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(Address of principal executive offices, including zip code)

(847) 367-5910

(Registrant's telephone number, including area code)

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

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

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

|                           |                         |                       |
|---------------------------|-------------------------|-----------------------|
| Large accelerated filer   | Accelerated filer       | Non-accelerated filer |
| Smaller reporting company | Emerging Growth Company |                       |

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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

On April 27, 2018, there were 85,576,526 shares of the Registrant's Common Stock outstanding.



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## PART I – FINANCIAL INFORMATION

## Item 1. Financial Statements (Unaudited)

## STERICYCLE, INC.

## CONDENSED CONSOLIDATED STATEMENTS OF INCOME

(Unaudited)

In millions, except per share data

|   | Three Months<br>Ended<br>March 31, |         |
|---|------------------------------------|---------|
|   | 2018                               | 2017    |
| Revenues  | \$895.0                            | \$892.4 |
| Cost of revenues  | 536.5                              | 523.7   |
| Gross profit  | 358.5                              | 368.7   |
| Selling, general and administrative expenses                                    | 304.4                              | 254.2   |
| Income from operations  | 54.1                               | 114.5   |
| Other income (expense):   |                                    |         |
| Interest expense, net   | (25.0 )                            | (23.3 ) |
| Other expense, net  | —                                  | (1.5 )  |
| Income before income taxes  | 29.1                               | 89.7    |
| Income tax expense  | (6.6 )                             | (31.1 ) |
| Net income  | 22.5                               | 58.6    |
| Net income attributable to noncontrolling interests                             | —                                  | (0.4 )  |
| Net income attributable to Stericycle, Inc.                                     | 22.5                               | 58.2    |
| Mandatory convertible preferred stock dividend                                  | (8.8 )                             | (9.4 )  |
| Gain on repurchase of preferred stock   | 7.3                                | 4.6     |
| Net income attributable to Stericycle, Inc. common shareholders                 | \$21.0                             | \$53.4  |
| Earnings per common share attributable to Stericycle, Inc. common shareholders: |                                    |         |
| Basic   | \$0.25                             | \$0.63  |
| Diluted   | \$0.25                             | \$0.62  |
| Weighted average number of common shares outstanding:                           |                                    |         |
| Basic   | 85.5                               | 85.2    |
| Diluted   | 85.8                               | 85.6    |

See accompanying Notes to Condensed Consolidated Financial Statements.

STERICYCLE, INC.

## CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(Unaudited)

In millions

|  | Three<br>Months<br>Ended<br>March 31, |        |
|--|---------------------------------------|--------|
|  | 2018                                  | 2017   |
| Net income   | \$22.5                                | \$58.6 |
| Other comprehensive income:  |                                       |        |
| Foreign currency translation adjustments   | 16.3                                  | 26.5   |
| Amortization of cash flow hedge into income, net of tax expense (\$0.1 and \$0.2 for the three months ended March 31, 2018 and 2017, respectively) | 0.1                                   | 0.3    |
| Total other comprehensive income   | 16.4                                  | 26.8   |
| Comprehensive income   | 38.9                                  | 85.4   |
| Less: comprehensive income attributable to noncontrolling interests  | 0.1                                   | 0.7    |
| Comprehensive income attributable to Stericycle, Inc. common shareholders  | \$38.8                                | \$84.7 |

See accompanying Notes to Condensed Consolidated Financial Statements.

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STERICYCLE, INC.

## CONDENSED CONSOLIDATED BALANCE SHEETS

(Unaudited)

In millions, except per share data

|   | March<br>31, 2018 | December<br>31, 2017 |
|---|-------------------|----------------------|
| <b>ASSETS</b>   |                   |                      |
| <b>Current Assets:</b>  |                   |                      |
| Cash and cash equivalents   | \$49.4            | \$42.2               |
| Accounts receivable, less allowance for doubtful accounts of \$67.9 in 2018 and \$65.2 in 2017  | 633.5             | 624.1                |
| Prepaid expenses  | 61.8              | 80.0                 |
| Other current assets  | 48.2              | 46.3                 |
| Assets held for sale  | 17.7              | 20.8                 |
| <b>Total Current Assets</b>   | <b>810.6</b>      | <b>813.4</b>         |
| Property, plant and equipment, less accumulated depreciation of \$635.2 in 2018 and \$603.2 in 2017   | 748.9             | 741.0                |
| Goodwill  | 3,625.2           | 3,604.0              |
| Intangible assets, less accumulated amortization of \$424.7 in 2018 and \$392.5 in 2017   | 1,771.2           | 1,791.5              |
| Other assets  | 59.8              | 38.4                 |
| <b>Total Assets</b>   | <b>\$7,015.7</b>  | <b>\$6,988.3</b>     |
| <b>LIABILITIES AND EQUITY</b>   |                   |                      |
| <b>Current Liabilities:</b>   |                   |                      |
| Current portion of long-term debt   | \$121.9           | \$119.5              |
| Bank overdrafts   | 12.6              | 7.0                  |
| Accounts payable  | 177.0             | 195.2                |
| Accrued liabilities   | 624.6             | 588.1                |
| Other current liabilities   | 58.7              | 54.5                 |
| Liabilities held for sale   | 5.1               | 5.1                  |
| <b>Total Current Liabilities</b>  | <b>999.9</b>      | <b>969.4</b>         |
| Long-term debt, net   | 2,586.2           | 2,615.3              |
| Deferred income taxes   | 357.4             | 371.1                |
| Long-term taxes payable   | 59.5              | 55.8                 |
| Other liabilities   | 60.6              | 68.1                 |
| <b>Total Liabilities</b>  | <b>4,063.6</b>    | <b>4,079.7</b>       |
| <b>Commitments and contingencies</b>  |                   |                      |
| <b>Equity:</b>  |                   |                      |
| Preferred stock (par value \$0.01 per share, 1.0 shares authorized), mandatory convertible preferred stock, Series A, 0.7 issued and outstanding in 2018 and 2017 | —                 | —                    |
| Common stock (par value \$0.01 per share, 120.0 shares authorized, 85.6 issued and outstanding in 2018 and 85.5 issued and outstanding in 2017)                   | 0.9               | 0.9                  |
| Additional paid-in capital  | 1,146.3           | 1,153.2              |
| Retained earnings   | 2,063.5           | 2,029.5              |
| Accumulated other comprehensive loss  | (270.7 )          | (287.0 )             |
| <b>Total Stericycle, Inc.'s Equity</b>  | <b>2,940.0</b>    | <b>2,896.6</b>       |



|                              |           |           |
|------------------------------|-----------|-----------|
| Noncontrolling interests     | 12.1      | 12.0      |
| Total Equity                 | 2,952.1   | 2,908.6   |
| Total Liabilities and Equity | \$7,015.7 | \$6,988.3 |

See accompanying Notes to Condensed Consolidated Financial Statements.

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STERICYCLE, INC.

## CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

In millions

|   | Three Months<br>Ended March 31, |         |
|---|---------------------------------|---------|
|   | 2018                            | 2017    |
| <b>OPERATING ACTIVITIES:</b>  |                                 |         |
| Net income  | \$22.5                          | \$58.6  |
| Adjustments to reconcile net income to net cash provided by operating activities:                 |                                 |         |
| Depreciation  | 30.8                            | 29.1    |
| Intangible amortization   | 31.9                            | 29.1    |
| Stock-based compensation expense  | 7.1                             | 6.0     |
| Deferred income taxes   | (18.3 )                         | 8.7     |
| Asset impairment charges and loss on disposal of assets held for sale                             | 9.8                             | 0.4     |
| Other, net  | (0.3 )                          | 2.6     |
| Changes in operating assets and liabilities, net of the effects of acquisitions and divestitures: |                                 |         |
| Accounts receivable   | (6.8 )                          | 25.5    |
| Prepaid expenses  | 13.6                            | (12.6 ) |
| Accounts payable  | (19.4 )                         | (10.0 ) |
| Accrued liabilities   | 31.9                            | 21.9    |
| Other assets and liabilities  | 7.6                             | 9.0     |
| Net cash provided by operating activities   | 110.4                           | 168.3   |
| <b>INVESTING ACTIVITIES:</b>  |                                 |         |
| Capital expenditures  | (28.5 )                         | (33.1 ) |
| Payments for acquisitions, net of cash acquired   | (15.9 )                         | (16.9 ) |
| Other, net  | 0.3                             | 0.2     |
| Net cash used in investing activities   | (44.1 )                         | (49.8 ) |
| <b>FINANCING ACTIVITIES:</b>  |                                 |         |
| Repayments of long-term debt and other obligations  | (12.2 )                         | (12.8 ) |
| Proceeds from foreign bank debt   | 1.9                             | 0.3     |
| Repayment of foreign bank debt  | (2.8 )                          | (2.9 )  |
| Repayment of term loan  | (11.9 )                         | (30.0 ) |
| Proceeds from senior credit facility  | 303.1                           | 383.9   |
| Repayment of senior credit facility   | (332.1)                         | (446.2) |
| Proceeds from bank overdrafts, net  | 5.5                             | 7.0     |
| Payments of capital lease obligations   | (1.6 )                          | (0.9 )  |
| Proceeds from issuance of common stock, net of shares withheld for taxes                          | 3.7                             | 3.5     |
| Payments for repurchase of mandatory convertible preferred stock                                  | (7.4 )                          | (9.6 )  |
| Dividends paid on mandatory convertible preferred stock   | (8.8 )                          | (9.4 )  |
| Net cash used in financing activities   | (62.6 )                         | (117.1) |
| Effect of exchange rate changes on cash and cash equivalents                                      | 3.5                             | 1.4     |
| Net change in cash and cash equivalents   | 7.2                             | 2.8     |
| Cash and cash equivalents at beginning of period  | 42.2                            | 44.2    |

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|   |        |        |
|---|--------|--------|
| Cash and cash equivalents at end of period          | \$49.4 | \$47.0 |
| SUPPLEMENTAL CASH FLOW INFORMATION:                 |        |        |
| Net issuances of obligations for acquisitions       | \$11.2 | \$13.9 |
| Capital expenditures in accounts payable            | \$5.0  | \$—    |
| Interest paid during the period                     | \$17.0 | \$21.2 |
| Income taxes paid during the period, net of refunds | \$2.6  | \$20.5 |

See accompanying Notes to Condensed Consolidated Financial Statements.

STERICYCLE, INC.

CONDENSED CONSOLIDATED STATEMENTS OF

CHANGES IN EQUITY

(Unaudited)

In millions

|   | Stericycle, Inc. Equity |        |              |        |                            |                   |                                      |                          |              |
|---|-------------------------|--------|--------------|--------|----------------------------|-------------------|--------------------------------------|--------------------------|--------------|
|   | Preferred Stock         |        | Common Stock |        | Additional Paid-In Capital | Retained Earnings | Accumulated Other Comprehensive Loss | Noncontrolling Interests | Total Equity |
|   | Shares                  | Amount | Shares       | Amount |                            |                   |                                      |                          |              |
| Balance as of January 1, 2017   | 0.7                     | \$ -   | 85.2         | \$ 0.8 | \$ 1,166.5                 | \$ 2,006.1        | \$ (367.6 )                          | \$ 10.6                  | \$ 2,816.4   |
| Net income  |                         |        |              |        |                            | 42.4              |                                      | 0.6                      | 43.0         |
| Currency translation adjustment   |                         |        |              |        |                            |                   | 79.3                                 | 1.2                      | 80.5         |
| Change in qualifying cash flow hedge, net of tax  |                         |        |              |        |                            |                   | 1.3                                  |                          | 1.3          |
| Issuance of common stock for exercise of options and employee stock purchases, net of shares withheld for tax |                         |        | 0.3          | 0.1    | 17.2                       |                   |                                      |                          | 17.3         |
| Purchase and cancellation of convertible preferred stock  | -                       | -      |              |        | (51.5 )                    | 17.3              |                                      |                          | (34.2 )      |
| Preferred stock dividend  |                         |        |              |        |                            | (36.3 )           |                                      |                          | (36.3 )      |
| Stock compensation expense  |                         |        |              |        | 21.3                       |                   |                                      |                          | 21.3         |
| Reduction to noncontrolling interests due to additional ownership   |                         |        |              |        | (0.3 )                     |                   |                                      | (0.4 )                   | (0.7 )       |
| Balance as of December 31, 2017   | 0.7                     | -      | 85.5         | 0.9    | 1,153.2                    | 2,029.5           | (287.0 )                             | 12.0                     | 2,908.6      |
| Net income  |                         |        |              |        |                            | 22.5              |                                      | -                        | 22.5         |
| Currency translation adjustment   |                         |        |              |        |                            |                   | 16.2                                 | 0.1                      | 16.3         |
| Change in qualifying cash flow hedge, net of tax  |                         |        |              |        |                            |                   | 0.1                                  |                          | 0.1          |
| Issuance of common stock for exercise of options and employee stock purchases, net of shares withheld for tax |                         |        | 0.1          | -      | 0.7                        |                   |                                      |                          | 0.7          |
| Purchase and cancellation of convertible preferred stock  | -                       | -      |              |        | (14.7 )                    | 7.3               |                                      |                          | (7.4 )       |
| Preferred stock dividend  |                         |        |              |        |                            | (8.8 )            |                                      |                          | (8.8 )       |
| Stock compensation expense  |                         |        |              |        | 7.1                        |                   |                                      |                          | 7.1          |

Cumulative effect of new  
accounting standard (see Note  
2)

|                              |     |      |      |        |            |            |            |           |            |
|------------------------------|-----|------|------|--------|------------|------------|------------|-----------|------------|
|                              |     |      |      | 13.0   |            | 13.0       |            |           |            |
| Balance as of March 31, 2018 | 0.7 | \$ - | 85.6 | \$ 0.9 | \$ 1,146.3 | \$ 2,063.5 | \$ (270.7) | ) \$ 12.1 | \$ 2,952.1 |

See accompanying Notes to Condensed Consolidated Financial Statements.

