232)	(129)
Proceeds from sale of property and equipment	979	184	688
Capital expenditures	(16,391)	(14,831)	(20,972)
Net cash used in investing activities	(36,673)	(49,470)	(57,635)
FINANCING ACTIVITIES:			
Proceeds from bank lines of credit	12,171	23,000	90,000
Proceeds from long term bank debt	—	1,361	1,132
Repayments of senior subordinated debt	(43,750)	(12,610)	(17,775)
Repayment of long term debt	(37,099)	(68,416)	(133,210)
Payments of deferred financing costs	(173)	—	(395)
Principal payments on capital lease obligations	(1,525)	(879)	(1,117)
Net proceeds from public offering of common stock	49,005	—	—
Purchase of Treasury stock	—	(1,435)	(13,204)
Proceeds from other issuances of common stock	3,565	7,058	10,533
Net cash used in financing activities	(17,806)	(51,921)	(64,036)
Effect of exchange rate changes on cash	—	82	(567)
Net increase (decrease) in cash and cash equivalents	10,071	(4,362)	(1,135)
Cash and cash equivalents at beginning of period	2,666	12,737	8,375
Cash and cash equivalents at end of period	$ 12,737	$ 8,375	$ 7,240
Non-cash activities:			
Net issuances of notes payable for certain acquisitions	$ —	$ 4,962	$ —
Net issuances of common stock and warrants for certain acquisitions	$ 6,250	$ 17,298	$ 204

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

STERICYCLE, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
Years Ended December 31, 2001, 2002 and 2003

	Issued and Outstanding Shares	Amount	Additional Paid-In Capital	Retained Earnings (Accumulated Deficit)	Treasury Stock	Other Comprehensive Income	Total Shareholders' Equity
Balances at December 31, 2000	30,418	$304	$141,152	$ (6,756)	$ —	$ —	$134,700
Issuance of common stock for exercise of options and warrants and employee stock purchases	726	8	3,652	—	—	—	3,660
Public offering of common stock (net of offering costs)	2,050	20	48,985	—	—	—	49,005
Common stock and warrants issued for acquisitions	274	2	6,248	—	—	—	6,250
Conversion of Preferred Stock	3,612	36	28,990	—	—	—	29,026
Tax benefit of disqualifying dispositions of stock options	—	—	1,697	—	—	—	1,697
Preferred dividends	—	—	0	(2,542)	—	—	(2,542)
Currency translation adjustment				—	—	(10)	(10)
Change in fair value of cashflow hedge				—	—	(3,986)	(3,986)
Net income	—	—	—	14,710	—	—	14,710
Comprehensive income	—	—	—	—	—	—	10,714
Balances at December 31, 2001	37,080	$370	$230,724	$ 5,412	$ —	$(3,996)	$232,510
Issuance of common stock for exercise of options and warrants and employee stock purchases	857	9	7,138	—	—	—	7,147
Conversion of preferred stock	2,000	20	17,393	—	—	—	17,413
Issuance of stock for stock split							
Purchase of treasury stock	—	—	—	—	(1,435)	—	(1,435)
Common stock and warrants issued for acquisitions	500	5	17,293	—	—	—	17,298
Tax benefit of disqualifying dispositions of stock options	—	—	4,983	—	—	—	4,983
Preferred dividends	—	—	—	(678)	—	—	(678)
Currency translation adjustment	—	—	—	—	—	16	16
Change in fair value of cashflow hedge	—	—	—	—	—	3,751	3,751
Net income	—	—	—	45,724	—	—	45,724
Comprehensive income	—	—	—	—	—	—	49,491
Balances at December 31, 2002	40,437	$404	$277,531	$ 50,458	$(1,435)	$ (229)	$326,729
Issuance of common stock for exercise of options and warrants and employee stock purchases	960	10	10,390	—	—	—	10,400
Conversion of preferred stock	812	8	7,097	—	—	—	7,105
Cancellation of repurchased stock	(343)	(3)	(14,636)	—	1,435	—	(13,204)
Common stock and warrants issued for acquisitions	2	1	205	—	—	—	206
Tax benefit of disqualifying dispositions of stock options	—	—	10,044	—	—	—	10,044
Currency translation adjustment	—	—	—	—	—	527	527
Change in fair value of cashflow hedge	—	—	—	—	—	232	232
Net income	—	—	—	65,781	—	—	65,781
Comprehensive income	—	—	—	—	—	—	66,540
Balances at December 31, 2003	41,868	$420	$290,631	$116,239	$ —	$ 530	$407,820

The accompanying notes are an integral part of these financial statements

STERICYCLE, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2003

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

Note 1—Description of Business

We were incorporated in March 1989 and presently serve approximately 301,000 customers throughout the United States, Puerto Rico, Canada and Mexico with an integrated medical waste management network. We use this network to provide compliance services including regulated medical waste collection, transportation and treatment services to our customers and related training and education programs and consulting services. We also sell ancillary supplies. We are also expanding into international markets through joint ventures or by licensing our proprietary technology and selling associated equipment. Our medical waste treatment technologies include our proprietary electro-thermal-deactivation system ("ETD") as well as traditional methods such as autoclaving and incineration.

Note 2—Summary of Significant Accounting Policies

Principles of Consolidation:

The consolidated financial statements include the accounts of Stericycle, Inc. and its wholly owned subsidiaries as well as our 64% ownership in Medam S.A. de C.V. (a Mexican company) and 67.5% common stock ownership in 3CI Complete Compliance Corporation. All significant intercompany accounts and transactions have been eliminated. In addition, we have a 37.5% ownership in Medam B.A. Srl (an Argentine company) and a 26.5% ownership in Evertrade Medical Waste (Pty) Ltd. (a South African company), which are both accounted for using the equity method. Minority interest expense related to our majority owned subsidiaries and our equity interest in the income or loss of unconsolidated subsidiaries are included in the other income (expense*)*

Revenue Recognition:

We recognize revenue at the time of medical waste collection. Revenue and costs on contracts to supply our proprietary treatment equipment are accounted for by the percentage of completion method, whereby income is recognized based on the estimated stage of completion of the individual contract using the cost-to-cost method. Payments received in advance are deferred and recognized as services are provided.

Cash Equivalents and Short-Term Investments:

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

Property, Plant and Equipment:

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

Buildings and Improvement	3 to 30 years
Machinery and Equipment	3 to 10 years
Transportation Equipment	3 to 5 years
Office Equipment and Furniture	3 to 10 years
Software	3 to 7 years

During the year ended December 31, 2002 we recorded a non-cash write-down of idled incinerator equipment at our Chandler, Arizona and St. Louis, Missouri facilities of $2.5 million and $0.4 million in related spare parts. During the year ended December 31, 2001 we recorded a non-cash write-down of idled treatment equipment at our majority-owned subsidiary, 3CI Complete Compliance Corporation, Inc. ('3CI') of $3.3 million. Depreciation expense for the years ended December 31, 2001, 2002 and 2003 was $11.4 million, $13.0 million and $15.4 million, respectively.

Goodwill and Intangibles:

Goodwill, for acquisitions completed prior to June 30, 2001, was amortized using the straight-line method over 25 years except for the goodwill related to our acquisition of the medical waste business of Browning-Ferris Industries, Inc. (the "BFI acquisition"), which was being amortized over 40 years. Amortization expense for 2001 related to goodwill was approximately $11.6 million. Effective January 1, 2002 we adopted FAS 142. Accordingly, goodwill and other indefinite lived intangibles are no longer amortized but are subject to an annual impairment test. According to FAS 142, other intangible assets will continue to be amortized over their useful lives. We have determined that our customer relationships have a useful life of 40 years. We have non-compete intangibles with useful lives of 5 years. We have determined that our permits have indefinite lives and thus they are not amortized.

Income Taxes:

Deferred tax liabilities and assets are determined based on the differences between the financial statement and tax basis of assets and liabilities using enacted tax rates in effect for the year in which the differences are expected to reverse.

Accounts Receivable:

Accounts receivable consist primarily of amounts due to us from our normal business activities. Accounts receivable balances are determined to be past due when the amount is overdue based on the contractual terms with the customer. We maintain an allowance for doubtful accounts to reflect the expected uncollectibility of accounts receivable based on past collection history and specific risks identified among uncollected accounts. Accounts receivable are charged to the allowance for doubtful accounts when we have determined that the receivable will not be collected and/or when the account has been referred to a third party collection agency.

Financial Instruments:

Our financial instruments consist of cash and cash equivalents, short-term investments, accounts receivable and payable and long-term debt. The fair values of these financial instruments were not materially different from their carrying values except for our senior subordinated notes, which are valued on the open market at approximately $56.6 million (111% of their $50.9 million carrying value at December 31, 2003). Financial instruments, which potentially subject us to concentrations of credit risk, consist principally of account receivable. Credit risk on trade receivables is minimized as a result of the large size of our customer base. No single customer represents greater than 2% of total accounts receivable. We perform ongoing credit evaluation of our customers and maintain allowances for potential credit losses. For any contracts in loss positions, losses are recorded when known and estimatable. These losses, when incurred, have been within the range of our expectations.

Use of Estimates:

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

Derivative Instruments:

Effective January 1, 2001, we adopted Statement of Financial Accounting Standards No. 133, "Accounting for Derivative Instruments and Hedging Activity." (FAS No. 133). FAS No. 133 provides comprehensive and consistent standards for the recognition and measurement of derivative and hedging activities. It requires that derivatives be recorded on the consolidated balance sheets at fair value and establishes criteria for hedges of changes in fair value of assets, liabilities or firm commitments, hedges of variable cash flows of forecasted transactions and hedges of foreign currency exposures of net investments in foreign operations. Changes in the fair value of derivatives that do not meet the criteria for hedges would be recognized in the consolidated statement of operations. The initial adoption of FAS No. 133 did not have a material impact on us. Upon termination of interest rate agreements, any resulting gain or loss is recognized over the shorter of the remaining original term of the hedging instrument or the remaining life of the underlying debt obligation.

Stock-Based Compensation

At December 31, 2003, we have stock-based compensation plans, which are described more fully in Note 13. We have elected to follow Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees" ("APB 25") and related interpretations in accounting for employee stock options using the intrinsic value method because the alternative fair value accounting method provided for under Statement of Financial Accounting Standards No. 123, "Accounting for Stock-Based Compensation" ("FAS 123"), requires use of option valuation models that were not developed for use in valuing employee stock options. Under APB 25, because the exercise price of our employee stock options equals the market price of the underlying stock on the date of grant, no compensation expense is recognized. The following table illustrates the effect on net income and earnings per share if we had applied the fair value recognition of FAS 123 to stock-based employee compensation.

	Year Ended December 31,		
	2001	**2002**	**2003**
As reported net income	$14,710	$45,724	$65,781
Pro forma impact of stock options, net of tax	3,983	5,303	6,598
Pro forma impact of employee stock plan, net of tax	—	61	149
Pro forma net income	$10,727	$40,360	$59,034
Earnings per share			
Basic-as reported	$ 0.38	$ 1.19	$ 1.59
Basic-pro forma	$ 0.26	$ 1.05	$ 1.42
Diluted-as reported	$ 0.35	$ 1.01	$ 1.43
Diluted-pro forma	$ 0.26	$ 0.90	$ 1.29

Foreign Currency Translation:

Assets and liabilities of foreign affiliates that use the local currency as their functional currency are translated at current exchange rates, and income statement accounts are translated at the average rates during the period. Related translation adjustments are reported as a component of comprehensive income (loss) directly in equity.

Common Stock:

At the close of business on May 31, 2002 we recorded a 2-for-1 stock split. The stock split was in the form of a stock dividend of one share payable on May 31, 2002 on each share of common stock outstanding on May 16, 2002. All share and earnings per share information in these financial statements are reported on a post-split basis.