STERICYCLE, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

(In millions, except per share data and unless otherwise indicated)

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

#### NOTE 1 – BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

##### Description of Business

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

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

##### Summary of Significant Accounting Policies

**Basis of Presentation:** The accompanying Condensed Consolidated Financial Statements include the accounts of Stericycle, Inc. and its subsidiaries. All intercompany accounts and transactions have been eliminated in consolidation. The Company's Condensed Consolidated Financial Statements were prepared in accordance with United States' Generally Accepted Accounting Principles ("U.S. GAAP") and include the assets, liabilities, revenue and expenses of all wholly-owned subsidiaries and majority-owned subsidiaries over which the Company exercises control. Outside shareholders' interests in subsidiaries are shown on the Consolidated Financial Statements as "Noncontrolling interests."

The accompanying unaudited Condensed Consolidated Financial Statements as of March 31, 2018 and for the three months ended March 31, 2018 and 2017 have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission ("SEC") for interim reporting and, therefore, do not include all information and footnote disclosures normally included in audited financial statements prepared in conformity with U.S. GAAP. However, in the opinion of management, all adjustments, consisting of normal recurring adjustments, necessary to present fairly the results of operations, financial position and cash flows have been made. These Condensed Consolidated Financial Statements should be read in conjunction with the consolidated financial statements and notes thereto included in the 2017 Form 10-K. The results of operations for any interim period are not necessarily indicative of the results of operations to be expected for the full year.

**Use of Estimates:** The preparation of financial statements in conformity with U.S. GAAP 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 our allowance for doubtful accounts,



credit memo reserve, accrued employee health and welfare benefits, environmental liabilities, stock-based compensation expense, income tax liabilities, accrued auto and workers' compensation insurance claims, intangible asset valuations, and goodwill impairment. 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.

The following information updates the description of significant accounting policies contained in Note 1 – Basis of Presentation and Summary of Significant Accounting Policies in our Consolidated Financial Statements included in the Company's 2017 Form 10-K.

Adoption of New Accounting Standards:

#### Revenue Recognition

Effective January 1, 2018, the Company adopted ASU No. 2014-19, "Revenue from Contracts with Customers" ("ASC 606") using the modified retrospective method to all contracts that were not completed as of the date of adoption. The results of operations for reported periods after January 1, 2018 are presented under this amended guidance, while prior period amounts are reported in accordance with ASC 605 Revenue Recognition, which is also referred to herein as "legacy U.S. GAAP" or historical guidance.

The impact of adopting ASC 606 relates to (i) the deferral of certain costs associated with obtaining contracts with customers, which were previously expensed as incurred, but under the new guidance are capitalized as Other current assets and Other assets and amortized to Selling, general and administrative expenses ("SG&A") over the expected period of benefit to be received, (ii) the write off of deferred installation costs, which were capitalized, as Prepaid expenses under legacy U.S. GAAP but will be expensed as incurred under ASC 606 and (iii) an increase in Deferred income tax liabilities with respect to the tax impact associated with these items. We recognized a net increase to Retained earnings of \$13.0 million as of January 1, 2018 for the cumulative effect of adopting ASC 606. This was comprised of \$23.3 million associated with the capitalization of contract acquisition costs offset by \$4.9 million write off of deferred installation costs and \$5.4 million to recognize Deferred income tax liabilities.

The impact to Income from operations from the adoption of ASC 606 was a decrease in SG&A of \$3.6 million for the three months ended March 31, 2018.

#### Definition of a Business

Effective January 1, 2018, the Company adopted ASU No. 2017-01, "Clarifying the Definition of a Business" ("ASU 2017-01"), which provides guidance to clarify the definition of a business with the objective of adding guidance to assist entities with evaluating whether transactions should be accounted for as acquisitions (or disposals) of assets or businesses. The amendments in ASU 2017-01 provide a screen to determine when an integrated set of assets and activities (collectively referred to as a "set") is not a business. The screen requires that when substantially all of the fair value of the gross assets acquired (or disposed of) is concentrated in a single identifiable asset or a group of similar identifiable assets, the set is not a business. This screen reduces the number of transactions that need to be further evaluated. If the screen is not met, the amendments require that to be considered a business, a set must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create output and remove the evaluation of whether a market participant could replace the missing elements. The guidance in ASU 2017-01 was applied in evaluating the transactions discussed in Note 3 – Acquisitions, but did not otherwise impact the accompanying Condensed Consolidated Financial Statements. Due to the number of acquisitions the Company completes in any year, there may be





instances where the acquisition will be determined to be an acquisition of assets instead of a business. The Company believes this will be a minority of the acquisitions completed in any year and that there will not be a material impact to our financial statements.

#### Intra-Entity Transfers of Assets Other Than Inventory

On January 1, 2018, the Company adopted the guidance in ASU No. 2016-16, “Intra-Entity Transfers of Assets Other Than Inventory” (“ASU 2016-16”). ASU 2016-16 requires the income tax consequences of an intra-entity transfer of an asset other than inventory to be recognized when the transfer occurs, instead of when the asset is sold to an outside party. The Company’s adoption of ASU 2016-16 did not have an impact on the accompanying Condensed Consolidated Financial Statements.

#### Compensation – Stock Compensation

On January 1, 2018, the Company adopted ASU No. 2017-09, “Compensation – Stock Compensation (Topic 718): Scope of Modification Accounting” (“ASU 2017-09”). ASU 2017-09 clarifies when to account for a change to the terms or conditions of a share-based payment award as a modification. Under the new guidance, modification accounting is required only if the fair value, the vesting conditions, or the classification of the award (as equity or liability) changes as a result of the change in terms or conditions. The Company’s adoption of ASU 2017-09 did not have an impact on the accompanying Condensed Consolidated Financial Statements.

#### Accounting Standards Issued But Not Yet Adopted

##### Leases

In February 2016, the Financial Accounting Standards Board (“FASB”) issued ASU No. 2016-02, “Leases” (Topic 842) (“ASU 2016-02”). This guidance will require lessees to record a right-of-use asset and lease liability on the balance sheet for all leases with terms of more than 12 months. ASU 2016-02 also requires certain quantitative and qualitative disclosures. Accounting guidance for lessors is largely unchanged. The guidance should be applied on a modified retrospective basis. This ASU is effective for the Company beginning January 1, 2019. During the second quarter of 2017, the Company engaged a third party service provider to assist us in our implementation of the new leases standard. The Company is currently gathering, documenting and analyzing lease agreements related to this ASU and anticipates recognizing material right-of-use assets and related liabilities upon adoption. We are also in the process of selecting and implementing a software package to manage and account for leases under the new guidance. Additionally, the Company is continuing to monitor industry activities and any additional guidance provided by or changed by regulators, standards setters, or the accounting profession to adjust the Company’s assessment and implementation plans accordingly.

##### Derivatives and Hedging

In August 2017, the FASB issued ASU No. 2017-12, “Derivatives and Hedging” (Topic 815): Targeted Improvements to Accounting for Hedging Activities (“ASU 2017-12”). ASU 2017-12 amends the hedge accounting recognition and presentation requirements with the objective of improving the financial reporting of hedging relationships to better portray the economic results of an entity’s risk management activities in its financial statements and enhance the transparency and understandability of hedge transactions. In addition, ASU 2017-12 makes improvements to simplify the application of the hedge accounting guidance. ASU 2017-12 is effective for us on January 1, 2019, with early adoption permitted.



The Company does not expect the adoption to materially impact our Condensed Consolidated Financial Statements.

#### Financial Instrument Credit Losses

In June 2016, the FASB issued ASU No. 2016-13, “Financial Instruments – Credit Losses” (“ASU 2016-13”) associated with the measurement of credit losses on financial instruments. ASU 2016-13 replaces the current incurred loss impairment methodology of recognizing credit losses when a loss is probable, with a methodology that reflects expected credit losses and requires consideration of a broader range of reasonable and supportable information to assess credit loss estimates. The amended guidance is effective for us on January 1, 2020, with early adoption permitted beginning January 1, 2019. We are evaluating the impact on our Condensed Consolidated Financial Statements.

#### NOTE 2 – REVENUES FROM CONTRACTS WITH CUSTOMERS

In accordance with ASC 606, revenue is recognized when a customer obtains control of promised goods or services. The amount of revenue recognized reflects the consideration to which the Company expects to be entitled to receive in exchange for these good or services. Revenue is recognized net of revenue-based taxes assessed by governmental authorities.

The Company provides regulated and compliance services, which include the collection and processing of regulated and specialized waste for disposal, the collection of personal and confidential information for secure destruction, and recall and returns (“Expert Solutions”), and communication services. The associated activities for each of these are a series of distinct services that are substantially the same and have the same pattern of transfer over time; therefore, the respective services are treated as a single performance obligation.

The Company recognizes revenue by applying the right to invoice practical expedient as our right to consideration corresponds directly to the value provided to the customer for performance to date, Revenues for our Medical Waste Solutions and Secure Information Destruction Services are recognized upon waste collection. Our Compliance Solution revenues are recognized over the contractual service period. Revenues from Hazardous Waste Solutions and Manufacturing and Industrial Services are recognized at the time the waste is received by a facility with an appropriate permit, either our processing facility or a third party. Revenues from Communication Services and Expert Solutions are recorded as the services are performed.

Our customers typically enter into a contract for the provision of services on a regular and scheduled basis, e.g. weekly, monthly or on an as needed basis over the contract term. Under the contract terms, the Company receives fees based on a monthly, quarterly or annual rate or fees based on contractual rates depending upon measures including the volume, weight and type of waste, number and size of bins collected, weight and type of shredded paper and number of call minutes.

Amounts are invoiced based on the terms of the underlying contract either on a regular basis, e.g. monthly or quarterly, or as services are performed and are generally due within a short period of time after invoicing based upon normal terms and conditions for our business type and the geography of the services performed.



## Disaggregation of Revenues

The following table presents our revenues disaggregated by service and primary geographical regions, and includes a reconciliation of disaggregated revenue to revenue reported by our reportable segments, Domestic and Canada Regulated Waste and Compliance Services (“RCS”) and International RCS:

In millions

| Reportable Segment                      | Three Months Ended March 31, 2018 |                |                      |               |                  |                |
|---|-----------------------------------|----------------|----------------------|---------------|------------------|----------------|
|   | Domestic and<br>Canada<br>United  | RCS            | International<br>RCS | Other         | United<br>States | Total          |
| Revenues by Service:                    |                                   |                |                      |               |                  |                |
| Medical Waste and Compliance Solutions  | \$292.8                           | \$ 9.8         | \$65.3               | \$52.0        | \$-              | \$419.9        |
| Hazardous Waste Solutions               | 77.5                              | -              | -                    | -             | -                | 77.5           |
| Manufacturing and Industrial Services   | 58.8                              | 5.5            | 8.7                  | 12.8          | -                | 85.8           |
| Secure Information Destruction Services | 170.3                             | 16.2           | 30.4                 | 3.0           | -                | 219.9          |
| Communication Services                  | -                                 | 4.5            | 5.3                  | -             | 39.7             | 49.5           |
| Expert Solutions                        | -                                 | 3.1            | 2.8                  | -             | 36.5             | 42.4           |
| <b>Total</b>                            | <b>\$599.4</b>                    | <b>\$ 39.1</b> | <b>\$112.5</b>       | <b>\$67.8</b> | <b>\$76.2</b>    | <b>\$895.0</b> |

## Accounts Receivable

Accounts receivable are recorded when billed or when goods or services are provided. The carrying value of our receivables is presented net of an allowance for doubtful accounts. We estimate our allowance for doubtful accounts based on past collection history and specific risks identified among uncollected amounts. If events or changes in circumstances indicate that specific receivable balances may be impaired, further consideration is given to the collectability of those balances and the allowance is adjusted accordingly. Past-due receivable balances are written off when our internal collection efforts have been exhausted.

## Contract Liabilities

We record a contract liability when cash payments are received or due in advance of our services being performed and classify them as current in Other current liabilities on the Condensed Consolidated Balance Sheets since they are earned within a year. Substantially all our contract liabilities outstanding as of December 31, 2017 were recognized as revenues during the first quarter of 2018. The contract liability at March 31, 2018 was \$18.1 million and is expected to be substantially recognized as revenue during the second quarter of 2018.

## Contract Acquisition Costs

Our incremental direct costs of obtaining a contract, which consist primarily of sales incentives, are deferred and amortized to SG&A over the estimated period of benefit to be received from the cost, over a weighted average period of 6.2 years.

We had \$6.5 million and \$21.4 million of contract acquisition costs, related to deferred sales incentives included in Other current assets and Other assets on the Condensed Consolidated Balance Sheets as of March 31, 2018. During the three months ended March 31, 2018, we amortized \$1.6 million of sales incentives to SG&A.



## NOTE 3 – ACQUISITIONS

## Acquisitions

During the three months ended March 31, 2018, the Company completed 9 acquisitions of businesses under the current guidance.

The following table summarizes the locations, services, and type of acquisitions for the three months ended March 31, 2018:

| Acquisition Locations | Total<br>Number of<br>Acquisitions | Service                       |                            |
|-----------------------|------------------------------------|-------------------------------|----------------------------|
|                       |                                    | Secure<br>Regulation<br>Waste | Information<br>Destruction |
| United States         | 9                                  | 1                             | 8                          |
| Total                 | 9                                  | 1                             | 8                          |

The following table summarizes the acquisition date fair value of consideration transferred for the current period acquisitions and the adjustment to the consideration transferred for the prior year acquisitions during the three months ended March 31, 2018:

In millions

|                          | Three Months Ended<br>March 31, 2018 |  | Total  |
|--------------------------|--------------------------------------|--|--------|
|                          | Current<br>Year<br>Acquisitions      | Adjustments<br>to Prior Year<br>Acquisitions |        |
| Cash                     | \$15.9                               | \$ -   | \$15.9 |
| Promissory notes         | 11.6                                 | -  | 11.6   |
| Contingent consideration | -                                    | (0.4)  | (0.4)  |
| Total purchase price     | \$27.5                               | \$ (0.4)                                     | \$27.1 |

For financial reporting purposes, our acquisitions were accounted for using the acquisition method of accounting. These acquisitions resulted in the recognition of goodwill in our financial statements, reflecting the excess of the purchase price paid over the fair value of the net assets acquired from these businesses that we believe are complementary to our existing operations and fit our growth strategy. During the three months ended March 31, 2018, we recognized an increase in goodwill of \$17.9 million related to current year acquisitions, excluding the effect of foreign currency translation, which will be deductible for income taxes.

During the three months ended March 31, 2018, we recognized an increase in estimated fair value of acquired customer relationships from current year acquisitions of \$9.0 million, excluding the effect of foreign currency translation, with amortizable lives of 10 to 30 years.

The fair value of consideration transferred in a business combination is allocated to the tangible and intangible assets assumed at the acquisition date, with the remaining unallocated amount recorded as goodwill. The allocations of the acquisition price for recent acquisitions have been prepared on a preliminary basis, pending completion of certain intangible asset valuations and finalization of the opening balance sheet.





The following table summarizes the preliminary purchase price allocation for current period acquisitions and other adjustments to purchase price allocations for the three months ended March 31, 2018:

In millions

|                                  | Three Months Ended<br>March 31, 2018      |              |        |
|----------------------------------|---|--------------|--------|
|                                  | Current Adjustments<br>Year to Prior Year |              |        |
|                                  | Acquisitions                              | Acquisitions | Total  |
| Fixed assets                     | \$0.2                                     | \$ 5.1       | \$5.3  |
| Intangibles                      | 9.0                                       | 0.6          | 9.6    |
| Goodwill                         | 17.9                                      | (6.4 )       | 11.5   |
| Net other assets and liabilities | 0.4                                       | 0.3          | 0.7    |
| Total purchase price allocation  | \$27.5                                    | \$ (0.4 )    | \$27.1 |

The results of operations of these acquired businesses have been included in the Condensed Consolidated Statements of Income from the date of the acquisition. Pro forma results of operations for these acquisitions are not presented because the pro forma effects, individually or in the aggregate, were not material to the Company's consolidated results of operations.

#### NOTE 4 – RESTRUCTURING, DIVESTITURES AND ASSETS HELD FOR SALE

##### Restructuring - Business Transformation

Stericycle is focused on driving long-term growth, profitability and delivering enhanced shareholder value.

As part of our business strategy, in the third quarter of 2017, we initiated a comprehensive multi-year Business Transformation with the objective to improve long-term operational and financial performance which we expect to complete by 2022, see Note 3 - Restructuring, Divestitures, and Assets Held For Sale to our Consolidated Financial Statements included in the 2017 Form 10-K. We anticipate we will incur approximately \$20.0 million of employee termination charges in connection with this restructuring of which \$8.0 million and \$1.0 million is expected to impact our Domestic and Canada RCS and International reportable segments, respectively, with the remaining \$11.0 million impacting All Other, see Note 13 – Segment Reporting.

For the year ended December 31, 2017, we incurred restructuring charges of \$13.9 million related to employee termination benefits of \$11.5 million and non-cash long-lived assets impairment charges of \$2.4 million. Our Domestic and Canada RCS and International RCS reportable segments incurred \$5.5 million and \$3.3 million, respectively, with the remaining \$5.1 million impacting All Other. The remaining liability of \$2.2 million at December 31, 2017 was paid in the first quarter of 2018.

There could be additional initiatives in the future to further streamline our operations. As such, the Company expects further charges related to workforce reductions and other facility rationalization costs when those restructuring plans are finalized and related charges are estimable.

##### Divestitures and Assets Held for Sale

There were no divestitures during the three months ended March 31, 2018 and 2017.

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As of March 31, 2018, certain of our international operations met the criteria to be classified as held for sale. For the three months ended March 31, 2018, we recorded a \$4.1 million non-cash impairment charge in SG&A in the Condensed Consolidated Statements of Income related to changes in the fair value

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of assets held for sale in the U.K. The assets and liabilities of the disposal groups are presented in assets held for sale and liabilities held for sale on the Condensed Consolidated Balance Sheets.

The following table presents information related to the major classes of assets and liabilities that were classified as held for sale on the Condensed Consolidated Balance Sheets as of March 31, 2018 and December 31, 2017:

In millions

|                           | March 31,<br>2018 | December 31,<br>2017 |
|---------------------------|-------------------|----------------------|
| Total current assets      | \$ 8.1            | \$ 7.7               |
| Fixed assets              | 8.8               | 8.5                  |
| Goodwill                  | -                 | 1.6                  |
| Intangibles               | 0.8               | 2.6                  |
| Other assets              | -                 | 0.4                  |
| Assets held for sale      | \$ 17.7           | \$ 20.8              |
| Total current liabilities | \$ 5.1            | \$ 4.7               |
| Deferred income taxes     | -                 | 0.4                  |
| Liabilities held for sale | \$ 5.1            | \$ 5.1               |

We determined that the operations included in the table above did not meet the criteria to be classified as discontinued operations as of March 31, 2018 and December 31, 2017.

#### NOTE 5 – GOODWILL AND OTHER INTANGIBLE ASSETS

Goodwill:

Changes in the carrying amount of goodwill by reportable segment and for the “All Other” category were as follows:

In millions

|  | Domestic<br>and |                      |              |           |
|--|-----------------|----------------------|--------------|-----------|
|  | Canada<br>RCS   | International<br>RCS | All<br>Other | Total     |
| Balance as of January 1, 2017                              | \$2,811.8       | \$ 498.4             | \$280.8      | \$3,591.0 |
| Goodwill acquired during year                              | 36.9            | 4.9                  | 4.7          | 46.5      |
| Purchase accounting adjustments                            | (10.1 )         | 1.2                  | 1.5          | (7.4 )    |
| Impairments during the year                                | -               | (65.0 )              | -            | (65.0 )   |
| Write-offs related to disposition and assets held for sale | -               | (7.1 )               | -            | (7.1 )    |
| Changes due to foreign currency fluctuations               | 11.6            | 34.4                 | -            | 46.0      |
| Balance as of December 31, 2017                            | 2,850.2         | 466.8                | 287.0        | 3,604.0   |
| Goodwill acquired during period                            | 17.9            | -                    | -            | 17.9      |
| Purchase accounting adjustments                            | (5.4 )          | (0.2 )               | (0.8 )       | (6.4 )    |
| Changes due to foreign currency fluctuations               | (3.9 )          | 13.6                 | -            | 9.7       |
| Balance as of March 31, 2018                               | \$2,858.8       | \$ 480.2             | \$286.2      | \$3,625.2 |

Current period adjustments to goodwill for certain prior year acquisitions are primarily due to the finalization of intangible asset valuations among other opening balance sheet adjustments.

## Other Intangible Assets:

As of March 31, 2018 and December 31, 2017, the values of other intangible assets were as follows:

In millions

|                                      | March 31, 2018        |                          |                  | December 31, 2017     |                          |                  |
|--------------------------------------|-----------------------|--------------------------|------------------|-----------------------|--------------------------|------------------|
|                                      | Gross Carrying Amount | Accumulated Amortization | Net Value        | Gross Carrying Amount | Accumulated Amortization | Net Value        |
| <b>Amortizable intangibles:</b>      |                       |                          |                  |                       |                          |                  |
| Customer relationships               | \$1,625.4             | \$ 413.0                 | \$1,212.4        | \$1,613.4             | \$ 381.4                 | \$1,232.0        |
| Covenants not-to-compete             | 7.9                   | 6.2                      | 1.7              | 7.9                   | 5.9                      | 2.0              |
| Tradenames                           | 6.0                   | 2.0                      | 4.0              | 6.0                   | 1.8                      | 4.2              |
| Other                                | 16.1                  | 3.5                      | 12.6             | 17.0                  | 3.4                      | 13.6             |
| <b>Indefinite lived intangibles:</b> |                       |                          |                  |                       |                          |                  |
| Operating permits                    | 222.3                 | -                        | 222.3            | 222.3                 | -                        | 222.3            |
| Tradenames                           | 318.2                 | -                        | 318.2            | 317.4                 | -                        | 317.4            |
| <b>Total</b>                         | <b>\$2,195.9</b>      | <b>\$ 424.7</b>          | <b>\$1,771.2</b> | <b>\$2,184.0</b>      | <b>\$ 392.5</b>          | <b>\$1,791.5</b> |

Changes in the carrying amount of intangible assets were as follows:

In millions

|  | Total     |
|--|-----------|
| Balance as of January 1, 2017  | \$1,862.0 |
| Intangible assets acquired during the year                                     | 28.2      |
| Valuation adjustments for prior year acquisitions                              | 7.9       |
| Write-offs due to disposition and amounts reclassified to assets held for sale | (2.6 )    |
| Impairments during the year  | (21.0 )   |
| Amortization during the year   | (118.4 )  |
| Changes due to foreign currency fluctuations                                   | 35.4      |
| Balance as of December 31, 2017  | 1,791.5   |
| Intangible assets acquired during the period                                   | 9.0       |
| Valuation adjustments for prior year acquisitions                              | 0.6       |
| Impairments during the period  | (4.2 )    |
| Amortization during the period   | (31.9 )   |
| Changes due to foreign currency fluctuations                                   | 6.2       |
| Balance as of March 31, 2018   | \$1,771.2 |

Our indefinite-lived intangible assets include permits and certain tradenames. We have determined that our permits and certain tradenames have indefinite lives due to our ability to renew them with minimal additional cost, and therefore these are not amortized. We perform our annual impairment test as of October 1.

During the three months ended March 31, 2018, we impaired \$1.2 million of operating permits and \$3.0 million of customer relationships due to rationalizing certain operations across all segments.

Our finite-lived intangible assets are amortized over their useful lives using the straight-line method. Our customer relationships have useful lives ranging from 10 to 30 years, based upon the type of customer, and a weighted average

remaining useful life of 11.7 years. We have covenants not-to-compete with useful lives ranging from 5 to 14 years and a weighted average remaining useful life of 2.6 years. Our tradenames have useful lives ranging from 4 to 40 years and a weighted average remaining useful life of 15.3 years. Other intangibles mainly consist of landfill air rights with a remaining useful life of 16.5 years.

During the three months ended March 31, 2018 and 2017, the aggregate intangible asset amortization expense was \$31.9 million, and \$29.1 million, respectively.

The estimated amortization expense for each of the next five years (based upon exchange rates at March 31, 2018) is as follows for the years ended December 31:

In millions

2018 \$127.9

2019 \$127.8

2020 \$127.0

2021 \$126.6

2022 \$126.2

#### NOTE 6 – DEBT

Long-term debt consisted of the following:

In millions

|  | March 31,<br>2018 | December 31,<br>2017 |
|--|-------------------|----------------------|
| Obligations under capital leases   | \$ 19.3           | \$ 9.4               |
| \$1.2 billion senior credit facility weighted average rate 2.74% in 2018 and 2.55% in 2017, due in 2022  | 446.9             | 471.7                |
| \$950 million term loan weighted average rate 3.20% in 2018 and 2.83% in 2017, due in 2022   | 938.1             | 950.0                |
| \$125 million private placement notes 2.68%, due in 2019   | 125.0             | 125.0                |
| \$225 million private placement notes 4.47%, due in 2020   | 225.0             | 225.0                |
| \$150 million private placement notes 2.89%, due in 2021   | 150.0             | 150.0                |
| \$125 million private placement notes 3.26%, due in 2022   | 125.0             | 125.0                |
| \$200 million private placement notes 2.72%, due in 2022   | 200.0             | 200.0                |
| \$100 million private placement notes 2.79%, due in 2023   | 100.0             | 100.0                |
| \$150 million private placement notes 3.18%, due in 2023   | 150.0             | 150.0                |
| Promissory notes and deferred consideration weighted average rate 1.59% in 2018 and 1.49% in 2017 and weighted average maturity 2.9 years in 2018 and 2017 | 153.0             | 155.9                |
| Foreign bank debt weighted average rate 5.38% in 2018 and 6.11% in 2017 and weighted average maturity 1.5 years in 2018 and 1.7 years in 2017              | 87.7              | 85.2                 |
| <b>Total debt</b>  | <b>2,720.0</b>    | <b>2,747.2</b>       |
| Less: current portion of total debt  | 121.9             | 119.5                |
| Less: unamortized debt issuance costs  | 11.9              | 12.4                 |
| Long-term portion of total debt  | \$ 2,586.2        | \$ 2,615.3           |

Our senior credit facility, term loan, and the private placement notes all require us to comply with the same financial, reporting and other covenants and restrictions, including a restriction on dividend payments. At March 31, 2018, we were in compliance with all of our financial debt covenants. Our senior credit facility, term loan, and private placement notes rank pari passu to each other and all other unsecured debt obligations.