Reclassifications:

Certain amounts in the 2002 financial statements have been reclassified to conform to the 2003 presentation.

New Accounting Standards:

In January 2003, the FASB issued Interpretation No. 46, "Consolidation of Variable Interest Entities and Interpretation of Accounting Research Bulletin (ARB) No. 51" (the "Interpretation"). The Interpretation introduces a new consolidation model, which determines control and consolidation based on potential variability in gains and losses of the entity being evaluated for consolidation. The Interpretation applies no later than the end of the first reporting period ending after March 15, 2004. We do not believe the adoption of the Interpretation will have a material impact on the consolidated financial statements.

In May 2003, the FASB issued SFAS No. 150, "Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity." This statement establishes standards for how an issuer classifies and measures certain financial instruments with characterisitics of both liabilities and equity. It requires that an issuer classify a financial instrument that is within its scope as a liability (or an asset in some circumstances). This standard is effective for financial instruments entered into or modified after May 31, 2003 and to all other instruments as of the beginning of the first interim financial reporting period beginning after June 15, 2003. There was no impact of the Statement on our consolidated financial statements.

Note 3—Income Taxes

At December 31, 2003, net operating loss carry forwards for federal income tax purposes have been fully utilized, excluding net operating loss carry forwards related to 3CI. We have a foreign tax credit of approximately $1.5 million, which will begin to expire beginning in 2004.

Significant components of our income tax expense for the years ended December 31, are as follows (in thousands):

	2001	2002	2003
Deferred			
Federal	$8,104	$12,965	$ 8,945
State	981	2,964	2,162
	9,085	15,929	11,107
Current			
Federal	326	11,490	26,992
State	395	2,434	4,849
Total Provision	$9,806	$29,853	$42,948

A reconciliation of the income tax provision computed at the federal statutory rate to the effective tax rate for the years ended December 31, is as follows:

	2001	2002	2003
Federal statutory income tax rate	35.0%	35.0%	35.0%
Effect of:			
State taxes, net of federal tax effect	4.0%	4.7%	4.2%
Non deductible goodwill amortization	1.1%	— %	— %
Other	(0.1)%	(0.2)%	0.3%
Effective tax rate	40.0%	39.5%	39.5%

Cash payments for income taxes were $2.0 million in 2001, $3.2 million in 2002 and $16.7 million in 2003.

Our deferred tax liabilities and assets as of December 31 are as follows (in thousands):

	2002	2003
Deferred tax liabilities:		
Property, plant, and equipment	$ (6,235)	$ (7,277)
Goodwill	(25,668)	(35,631)
Total deferred tax liabilities	(31,903)	(42,908)
Deferred tax assets:		
Accrued liabilities	5,460	7,649
Other	1,712	1,807
Net operating tax loss carryforward	7,289	4,442
Total deferred tax assets	14,461	13,898
Net deferred tax assets	(17,442)	(29,010)
Valuation allowance	(7,050)	(922)
Net deferred tax liabilities	$(24,492)	$(29,932)

3CI, our majority owned subsidiary, has net operating loss carryforwards for federal and state purposes of $10.6 million beginning to expire in 2004. Stericycle has net operating loss carryforwards for state purposes of $6.6 million, which expire through 2018.

Note 4—Acquisitions

During the year ended December 31, 2003, we completed the acquisition of four domestic medical waste management businesses, our Canadian subsidiary completed one acquisition, and our majority owned subsidiary, 3CI, completed one acquisition. In addition, we completed the acquisition of a software company. No individual acquisition was significant to our operations.

In January, we completed our acquisition, by a reverse subsidiary merger, of all the common and preferred stock of Scherer Healthcare, Inc. which operated two business lines: (i) consumer healthcare products and (ii) waste management services, with the latter focused on the containment, control, collection and processing of sharp-edged medical waste. Scherer's reusable sharps programs were marketed through its BioSystems subsidiaries in 10 northeastern and Mid-Atlantic states. In addition, in January, we completed our acquisition of selected assets from Kuglen Services, Ltd., LLP, which operated in Texas.

In June, we completed our acquisition of selected assets of Environmental Management Group, Inc., which operated in Ohio and Kentucky. Also in June 3CI acquired selected assets of PMT USA, Inc., d/b/a Air & Sea Environmental, which operated in southeast Texas.

In September, we completed the acquisition of selected assets of NAWA Medical Disposal, L.L.C., which operated in western Texas. In November, our wholly-owned Canadian subsidiary, completed the acquisition of selected assets of Enviro-Med Canada, Inc. which operated in northern Ontario. In December 2003, we acquired substantially all of the assets of Pharmacy Software Solutions, Inc. ("PSSI"). PSSI is engaged in the business of designing, developing, enhancing, selling, marketing, distributing, maintaining and supporting software programs used for pharmaceutical returns by retail and hospital pharmacies and pharmaceutical companies.

The aggregate net purchase price of these acquisitions during 2003 was approximately $37.4 million, of which approximately $37.2 million was paid in cash; $0.2 million was paid by the issuance of unregistered shares of our common stock.

During the year ended December 31, 2002, we completed the acquisition of nine domestic medical waste management businesses and our Canadian and Mexican subsidiaries each completed one acquisition. No individual acquisition was significant to our operations.

In December, we acquired all of the stock of Micro-Med Industries, Inc. and substantially all of the operating assets of three related companies, which operated in Florida, Georgia, South Carolina and North Carolina. In October we acquired all of the stock of Bridgeview, Inc., which operated principally in Pennsylvania, and we purchased the customer contracts and selected other assets of Enviromed, Inc., which operated in South Carolina. In July we purchased the customer contracts and selected other assets of Sanitec of Kentucky LLC, which operated in Kentucky. In June we purchased the customer contracts and selected other assets of Bio-Waste Industries of Central Florida, Inc., which operated in Florida. In March, we acquired all of the stock of Bio-Oxidation Services, Inc., which operated in Pennsylvania and New Jersey and several other states, the customer contracts and selected other assets of BMW Medtech of West Virginia Inc., which operated in West Virginia and the customer contracts and selected other assets of A-Medco, Inc., which operated in Texas. In addition, in March our Mexican subsidiary, Medam S.A. de C.V. ("Medam") completed the acquisition of the majority of stock of Ecotermica de Oriente, S.A. de C.V. In January, we purchased the customer contracts and selected other assets of Bio Environmental Services, Inc., which operated in West Virginia, and our Canadian subsidiary, Stericycle, Inc. (formerly "Med-Tech Environmental Limited") acquired all of the stock of Pyroval Inc., which operated in the province of Quebec.

In addition we acquired certain profit sharing rights, put rights and other rights of three stockholders of 3CI Complete Compliance Corporation, under a settlement agreement that they originally entered into with 3CI in January 1996. In December 2002 we exercised warrants to purchase 541,286 shares of common stock at $0.37 per share. In connection with these transactions, we increased our common stock ownership to 6,578,504 shares or 67.5% of its outstanding common stock.

The aggregate purchase price of these acquisitions during 2002 was approximately $55.9 million, of which approximately $33.6 million was paid in cash, $17.3 million was paid by the issuance of shares of our common stock, and $5.0 million was paid by the issuance of promissory notes.

During the year ended December 31, 2001, we completed the acquisition of four domestic medical waste management businesses and our Mexican subsidiary completed one acquisition. In April, we purchased the customer contracts and selected other assets of Trans Med Ltd., which operated in New York, New Jersey and Connecticut, and also the customer contracts and selected other assets of Bio-Safe America, Inc., which operated in Florida. In July, we acquired all of the stock of American Medical Disposal, Inc., which operated in Oklahoma, Nebraska and several other states, and in December, we acquired substantially all of the assets of Integrated Environmental Systems, Inc., which operated in California and Nevada. In August, our Mexican subsidiary acquired all of the stock of Tecnicas Medio Ambientales Winco S.A. de C.V., which was based in Mexico City. The aggregate purchase price for these acquisitions was approximately $23.3 million, of which approximately $17.0 million was paid in cash and $6.3 million was paid by the issuance of unregistered shares of our common (which, pursuant to agreement, we subsequently registered for sale).

For financial reporting purposes these acquisition transactions were accounted for using the purchase method of accounting. The total purchase price for 2001, 2002 and 2003 of $23.3 million, $55.9 million and $37.4 million respectively, net of cash acquired, was allocated to the assets acquired and liabilities assumed based on the estimated fair market value at the date of acquisition. The total purchase price for acquisitions completed in 2001, 2002, and 2003 includes the value of 274,886, 500,269 and 1,906 shares respectively, of our common stock issued to the sellers. In certain cases, the purchase price is or was subject to downwards adjustment if revenues from customer contracts acquired failed to reach certain specified levels. The excess of the purchase price over the fair market value of the net assets acquired is reflected in the accompanying Consolidated Balance Sheets as goodwill. Goodwill was recorded in the amounts of $35.4 million and $22.2 million during the years of 2002 and 2003, respectively. The results of operations of these acquired businesses have been included in the Consolidated Statements of Income from the date of the acquisition.

Note 5—Long Term Debt

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

	2002	2003
	(in thousands)	
Industrial development revenue bonds	$ 645	$ —
Obligations under capital leases	3,403	2,496
Notes Payable to Bank	146,845	109,658
Senior Subordinated Debt	68,640	50,865
Notes Payable	8,524	4,827
	228,057	167,846
Less: Current Portion	3,933	4,830
Total	$224,124	$163,016

Payments due on long-term debt excluding capital lease obligations, during each of the five years subsequent to December 31, 2003 are as follows:

	(in thousands)
2004	$ 3,797
2005	10,727
2006	19,993
2007	52,601
2008	27,305
Thereafter	50,865

We paid interest of $33.8 million, $25.6 million and $13.6 million for the fiscal years ended December 31, 2001, 2002 and 2003, respectively.

Property under capital leases included with property, plant and equipment in the accompanying Consolidated Balance Sheet is as follows at December 31:

	2002	2003
	(in thousands)	
Machinery and Equipment	$ 43	$ 46
Vehicles	5,741	5,784
Less—accumulated depreciation and amortization	(3,663)	(4,841)
	$ 2,121	$ 989

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

Minimum future lease payments under capital leases are as follows (in thousands):

2004	$1,159
2005	923
2006	577
2007	195
2008	35
Total minimum lease payments	2,889
Less amounts representing interest	(331)
Present value of net minimum lease payments	2,558
Less Current portion	1,033
Long-term obligations under capital leases	$1,525

Senior Credit Facility

In November 1999, we established a senior secured credit facility under a credit agreement with various financial institutions. The facility consisted of a six-year revolving credit facility of $50.0 million, a six-year Term A loan in the principal amount of $75.0 million and a seven-year Term B loan in the principal amount of up to $150.0 million.

In October 2001, we refinanced our senior secured credit facility to increase the revolving credit component of the facility to $80.0 million and extend its maturity to September 2006 and to reallocate the term loan components of the facility, increasing the lower-interest Term A loan component to $100.0 million and extending its maturity to September 2006, and reducing the higher-interest Term B loan component to $75.0 million and extending its maturity to September 2007. In June 2002, we increased the revolving credit component from $80.0 million to $105.0 million. In January 2003, we amended our senior secured credit facility to increase our borrowing capacity by $51.0 million by reclassifying borrowings under our revolving credit facility to Term A loans. As amended, the credit facility consisted of a $105 million revolving credit facility, a $112.6 million Term A loan facility and a $47.2 million Term B loan facility.