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At March 31, 2018 and December 31, 2017, we had \$118.3 million and \$130.8 million, respectively, committed to outstanding letters of credit under our senior credit facility. The unused portion of the revolving credit facility was \$634.8 million and \$597.5 million at March 31, 2018 and December 31, 2017, respectively.

The obligations under the senior credit facility, term loan, and the private placement notes agreements are unsecured. All of these agreements contain a financial covenant to maintain a Consolidated Leverage

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Ratio of 3.75 to 1.00 at the end of any fiscal quarter. Following the settlement payment with respect to the pending small quantity customer class action lawsuit (see Note 14 – Legal Proceedings), and provided the pro-forma Consolidated Leverage Ratio is at least 3.50 to 1, the Company has the option to adjust the requirement to 4.00 to 1.00 for up to 2 consecutive quarters for any fiscal quarter ending on or before September 30, 2018.

On March 23, 2018, the Company entered into certain amendments to its senior credit facility, term loan, and private placement note agreements related to the definition of EBITDA (as described in the credit agreements). The amendments allow for certain add-backs, up to a maximum of \$200.0 million on a trailing twelve month basis, related to cash charges associated with Business Transformation, operational optimization and litigation matters, to the calculation of EBITDA for debt covenant compliance purposes. These amendments are in effect from January 1, 2018 through December 31, 2019. The interest rate calculation related to these agreements is subject to adjustment based on unadjusted leverage, which is calculated excluding the add-backs. If this unadjusted leverage is above 3.75, the interest rate on the senior credit facility and term loan would increase by 0.25%. The adjustment for the private placement notes would be calculated as follows:

If the unadjusted leverage is above 3.75, the interest rate would increase:

- a) by 0.50% if the Company has a rating of BBB or better by S&P (or an equivalent rating by another rating agency),
- b) by an additional 0.25% if the Company has a rating of BBB- by S&P (or an equivalent rating by another rating agency), for a total of 0.75% above the rate otherwise applicable to such series of notes, and
- c) by an additional 0.50% if the Company has no rating or a rating of BB+ or worse by S&P (or an equivalent rating by another rating agency), for a total of 1.25% above the rate otherwise applicable to such series of notes.

The Company applied the provisions of ASC 470-50, “Modifications and Extinguishments” and accounted for the refinance as a modification.

#### NOTE 7 – INCOME TAXES

The effective tax rates for the three months ended March 31, 2018 and 2017 were 22.7% and 34.7%, respectively. The decrease in the current quarter tax rate, when compared to the same quarter of the prior year, is primarily the result of the reduction in the United States (“U.S.”) federal tax rate from 35% to 21% in accordance with the U.S. Tax Cuts and Jobs Act of 2017 (the “Act”) effective for tax years beginning after December 31, 2017. Also impacting the rate within the quarter were certain tax reserve and deferred tax adjustments.

In accordance with ASU 2018-05 and SAB 118, the Company recognized the provisional tax impacts related to the re-measurement of our deferred income tax assets and liabilities and the one-time, mandatory transition tax on deemed repatriation during the year ended December 31, 2017. As of March 31, 2018, we have not made any additional measurement-period adjustments related to these items. Such adjustments may be necessary in future periods due to, among other things, the significant complexity of the Act and anticipated additional regulatory guidance that may be issued by the U.S. Internal Revenue Service (“IRS”), changes in analysis, interpretations and assumptions the Company has made and actions the Company may take as a result of the Act. We are continuing to gather information to assess the application of the Act and expect to complete our analysis with the filing of our 2017 income tax returns during the fourth quarter of 2018.

We file income tax returns in the U.S., in various states and in certain foreign jurisdictions. The Company has recorded liabilities to cover certain uncertain tax positions. Such uncertain tax positions relate to additional taxes that the Company may be required to pay in various tax jurisdictions. During the course of examinations by various taxing authorities, proposed adjustments may be asserted. The Company evaluates such items on a case-by-case basis and adjusts the accrual for uncertain tax positions as deemed necessary.

The IRS has completed the audit of our 2014 corporate income tax return and made no changes to our reported tax.

#### NOTE 8 – FAIR VALUE MEASUREMENTS

The following table summarizes the basis used to measure financial assets and liabilities that are carried at fair value on a recurring basis on the Condensed Consolidated Balance Sheets:

In millions

|                                  | Total as of    | Fair Value Measurements Using |               |                |
|----------------------------------|----------------|-------------------------------|---------------|----------------|
|                                  |                | Level 1                       | Level 2       | Level 3        |
|                                  | March 31, 2018 | Inputs                        | Inputs        | Inputs         |
| <b>Assets:</b>                   |                |                               |               |                |
| Derivative financial instruments | \$ 0.5         | \$ -                          | \$ 0.5        | \$ -           |
| <b>Total assets</b>              | <b>\$ 0.5</b>  | <b>\$ -</b>                   | <b>\$ 0.5</b> | <b>\$ -</b>    |
| <b>Liabilities:</b>              |                |                               |               |                |
| Contingent consideration         | \$ 12.5        | \$ -                          | \$ -          | \$ 12.5        |
| <b>Total liabilities</b>         | <b>\$ 12.5</b> | <b>\$ -</b>                   | <b>\$ -</b>   | <b>\$ 12.5</b> |

In millions

|                                  | Total as of       | Fair Value Measurements Using |               |                |
|----------------------------------|-------------------|-------------------------------|---------------|----------------|
|                                  |                   | Level 1                       | Level 2       | Level 3        |
|                                  | December 31, 2017 | Inputs                        | Inputs        | Inputs         |
| <b>Assets:</b>                   |                   |                               |               |                |
| Derivative financial instruments | \$ 0.4            | \$ -                          | \$ 0.4        | \$ -           |
| <b>Total assets</b>              | <b>\$ 0.4</b>     | <b>\$ -</b>                   | <b>\$ 0.4</b> | <b>\$ -</b>    |
| <b>Liabilities:</b>              |                   |                               |               |                |
| Contingent consideration         | \$ 12.4           | \$ -                          | \$ -          | \$ 12.4        |
| <b>Total liabilities</b>         | <b>\$ 12.4</b>    | <b>\$ -</b>                   | <b>\$ -</b>   | <b>\$ 12.4</b> |

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

As of March 31, 2018 and December 31, 2017, we recorded an asset of \$0.5 million and \$0.4 million, respectively, related to the fair value of the U.S. dollar-Canadian dollar foreign currency swap which was classified as Other assets on the Condensed Consolidated Balance Sheets. The objective of the swap is to offset the foreign exchange risk to the U.S. dollar equivalent cash outflows for our Canadian subsidiary.

Our contingent consideration liabilities are recorded using Level 3 inputs and were \$12.5 million as of March 31, 2018, of which \$4.7 million was classified as current liabilities. Contingent consideration liabilities were \$12.4

million at December 31, 2017, of which \$4.6 million was classified as current liabilities. Contingent consideration represents amounts expected to be paid as part of acquisition consideration only if certain future events occur. These events are usually the achievement of targets for revenues, earnings, or other milestones related to the business acquired. We arrive at the fair value of contingent consideration by applying a weighted probability of potential payment outcomes. The calculation of

these potential outcomes is dependent on both past financial performance and management assumptions about future performance. If the financial performance measures were all fully met, our maximum liability would be \$15.7 million at March 31, 2018. Contingent consideration liabilities are reassessed each reporting period and are reflected on the Condensed Consolidated Balance Sheets as part of Other current liabilities and Other liabilities.

Changes to contingent consideration were as follows:

In millions

|   |        |
|---|--------|
| Contingent consideration as of January 1, 2017                                  | \$24.1 |
| Increase due to current year acquisitions                                       | 0.1    |
| Purchase accounting adjustments   | (9.6 ) |
| Decrease due to payments  | (1.5 ) |
| Change in fair value reflected in Selling, general, and administrative expenses | (0.4 ) |
| Other   | (0.3 ) |
| Contingent consideration as of December 31, 2017                                | 12.4   |
| Purchase accounting adjustments   | (0.4 ) |
| Change in fair value reflected in Selling, general, and administrative expenses | 0.5    |
| Contingent consideration as of March 31, 2018                                   | \$12.5 |

In addition to assets and liabilities that are recorded at fair value on a recurring basis, the Company is required to record certain assets and liabilities at fair value on a nonrecurring basis, generally as result of acquisitions or the remeasurement of assets resulting in impairment charges. See Note 3 – Acquisitions and Note 4 – Restructuring, Divestitures and Assets Held for Sale, for further discussion on the fair value of assets and liabilities associated with acquisitions and assets held for sale.

Fair Value of Debt: At March 31, 2018, the fair value of the Company's debt obligations was estimated, using Level 2 inputs, at \$2.69 billion compared to a carrying amount of \$2.72 billion. At December 31, 2017, the fair value of the Company's debt obligations was estimated, using Level 2 inputs, at \$2.74 billion compared to a carrying amount of \$2.75 billion. The fair values were estimated using an income approach by applying market interest rates for comparable instruments.

Accounts receivable, accounts payable and accrued liabilities are financial assets and liabilities, respectively, with carrying values that approximate fair value, using Level 3 inputs.

## NOTE 9 – COMMITMENTS AND CONTINGENCIES

### Environmental Remediation Liabilities

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



At March 31, 2018, the total environmental remediation liabilities recorded were \$30.8 million, of which \$6.2 million were presented in Accrued liabilities on the Condensed Consolidated Balance Sheets. At December 31, 2017, the total environmental remediation liabilities recorded were \$30.8 million, of which \$5.7 million were presented in Accrued liabilities on the Condensed Consolidated Balance Sheets. We project payments over approximately 30 years.

During the second quarter of 2017, we recorded an environmental liability of \$2.0 million related to a portion of a hazardous waste facility in Mexico. We continue to assess the level of remediation, as well as other potentially responsible parties, and will adjust our estimate in the future as appropriate.

#### NOTE 10 – STOCK-BASED COMPENSATION

##### Stock-Based Compensation Expense:

The following table presents the total stock-based compensation expense resulting from stock option awards, restricted stock units (“RSUs”), performance-based restricted stock units (“PSUs”), and the Employee Stock Purchase Plan (“ESPP”) included in the Condensed Consolidated Statements of Income:

In millions

|   | Three<br>Months<br>Ended<br>March 31,<br>2018 2017 |              |
|---|--|--------------|
| Selling, general and administrative - stock option plan | \$3.0  | \$4.1        |
| Selling, general and administrative - RSUs              | 2.1  | 1.4          |
| Selling, general and administrative - PSUs              | 1.6  | 0.2          |
| Selling, general and administrative - ESPP              | 0.4  | 0.3          |
| <b>Total pre-tax expense</b>                            | <b>\$7.1</b>                                       | <b>\$6.0</b> |

##### Stock Options:

Options granted to directors vest in one year and options granted to officers and employees generally vest over five years. Expense related to options with graded vesting is recognized using the straight-line method over the vesting period. Stock option activity for the three months ended March 31, 2018 is summarized as follows:

|                                | Number of<br>Options | Weighted<br>Average<br>Exercise<br>Price per<br>Share | Weighted<br>Average<br>Remaining<br>Contractual<br>Life<br>(in years) | Total<br>Aggregate<br>Intrinsic<br>Value<br>(in<br>millions) |
|--------------------------------|----------------------|---|---|--|
| Outstanding at January 1, 2018 | 5,393,417            | \$96.91   |   |  |
| Granted                        | 338,834              | 62.13   |   |  |
| Exercised                      | (38,203 )            | 53.63   |   |  |

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|                                  |            |          |      |        |
|----------------------------------|------------|----------|------|--------|
| Forfeited                        | (71,348 )  | 109.61   |      |        |
| Canceled or expired              | (101,631 ) | 102.66   |      |        |
| Outstanding as of March 31, 2018 | 5,521,069  | \$ 94.81 | 4.54 | \$ 5.5 |
| Exercisable as of March 31, 2018 | 3,951,661  | \$ 93.48 | 3.87 | \$ 5.5 |

At March 31, 2018, there was \$29.3 million of total unrecognized compensation expense related to stock options, which is expected to be recognized over a weighted average period of 3.19 years.

For the three months ended March 31, 2018 and 2017, the intrinsic value of options exercised was \$0.6 million and \$2.9 million, respectively. The exercise intrinsic value represents the total pre-tax intrinsic



value (the difference between the fair value on the trading day the option was exercised and the exercise price associated with the respective option).

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

|   | Three Months Ended |          |
|---|--------------------|----------|
|   | March 31,          | 2017     |
|   | 2018               |          |
| Stock options granted (shares)            | 338,834            | 425,599  |
| Weighted average fair value at grant date | \$ 16.87           | \$ 19.53 |
| Assumptions:                              |                    |          |
| Expected term (in years)                  | 4.89               | 4.82     |
| Expected volatility                       | 25.33 %            | 22.66 %  |
| Expected dividend yield                   | — %                | — %      |
| Risk free interest rate                   | 2.57 %             | 1.91 %   |

Restricted Stock Units:

The fair value of RSUs is based on the closing price of the Company's common stock on the date of grant and is amortized to expense over the service period. RSUs generally vest over five years.

A summary of the status of our non-vested RSUs and changes during the three months ended March 31, 2018, are as follows:

|                                 | Number of | Weighted   | Weighted    | Total     |
|---------------------------------|-----------|------------|-------------|-----------|
|                                 | Units     | Average    | Average     | Aggregate |
|                                 |           | Grant Date | Remaining   | Intrinsic |
|                                 |           | Fair Value | Contractual | Value     |
|                                 |           |            | Life        | (in       |
|                                 |           |            | (in years)  | millions) |
| Non-vested at January 1, 2018   | 267,297   | \$ 89.74   |             |           |
| Granted                         | 247,570   | 62.14      |             |           |
| Vested and Released             | (51,302 ) | 89.31      |             |           |
| Forfeited                       | (10,395 ) | 90.32      |             |           |
| Non-vested as of March 31, 2018 | 453,170   | \$ 74.43   | 2.53        | \$ 26.5   |

At March 31, 2018, there was \$30.1 million of total unrecognized compensation expense related to RSUs, which is expected to be recognized over a weighted average period of 4.20 years. The fair value of RSUs that vested during the three months ended March 31, 2018 was \$3.5 million.

Performance-Based Restricted Stock Units:

Our executive officers have been granted PSUs. These PSUs vest, or not, in three equal annual installments based on the achievement of pre-determined annual earnings per share performance goals, as approved by the Compensation Committee.

In addition, certain employees have been granted PSUs which vest, or not, in four equal annual installments based on the achievement of performance goals related to the Business Transformation, as approved by the Compensation Committee.

Each of the units granted represent the right to receive one share of the Company's common stock at a specified future date.

A summary of the status of our non-vested PSUs and changes during the three months ended March 31, 2018, are as follows:

|                                 | Number of<br>Units | Weighted<br>Average<br>Grant Date<br>Fair Value | Weighted<br>Average<br>Remaining<br>Contractual<br>Life<br><br>(in years) | Total<br>Aggregate<br>Intrinsic<br>Value<br>(in<br>millions) |
|---------------------------------|--------------------|---|---|--|
| Non-vested at January 1, 2018   | 33,447             | \$ 82.85  |   |  |
| Granted                         | 399,658            | 62.09   |   |  |
| Vested and Released             | -                  | -   |   |  |
| Forfeited                       | (12,880 )          | 82.92   |   |  |
| Non-vested as of March 31, 2018 | 420,225            | \$ 63.11  | 2.32  | \$ 24.6  |

At March 31, 2018, there was \$5.5 million of total unrecognized compensation expense related to the 2018 installments of PSUs.

#### NOTE 11 – PREFERRED STOCK

At March 31, 2018, we had 1,000,000 authorized shares of preferred stock and 658,190 shares issued and outstanding of mandatory convertible preferred stock.

We declared and paid dividends of \$8.8 million and \$9.4 million to the preferred stock shareholders during the three months ended March 31, 2018 and 2017, respectively.

The following table provides information about our repurchases of depository shares of mandatory convertible preferred stock during the quarter ended March 31, 2018:

| In millions, except share and per share data |  |                                   |                                       |
|--|--|-----------------------------------|---------------------------------------|
|  | Number of<br>Depository<br>Shares<br>Repurchased | Amount Paid<br>for<br>Repurchases | Average<br>Price<br>Paid per<br>Share |
| January 1 - January 31, 2018                 | -  | \$ -                              | \$ -                                  |
| February 1 - February 28, 2018               | 151,900  | 7.4                               | 49.05                                 |
| March 1 - March 31, 2018                     | -  | -                                 | -                                     |
| Total  | 151,900  | \$ 7.4                            | \$ 49.05                              |

For the three months ended March 31, 2018 and 2017, repurchases of our mandatory convertible preferred stock resulted in a \$7.3 million and \$4.6 million, respectively, increase in retained earnings, as we redeemed the preferred stock at a discount. The 151,900 depository shares are equivalent to 15,190 units of preferred stock.

#### NOTE 12 – EARNINGS PER COMMON SHARE

Basic earnings per share is computed by dividing income available to common shareholders by the weighted-average number of shares of common stock outstanding during the period. Diluted earnings per share is computed by dividing income available to common shareholders by the weighted-average number of shares of common stock outstanding during the period increased to include the number of additional shares of common stock that would have been outstanding if the potentially dilutive securities had been issued. Potentially dilutive securities include outstanding stock options, shares to be purchased under the Company's employee stock purchase plan, RSUs, PSUs and the assumed conversion of mandatory convertible preferred stock. The effect of potentially dilutive securities is reflected in diluted

earnings per share by application of the "treasury stock method" for outstanding stock-based compensation awards. Under the treasury stock method, an increase in the fair market value of the Company's common stock can result in a greater dilutive effect from potentially dilutive securities. For the issue of the mandatory convertible preferred stock, we use the "if-converted method." Under the if-converted method, the preferred dividend applicable to convertible preferred stock is added back as an adjustment to the numerator. The mandatory convertible preferred shares are assumed to be converted to common shares at the beginning of the period or, if later, at the time of issuance, and the resulting common shares are included in the denominator. In applying the if-converted method, conversion shall not be assumed for purposes of computing diluted earnings per share if the effect would be anti-dilutive. The numerator is also adjusted for any premium or discount arising from redemption of the preferred stock.

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

In millions, except per share data

|  | Three<br>Months<br>Ended<br>March 31,<br>2018    2017 |               |
|--|---|---------------|
| <b>Numerator:</b>  |   |               |
| Net income attributable to Stericycle, Inc.  | \$22.5  | \$58.2        |
| Mandatory convertible preferred stock dividend   | (8.8)   | (9.4)         |
| Gain on repurchase of preferred stock  | 7.3   | 4.6           |
| <b>Numerator for basic earnings per share attributable to Stericycle, Inc. common shareholders</b>               | <b>\$21.0</b>   | <b>\$53.4</b> |
| <b>Denominator:</b>  |   |               |
| Denominator for basic earnings per share - weighted average shares   | 85.5  | 85.2          |
| <b>Effect of dilutive securities:</b>  |   |               |
| Stock-based compensation awards  | 0.3   | 0.4           |
| Mandatory convertible preferred stock <sup>(1)</sup>   | -   | -             |
| <b>Denominator for diluted earnings per share - adjusted weighted average shares and after assumed exercises</b> | <b>85.8</b>   | <b>85.6</b>   |
| Earnings per share – Basic   | \$0.25  | \$0.63        |
| <b>Earnings per share – Diluted</b>  | <b>\$0.25</b>   | <b>\$0.62</b> |

<sup>(1)</sup>For the three months ended March 31, 2018 and 2017, the weighted average common shares (in thousands) issuable upon the assumed conversion of the mandatory convertible preferred stock totaling 4,903, and 5,264, respectively, were excluded from the computation of diluted earnings per share as such conversion would have been anti-dilutive.

For the three months ended March 31, 2018 and 2017, options to purchase shares (in thousands) of 4,700 and 4,660, respectively, were not included in the computation of diluted earnings per share because the effect would have been anti-dilutive.

For the three months ended March 31, 2018 and 2017, RSUs (in thousands) of 51 and 135, respectively, were not included in the computation of diluted earnings per share because the effect would have been anti-dilutive.

During the three months ended March 31, 2018 and 2017, all of the Company's outstanding PSUs are subject to the achievement of specified performance conditions. Contingently issuable shares are excluded from the computation of diluted earnings per share if, based on current period results, the shares would not be issuable if the end of the

reporting period were the end of the contingency period. These outstanding PSUs were excluded from the earnings per share calculation for the three months

ended March 31, 2018 and 2017, as the performance conditions were not satisfied as of the end of the respective periods.

#### NOTE 13 – SEGMENT REPORTING

Our reportable segments are:

• Domestic and Canada RCS

• International RCS

• All Other (which includes Domestic CRS, Corporate and shared services)

Our Domestic and Canada, and International Regulated Waste and Compliance Services segments include medical waste disposal, pharmaceutical waste disposal, hazardous waste management, sustainability solutions for expired or unused inventory, secure information destruction of documents and e-media, training and consulting through our Steri-Safe® and Clinical Services programs, and other regulatory compliance services.

All Other includes Domestic Communication and Related Services operations which consists of services including inbound/outbound communication, automated patient reminders, online scheduling, notifications, product retrievals, product returns, and quality audits, as well as expenses related to Corporate support, shared services functions, and stock-based compensation.

Beginning in the first quarter of 2018, we have changed our measure of segment profitability to Adjusted Earnings Before Interest, Tax, Depreciation and Amortization (“Adjusted EBITDA”). Adjusted EBITDA is Income from operations excluding certain specified items, Depreciation and Intangible Amortization. As a result of this change in segment reporting, all applicable historical segment information has been revised to conform to the new presentation.

The following tables show financial information for the Company's reportable segments:

In millions

|                                | Three Months<br>Ended<br>March 31,<br>2018 2017 |                |
|--------------------------------|---|----------------|
| <b>Revenues</b>                |   |                |
| Domestic and Canada RCS        | \$638.5   | \$633.7        |
| International RCS              | 180.3   | 181.6          |
| All Other                      | 76.2  | 77.1           |
| <b>Total</b>                   | <b>\$895.0</b>                                  | <b>\$892.4</b> |
| <b>Gross Profit</b>            |   |                |
| Domestic and Canada RCS        | \$260.5   | \$278.1        |
| International RCS              | 62.8  | 58.5           |
| All other                      | 35.2  | 32.1           |
| <b>Total</b>                   | <b>\$358.5</b>                                  | <b>\$368.7</b> |
| <b>Depreciation</b>            |   |                |
| Domestic and Canada RCS        | \$17.9  | \$17.2         |
| International RCS              | 7.3   | 7.8            |
| All Other                      | 5.6   | 4.1            |
| <b>Total</b>                   | <b>\$30.8</b>                                   | <b>\$29.1</b>  |
| <b>Intangible Amortization</b> |   |                |
| Domestic and Canada RCS        | \$23.2  | \$21.7         |
| International RCS              | 6.6   | 5.4            |
| All Other                      | 2.1   | 2.0            |
| <b>Total</b>                   | <b>\$31.9</b>                                   | <b>\$29.1</b>  |
| <b>Adjusted EBITDA</b>         |   |                |
| Domestic and Canada RCS        | \$190.0   | \$203.7        |
| International RCS              | 33.0  | 27.9           |
| All Other                      | (33.7 )   | (32.1 )        |
| <b>Total</b>                   | <b>\$189.3</b>                                  | <b>\$199.5</b> |

The following table reconciles the Company's primary measure of segment profitability (Adjusted EBITDA) to Income from operations:

In millions

|   | Three Months<br>Ended<br>March 31,<br>2018 2017 |         |
|---|---|---------|
| Domestic and Canada RCS Adjusted EBITDA | \$190.0   | \$203.7 |
| International RCS Adjusted EBITDA       | 33.0  | 27.9    |
| All Other Adjusted EBITDA               | (33.7 )   | (32.1 ) |
| Depreciation                            | (30.8 )   | (29.1 ) |
| Business Transformation                 | (22.1 )   | -       |



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|   |         |         |
|---|---------|---------|
| Intangible Amortization                           | (31.9 ) | (29.1 ) |
| Acquisition and Integration                       | (4.1 )  | (11.5 ) |
| Operational Optimization                          | (8.9 )  | (10.9 ) |
| Divestitures                                      | (4.1 )  | -       |
| Litigation, Settlements and Regulatory Compliance | (27.5 ) | (1.9 )  |
| Other   | (5.8 )  | (2.5 )  |
| Income from operations                            | \$54.1  | \$114.5 |

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The following table presents consolidated revenues by service:

In millions

|   | Three Months<br>Ended<br>March 31, |         |
|---|------------------------------------|---------|
|   | 2018                               | 2017    |
| Regulated Waste and Compliance Services | \$497.4                            | \$511.2 |
| Secure Information Destruction Services | 219.9                              | 204.1   |
| Communication and Related Services      | 91.9                               | 93.5    |
| Manufacturing and Industrial Services   | 85.8                               | 83.6    |
| Revenues                                | \$895.0                            | \$892.4 |

#### NOTE 14 – LEGAL PROCEEDINGS

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

The Company establishes an accrued liability for loss contingencies related to legal and regulatory matters when the loss is both probable and reasonably estimable. If a loss is not probable or a probable loss is not reasonably estimable, no liability is recorded. These accruals represent management’s best estimate of probable losses and, in such cases, there may be an exposure to loss in excess of the amounts accrued. Legal and regulatory matters inherently involve significant uncertainties based on, among other factors, the stage of the proceedings, developments in the applicable facts or law, and the unpredictability of the ultimate determination of the merits of any claim, any defenses the Company may assert against that claim and the amount of any damages that may be awarded. The Company’s accrued liabilities for loss contingencies related to legal and regulatory matters may change in the future as a result of new developments, including, but not limited to, the occurrence of new legal matters, changes in the law or regulatory environment, adverse or favorable rulings, newly discovered facts relevant to the matter, or changes in the strategy for the matter. Regardless of the outcome, litigation can have an adverse impact on the Company because of defense and settlement costs, diversion of management resources and other factors.

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

The Pennsylvania class action complaint was filed in the wake of a settlement with the State of New York of an investigation under the New York False Claims Act which arose out of the qui tam (or “whistle blower”) action captioned United States of America ex rel. Jennifer D. Perez v. Stericycle, Inc., Case No. 1:08-cv-2390, which was settled in the fourth quarter of 2015 as previously disclosed.