Under the credit agreement as amended in January 2003, we extended the maturity of the revolving credit component and the Term A loan component to September 2007 and extended the maturity of the Term B component to September 2008. Both term loans are repayable in quarterly installments on the last business day of March, June, September and December beginning in 2003. The required principal repayments under the Term A loan component are $5.0 million on each quarterly payment date through June 2007, with a final payment of the outstanding principal balance upon maturity in September 2007. The required principal payments under the Term B loan component are $0.2 million on each quarterly payment date through June 2008, with a final payment of the outstanding balance upon maturity in September 2008. As of December 31, 2003, we had $109.7 million of borrowings outstanding under our senior secured credit facility, of which $20.0 million consisted of borrowings under the revolving credit component, $62.4 million under the Term A component and $27.3 million under the Term B component. In addition at December 31, 2003 we had $12.6 million of stand by letters of credit issued under our revolving credit component.

The refinancing of our senior secured credit facility in October 2001 reduced the interest rates that we are charged, by reducing the applicable margin that is added to the relevant interest rate. Our borrowings bear interest at fluctuating interest rates determined, at our election in advance for any quarterly or other applicable interest period, by reference to (i) a "base rate" (the higher of the reference rate at Bank of America, N.A. or 0.5% above the rate on overnight federal funds transactions) or (ii) the London Interbank Offered Rate, or LIBOR, plus, in either case, the applicable margin within the relevant range of margins provided in our credit agreement. The applicable margin is based upon our leverage ratio. As of December 31, 2003, the margin for interest rates on borrowings under our revolving credit facility and the Term A component was zero on base rate loans and 1.25% on LIBOR loans, and the margin for interest rates on borrowings under the Term B component was 0.75% on base rate loans and 2.25% on LIBOR loans. At December 31, 2003, the average rate of interest on the revolving credit facility was 2.42% per annum, the average rate of interest on the Term A loan was 2.40% per annum and the rate of interest on Term B loan was 3.42% per annum.

Our senior secured credit facility is secured by a lien on substantially all of our assets and all of the assets of our subsidiaries (except for the assets of 3CI Complete Compliance Corporation ("3CI")) and by a pledge of all of the stock of our wholly-owned domestic subsidiaries, all of our stock in 3CI and our Mexican subsidiary, Medam S.A. de C.V., and 65% of our stock in our Canadian subsidiary, Stericycle, Inc. (formerly "Med-Tech Environmental Limited"). The credit agreement requires us to comply with various financial, reporting and other covenants and restrictions, including a restriction on dividend payments.

Senior Subordinated Notes

Our senior subordinated notes will mature on November 15, 2009. They bear a fixed rate of interest at 12⅜% per annum, payable semiannually in arrears on each May 15 and November 15. The notes are general unsecured obligations, and are subordinated in payment to our debt under our senior secured credit facility.

In December 2001, we redeemed senior subordinated notes in the aggregate principal amount of $43.8 million. Under the trust indenture governing the notes, we had the right, on one or more occasions before November 15, 2002, to redeem up to 35% of the notes at a redemption price of 112.375% of the aggregate principal amount of notes redeemed, plus accrued interest to the redemption date, using the net cash proceeds from one or more equity offerings. We exercised this right in November 2001, using the net proceeds from the public offering of 2,050,000 shares of our common stock that we had completed earlier in the month, to redeem the maximum permissible amount of the notes. During 2002 and 2003, we repurchased $12.6 million and $17.8 million, respectively, of the notes in private transactions, as the trust indenture permits.

We may not redeem any additional senior subordinated notes prior to November 15, 2004. We may then redeem all or any portion of the outstanding notes at a redemption price equal to the following percentages of the aggregate principal amount of notes redeemed, plus accrued interest to the redemption date:

Redemption During the Year Beginning November 15:	Percentage
2004	106.1875%
2005	104.1250%
2006	102.0625%
2007 and later	100.0000%

Under certain circumstances specified in the trust indenture, we are required to use a portion of the net proceeds from asset sales or the issuance of stock to offer to redeem the outstanding notes on a pro rata basis at a redemption price of 100% of the aggregate principal amount redeemed plus accrued interest to the redemption date. We are not otherwise required to make mandatory redemptions with respect to the notes.

Our senior subordinated notes are guaranteed by all of our domestic subsidiaries except 3CI. The trust indenture requires us to comply with various financial, reporting and other covenants and restrictions.

In connection with the October 2001 refinancing of our senior secured credit facility and the redemption of our senior subordinated notes we recorded debt-refinancing expenses and extinguishment expenses in the year ended December 31, 2001, which included $1.0 million in refinancing fees and $5.4 million in redemption premium expenses and incurred $4.4 million in accelerated amortization of financing fees associated with the senior credit facility and $1.4 million in accelerated amortization of financing fees associated with the senior subordinated notes.

As a result of the 2002 repurchases of senior subordinated notes, we incurred $1.8 million in redemption premium expenses and $0.4 million in accelerated amortization of financing fees associated with the senior subordinated notes. As a result of the 2003 repurchases of senior subordinated notes, we incurred $2.8 million in redemption premium expenses and $0.5 million in accelerated amortization of financing fees associated with the senior subordinated notes. In connection with the June 2002 bank credit facility amendment we paid $0.2 million in financing fees.

Note 6—Accrued Liabilities

Accrued liabilities at December 31, consist of the following items (in thousands)**:**

	2002	2003
Accrued compensation	$ 7,337	$ 8,995
Accrued vacation	3,263	4,351
Accrued acquisition related expenses	505	—
Accrued interest	2,322	1,261
Accrued insurance	9,240	14,008
Deferred tax liability	484	—
Accrued income tax	2,026	6,244
Derivative instrument obligation	232	—
Accrued liabilities-other	6,401	8,577
Total accrued liabilities	$31,810	$43,436

Note 7—Derivative Instruments

In 2001, we entered into interest rate swap agreements that effectively converted a portion of our floating-rate debt to a fixed-rate basis, thus reducing the impact of interest rate changes on future interest expense. We had an interest rate swap agreement covering $100.0 million in principal at a 5.23% fixed interest rate that expired in January 2003 and an interest rate swap agreement covering $25.0 million in principal at a 5.19% fixed interest rate that expired in February 2003. No interest rate swap agreements have been entered into during 2003, accordingly, none of our outstanding floating-rate debt was designated as hedged items to interest rate swap agreements at December 31, 2003.

The adoption of FAS 133 on January 1, 2001 resulted in a $0.2 million effect of change in accounting principle, which was recorded as other comprehensive loss. During the years ended December 31, 2001 and 2002, we recognized a net loss of $0.4 million and a net gain of $0.4 million, respectively, related to the ineffective portion of our hedging instruments in our interest expense. During 2003 there was no gain or loss related to the ineffective portion of our hedging instruments in our interest expense. Activity related to the accumulated loss on derivative instruments is as follows (in thousands):

Initial adoption of FAS 133	$ (225)
Change associated with current period hedge transactions	(4,145)
Amount reclassified into earnings	384
Balance at December 31, 2001	$(3,986)
Change associated with current period hedge transactions	4,138
Amount reclassified into earnings	(384)
Balance at December 31, 2002	$ (232)
Change associated with current period hedge transactions	232
Balance at December 31, 2003	$ —

Note 8—Goodwill and Other Intangible Assets

In June 2001, the Financial Accounting Standards Board issued Statements of Financial Accounting Standards No. 141, Business Combinations, and No. 142, Goodwill and Other Intangible Assets. Under the new rules, goodwill and other indefinite lived intangibles are no longer amortized and are subject to an annual impairment test, or to more frequent testing if circumstances indicate that they may be impaired. In 2002 and 2003 we performed our annual impairment evaluations and determined that there was no impairment. At December 31, 2003, we have $11.0 million in indefinite lived intangibles that consist of environmental permits for which we performed an annual impairment test and determined that there was no impairment.

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 years ended December 31, 2002 and 2003 was as follows (in thousands):

	United States	Foreign Countries	Total
Balance as of January 1, 2002	$405,926	$5,951	$411,877
Goodwill acquired during year	35,161	234	35,395
Balance as of December 31, 2002	441,087	6,185	447,272
Goodwill acquired during year	21,159	1,079	22,238
Effect of reduction in deferred tax valuation allowance	(3,653)	(911)	(4,564)
Balance as of December 31, 2003	$458,593	$6,353	$464,946

In 2003, we reduced our net operating loss deferred tax valuation allowance, which was originally established as part of purchase accounting for 3CI and our Canadian subsidiary, thus reducing goodwill by $4.6 million.

The pro forma impact of eliminating goodwill amortization for the year ended December 31, 2001 is as follows:

	2001
Reported net income	$14,710
Add back: Goodwill amortization	11,626
Subtract: Tax effect of goodwill amortization	(4,650)
Adjusted net income	$21,686
Basic earnings-per-share	
Reported net income	$ 0.38
Add back: Goodwill amortization	0.37
Subtract: Tax effect of goodwill amortization	(0.15)
Adjusted basic earnings-per-share	$ 0.60
Diluted earnings-per-share	
Reported net income	$ 0.35
Add back: Goodwill amortization	0.28
Subtract: Tax effect of goodwill amortization	(0.11)
Adjusted diluted earnings-per-share	$ 0.52

According to FAS 142, other intangible assets will continue to be amortized over their useful lives. During the year ended December 31, 2003 we recorded at fair value the intangibles acquired in connection with our acquisitions of Scherer Healthcare, Inc., Kuglen Services Ltd, LLP, Environmental Management Group, NAWA and Enviromed Canada. 3CI also recorded the fair value of the intangibles acquired in connection with its acquisition of selected assets of PMT USA, Inc. We assigned $7.3 million to customer relationships with an amortization period of 40 years, $1.5 million to trade names with an amortization period of 40 years, $1.8 million to a facility environmental permit with an indefinite life and $1.0 million to a non-compete with an amortization period of 5 years. In addition we acquired rights to an exclusive marketing license for $1.8 million, which will be amortized over the four-year term of the license agreement.

During the year ended December 31, 2002 we recorded at fair value the intangibles acquired from our acquisitions of American Medical Disposal, Inc., and its wholly owned subsidiary Environmental Health Services, Inc., Bio Environmental Services, Inc., Pyroval Inc., A-Medco, Inc., Bio-Waste Industries of Central Florida, Inc., Ecotermica de Oriente, S.A. de C.V., Enviromed, Inc., Bridgeview Inc., and Micro Med Industries Inc. We assigned $9.0 million to customer relationships with an amortization period of 40 years and we assigned $9.2 million to the facility environmental permits with an indefinite life. We also have non-compete agreements, which are amortized over the term of the non-compete agreement, generally five years.

As of December 31, 2003 the value of the amortizing intangible assets were as follows (in thousands):

	Gross Carrying Amount	Accumulated Amortization
Amortized intangible assets:		
Non-compete	$ 6,328	$4,606
Customer relationships	16,253	701
Tradenames	1,580	84
License agreement	1,800	30
Other	140	38
Total	$26,101	$5,459

During the year ended December 31, 2002 and 2003 the aggregate amortization expense was $2.0 and $1.9 million respectively. The estimated amortization expense, in thousands, for each of the next five years is as follows for the years ended December 31:

2004	$1960
2005	1015
2006	1005
2007	997
2008	788

Note 9—Lease Commitments

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

Rent expense for 2001, 2002, and 2003 was $12.2 million, $14.8 million and $18.2 million, respectively.

Minimum future rental payments under non-cancelable operating leases that have initial or remaining terms in excess of one year as of December 31, 2003 for each of the next five years and in the aggregate are as follows:

	(in thousands)
2004	$15,995
2005	12,240
2006	9,075
2007	5,874
2008	3,692
Thereafter	4,982
Total minimum rental payments	$51,858

Note 10—Acquisition Related Expenses

During 2001, 2002, and 2003 we incurred acquisition-related expenses of $0.4 million, $0.4 million and $0.7 million, respectively. These expenses primarily related to severence and relabeling of equipment. In 2001, 2002 and 2003, we paid approximately $0.8 million, $0.2 million, and $0.1 million of these acquisition related expenses, respectively.