Following the filing of the Pennsylvania class action complaint, we were served with class action complaints filed in federal and state courts in several jurisdictions. These complaints asserted claims and allegations substantially similar to those made in the Pennsylvania class action complaint. All of these cases appear to be follow-on litigation to our

settlement with the State of New York. On August 9, 2013,

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the Judicial Panel on Multidistrict Litigation granted our Motion to Transfer these related actions to the United States District Court for the Northern District of Illinois for centralized pretrial proceedings (the “MDL Action”). On December 10, 2013, we filed our answer to the Amended Consolidated Class Action Complaint in the MDL Action, generally denying the allegations therein. Plaintiffs subsequently filed a Second Amended Consolidated Complaint on March 8, 2016, and we filed an answer to that pleading on March 25, 2016, generally denying the allegations therein and asserting a variety of affirmative defenses.

Plaintiffs filed a motion for class certification on January 29, 2016. On February 16, 2017, the Court entered an order granting plaintiffs’ motion for class certification. The Court certified a class of “[a]ll persons and entities that, between March 8, 2003 through the date of trial resided in the United States (except Washington and Alaska), were identified by Stericycle as ‘Small Quantity’ or ‘SQ’ customer, and were charged and paid more than their contractually-agreed price for Stericycle’s medical waste disposal goods and services pursuant to Stericycle’s automated price increase policy. Governmental entities whose claims were asserted in *United States ex rel. Perez v. Stericycle Inc.* shall be excluded from the class.” On March 2, 2017, Stericycle filed a motion for reconsideration and clarification relating to the Court’s class certification decision. The parties engaged in discussions through and overseen by a mediator regarding a potential resolution of the matter and reached an agreement in principle for settlement in July 2017 (the “Proposed MDL Settlement”).

As we disclosed in a current report on Form 8-K filed on August 2, 2017, under the terms of the Proposed MDL Settlement, we will establish a common fund of \$295.0 million from which will be paid all compensation to members of the settlement class, attorneys’ fees to class counsel, incentive awards to the named class representatives and all costs of notice and administration. Our existing contracts with customers will remain in force, while we will also establish as part of the Proposed MDL Settlement guidelines for future price increases and provide customers additional transparency regarding such increases. The Proposed MDL Settlement also addresses additional matters, including the availability of alternative dispute resolution for members of the settlement class. In the Proposed MDL Settlement, we are admitting no fault or wrongdoing whatsoever, and are entering into the Proposed MDL Settlement in order to avoid the cost and uncertainty of litigation.

In view of the Proposed MDL Settlement, we recorded a pre-tax charge of \$295.0 million during the second quarter of 2017.

On October 17, 2017, the Company executed a definitive written settlement agreement (the “Settlement”), which incorporates the terms of the agreement in principle announced in August 2017. The Settlement incorporates the terms of the Proposed MDL Settlement, described above, and proposes a global resolution of all cases and claims against the Company in the MDL Action, including the allegation that price increases implemented by the Company allegedly violated the contracts between the Company and its customers as well as various state consumer protection statutes. Under the terms of the Settlement, the Company is admitting no fault or wrongdoing whatsoever, and it is entering into the Settlement in order to avoid the cost and uncertainty of litigation. The Settlement, upon final approval by the Court following a fairness hearing, will fully and finally resolve all claims against the Company alleged in the MDL Action.

On October 17, 2017, plaintiffs in the MDL Action filed Plaintiffs’ Unopposed Motion for Preliminary Approval of Class Settlement and Approval of Notice Plan. Following a hearing on October 26, 2017, the Court granted preliminary approval of the Settlement and set certain deadlines, including for notification of the class of the terms of the Settlement, the submission of opt-outs or objections to the Settlement, and a fairness hearing. The fairness hearing was held on March 8, 2018. The Court granted approval of



the Proposed MDL Settlement that same day. A hearing to address final opt out issues is currently scheduled for May 3, 2018.

Securities Class Action Lawsuit. On July 11, 2016, two purported stockholders filed a putative class action complaint in the U.S. District Court for the Northern District of Illinois. The plaintiffs purported to sue for themselves and on behalf of all purchasers of our publicly traded securities between February 7, 2013 and April 28, 2016, inclusive, and all those who purchased securities in our public offering of depositary shares, each representing a 1/10th interest in a share of our mandatory convertible preferred stock, on or around September 15, 2015. The complaint named as defendants the Company, our directors and certain of our current and former officers, and certain of the underwriters in the public offering. The complaint purports to assert claims under Sections 11, 12(a)(2) and 15 of the Securities Act of 1933 and Sections 10(b) and 20(a) of the Securities Exchange Act of 1934, as well as SEC Rule 10b-5, promulgated thereunder. The complaint alleges, among other things, that the Company imposed unauthorized or excessive price increases and other charges on its customers in breach of its contracts, and that defendants failed to disclose those alleged practices in public filings and other statements issued during the proposed class period beginning February 7, 2013 and ending April 28, 2016.

On August 4, 2016, plaintiffs filed an Amended Complaint that purports to assert additional misrepresentations in public statements through July 28, 2016, and therefore to change the putative class period to the period from February 7, 2013 to July 28, 2016, inclusive. On October 21, 2016, plaintiffs filed a Corrected Amended Complaint adding the Company as a named defendant in plaintiff's claim under Section 11 of the Securities Act, which had previously been asserted only against the Underwriters and certain officers and directors.

On November 1, 2016, the Court appointed the Public Employees' Retirement System of Mississippi and the Arkansas Teacher Retirement System as Lead Plaintiffs and their counsel as Lead Counsel. On February 1, 2017, Lead Plaintiff filed a Consolidated Amended Complaint with additional purported factual material supporting the same legal claims from the prior complaints for a class period from February 7, 2013 through September 18, 2016. Defendants filed a motion to dismiss the Consolidated Amended Complaint on April 1, 2017. On May 19, 2017, plaintiffs filed a response in opposition to the motion to dismiss and on June 19, 2017, Defendants filed a reply brief in support of their motion.

On March 31, 2018, plaintiffs filed a further Amended Complaint, alleging additional corrective disclosures and extending the purported class period through February 21, 2018.

We intend to vigorously defend ourselves against this lawsuit.

We have not accrued any amounts in respect of this lawsuit, and we cannot estimate the reasonably possible loss or the range of reasonably possible losses that we may incur. We are unable to make such an estimate because (i) litigation is by its nature uncertain and unpredictable, (ii) we do not know whether the court will certify any class of plaintiffs or, if any class is certified, how the class would be defined, and (iii) in our judgment, the factual and legal allegations asserted by plaintiffs are sufficiently unique that we are unable to identify other proceedings with circumstances sufficiently comparable to provide guidance in making estimates.

Shareholder Derivative Lawsuits. On September 1, 2016, a purported stockholder filed a putative derivative action complaint in the Circuit Court of Cook County, Illinois against certain officers and directors of the Company, naming the Company as nominal defendant. The complaint alleges that defendants breached their fiduciary duties to the Company and its stockholders by causing the Company to allegedly overcharge certain customers in breach of those customers' contracts, otherwise provide



unsatisfactory customer service and injure customer relationships, and make materially false and misleading statements and omissions regarding the Company's business, operational and compliance policies between February 7, 2013 and the present.

On March 1, 2017, another purported stockholder filed a putative derivative action complaint containing substantially similar allegations in the Circuit Court of Cook County, Illinois against certain officers and directors of the Company, naming the Company as nominal defendant. The Company notes, among other things, that, in addition to failing to make the required demand on the board of directors, both of these filings are in violation of the Company's Bylaws, which require any such actions to be brought in a court in Delaware.

On June 29, 2017, the Court entered an agreed order consolidating the two putative derivative actions for all purposes under the caption *Kausal Shah v. Charles A. Alutto, et al.* On July 11, 2017, the Court entered a further agreed order appointing lead counsel for plaintiffs and staying the action pending resolution of the motion to dismiss the securities class action discussed above. Pursuant to the agreed order, defendants reserve all potential defenses to both actions, should the stay be lifted.

Additional putative derivative action complaints were subsequently filed by purported shareholders, containing similar allegations against certain officers and directors of the Company and naming the Company as nominal defendant. On March 26, 2018, *Alvin Janklow v. Charles A. Alutto, et al.*, was filed in the Federal District Court for the District of Delaware. On April 12, 2018, *Rick Siu v. Mark C. Miller, et al.*, was filed in Delaware Chancery Court. And on April 16, 2018, *John Brennan v. Charles A. Alutto, et al.*, was filed in the Federal District Court for the District of Delaware. By agreement of the parties, the Brennan and Siu cases will be stayed pending resolution of the motion to dismiss the securities class action discussed above. On April 18, 2018, the company filed a motion to stay the Janklow case.

We intend to vigorously defend ourselves against each of the derivative lawsuits.

We have not accrued any amounts in respect of these lawsuits, and we cannot estimate the reasonably possible loss or the range of reasonably possible losses that we may incur. We are unable to make such an estimate because (i) litigation is by its nature uncertain and unpredictable and (ii) in our judgment, the factual and legal allegations asserted by plaintiffs are sufficiently unique that we are unable to identify other proceedings with circumstances sufficiently comparable to provide guidance in making estimates.

**Shareholder Demand Letter.** On October 18, 2016, the Company received a letter from an attorney purporting to represent a current stockholder of the Company demanding, pursuant to Del. Ct. Ch. R. 23.1, that the Company's Board of Directors take action to remedy alleged breaches of fiduciary duties by certain officers and directors of the Company. The factual allegations set forth in the letter are similar to those asserted in the Securities Class Action Lawsuit and the Shareholder Derivative Lawsuits. The letter asserts breaches of fiduciary duty in connection with the management, operation and oversight of the Company's business and in connection with alleged false, misleading and/or incomplete statements regarding the Company's business practices.

The Company's Board of Directors constituted a Special Demand Review Committee to investigate the claims made in the demand letter and the Committee retained independent counsel to assist with the investigation. At the conclusion of its investigation, the Committee's counsel advised the stockholder that the board had completed its investigation and determined not to pursue legal action.

**TCPA Lawsuit.** On June 3, 2016, a plaintiff filed a putative class action, captioned *Ibrahim v. Stericycle, Inc.*, No. 16-cv-4294 (N.D. Ill.), against us and our wholly-owned subsidiary, Stericycle Communication





Solutions, Inc., under the Telephone Consumer Protection Act (“TCPA”), asserting that the defendants called plaintiff and others in violation of that statute. Plaintiff challenges our use of pre-recorded messages that urge the owners of recalled products to return or obtain repairs for those products.

Plaintiff seeks certification of two nationwide classes. One class includes people who received one or more cellular telephone calls from Stericycle featuring a prerecorded or artificial voice message relating to a product recall, where the called party was not the same individual who, according to Stericycle’s records, was the intended recipient of the call. The second class includes people who received one or more cellular telephone calls from Stericycle featuring a prerecorded or artificial voice message relating to a product recall after such person had communicated to Stericycle that Stericycle did not have consent to make any such calls to their cellular telephone number.

On July 28, 2016, we answered the complaint, denying the material allegations and raising certain affirmative defenses. Among the asserted defenses is the “emergency” exception to the TCPA, which exempts calls made to promote public health and safety. On December 19, 2016, before any substantial discovery in the case, we filed a motion for summary judgment primarily on the basis of the “emergency” exception. On February 1, 2017, plaintiff responded to our motion by requesting additional discovery. The court permitted plaintiff to obtain some but not all of the requested discovery, and we have provided additional documents in response to that order.

On April 5, 2017, plaintiff sought leave to file an amended complaint which would add a claim under the Illinois Automatic Telephone Dialers Act (which does not include an “emergency” exception) and certain additional allegations. We filed an opposition to this motion on April 28, 2017, contending that the proposed amendments are futile and that we are entitled to summary judgment. On June 27, 2017, the court permitted plaintiff to file the amended complaint. We have answered plaintiff’s amended complaint, denying liability, and in light of the amended complaint, have withdrawn our motion for summary judgment without prejudice.

The parties are currently conducting discovery. The deadline for completion of fact discovery is May 15, 2018.

We intend to vigorously defend ourselves against this lawsuit.

We have not accrued any amounts in respect of this lawsuit, and we cannot estimate the reasonably possible loss or the range of reasonably possible losses that we may incur. We are unable to make such an estimate because (i) litigation is by its nature uncertain and unpredictable, (ii) we do not know whether the court will certify any class of plaintiffs or, if any class is certified, how the class would be defined, and (iii) in our judgment, the factual and legal allegations asserted by plaintiff are sufficiently unique that we are unable to identify other proceedings with circumstances sufficiently comparable to provide guidance in making estimates.

FCPA Investigation. On June 12, 2017, the SEC issued a subpoena to the Company, requesting documents and information relating to the Company’s compliance with the Foreign Corrupt Practices Act (“FCPA”) or other foreign or domestic anti-corruption laws with respect to certain of the Company’s operations in Latin America. In addition, the Department of Justice has notified the Company that it is investigating this matter in parallel with the SEC. The Company is cooperating with these agencies. The Company is also conducting an internal investigation of these and other matters, including outside of Latin America, under the oversight of the Audit Committee of the Board of Directors and with the assistance of outside counsel, and this investigation has found evidence of improper conduct.

We have not accrued any amounts in respect of this matter, as we cannot estimate any reasonably possible loss or any range of reasonably possible losses that we may incur. We are unable to make such an estimate because, based on what we know now, in our judgment, the factual and legal issues presented in this matter are sufficiently unique that we are unable to identify other circumstances sufficiently comparable to provide guidance in making estimates.