Note 11—Net Income per Common Share

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

	Year Ended December 31,		
	2001	2002	2003
	(in thousands, except share and per share data)		
Numerator:			
Net income	$ 14,710	$ 45,724	$ 65,781
Preferred stock dividends	(2,543)	(687)	—
Numerator for basic earnings per share-income available to common stockholders	12,167	45,037	65,781
Effect of dilutive securities:			
Preferred stock dividends	2,543	687	—
Numerator for diluted earnings per share-income available to common stockholders after assumed conversions	$ 14,710	$ 45,724	$ 65,781
Denominator:			
Denominator for basic earnings per share-weighted-average shares	31,817,790	37,868,365	41,439,020
Effect of dilutive securities:			
Employee stock options	1,720,668	1,753,483	1,814,728
Warrants	170,916	117,101	8,386
Convertible preferred stock	8,491,388	5,374,222	2,835,668
Dilutive potential common shares	10,382,972	7,244,806	4,658,782
Denominator for diluted earnings per share-adjusted weighted-average shares and assumed conversions	42,200,762	45,113,171	46,097,802
Basic net income per share	$ 0.38	$ 1.19	$ 1.59
Diluted net income per share	$ 0.35	$ 1.01	$ 1.43

For additional information regarding outstanding employee stock options and outstanding warrants, see Note 13.

In 2001, 2002 and 2003, options and warrants to purchase 101,460 shares, 70,752 shares and 13,623 shares respectively, at exercise prices of $22.51-$23.67, $22.91-$36.48, and $35.05-$49.84 respectively, were not included in the computation of diluted earnings per share because the effect would be antidilutive.

Note 12—Comprehensive Income

The components of accumulated comprehensive income are as follows:

	Currency Translation	Unrealized Losses on Derivative Instruments	Accumulated Other Comprehensive Income/ (Loss)
As of December 31, 2002	$ 6	$(235)	$(229)
As of December 31, 2003	530	—	530

Note 13—Stock Options and Warrants

Stock Options

In 2000, our Board of Directors approved the 2000 Nonstatutory Stock Option Plan (the "2000 Plan"), which in total now provides for the granting of 3,500,000 shares of our common stock in the form of stock options to employees, (but not to officers or directors). The exercise price of options granted under the 2000 Plan must be at least equal to the fair market value of the common stock on the date of the grant. All options granted to date have 10-year terms and vest over periods of up to five years after the date of grant.

In 1997, our Board of Directors and shareholders approved the 1997 Stock Option Plan (the "1997 Plan"), which provides for the granting of 3,000,000 shares of common stock in the form of stock options to selected officers, directors and employees. The exercise price of options granted under the 1997 Plan must be at least equal to the fair market value of the common stock on the date of grant. All options granted to date have 10-year terms and vest over periods of up to five years after the date of grant.

In 1995, our Board of Directors and shareholders approved an incentive compensation plan (the "1995 Plan"), which as amended and restated in 1996, provides for the granting of 3,000,000 shares of common stock in the form of stock options and restricted stock to employees, officers, directors and consultants. The exercise price of options granted under the 1995 Plan must be at least equal to the fair market value of the common stock on the date of grant. All options granted to date have 10-year terms and vest over periods of up to four years after the date of grant.

In June 1996, our Board of Directors adopted and in July 1996, our shareholders approved, the Directors Stock Option Plan (the "Directors Plan"). The Directors Plan, as amended, authorizes stock options for a total of 1,170,000 shares of common stock to be granted to our outside directors. Option grants are made by the Board of Directors at the times and in amounts that the Board determines, taking into account any guidelines that the Board may adopt for this purpose. The exercise price of options granted under the Directors Plan must be at least equal to the fair market value of the common stock on the date of grant. Options granted prior to April 1, 1998 vested in 16 consecutive quarterly installments; options granted after March 31, 1998 vest in 12 equal monthly installments.

Shares of the Company's common stock have been reserved for issuance upon the exercise of outstanding options and warrants. These shares, which include both shares available for option grant and shares granted as options but not yet exercised, have been reserved as follows at December 31, 2003:

1995 Plan options	576,302
1996 Directors Plan options	719,094
1997 Plan options	1,307,304
2000 Plan options	2,964,658
Warrants	10,592
Total shares reserved	5,577,950

A summary of stock option information follows:

	2001		2002		2003	
	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price
Outstanding at beginning of year	3,281,916	$ 7.33	3,646,026	$10.38	3,610,373	$14.95
Granted	1,150,778	16.72	858,972	28.10	981,267	32.36
Exercised	(615,966)	5.95	(836,302)	8.28	(831,491)	12.08
Cancelled/Forfeited	(170,702)	6.84	(58,323)	19.41	(106,350)	22.33
Outstanding at end of year	3,646,026	10.38	3,610,373	14.95	3,653,799	21.02
Exercisable at end of year	1,283,076	$ 8.02	1,445,481	$11.67	1,617,059	$15.62
Available for future grant	1,589,124		2,788,476		1,913,559	

Options outstanding and exercisable as of December 31, 2003 by price range:

	Options Outstanding			Options Exercisable	
Range of Exercise Price	Shares	Outstanding Average Remaining Life In Years	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price
$3.45–$10.125	1,139,247	5.51	$ 7.80	799,280	$ 7.38
$10.344–$15.203	680,654	7.03	14.85	299,178	14.58
$15.50–$22.505	140,995	7.26	21.13	113,839	22.07
$22.91–$34.47	793,783	8.20	28.09	325,912	29.17
$35.05–$49.84	899,120	9.06	36.18	78,850	37.79
	3,653,799	7.32	$21.02	1,617,059	$15.62

We have elected to follow Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees" (APB25") and related interpretations in accounting for its employee stock options because, as discussed below, the alternative fair value accounting provided for under Statement of Financial Accounting Standards No. 123, "Accounting for Stock-Based Compensation" ("FAS 123"), requires use of option valuation models that were not developed for use in valuing employee stock options. Under APB 25, because the exercise price of our employee stock options equals the market price of the underlying stock on the date of grant, no compensation expense is recognized.

Pro forma information regarding net income and net income per share is required by FAS 123 as if we had accounted for our employee stock options granted subsequent to December 31, 1994 under the fair value method of that statement. Options granted were valued using the Black-Scholes option-pricing model. The following assumptions were used in 2001, 2002 and 2003: expected volatility of 0.62 in 2001, 0.60 in 2002 and 0.55 in 2003; risk-free interest rates ranging from 3.74% to 5.19% in 2001, 3.01% to 4.5% in 2002, and 1.18% to 3.745% in 2003; a dividend yield of 0%; and a weighted-average expected life of the option of 48 months. The weighted-average fair values of options granted during 2001, 2002 and 2003 were $12.77 per share, $12.93 per share, and $15.51 per share respectively.

Option value models require the input of highly subjective assumptions. Because our employee stock options have characteristics significantly different from those of traded options, and because changes in the subjective input assumptions can materially affect the fair value estimate, in management's opinion, the existing method does not necessarily provide a reliable single measure of the fair value of its employee stock options.

For purposes of pro forma disclosures, the estimated fair value of the options is amortized to expense over the option-vesting period. Our pro forma information follows (in thousands, except for per share information):

	Year Ended December 31,		
	2001	2002	2003
As reported net income	$14,710	$45,724	$65,781
Pro forma impact of stock options, net of tax	3,983	5,303	6,598
Pro forma impact of employee stock plan, net of tax	—	61	149
Pro forma net income	$10,727	$40,360	$59,034
Earnings per share			
Basic-as reported	$ 0.38	$ 1.19	$ 1.59
Basic-pro forma	$ 0.26	$ 1.05	$ 1.42
Diluted-as reported	$ 0.35	$ 1.01	$ 1.43
Diluted-pro forma	$ 0.26	$ 0.90	$ 1.29

Warrants:

In connection with a subordinated loan agreement, six directors were granted five-year warrants to purchase shares of our common stock exercisable at any time after the first anniversary of the grant date in December 1998 and January 1999. The lenders were granted warrants to purchase, in the aggregate, 37,940 shares of common stock at $7.25 per share, 87,102 shares of common stock at $7.75 per share and 118,184 shares of common stock at $8.25 per share. In 2001, warrants to purchase 13,796 shares at $7.25 per share, 38,712 shares at $7.75 per share, and 36,364 shares at $8.25 per share, were exercised. In 2002, warrants to purchase 3,450 shares at $7.25 per share, 9,678 shares at $7.75 per share, and 9,092 shares at $8.25 per share, were exercised. In 2003, warrants to purchase 20,694 shares at $7.25 per share, 38,712 shares at $7.75 per share and 72,728 shares at $8.25 per share were exercised. At December 31, 2003 none of the warrants to purchase shares remained outstanding.

In June 2000, in connection with our acquisition of an additional 15% interest in Medam, we issued warrants to purchase 88,748 shares of our common stock. Of these warrants, warrants for 62,256 shares were immediately exercisable, while the remaining 26,492 shares become exercisable over five years. The exercise price of the warrants is $8.75 per share. In 2001, warrants to purchase 65,190 shares were exercised. In 2003, warrants to purchase 12,966 shares were exercised. At December 31, 2003, warrants to purchase 10,592 shares remained outstanding and exercisable.

Note 14—Series A Convertible Preferred Stock

In November 1999, we issued and sold 75,000 shares of Series A convertible preferred stock for $1,000 per share or $75.0 million in the aggregate, in cash, less various fees and expenses. We used the net proceeds from the sale to finance a portion of the purchase price of our BFI acquisition.

Holders of Series A convertible preferred stock converted 29,595 shares into 3,611,328 shares of our common stock in 2001, 16,079 shares into 2,000,000 shares of our common stock in 2002 and 6,527 shares into 812,000 shares of our common stock in 2003. As of December 31, 2002, there were 22,799 shares of Series A convertible preferred stock issued and outstanding.

Prior to June 1, 2002, the Series A convertible preferred stock bore preferential dividends, payable in additional shares of Series A convertible preferred stock, at the rate of 3.375% per annum from the date of issuance. Dividends accrued daily and accumulated annually on the anniversary of the initial issuance. In July 2002, we entered into a waiver and amendment agreement with the holders of Series A convertible preferred stock pursuant to which they agreed that, among other things, the 3.375% payment-in-kind dividends ceased to accrue after May 31, 2002.

Holders of Series A convertible preferred stock remain entitled to share pro rata with holders of our common stock, on the basis of the number of shares of common stock into which their shares of Series A convertible preferred stock are convertible, in all other dividends and distributions.

Upon any liquidation, dissolution or winding up of the Company, holders of Series A convertible preferred stock are entitled to be paid, before any distribution or payment is made to holders of common stock, the greater of $1,000 per share plus accumulated preferential dividends and accrued and unpaid dividends not yet accumulated (the "liquidation value") or the amount that would be payable if the Series A convertible preferred stock had been converted into common stock.

Holders of Series A convertible preferred stock are entitled to vote with holders of our common stock as a single class on each matter submitted to a vote of our stockholders. Each share of Series A convertible preferred stock has a number of votes equal to the number of votes possessed by the common stock into which the Series A convertible preferred stock is convertible.

As amended in July 2002, the corporate governance agreement that we entered into with the initial investors provides that as long as each of the two groups of initial investors and their affiliates continues to hold 25% or more of the group's initial "underlying common stock" (i.e., the shares of common stock issuable, or previously issued, upon conversion of the group's initial Series A convertible preferred stock), the group has the right, voting as a separate class, to elect one director to our Board of Directors. If the group ceases to hold 25% of its initial underlying common stock, the group's right to elect one director will terminate. The two groups of initial investors consist of investment funds associated with Bain Capital, LLC and investment funds associated with Madison Dearborn Partners, LLC. By reason of the conversion of a total of 10,451 shares of preferred stock into 1,300,000 shares of our common stock in January 2004 and the concurrent sale of the common stock, each group ceased to hold 25% of its initial underlying common stock and its right to elect one director terminated.

Each holder of Series A convertible preferred stock may at any time convert all or part of the holder's Series A convertible preferred stock into shares of common stock. The price at which a holder may convert is $8.75 per share, subject to adjustment in certain circumstances.

Beginning in May 2002, if the closing price of our common stock exceeds 150% of the conversion price for 20 consecutive trading days, we may elect to redeem all (but not part) of the outstanding shares of Series A convertible preferred stock, at a redemption price equal to the liquidation value to the date of redemption, subject to any holder's right to convert its shares into common stock prior to the redemption date. At any time after a change of control or, under certain circumstances, such as the occurrence of a bankruptcy event, each holder of Series A convertible preferred stock may require us to redeem all or any part of the holder's shares at a price equal to the liquidation value per share.

Under our stock purchase agreement with the initial investors, we agreed to various covenants and restrictions. These covenants and restrictions include our grant of preemptive rights to holders of Series A convertible preferred stock under certain circumstances and our agreement to provide them with specified financial and business information.

We entered into a registration rights agreement with the initial investors requiring us, under certain circumstances, to register all or a portion of their shares of Series A convertible preferred stock under the Securities Act. As amended in July 2002, each of the two groups of initial investors has the right to two demand registrations both of which may be shelf registrations or one of which may be a firm commitment underwritten public offering and the other of which may be a shelf registration. This agreement implements the right of the initial investors to elect directors to our Board of Directors, restricts the right of the initial investors to transfer their shares of Series A convertible preferred stock, and restricting our ability to engage in certain transactions (for example, acquisitive mergers involving more than a specified amount of consideration) without the approval of holders of a majority of the underlying common stock.

Note 15—Employee Benefit Plan

We have a 401(k) defined contribution retirement savings plan covering substantially all employees. Each participant may elect to defer a portion of his or her compensation subject to certain limitations. We may contribute up to 50% of the first 5% of compensation contributed to the plan by each employee up to a maximum of $1,500 per annum. Our contributions for the years ended December 31 2001, 2002 and 2003 were approximately $0.9 million, $1.0 million and $1.1 million respectively.

Note 16—Employee Stock Purchase Plan

In October 2000, our Board of Directors adopted the Stericycle, Inc. Employee Stock Purchase Plan (the "ESPP") effective as of July 1, 2001. Our stockholders approved the ESPP in May 2001. The ESPP authorizes 300,000 shares of our common stock to be purchased by employees at a 15% discount from the market price of the stock through payroll deductions during two six-month offerings each year. An employee who elects to participate in an offering is granted an option on the first day of the offering for a number of shares equal to the employee's payroll deductions under the ESPP during the offering period (which may not exceed $5,000) divided by the option price per share. The option price per share is the lower of 85% of the closing price of a share of our common stock on the first trading day of the offering period or 85% of the closing price on the last trading day of the offering period. Every employee who has completed one year's employment as of the first day of an offering and who is a full-time employee, or a part-time employee who customarily works at least 20 hours per week, is eligible to participate in the offering. During 2002 and 2003, 22,278 shares and 22,012 shares, respectively, were issued through the ESPP.

Note 17—Non-Consolidating Joint Ventures

We have an investment in a joint venture, Medam, B.A. Srl, an Argentine corporation, which was formed to utilize our ETD technology to treat medical waste primarily in the Buenos Aires market. At December 31, 2002 and 2003 our investment in the joint venture was $2.5 million and $2.8 million, respectively, which is included in other long-term assets.

We also have invested in a joint venture, Evertrade Medical Waste (Pty) Ltd, which was formed to service the medical waste market in South Africa using our ETD technology. The joint venture company is headquartered in Johannesburg, South Africa. In 2001, we recorded $1.4 million in revenues related to the sale of equipment to Evertrade Medical Waste (Pty) Ltd. and other licensing and consulting agreements. At December 31, 2002 and 2003 we had total receivables of $2.3 million and $2.0 million, respectively, from the joint venture related to these agreements, which are included in other current assets. In addition our investment in the joint venture at December 31, 2002 and 2003 was $2.3 million and $1.2 million, respectively, which is included in other long-term assets. We also have a joint venture Evertrade Medical Waste Manufacturing Limited, which was formed to manufacture reusable tubs in South Africa. At December 31, 2002 and 2003 we had loans of $5.1 million, respectively, to the joint venture, which are included in notes receivable.

In 2003, we recorded $1.7 million of minority interest expense related to the above joint ventures, which was recorded in the other income (expense).

Note 18—Legal Proceedings

We operate in a highly regulated industry and are exposed to regulatory inquiries or investigations from time to time. Government authorities can initiate investigations for a variety of reasons. We have been involved in several legal and administrative proceedings that have been settled or otherwise resolved on terms acceptable to us, without having a material adverse effect on our business.

In August 2002, we announced that we had reached an agreement in principle to settle an antitrust investigation by the Arizona Attorney General's office relating to our December 1997 sale and purchase of medical waste assets in Utah and Arizona with BFI and our subsequent failure to provide treatment services to certain third-party haulers of medical waste at our treatment facilities in Arizona and Utah. We also announced that we were currently in settlement discussions with the Utah Attorney General's office in connection with an antitrust investigation relating to the same issues.

In September 2002, we entered into a consent decree implementing the terms of settlement with the Arizona Attorney General's office that we previously announced. Under the consent decree, we are required to pay a total of $0.3 million in civil penalties and attorneys' fees in quarterly installments over a three-year period, with an initial payment of $0.1 million. We are also required to provide up to 50,000 pounds per month of treatment services to third-party haulers at our Chandler, Arizona treatment facility for a five-year period at commercially competitive prices. In addition, we are required for a two-year period to rebate 25% of the amounts billed and collected from the two third-party haulers whose complaints prompted the initial investigation. The consent decree expressly stated that we did not admit to the truth of any of the substantive allegations in the underlying complaint by the Arizona Attorney General's office.

In January 2003, we reached a definitive settlement of the antitrust investigation by the Utah Attorney General's office relating to the same issues. Under the terms of the consent decree incorporating this settlement, we agreed to pay a total of $0.6 million to the Attorney General's office over a three-year period. We also agreed to make certain operational changes in Utah to enhance competition, including providing incineration treatment services to third party haulers at our Salt Lake City treatment facility. The consent decree expressly stated that we did not admit that we had violated any Utah or federal antitrust laws.

In January 2003, we were sued in federal court in Arizona by a private plaintiff claiming anticompetitive conduct in Arizona, Colorado and Utah from November 1997 to the present and seeking certification of the lawsuit as a class action on behalf of all customers of ours and of BFI in the three-state area during the period in question. Over the next three months, four similar suits were filed in federal court in Utah, Arizona, Colorado and New Mexico. In February and May 2003, two additional suits were filed, in federal court in Utah and Arizona, claiming substantially the same anticompetitive conduct but not seeking class action certification. In December 2003, an eighth suit was filed in federal court in Utah claiming monopolistic and other anticompetitive conduct in California during the prior four years and seeking certification of the suit as a class action on behalf of all California customers of ours during this four-year period. These eight suits have now been consolidated before the same judge in federal court in Utah. The first five suits have been consolidated under one consolidated class action complaint; the next two suits have been consolidated for discovery purposes; and the eighth suit has been coordinated for discovery purposes. We believe that none of these eight suits has any merit.

We and four of our officers and directors are parties to a suit filed in state court in Louisiana in July 2002 by a shareholder of our majority-owned subsidiary, 3CI. This suit, which was filed on behalf of the minority shareholders of 3CI and derivatively on behalf of 3CI itself, alleges, among other claims, that we and the four directors of 3CI who are serving as our designees (and who are also officers or directors of ours) unjustly enriched Stericycle at the expense of 3CI and its other shareholders. The plaintiff seeks, among other relief, damages and an order requiring the buyout of 3CI's minority shareholders. In October 2003, the plaintiffs filed an amended complaint adding 3CI as a derivative defendant. This suit is still at a very early stage, with the parties (other than 3CI) currently conducting preliminary discovery. We believe that the plaintiff's claims are without merit.

In May 2003, 3CI, at the direction of its independent directors, filed a declaratory judgment action in state court in Texas to resolve a disagreement with us over the proper rate of conversion of the shares of 3CI's preferred stock held by our wholly-owned subsidiary, Waste Systems, Inc. ("WSI"). In August 2003, this action was dismissed by the court on procedural grounds, and 3CI refiled its action as a new suit. In September 2003, WSI filed its own action for a judicial interpretation of the conversion provisions of 3CI's preferred stock. Following a hearing, WSI's action was abated by the court in November 2003, leaving 3CI's suit to go forward.

In October 2003, the plaintiff in the Louisiana lawsuit and others answered or intervened in 3CI's Texas lawsuit, naming us as a third-party defendant and making substantially the same claims alleged in the Louisiana lawsuit. We and WSI have denied these claims, and believe that they without merit.

In September 2003, the full board of 3CI appointed a special committee consisting of 3CI's three independent directors to act on 3CI's behalf in respect of the dispute with us and WSI regarding the conversion rate of 3CI's preferred stock. In January 2004, the full board expanded the special committee's authority to include an investigation of all claims by the plaintiff in the Louisiana lawsuit and by the third-party plaintiffs in the Texas lawsuit, and to act on 3CI's behalf in respect of both lawsuits.

Note 19—Products and Services and Geographic Information

FASB Statement No. 131, Disclosures about Segments of an Enterprise and Related Information, requires segment information to be reported based on information utilized by executive management to internally assess performance and make operating decisions. In determining our reportable operating segments, management determined that it was appropriate to aggregate our operating segments based on our consideration of the following criteria:

- the same services are provided,
- the same types of customers are serviced,
- the same types of medical waste collection, transportation and treatment methods are utilized,
- they operate in the same regulatory environment, and
- they employ the same sales and marketing techniques and activities.

Summary revenue information for the our products and services is as follows:

	Year Ended December 31,		
	2001	2002	2003
		(in thousands)	
Medical waste management services	$351,316	$395,161	$448,604
Proprietary equipment and technology license sales	7,708	6,358	2,813
Total	$359,024	$401,519	$453,225

Summary financial information by geographic area is as follows:

	Year Ended December 31,		
	2001	2002	2003
		(in thousands)	
Revenues:			
United States	$334,301	$374,100	$429,638
Foreign countries	24,723	27,419	23,587
Total	$359,024	$401,519	$453,225
Long-lived assets			
United States	$502,968	$558,717	$602,009
Foreign countries	13,216	14,022	7,716
Total	$516,184	$572,739	$609,725

Revenues are attributed to countries based on the location of customers. In 2001, 2002 and 2003, we provided medical waste management services to customers in Canada and Mexico, licensed technology and sold proprietary equipment to Australian, Brazilian and Japanese companies and to joint ventures in Argentina and South Africa.

Note 20—Selected Quarterly Financial Data (Unaudited)

The following table summarizes our unaudited consolidated quarterly results of operations as reported for 2002 and 2003 (in thousands, except for per share amounts):

	First Quarter 2002	Second Quarter 2002	Third Quarter 2002	Fourth Quarter 2002
Revenues	$ 97,064	$ 99,269	$101,979	$103,207
Gross profit	38,889	40,227	42,047	43,346
Income from operations	24,041	25,337	26,605	24,849
Net income	10,631	11,523	12,136	11,434
*Basic earnings per common share	0.28	0.30	0.32	0.29
*Diluted earnings per common share	0.24	0.26	0.27	0.25

	First Quarter 2003	Second Quarter 2003	Third Quarter 2003	Fourth Quarter 2003
Revenues	$112,311	$113,135	$113,228	$114,551
Gross profit	47,144	48,842	49,500	51,139
Income from operations	30,358	31,256	31,619	33,164
Net income	14,681	15,522	17,171	18,407
*Basic earnings per common share	0.36	0.38	0.41	0.44
*Diluted earnings per common share	0.32	0.34	0.37	0.40

* The fourth quarter of 2002 includes a $2.9 million ($1.8 million after tax) non-cash write down of idled incinerator equipment and related spare parts.