**Environmental Matters.** Our Environmental Solutions business is regulated by federal, state and local laws enacted to regulate the discharge of materials into the environment, remediate contaminated soil and groundwater or otherwise protect the environment. As a result of this continuing regulation, we frequently become a party to legal or administrative proceedings involving various governmental authorities and other interested parties. The issues involved in these proceedings generally relate to alleged violations of existing permits and licenses or alleged responsibility under federal or state Superfund laws to remediate contamination at properties owned either by us or by other parties to which either we or the prior owners of certain of its facilities shipped wastes. From time to time, we may be subject to fines or penalties in regulatory proceedings relating primarily to waste treatment, storage or disposal facilities.

**North Salt Lake, Utah.** On February 29, 2016, we entered into a statute of limitations tolling agreement with the United States Attorney's Office for the District of Utah (the "USAO") relating to an investigation by the USAO and the Criminal Investigation Division of the U.S. Environmental Protection Agency (the "EPA") of the same facts underlying the notice of violation (the "NOV") issued by the State of Utah Division of Air Quality (the "DAQ") that resulted in our December 2014 settlement with the DAQ that we have previously disclosed. The USAO and EPA are investigating whether the matters forming the basis of the NOV constitute criminal or civil violations of the Clean Air Act and other federal statutes.

The government has indicated that the matter will be resolved civilly and the parties are beginning settlement negotiations regarding a civil consent decree and a civil penalty. The Company has recorded its estimate of the probable loss for this matter which is not material.

**Rancho Cordova, California.** The California Department of Toxic Substances Control ("DTSC") has alleged violations of California's Hazardous Waste Control Law for our hazardous waste facility in Rancho Cordova, California for the years 2011 through 2017. DTSC has referred the matter to the California Attorney General's office. On March 3, 2016, we entered into a tolling agreement with the Attorney General's office, which was subsequently extended through October 30, 2017. Under the tolling agreement as extended, the period from February 29, 2016 through October 30, 2017 will be excluded from any calculation of time for the purpose of determining the statute of limitations concerning any charges that we violated the Hazardous Waste Control Law. The tolling agreement does not constitute an admission of guilt or wrongdoing on our part and cannot be construed as a waiver of any other rights or defenses that we may have in any resulting action or proceeding.

On October 26, 2017, DTSC filed a complaint in California Superior Court in Sacramento County for civil penalties and injunctive relief for alleged violations of California's Hazardous Waste Control Law. We continue to engage in discussions with DTSC regarding the parties' current factual and legal positions. We will continue to evaluate DTSC's position and to explore a number of potential alternatives, including a negotiated resolution and potential litigation.

The Company has recorded its estimate of the probable loss for this matter which is not material.

**Tabasco, Mexico.** The National Agency for Industrial Security and the Protection of the Environment for the Hydrocarbon Sector in Mexico ("ASEA") has conducted a permit compliance inspection at a hazardous



waste treatment facility acquired by one of our subsidiaries in Dos Bocas, Tabasco, Mexico. ASEA has claimed that the contaminated soil treatment process described in the treatment permit had not been followed properly and has issued an order imposing a fine and directing that the facility be closed and that alleged contamination on a certain portion of the facility be remediated. Our subsidiary has engaged a firm of environmental technicians to assess the contamination described in the ASEA order and to conduct a broader environmental assessment of the facility. The preliminary estimate of the remediation costs necessary to address the ASEA order was \$2.0 million. Our review and assessment of the overall facility is ongoing. In November 2017, ASEA rescinded the prior order imposing the fine. After reassessing the evidence and arguments presented, ASEA issued a new resolution on March 9, 2018, containing a lower, revised fine and including remedial obligations. In March 2018, the Company submitted a proposal for remedial measures. On April 26, 2018, the Company appealed the fines in the most recent order. Separately, the Company has implemented certain remedial measures to address site conditions during periods of increased precipitation. These near term remedial measures are also subject to the review and approval of ASEA.

At this time we are unable to reasonably estimate the future cost of any remedial obligations at the facility beyond the preliminary estimate to comply with the ASEA order, see Note 9 – Commitments and Contingencies.

## Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

### Safe Harbor Statement

This document may contain forward-looking statements that involve risks and uncertainties, some of which are beyond our control (for example, general economic and market conditions). Our actual results could differ significantly from the results described here. Factors that could cause such differences include changes in governmental regulation of the collection, transportation, treatment and disposal of regulated waste or the proper handling and protection of personal and confidential information, the level of government enforcement of regulations governing regulated waste collection and treatment or the proper handling and protection of personal and confidential information, decreases in the volume of regulated wastes or personal and confidential information we collect from customers, our ability to execute on our Business Transformation initiatives and achieve the anticipated benefits and cost savings, our obligations to service our substantial indebtedness and comply with the covenants and restrictions contained in our private placement notes and our credit agreement, political, economic, inflationary, currency and other risks related to our foreign operations, the outcome of pending or future litigation including litigation with respect to the United States ("U.S.") Foreign Corrupt Practices Act, changing market conditions in the healthcare industry, competition and demand for services in the regulated waste and secure information destruction industries, our failure to maintain an effective system of internal control over financial reporting, disruptions in or attacks on our information technology systems, changes in the demand and price for recycled paper, charges related to our portfolio optimization strategy or the failure of our portfolio optimization strategy to achieve the desired results, as well as other factors described in our filings with the U.S. Securities and Exchange Commission, including our most recently filed Annual Report on Form 10-K and subsequent Forms 10-Q. As a result, past financial performance should not be considered a reliable indicator of future performance, and investors should not use historical trends to anticipate future results or trends. To the extent permitted under applicable law, we make no commitment to disclose any subsequent revisions to forward-looking statements.

The following discussion of Stericycle's financial condition and results of operations should be read in conjunction with our Condensed Consolidated Financial Statements and related notes in Part I, Item 1. Financial Statements (Unaudited) of this Report and our Consolidated Financial Statements and notes thereto and related Management's Discussion of Financial Condition and Results of Operations included in our Annual Report on Form 10-K for the year ended December 31, 2017.

### Overview

Stericycle is a multinational business-to-business services company with a core purpose to protect people and brands, promote health, and safeguard the environment. Stericycle works with its customers to ensure regulatory compliance, minimize environmental impact, manage business and personal risk, improve safety, and facilitate communication. Services include medical waste disposal, sharps disposal management, product recalls and retrievals, OSHA and HIPAA compliance programs, pharmaceutical returns and disposal, sustainability services, retail hazardous waste management, hospital waste stream management, secure information destruction, and inbound/outbound communication solutions. Stericycle provides its services in the United States and 20 other markets around the world.



Highlights for the three months ended March 31, 2018 compared to the prior year include:

• Revenues of \$895.0 million, an increase of 0.3%, driven by continued growth in Secure Information Destruction, Retail Hazardous Waste and Hospital Compliance Services

• Gross profit of \$365.8 million, a decrease of 2.8%, given the expected impact of pricing of small quantity medical waste customers

• Diluted earnings per share of \$0.25, a decrease of 59.7%, due to certain non-recurring adjusted items, discussed further below, partially offset by the favorable impact of U.S. tax reform

The following table identifies key strategies and other significant matters impacting our business for the three months ended March 31, 2018 and 2017:

In millions

|   | Three Months<br>Ended<br>March 31, |        |
|---|------------------------------------|--------|
|   | 2018                               | 2017   |
| Business Transformation                           | \$22.1                             | \$-    |
| Intangible Amortization                           | 31.9                               | 29.1   |
| Acquisitions and Integration                      | 4.1                                | 11.5   |
| Operational Optimization                          | 8.9                                | 10.9   |
| Divestitures                                      | 4.1                                | -      |
| Litigation, Settlements and Regulatory Compliance | 27.5                               | 1.9    |
| Capital Allocation                                | 2.7                                | -      |
| Other   | 5.8                                | 2.5    |
| Total pre-tax                                     | \$107.1                            | \$55.9 |
| Capital Allocation (Preferred Dividends)          | \$8.8                              | \$9.4  |
| Total after-tax                                   | \$8.8                              | \$9.4  |
| Business Transformation                           |                                    |        |

Stericycle is focused on driving long-term growth, profitability and delivering enhanced shareholder value. As part of our business strategy, in the third quarter of 2017, we initiated a comprehensive multiyear Business Transformation with the objective to improve long-term operational and financial performance. The Business Transformation is based on a strategic vision to build a best-in-class enterprise performance management (“EPM”) operating model to enable the Company to operate more efficiently, provide an enhanced experience to customers, better capitalize on future growth opportunities and establish greater controls and oversight to drive more consistent results. Additionally, a key component to the Business Transformation is the implementation of an enterprise resource planning (“ERP”) system which will leverage standard processes throughout the organization to accelerate decision making, expedite acquisition integration, remediate compliance and control issues, and enable real-time analytics.

Key initiatives of the Business Transformation include:

• **Portfolio Rationalization:** Executing on a comprehensive review of the Company’s global service lines to identify and pursue the divestiture of non-strategic assets.

• **Operational Optimization:** Standardizing route planning logistics, modernizing field operations, and driving network efficiency across facilities.

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Organizational Excellence and Efficiency: Redesigning the Company's organizational structure to optimize resources and align around a global shared business services model.

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• **Commercial Excellence:** Aligning our sales and service organizations around the customer, standardizing our customer relationship management process, and expanding customer self-service options.

• **Strategic Sourcing:** Reducing spend through global procure-to-pay processes and leveraging organizational scale. Our Business Transformation is expected to deliver \$850 million to \$1 billion of cumulative Adjusted EBITDA benefits over the next five years. Adjusted Earnings Before Interest, Tax, Depreciation and Amortization (Adjusted EBITDA) is Income from operations excluding certain specified items, Depreciation and Intangible Amortization. We expect Adjusted EBITDA benefits of \$60 million to \$65 million in 2018. Consistent with our expectations, we achieved \$8.0 million in recurring Adjusted EBITDA benefits for the three months ended March 31, 2018.

Business Transformation related charges are expected to be recorded in connection with the following types of costs and activities:

- Consulting and professional services, including system integration, project management, ERP advisory, and information technology related costs,
- Internal resources, including project related incentive compensation,
- Employee terminations,
- Asset impairments, and
- Other related expenses.

The Company expects to record approximately \$275 million to \$300 million in charges (approximately \$195 million to \$215 million) and capital expenditures (approximately \$80 million to \$85 million) over five years. The majority of charges are expected to relate to consulting and professional services followed by internal resources, employee terminations, asset impairments and other related expenses. The majority of capital expenditures are expected to be associated with the implementation of the ERP system.

For the three months ended March 31, 2018, we recorded \$22.1 million in charges related to the Business Transformation, which included \$18.2 million of consulting and professional services, \$2.5 million of Transformation Management office charges for internal resources and project related incentive compensation, and \$1.4 million of other related expenses which are reflected as part of Selling, General and Administrative (“SG&A”) in the Condensed Consolidated Statements of Income. Since being initiated in the third quarter of 2017, our Business Transformation cumulative charges and capital expenditures are \$53.4 million and \$10.9 million, respectively.

#### Intangible Amortization

For the three months ended March 31, 2018 and 2017, the Company recorded \$31.9 million and \$29.1 million, respectively, of intangible amortization expense from acquisitions which are reflected as part of SG&A in the Condensed Consolidated Statements of Income.

#### Acquisition and Integration

We believe that acquisitions are a steady and efficient way to scale operations, build critical customer density for transportation and treatment operations, and enter new markets or geographies, as well as provide opportunity to introduce our additional services to the acquired customers. In our early history,

acquisitions were a key strategy to rapidly building our customer base and route density in the United States. We have been able to expand internationally through acquisition and now operate in 20 different markets outside the U.S. Over our history, Stericycle has completed 505 acquisitions, with 280 in the United States and 225 internationally. We expect to continue our acquisition strategy, remaining focused on small, highly accretive, tuck in acquisitions that broaden our various service capabilities while creating value for our shareholders.

The following table summarizes the locations and services of our acquisitions for the three months ended March 31, 2018

| Acquisition Locations | Total Number of Acquisitions | Service                 |                         |
|-----------------------|------------------------------|-------------------------|-------------------------|
|                       |                              | Secure Regulation Waste | Information Destruction |
| United States         | 9                            | 1                       | 8                       |
| Total                 | 9                            | 1                       | 8                       |

Our acquisition and integration costs include the following types of activities:

- Consulting and professional services incurred in connection with the identification, valuation, due diligence, and execution of an acquisition or potential acquisition, and acquisition internal resources,
- Consulting and professional services incurred in connection with integrating newly acquired businesses, which may include the integration of the sales or collection processes and systems, rebranding to the Company's name, closure activities, employee terminations related to personnel redundancies, contract and lease exit costs, and other integration related activities,
- Accelerated depreciation, and
- Change in fair value of contingent consideration.

For the three months ended March 31, 2018 and 2017, the Company recorded \$4.1 million and \$11.5 million, respectively, of acquisition and integration expenses which are reflected as part of SG&A in the Condensed Consolidated Statements of Income.

Acquisition and integration expenses for the three months ended March 31, 2018 included \$1.6 million of acquisition expenses, \$2.0 million of integration expenses, and a \$0.5 million unfavorable change in the fair value of contingent consideration.

Acquisition and integration expenses for the three months ended March 31, 2017 included \$2.4 million of acquisition expenses, \$8.7 million of integration expenses, and a \$0.4 million unfavorable change in fair value of contingent consideration.

The results of operations of our acquired businesses have been included in the Condensed Consolidated Statements of Income from the date of the acquisitions. Pro forma results of operations for these acquisitions are not presented because the pro forma effects, individually or in the aggregate, were not material to the Company's results of operations.