* Earnings per share are calculated on a quarterly basis, and, as such, the amounts may not total the calculated full-year earnings per share.

Note 21—Condensed Consolidating Financial Statements

Payments under our senior subordinated notes (the Notes) are unconditionally guaranteed, jointly and severally, by certain of our 100% owned domestic subsidiaries, (collectively, the "Guarantors"). Financial information concerning the Guarantors as of and for the years ended December 31, 2003, 2002 and 2001 is presented below for purposes of complying with the reporting requirements of the Guarantor Subsidiaries. The financial information concerning the Guarantors is being presented through condensed consolidating financial statements since the Company has more than minimal independent operations and the guarantees are full and unconditional and are joint and several. Guarantor financial statements have not been presented because management does not believe that such financial statements are material to investors.

CONDENSED CONSOLIDATING BALANCE SHEET
December 31, 2003

	Stericycle, Inc.	Guarantor Subsidiaries	Stericycle And Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
ASSETS						
Current assets:						
Cash and cash equivalents	$ 5,766	$ —	$ 5,766	$ 1,474	$ —	$ 7,240
Other current assets	84,300	19,738	104,038	8,620	(22,161)	90,497
Total current assets	90,066	19,738	109,804	10,094	(22,161)	97,737
Property, plant and equipment, net	86,769	10	86,779	9,783	—	96,562
Goodwill, net	447,485	5,226	452,711	12,235	—	464,946
Investment in subsidiaries	45,223	829	46,052	—	(46,052)	—
Other assets	49,009	3,221	52,230	1,731	(5,744)	48,217
Total assets	$718,552	$29,024	$747,576	$33,843	$(73,957)	$707,462
LIABILITIES AND SHAREHOLDERS' EQUITY						
Current liabilities:						
Current portion of long-term debt	$ 4,819	$ —	$ 4,819	$ 11	$ —	$ 4,830
Other current liabilities	79,079	—	79,079	7,246	(22,161)	64,164
Total current liabilities	83,898	—	83,898	7,257	(22,161)	68,994
Long-term debt, net of current portion	160,794	—	160,794	7,966	(5,744)	163,016
Other liabilities	45,096	—	45,096	1,592	—	46,688
Redeemable preferred stock	20,944	—	20,944	—	—	20,944
Common shareholders' equity	407,820	29,024	436,844	17,028	(46,052)	407,820
Total liabilities and shareholders' equity	$718,552	$29,024	$747,576	$33,843	$(73,957)	$707,462

CONDENSED CONSOLIDATING BALANCE SHEET
December 31, 2002

	Stericycle, Inc.	Guarantor Subsidiaries	Stericycle And Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
ASSETS						
Current assets:						
Cash and cash equivalents	$ 5,818	$ 733	$ 6,551	$ 1,824	$ —	$ 8,375
Other current assets	75,798	31,453	107,251	10,666	(31,936)	85,981
Total current assets	81,616	32,186	113,802	12,490	(31,936)	94,356
Property, plant and equipment, net	72,638	6026	78,664	9,837	—	88,501
Goodwill, net	399,646	35,972	435,618	11,654	—	447,272
Investment in subsidiaries	98,772	767	99,539	—	(99,539)	—
Other assets	30,768	12,216	42,984	887	(6,905)	36,966
Total assets	$683,440	$87,167	$770,607	$34,868	$(138,380)	$667,095
LIABILITIES AND SHAREHOLDERS' EQUITY						
Current liabilities:						
Current portion of long-term debt	$ 3,881	$ —	$ 3,881	$ 52	$ —	$ 3,933
Other current liabilities	70,958	908	71,866	9,891	(31,936)	49,821
Total current liabilities	74,839	908	75,747	9,943	(31,936)	53,754
Long-term debt, net of current portion	221,545	—	221,545	9,484	(6,905)	224,124
Other liabilities	32,278	(387)	31,891	2,548	—	34,439
Redeemable preferred stock	28,049	—	28,049	—	—	28,049
Common shareholders' equity	326,729	86,646	413,375	12,893	(99,539)	326,729
Total liabilities and shareholders' equity	$683,440	$87,167	$770,607	$34,868	$(138,380)	$667,095

CONDENSED CONSOLIDATING STATEMENT OF INCOME
Year Ended December 31, 2003

	Stericycle, Inc.	Guarantor Subsidiaries	Stericycle And Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Revenues	$404,469	$17,256	$421,725	$34,667	$(3,167)	$453,225
Cost of revenues	224,670	12,011	236,681	22,943	(3,024)	256,600
Selling, general, and administrative expense	59,029	2,755	61,784	7,774	—	69,558
Acquisition related expenses	670	—	670	—	—	670
Total costs and expenses	284,369	14,766	299,135	30,717	(3,024)	326,828
Income from operations	120,100	2,490	122,590	3,950	(143)	126,397
Equity in net income (loss) of subsidiaries	5,029	436	5,465	—	(5,465)	—
Other (expense) income, net	(17,201)	10	(17,191)	(620)	143	(17,668)
Income before income taxes and extraordinary items	107,928	2,936	110,864	3,330	(5,465)	108,729
Income tax expense (benefit)	42,147	860	43,007	(59)	—	42,948
Net income	$ 65,781	$ 2,076	$ 67,857	$ 3,389	$(5,465)	$ 65,781

CONDENSED CONSOLIDATING STATEMENT OF INCOME
Year Ended December 31, 2002

	Stericycle, Inc.	Guarantor Subsidiaries	Stericycle And Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Revenues	$349,367	$19,884	$369,251	$36,212	$(3,944)	$401,519
Cost of revenues	203,735	12,444	216,179	24,729	(3,898)	237,010
Selling, general, and administrative expense	52,829	921	53,750	6,698	(46)	60,402
Write-off of fixed assets	2,913	—	2,913	—	—	2,913
Acquisition related expenses	362	—	362	—	—	362
Total costs and expenses	259,839	13,365	273,204	31,427	(3,944)	300,687
Income from operations	89,528	6,519	96,047	4,785	—	100,832
Equity in net income (loss) of subsidiaries	6,851	1,210	8,061	—	(8,061)	—
Other (expense) income, net	(24,388)	378	(24,010)	(1,245)	—	(25,255)
Income before income taxes	71,991	8,107	80,098	3,540	(8,061)	75,577
Income tax expense	26,267	2,544	28,811	1,042	—	29,853
Net income	$ 45,724	$ 5,563	$ 51,287	$ 2,498	$(8,061)	$ 45,724

CONDENSED CONSOLIDATING STATEMENT OF INCOME
Year Ended December 31, 2001

	Stericycle, Inc.	Guarantor Subsidiaries	Stericycle And Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Revenues	$304,666	$21,147	$325,813	$35,551	$(2,340)	$359,024
Cost of revenues	179,937	12,843	192,780	25,519	(2,340)	215,959
Selling, general, and administrative expense	57,891	2,043	59,934	6,185	(33)	66,086
Write-off of fixed assets	697	—	697	2,632	—	3,329
Acquisition related expenses	356	—	356	—	—	356
Total costs and expenses	238,881	14,886	253,767	34,336	(2,373)	285,730
Income from operations	65,785	6,261	72,046	1,215	33	73,294
Equity in net income of subsidiaries	3,893	(1,209)	2,684	—	(2,684)	—
Other (expense) income, net	(47,199)	544	(46,655)	(2,090)	(33)	(48,778)
Income before income taxes	22,479	5,596	28,075	(875)	(2,684)	24,516
Income tax expense	7,769	1,754	9,523	283	—	9,806
Net income	$ 14,710	$ 3,842	$ 18,552	$ (1,158)	$(2,684)	$ 14,710

CONDENSED CONSOLIDATING STATEMENT OF CASH FLOWS
Year Ended December 31, 2003

	Stericycle, Inc.	Guarantor Subsidiaries	Stericycle And Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
CASH FLOWS FROM OPERATING ACTIVITIES:						
Net cash provided by operating activities	$ 52,422	$ 7,242	$ 118,181	$ 2,922	$—	$ 121,103
CASH FLOWS FROM INVESTING ACTIVITIES:						
Payments for acquisitions and international investments, net of cash acquired	(8,592)	(28,124)	(36,716)	(506)	—	(37,222)
Proceeds from sale of property and equipment	575	—	575	113	—	688
Purchases of short-term investments	109	—	109	(238)	—	(129)
Capital expenditures	(19,042)	(254)	(19,296)	(1,676)	—	(20,972)
Net cash used in investing activities	(26,950)	(28,378)	(55,328)	(2,307)	—	(57,635)
CASH FLOWS FROM FINANCING ACTIVITIES:						
Proceeds from bank lines of credit	90,000	—	90,000	—	—	90,000
Proceeds from issuance of note payable	—	—	—	1,132	—	1,132
Repayment of senior subordinated debt	(17,775)	—	(17,775)	—	—	(17,775)
Principal payments on capital lease obligations	(949)	(183)	(1,132)	15	—	(1,117)
Repayment of long term debt	(131,665)	—	(131,665)	(1,545)	—	(133,210)
Payments of deferred financing costs	(395)	—	(395)	—	—	(395)
Proceeds from other issuances of common stock	10,533	—	10,533	—	—	10,533
Purchase of treasury stock	(13,204)	—	(13,204)	—	—	(13,204)
Intercompany financing of acquisitions	(28,124)	28,124	—	—	—	—
Net cash used in financing activities	(91,579)	27,941	(63,638)	(398)	—	(64,036)
Effect of exchange rate changes on cash	—	—	—	(567)	—	(567)
Net (decrease) increase in cash and cash equivalents	$ (52)	$ (733)	$ (785)	$ (350)	$—	(1,135)
Cash and cash equivalents at beginning of period						8,375
Cash and cash equivalents at end of period						$ 7,240

CONDENSED CONSOLIDATING STATEMENT OF CASH FLOWS
Year Ended December 31, 2002

	Stericycle, Inc.	Guarantor Subsidiaries	Stericycle And Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
CASH FLOWS FROM OPERATING ACTIVITIES:						
Net cash provided by operating activities	$ 95,066	$ 150	$ 95,216	$ 1,731	$—	$ 96,947
CASH FLOWS FROM INVESTING ACTIVITIES:						
Payments for acquisitions and international investments, net of cash acquired	(8,674)	(24,947)	(33,621)	(970)	—	(34,591)
Proceeds from sale of property and equipment	127	—	127	57	—	184
Purchases of short-term investments	(232)	—	(232)	—	—	(232)
Capital expenditures	(12,870)	(132)	(13,002)	(1,829)	—	(14,831)
Net cash used in investing activities	(21,649)	(25,079)	(46,728)	(2,742)	—	(49,470)
CASH FLOWS FROM FINANCING ACTIVITIES:						
Proceeds from bank lines of credit	23,000	—	23,000	—	—	23,000
Proceeds from issuance of note payable	180	—	180	1,181	—	1,361
Repayment of senior subordinated debt	(12,610)	—	(12,610)	—	—	(12,610)
Principal payments on capital lease obligations	(734)	(118)	(852)	(27)	—	(879)
Repayment of long term debt	(67,030)	—	(67,030)	(1,386)	—	(68,416)
Proceeds from other issuances of common stock	7,058	—	7,058	—	—	7,058
Purchase of treasury stock	(1,435)	—	(1,435)	—	—	(1,435)
Intercompany financing of acquisitions	(24,947)	24,947	—	—	—	—
Net cash used in financing activities	(76,518)	24,829	(51,689)	(232)	—	(51,921)
Effect of exchange rate changes on cash	—	—	—	82	—	82
Net (decrease) increase in cash and cash equivalents	$ (3,101)	$ (100)	$ (3,201)	$(1,161)	$—	(4,362)
Cash and cash equivalents at beginning of period						12,737
Cash and cash equivalents at end of period						$ 8,375

CONDENSED CONSOLIDATING STATEMENT OF CASH FLOWS
Year Ended December 31, 2001

	Stericycle, Inc.	Guarantor Subsidiaries	Stericycle And Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
CASH FLOWS FROM OPERATING ACTIVITIES:						
Net cash provided by operating activities	$ 59,230	$ 434	$ 59,664	$ 4,886	$—	$ 64,550
CASH FLOWS FROM INVESTING ACTIVITIES:						
Payments for acquisitions and international investments, net of cash acquired	(11,171)	(6,808)	(17,979)	(3,283)	—	(21,262)
Proceeds from sale of property and equipment	—	—	—	979	—	979
Purchases of short-term investments	1	—	1	—	—	1
Capital expenditures	(15,289)	(196)	(15,485)	(906)	—	(16,391)
Net cash used in investing activities	(26,459)	(7,004)	(33,463)	(3,210)	—	(36,673)
CASH FLOWS FROM FINANCING ACTIVITIES:						
Proceeds from bank lines of credit	12,171	—	12,171	—	—	12,171
Repayment of senior subordinated debt	(43,750)	—	(43,750)	—	—	(43,750)
Principal payments on capital lease obligations	(1,507)	—	(1,507)	(18)	—	(1,525)
Repayment of long term debt	(35,592)	—	(35,592)	(1,507)	—	(37,099)
Payments of deferred financing costs	(173)	—	(173)	—	—	(173)
Proceeds from other secondary stock offering	49,005	—	49,005	—	—	49,005
Proceeds from other issuances of common stock	3,565	—	3,565	—	—	3,565
Intercompany financing of acquisitions	(6,808)	6,808	—	—	—	—
Net cash used in financing activities	(23,089)	6,808	(16,281)	(1,525)	—	(17,806)
Net (decrease) increase in cash and cash equivalents	$ 9,682	$ 238	$ 9,920	$ 151	$—	10,071
Cash and cash equivalents at beginning of period						2,666
Cash and cash equivalents at end of period						$ 12,737

STERICYCLE, INC. AND SUBSIDIARIES

SCHEDULE II—VALUATION AND ALLOWANCE ACCOUNTS
(in thousands)

	Balance 12/31/00	Charges To Expenses	Other Charges (1)	Write-offs/ Payments	Balance 12/31/01
Allowance for doubtful accounts	$3,625	$ 1,840	$192	$(2,551)	$3,106
Accrued severance and closure costs	1,124	—	—	(843)	281
Accrued transition expenses	—	356	—	(356)	—
Deferred tax valuation allowance	$8,588	$ 650	$—	$ —	$9,238

	Balance 12/31/01	Charges To Expenses	Other Charges (1)	Write-offs/ Payments	Balance 12/31/02
Allowance for doubtful accounts	$3,106	$ 3,412	$ 25	$(2,764)	$3,779
Accrued severance and closure costs	281	—	—	(156)	125
Accrued transition expenses	—	362	—	(362)	—
Deferred tax valuation allowance	$9,238	$(2,188)	$—	$ —	$7,050

	Balance 12/31/02	Charges To Expenses	Other Charges (1)	Write-offs/ Payments	Balance 12/31/03
Allowance for doubtful accounts	$3,779	$ 1,953	$263	$(1,846)	$4,149
Accrued severance and closure costs	125	—	—	(110)	15
Accrued transition expenses	—	670	—	(670)	—
Deferred tax valuation allowance	$7,050	$(6,128)	$—	$ —	$ 922

(1) Amounts consist primarily of costs assumed from acquired companies recorded prior to the date of acquisition

ITEM 9. CHANGES AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL STATEMENT DISCLOSURE.

None

Item 9a. Controls and Procedures.

Our management, with the participation of our President and Chief Executive Officer and our Chief Financial Officer, conducted an evaluation of the effectiveness of our disclosure controls and procedures as of the end of the fiscal year covered by this Report. On the basis of this evaluation, our President and Chief Executive Officer and our Chief Financial Officer 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 President and Chief Executive Officer and our Chief Financial Officer, as appropriate to allow timely decisions regarding our required disclosures.

PART III

Item 10. Directors and Executive Officers of the Registrant

The information required by this Item regarding our directors is incorporated by reference to the information contained under the caption "Election of Directors" in our definitive proxy statement for our 2004 Annual Meeting of Stockholders to be held on May 11, 2004, to be filed pursuant to Regulation 14A.

The information required by this Item regarding our executive officers is contained under the caption "Executive Officers of the Registrant" in Part I of this Report.

The information required by this Item regarding compliance with Section 16(a) of the Securities Exchange Act of 1934 is incorporated by reference to the information contained under the caption "Section 16(a) Beneficial Ownership Reporting Compliance" in our definitive proxy statement for our 2004 Annual Meeting of Stockholders to be held on May 11, 2004, to be filed pursuant to Regulation 14A.

We have adopted a code of business conduct that applies generally to all of our employees and, in addition, we have a adopted a finance department code of ethics that applies specifically to our President and Chief Executive Office, Chief Financial Officer, Vice President-Finance and the members of our finance department. Both codes are available on our website, *www.stericycle.com*, under "About Us/Corporate Overview," and the finance department code of ethics is also filed as an exhibit to this Report. Any amendment to or waiver of the finance department code of ethics will be posted on our website within five business days after the date of the amendment or waiver.

Item 11. Executive Compensation

The information required by this Item is incorporated by reference to the information contained under the caption "Executive Compensation" in our definitive proxy statement for our 2004 Annual Meeting of Stockholders to be held on May 11, 2004, to be filed pursuant to Regulation 14A.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

The information required by this Item is incorporated by reference to the information contained under the captions "Stock Ownership" and "Executive Compensation" in our definitive proxy statement for our 2004 Annual Meeting of Stockholders to be held on May 11, 2004 to be filed pursuant to Regulation 14A.

Item 13. Certain Relationships and Related Transactions

No information is required by this Item.

Item 14. Principal Accountant Fees and Services

Audit Fees

The aggregate fees billed by our independent public accountants, Ernst & Young LLP, for professional services rendered in connection with the audit of our annual financial statements and review of our interim financial statements included in our quarterly reports on Form 10-Q for the fiscal year ended December 31, 2002 were approximately $315,000. This amount includes approximately $18,000 for the statutory audit of the financial statements of our subsidiary operating in Puerto Rico.

The aggregate fees billed by our independent public accountants, Ernst & Young LLP, for professional services rendered in connection with the audit of our annual financial statements and review of our interim financial statements included in our quarterly reports on Form 10-Q for the fiscal year ended December 31, 2003 were approximately $335,000. This amount includes approximately $22,000 for the statutory audit of the financial statements of our subsidiary operating in Puerto Rico.

Audit Related Fees

Ernst & Young LLP billed us approximately $31,000 for the fiscal year ended December 31, 2002 relating to accounting consultations in connection with acquisitions that we made, and they billed us approximately $16,000 for the fiscal year ended December 31, 2003 relating to the internal controls requirements of the Sarbanes-Oxley Act of 2002. Ernst & Young LLP did not perform any other assurance or related services during either of these two fiscal years.

Tax Fees

Ernst & Young LLP did not provide any tax compliance, tax advice or tax planning services to us during the fiscal years ended December 31, 2002 and 2003.

All Other Fees

Ernst & Young LLP did not provide any other services to us during the fiscal years ended December 31, 2002 and 2003.

In accordance with policies adopted by the Audit Committee of our Board of Directors, all audit and non-audit related services to be performed for us by our independent public accountants must be approved in advance by the Committee.

Item 15. Exhibits, Financial Statements, Schedules and Reports on Form 8-K

Financial Statements (Items 15(a)(1) and (2))

We have filed the following financial statements and schedules with this Report:

Exhibits (Item 15(a)(3))

We have filed the following exhibits with this Report:

Exhibit Index	Description	Filed with Electronic Submission
3.1*	Amended and Restated Certificate of Incorporation of Stericycle, Inc. (incorporated by reference to Exhibit 3.1 to our 1996 Form S-1)	
3.2*	First Certificate of Amendment to Amended and Restated Certificate of Incorporation of Stericycle, Inc. (incorporated by reference to Exhibit 3.1 to our current report on Form 8-K filed November 29, 1999)	
3.3*	Certificate of Designation Relating to Certificate of Designation Relating to Series A Convertible Preferred Stock, Par Value $.01 Per Share (incorporated by reference to Exhibit 3.2 to our current report on Form 8-K filed November 29, 1999)	
3.4*	Second Certificate of Amendment to Amended and Restated Certificate of Incorporation of Stericycle, Inc. (incorporated by reference to Exhibit 3.4 to our annual report on Form 10-K for 2002)	
3.5*	Amended and Restated Bylaws of Stericycle, Inc. (incorporated by reference to Exhibit 3.2 to our 1996 Form S-1)	
3.6*	Amendment to Amended and Restated Bylaws of Stericycle, Inc. (incorporated by reference to Exhibit 3.5 to our annual report on Form 10-K for 1999)	
4.1*	Amended and Restated Registration Rights Agreement, dated as of July 26, 2002, between Stericycle, Inc. and certain investors associated with Bain Capital, LLC and Madison Dearborn Partners, LLC (incorporated by reference to Exhibit 4.1 to our current report on Form 8-K filed August 5, 2002)	
4.2*	Specimen certificate for shares of our Common Stock, par value $.01 per share (incorporated by reference to Exhibit 4.1 to our 1996 Form S-1)	
10.1*	Amended and Restated Credit Agreement, dated as of October 5, 2001, among Stericycle, Inc., as the borrower, various financial institutions and other persons from time to time parties as the lenders, Bank of America, N.A., as the administrative agent for the lenders, Banc of America Securities LLC, as the lead arranger and book manager, Credit Suisse First Boston and UBS Warburg LLC, as the co-syndication agents, and Fleet National Bank, as the documentation agent (incorporated by reference to our current report on Form 8-K filed October 15, 2001)	
10.2*	Amendment No. 1 to Amended and Restated Credit Agreement, dated as of June 28, 2002, among Stericycle, Inc. as the borrower, certain subsidiaries of Stericycle, Inc. as guarantors, various financial institutions and other persons as lenders, and Bank of America, N.A., as the administrative agent for the lenders (incorporated by reference to Exhibit 10.1 to our current report on Form 8-K filed August 5, 2002)	
10.3*	Amendment No. 2 to Amended and Restated Credit Agreement, dated as of January 27, 2003, among Stericycle, Inc. as the borrower, certain subsidiaries of Stericycle, Inc. as guarantors, various financial institutions and other persons as lenders, and Bank of America, N.A., as the administrative agent for the lenders#(incorporated by reference to Exhibit 3.4 to our annual report on Form 10-K for 2002)	
10.4*	Indenture, dated as of November 12, 1999, among Stericycle, Inc., the guarantors named in the indenture, and State Street Bank and Trust Company, as trustee (incorporated by reference to Exhibit 10.1 to our 1999 Form S-4)	

Exhibit Index		Description	Filed with Electronic Submission
10.5	*	Amended and Restated Series A Convertible Preferred Stock Purchase Agreement, dated September 26, 1999, between Stericycle, Inc. and certain investors associated with Bain Capital, Inc. and Madison Dearborn Partners, LLC (incorporated by reference to Exhibit 10.1 to our Current Report on Form 8-K filed October 15, 1999)	
10.6	*	Amendment and Waiver Agreement, dated as of July 26, 2002, between Stericycle, Inc. and certain investors associated with Bain Capital, LLC and Madison Dearborn Partners, LLC (incorporated by reference to Exhibit 10.2 to our current report on Form 8-K filed August 5, 2002)	
10.7	*	Amended and Restated Corporate Governance Agreement, dated as of July 26, 2002, between Stericycle, Inc. and certain investors associated with Bain Capital, LLC and Madison Dearborn Partners LLC (incorporated by reference to Exhibit 10.3 to our current report on Form 8-K filed August 5, 2002)	
10.8	*†	Amended and Restated Incentive Compensation Plan (incorporated by reference to Exhibit 10.1 to our 1996 Form S-1)	
10.9	*†	First Amendment to Amended and Restated Incentive Compensation Plan (incorporated by reference to Exhibit 10.7 to our 1999 Form S-3)	
10.10	*†	Second Amendment to Amended and Restated Incentive Compensation Plan (incorporated by reference to Exhibit 10.7 to our annual report on Form 10-K for 2001)	
10.11	*†	Directors Stock Option Plan (Amended and Restated) (incorporated by reference to Exhibit 4.1 to our registration statement on Form S-8 filed August 2, 2001 (Registration No. 333-66542))	
10.12	*†	First Amendment to Directors Stock Option Plan (Amended and Restated) (incorporated by reference to Exhibit 10.9 to our annual report on Form 10-K for 2001)	
10.13	*†	1997 Stock Option Plan (incorporated by reference to Exhibit 10.3 to our annual report on Form 10-K for 1997)	
10.14	*†	First Amendment to 1997 Stock Option Plan (incorporated by reference to Exhibit 10.9 to our 1999 Form S-3)	
10.15	*†	Second Amendment to 1997 Stock Option Plan (incorporated by reference to Exhibit 10.12 to our annual report on Form 10-K for 2001)	
10.16†		Third Amendment to 1997 Stock Option Plan	x
10.17	*	2000 Nonstatutory Stock Option Plan (incorporated by reference to Exhibit 10.13 to our annual report on Form 10-K for 2001)	
10.18	*	First Amendment to 2000 Nonstatutory Stock Option Plan (incorporated by reference to Exhibit 10.14 to our annual report on Form 10-K for 2001)	
10.19	*	Second Amendment to 2000 Nonstatutory Stock Option Plan (incorporated by reference to Exhibit 10.15 to our annual report on Form 10-K for 2001)	
10.20	*	Third Amendment to 2000 Nonstatutory Stock Option Plan (incorporated by reference to Exhibit 4.2 to our registration statement on Form S-8 filed December 20, 2002 (Registration No. 333-102097))	
10.21	*†	Employee Stock Purchase Plan (incorporated by reference to Exhibit 4.1 to our registration statement on Form S-8 filed August 2, 2001 (Registration No. 333-66544)	
10.22	*†	First Amendment to Employee Stock Purchase Plan (incorporated by reference to Exhibit 10.21 to our annual report on Form 10-K for 2002)	

Exhibit Index	Description	Filed with Electronic Submission
12	Statement re computation of ratios	x
14	Finance Department Code of Ethics	x
21	Subsidiaries	x
23	Consent of Ernst & Young LLP	x
31.1	Section Rule 13a-14(a)/15d-14(a) Certification of Chief Executive Officer	x
31.2	Section Rule 13a-14(a)/15d-14(a) Certification of Chief Financial Officer	x
32	Section 1350 Certification of Chief Executive Officer and Chief Financial Officer	x

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

References to our "1996 Form S-1" are to our registration statement on Form S-1 as declared effective on August 22, 1996 (Registration No. 333-05665); references to our "1999 Form S-3" are to our registration statement on Form S-3 as declared effective on February 4, 1999 (Registration No. 333-60591); and references to our "1999 Form S-4" are to our registration statement on Form S-4 as declared effective on December 15, 1999 (Registration No. 333-91831).

Reports on Form 8-K (Item 15(b))

We filed one current report on Form 8-K during the fourth quarter of 2003.

We filed a Form 8-K on October 30, 2003 to report our earnings release on the same day. The report included as an exhibit our earnings release and accompanying financial statements.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) 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.

Date: March 15, 2004.

STERICYCLE, INC.

By /S/ MARK C. MILLER

Mark C. Miller
President and Chief Executive Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this Report has been signed by the following persons in the capacities and on the dates indicated.

Name	Title	Date
/S/ JACK W. SCHULER **Jack W. Schuler**	Chairman of the Board of Directors	March 15, 2004
/S/ MARK C. MILLER **Mark C. Miller**	President and Chief Executive Officer and a Director (Principal Executive Officer)	March 15, 2004
/S/ FRANK J.M. TEN BRINK **Frank J.M. ten Brink**	Executive Vice President and Chief Financial Officer (Principal Financial and Accounting Officer)	March 15, 2004
/S/ JOHN P. CONNAUGHTON **John P. Connaughton**	Director	March 15, 2004
/S/ ROD F. DAMMEYER **Rod F. Dammeyer**	Director	March 15, 2004
/S/ PATRICK F. GRAHAM **Patrick F. Graham**	Director	March 15, 2004
/S/ JOHN PATIENCE **John Patience**	Director	March 15, 2004
/S/ THOMAS R. REUSCHÉ **Thomas R. Reusché**	Director	March 15, 2004
/S/ L. JOHN WILKERSON, PH.D. **L. John Wilkerson, Ph.D.**	Director	March 15, 2004
/S/ PETER VARDY **Peter Vardy**	Director	March 15, 2004

Exhibit 14

Finance Department Code of Ethics

The President and CEO and the Chief Financial Officer, Vice President–Finance and other members of the Finance Department have a special role to play to ensure that a culture exists throughout Stericycle that ensures the fair and timely reporting of Stericycle's financial results and condition.

Because of this special role, the President and CEO and the Chief Financial Officer, Vice President–Finance and other members of the Finance Department are bound by the following Finance Department Code of Ethics as well as by Stericycle's Code of Business Conduct. By accepting the Code of Business Conduct, the President and CEO and the Chief Financial Officer, Vice President–Finance and each of the other members of the Finance Department agrees that he or she will:

- Act with honesty and integrity and avoid actual or apparent conflicts of interest between personal and professional relationships
- Provide accurate, complete, relevant, timely and understandable financial information internally in order to ensure full, fair, timely and understandable disclosure in Stericycle's reports and filings with the U.S. Securities and Exchange Commission and other government agencies and in Stericycle's press releases and other public communications
- Comply with all applicable reporting, disclosure and other rules and regulations of federal, state and local governments and other regulatory agencies
- Act in good faith, responsibly, with due care and diligence, and without misrepresenting material facts or allowing his or her independent judgment to be wrongly subordinated
- Promptly report to the Chairman of the Audit Committee any conduct that he or she believes to be a violation of law or business ethics or of any provision of Stericycle's Code of Business Conduct or this Finance Department Code of Ethics

Violations of this Finance Department Code of Ethics, including a failure to report violations by others, will be viewed severely and could result in a termination of employment. If you believe that a violation has occurred, please contact the Chair of the Audit Committee of the Board of Directors:

Mr. Rod F. Dammeyer
[omitted]
[omitted]
Telephone: [omitted]
Fax: [omitted]
E-mail: [omitted]

Exhibit 31.1

RULE 13a-14(a)/15d-14(a) CERTIFICATION

Mark C. Miller
President and Chief Executive Officer

I, Mark C. Miller, certify that:

1. I have reviewed this annual report on Form 10-K of Stericycle, Inc.;

2. Based on my knowledge, this annual report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this annual report;

3. Based on my knowledge, the financial statements, and other financial information included in this annual report, fairly present in all material respects the financial condition, results of operation and cash flows of the registrant as of, and for, the periods presented in this annual report.

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant, and have:

a) designed such disclosure controls and procedure, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this annual report is being prepared;

b) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

c) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's fourth fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting.

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: March 15, 2004.

/s/ MARK C. MILLER

Mark C. Miller
President and Chief Executive Officer
Stericycle, Inc.

Exhibit 31.2

RULE 13a-14(a)/15d-14(a) CERTIFICATION

Frank J.M. ten Brink
Executive Vice President and Chief Financial Officer

I, Frank J.M. ten Brink, certify that:

1. I have reviewed this annual report on Form 10-K of Stericycle, Inc.;

2. Based on my knowledge, this annual report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this annual report;

3. Based on my knowledge, the financial statements, and other financial information included in this annual report, fairly present in all material respects the financial condition, results of operation and cash flows of the registrant as of, and for, the periods presented in this annual report.

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant, and have:

a) designed such disclosure controls and procedure, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this annual report is being prepared;

b) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

c) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's fourth fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting.

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: March 15, 2004.

/s/ FRANK J.M. TEN BRINK

Frank J.M. ten Brink
Executive Vice President and Chief
Financial Officer
Stericycle, Inc.

Exhibit 32

SECTION 1350 CERTIFICATION

In reference to this annual report on Form 10-K of Stericycle, Inc. we, Mark C. Miller, President and Chief Executive Officer of the registrant, and Frank J.M. ten Brink, an Executive Vice President and the Chief Financial Officer of the registrant, certify as follows, pursuant to 18 U.S.C. § 1350 (as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002):

(a) the report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934 (15 U.S.C. 78m or 78*o*(d)); and

(b) the information contained in the report fairly presents, in all material respects, the financial condition and results of operations of the registrant.

Date: March 15, 2004.

/s/ MARK C. MILLER

Mark C. Miller
President and Chief Executive Officer
Stericycle, Inc.

/s/ FRANK J.M. TEN BRINK

Frank J.M. ten Brink
Executive Vice President and Chief
Financial Officer
Stericycle, Inc.

Corporate Information

Officers

Mark C. Miller
President, Chief Executive Officer and Director

Richard Kogler
Executive Vice President, Chief Operating Officer

Frank J.M. ten Brink
Executive Vice President, Chief Financial Officer

Richard L. Foss
Executive Vice President, Corporate Development

Shan S. Sacranie
Executive Vice President, International

Board of Directors

Jack W. Schuler
Chairman of the Board
Chairman, Nominating and Governance Committee
Member Audit Committee

Mark C. Miller
President & Chief Executive Officer

Patrick F. Graham
Vice President,
Business Development and Strategic Projects,
The Gillette Company
Member Compensation Committee

John Patience
Co-Founder & Partner, Crabtree Partners
Member Nominating and Governance Committee
Member Audit Committee

Peter Vardy
Managing Partner, Peter Vardy & Associates (Ret.)
Member Compensation Committee

L. John Wilkerson, Ph.D.
General Partner, Galen Partners, L.P.
Chairman, Compensation Committee

Rod F. Dammeyer
President, CAC, LLC
Chairman, Audit Committee
Member Nominating and Governance Committee

John P. Connaughton
Managing Director, Bain Capital
Member Compensation Committee

Thomas R. Reusché
Retired Co-Founder,
Madison Dearborn Partners, Inc.
Member Audit Committee

Independent Auditors

Ernst & Young LLP
Sears Tower
233 S. Wacker Drive
Chicago, Illinois 60606

Legal Counsel

Johnson and Colmar
300 S. Wacker Drive, Suite 1000
Chicago, Illinois 60606

Transfer Agent

LaSalle Bank N.A.
135 S. LaSalle Street, Suite 1960
Chicago, Illinois 60603

Form 10-K

Additional copies of this Annual Report or Form 10-K filed with the Securities and Exchange Commission are available, without charge, upon request from the company, Investor@stericycle.com or 1-800-643-0240 ext. 2012.

Annual Meeting

The annual meeting of stockholders will be held on Tuesday, May 11, 2004 at 11:00 AM at Embassy Suites Hotel, 5500 N. River Road, Rosemont, Illinois 60018

Nasdaq® Symbol

SRCL

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