#### Operational Optimization

Plant throughput and route density are competitive strengths of Stericycle. We maintain such strengths by making adjustments to our network of transportation and treatment facilities to optimize overall logistics and processing capabilities within a service line while reducing operational costs. As part of



these efforts, we seek to reduce network redundancies by consolidating facilities, closing redundant facilities, and restructuring the local organizations and operations for efficiency.

Our Operational Optimization costs include the following types of activities:

- Consulting and professional services,
- Employee terminations,
- Closure activities,
- Contract and lease exit costs,
- Environmental and retirement obligations,
- Impairments and accelerated depreciation, and
- Other related expenses.

For the three months ended March 31, 2018, we recorded \$8.9 million of Operational Optimization expenses which are reflected as part of SG&A in the Condensed Consolidated Statements of Income:

\$3.0 million in the U.S., of which \$1.6 million represents costs related to the closure/consolidation of call centers in our Domestic Communications and Related Services business and \$1.4 million relates to charges to improve operational efficiency such as optimizing overall logistics and sales functions primarily for our Secure Information Destructions locations; and

\$5.9 million of charges for international, of which \$4.7 million represents non-cash impairment charges for long-lived assets, customer relationships and operating permits, \$0.9 million relates to closure costs, and \$0.3 million relates to employee terminations.

For the three months ended March 31, 2017, we recorded \$10.9 million of Operational Optimization expenses which are reflected as part of SG&A in the Condensed Consolidated Statements of Income:

\$8.7 million in the U.S., of which \$7.1 million relates to charges to improve operational efficiency such as optimizing overall logistics and sales functions primarily for our Secure Information Destruction locations, \$0.7 million of costs related to the closure/consolidation of call centers in our Domestic Communications and Related Services business, \$0.5 million relates to employee terminations, and \$0.4 million represents a non-cash impairment charge related to an operating permit;

\$1.6 million of charges to exit certain of our patient transport services contracts and plant conversion expense in the United Kingdom (“U.K.”); and

\$0.6 million of operational optimization costs in Latin America, primarily for employee terminations.

#### Divestitures

The Company evaluates its portfolio of services on an ongoing basis with a country-by-country and service line-by-service line approach to assess the long-term potential and identify potential business candidates for divestiture. Our decision criterion for divestiture is based on:

- outlook for long-term market conditions,
- potential impact to complimentary services or customer relationships,
- ability to leverage infrastructure and customer base for growth,
- potential for margin improvement,
- divestiture value today versus future divestiture value,

return on invested capital, and  
implications for ERP.

Divestiture costs include:

- Consulting and professional services,
- Impairments,
- Adjustments to the fair value of assets held for sale,
- Loss (gain) on disposal, and
- Other related expenses.

With the anticipated implementation of a global ERP, Stericycle will continue its strategic portfolio review with the intent of identifying additional non-strategic service lines or markets for divestiture prior to the implementation of the ERP technology platform.

For the three months ended March 31, 2018, the Company recorded \$4.1 million of Divestitures charges related to non-cash asset impairment charges arising from changes in the fair value of assets held for sale in the U.K. which are reflected as part of SG&A in the Condensed Consolidated Statements of Income.

The Company did not record any Divestiture related charges for the three months ended March 31, 2017.

#### Litigation, Settlements and Regulatory Compliance

We operate in highly regulated industries and must address regulatory inquiries or respond to investigations from time to time. We are also involved in a variety of civil litigation from time to time. Our financial results may also include considerations of non-recurring matters including settlements, environmental remediation, and legal related consulting and professional fees which are reflected as part of SG&A in the Condensed Consolidated Statements of Income.

For the three months ended March 31, 2018 and 2017, the Company recorded \$27.5 million and \$1.9 million, respectively, in regulatory compliance, consulting and professional services, primarily related to certain non-recurring litigation matters.

#### Other

During the three months ended March 31, 2018 and 2017, we recorded \$5.8 million and \$2.5 million, respectively, of consulting and professional services related to the implementation of the new revenue recognition and lease accounting standards as well as internal control remediation activities which are reflected as part of SG&A in the Condensed Consolidated Statements of Income.

#### Capital Allocation

Stericycle has maintained a structured capital allocation strategy that balances investment in the business, debt reduction, and returns to shareholders.

Our Capital Allocation items include the following types of activities:

- Stock issuance costs,
- Dividends on Preferred Stock,



- Debt modification costs in connection with related non-recurring matters,
- Early extinguishment of debt gains and losses, and
- Other related expenses.

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

We declared and paid dividends of \$8.8 million and \$9.4 million to the preferred stock shareholders during the three months ended March 31, 2018 and 2017, respectively.

During the three months ended March 31, 2018, we recorded \$2.7 million of pre-tax debt modification charges related to amending our credit agreements in connection with certain non-recurring matters. These charges have been recorded as Interest expense, net in the Condensed Consolidated Statements of Income.

#### Three Months Ended March 31, 2018 Compared to Three Months Ended March 31, 2017

Consolidated:

The following summarizes the Company's consolidated operations:

In millions, except per share data

|   | Three Months Ended March 31,<br>2018 |              | 2017    |              | Change   |           |
|---|--------------------------------------|--------------|---------|--------------|----------|-----------|
|   | \$                                   | %<br>Revenue | \$      | %<br>Revenue | \$       | %         |
| Revenues  | \$895.0                              | 100.0 %      | \$892.4 | 100.0 %      | \$2.6    | 0.3 %     |
| Cost of revenues  | 536.5                                | 59.9 %       | 523.7   | 58.7 %       | 12.8     | 2.4 %     |
| Gross profit  | 358.5                                | 40.1 %       | 368.7   | 41.3 %       | (10.2)   | (2.8 %)   |
| Selling, general and administrative expenses  | 304.4                                | 34.0 %       | 254.2   | 28.5 %       | 50.2     | 19.7 %    |
| Income from operations  | 54.1                                 | 6.0 %        | 114.5   | 12.8 %       | (60.4)   | (52.8 %)  |
| Interest expense, net   | (25.0)                               | (2.8 %)      | (23.3)  | (2.6 %)      | (1.7)    | 7.3 %     |
| Other expense, net  | -                                    | -            | (1.5)   | (0.2 %)      | 1.5      | (100.0 %) |
| Income before income taxes  | 29.1                                 | 3.3 %        | 89.7    | 10.1 %       | (60.6)   | (67.6 %)  |
| Income tax expense  | (6.6)                                | (0.7 %)      | (31.1)  | (3.5 %)      | 24.5     | (78.8 %)  |
| Net income  | 22.5                                 | 2.5 %        | 58.6    | 6.6 %        | (36.1)   | (61.6 %)  |
| Net income attributable to noncontrolling interests                                       | -                                    | -            | (0.4)   | (0.0 %)      | 0.4      | (100.0 %) |
| Net income attributable to Stericycle, Inc.   | 22.5                                 | 2.5 %        | 58.2    | 6.5 %        | (35.7)   | (61.3 %)  |
| Mandatory convertible preferred stock dividend  | (8.8)                                | (1.0 %)      | (9.4)   | (1.1 %)      | 0.6      | (6.4 %)   |
| Gain on repurchase of preferred stock   | 7.3                                  | 0.8 %        | 4.6     | 0.5 %        | 2.7      | 58.7 %    |
| Net income attributable to Stericycle, Inc. common shareholders                           | \$21.0                               | 2.3 %        | \$53.4  | 6.0 %        | \$(32.4) | (60.7 %)  |
| Earnings per common share attributable to Stericycle, Inc. common shareholders: - diluted | \$0.25                               |              | \$0.62  |              | \$(0.37) | (59.7 %)  |





Revenues: In analyzing our Company's performance, it is necessary to understand that our various regulated services share a common infrastructure and customer base. We market our regulated and compliance services by offering various pricing options to meet our customers' preferences, and customers move between these different billing paradigms. For example, our customers may contract with us for "Medical Waste Disposal" services that are billed based on the weight of waste collected, processed and disposed during a particular period, and in a subsequent period, the same customer could move to our standard service ("Steri-Safe OSHA Compliance Program"), which packages the same regulated medical waste services with training and education services for a contracted subscription fee. Another example is a customer that purchases our "Medical Waste Disposal" and "Sharps Disposal Management" services which provides the customer with the same regulated services under a different pricing and billing arrangement. We do not track the movement of customers between the various types of regulated services we offer. Although we can identify directional trends in our services, because the regulated services are similar in nature and there are inherent inaccuracies in disaggregation, we believe that aggregating these revenues communicates the appropriate metric. We analyze our revenue growth by identifying changes related to organic growth, acquired growth, divestitures and changes due to currency exchange fluctuations.

Consolidated revenues increased \$2.6 million, or 0.3%, in the first quarter of 2018, to \$895.0 million from \$892.4 million in the first quarter of last year. Overall organic revenues decreased \$5.2 million, or 0.6%. Organic growth excludes the effect of foreign exchange, acquisitions with less than a full year of revenues in the comparative period, and divestitures. We experienced continued growth in Secure Information Destruction, Retail Hazardous Waste and Hospital Compliance Services, offset by the expected impact of pricing of small quantity medical waste customers. Acquisitions contributed \$7.1 million to revenues. Divestitures reduced revenues by \$10.8 million. The net effect of acquisitions and divestitures resulted in a 0.4% decrease in revenues in the first quarter of 2018. The effect of foreign exchange rates favorably impacted total revenues in the first quarter of 2018 by \$11.5 million, or 1.3%, as foreign currencies strengthened against the U.S. dollar.

Gross profit: Consolidated gross profit decreased \$10.2 million, or 2.8%, in the first quarter of 2018, to \$358.5 million from \$368.7 million in the first quarter of last year. As a percentage of revenues, consolidated gross profit decreased to 40.1%, in the first quarter of 2018, compared to 41.3% in the first quarter of last year primarily from the expected impact of pricing of small quantity medical waste customers. In addition, international gross profit is lower than domestic gross profit because our international operations have fewer small account customers, which tend to generate higher gross profit. Historically, our international operations generate most of their revenues from large account customers, such as hospitals. As our international revenues increase, consolidated gross profit percentages may experience downward pressure due to this "business mix" shift, which may be offset by additional international small account market penetration, integration savings, operational optimization and domestic business expansion.

SG&A: Consolidated SG&A expenses increased \$50.2 million, or 19.7%, in the first quarter of 2018 to \$304.4 million from \$254.2 million in the first quarter of last year. The increase was primarily attributable to: \$27.5 million in regulatory compliance, consulting and professional expenses related to certain non-recurring litigation matters, \$22.1 million of Business Transformation related charges, and \$5.8 million of consulting and professional services related to the implementation of the new accounting standards and internal control remediation work.

Income from operations: Consolidated income from operations decreased \$60.4 million, or 52.8%, in the first quarter of 2018 to \$54.1 million from \$114.5 million in the first quarter of last year. The change in

income from operations between first quarter of 2018 and 2017 was primarily driven by the items described in Gross profit and SG&A above.

Interest expense: Net interest expense increased in the first quarter of 2018 to \$25.0 million from \$23.3 million in the first quarter of last year due to charges of \$2.7 million related to debt modification charges in 2018.

Income tax expense: Income tax expense was \$6.6 million in the first quarter of 2018 compared to \$31.1 million in the first quarter of last year. The effective tax rates for the first quarter of 2018 and 2017 were 22.7% and 34.7%, respectively. The change in the 2018 rate, when compared to the prior year, was primarily due to the impact of the Tax Act signed into law on December 22, 2017 changing the corporate income tax rate in the United States from 35% to 21%. Also impacting the rate within the quarter were certain tax reserve and deferred tax adjustments. Certain of these adjustments are not expected in future periods.

### Information by Segment

#### Domestic and Canada RCS:

In millions

|  | Three Months Ended March 31, |           |         |           | Change |         |
|--|------------------------------|-----------|---------|-----------|--------|---------|
|  | 2018                         |           | 2017    |           |        |         |
|  | \$                           | % Revenue | \$      | % Revenue | \$     | %       |
| Revenues                                     | \$638.5                      | 100.0 %   | \$633.7 | 100.0 %   | \$4.8  | 0.8 %   |
| Gross profit                                 | 260.5                        | 40.8 %    | 278.1   | 43.9 %    | (17.6) | (6.3 %) |
| Selling, general and administrative expenses | 114.6                        | 17.9 %    | 123.5   | 19.5 %    | (8.9 ) | (7.2 %) |
| Income from operations                       | 145.9                        | 22.9 %    | 154.6   | 24.4 %    | (8.7 ) | (5.6 %) |

Revenues: Domestic and Canada RCS revenues increased \$4.8 million, or 0.8%, for the first quarter of 2018 to \$638.5 million from \$633.7 million in the first quarter of last year driven by expansion of hospital compliance services, retail hazardous waste growth from emergency response project work and medication disposal kiosks, and continued organic growth from Secure Information Destruction, which benefited from process improvements and automation implemented over the past 12 months. This growth was partially offset by the expected impact of pricing of small quantity medical waste customers. Overall organic revenues decreased \$1.8 million, or 0.3%, and acquisitions contributed \$5.0 million, or 0.8%, to revenues. The strengthening of the Canadian dollar had a favorable impact on 2018 revenues by \$1.6 million, or 0.2%.

Gross profit: Domestic and Canada RCS gross profit decreased \$17.6 million, or 6.3%, for the first quarter of 2018 to \$260.5 million from \$278.1 million in the first quarter of last year. As a percentage of revenues, gross profit decreased to 40.8% for the first quarter of 2018 compared to 43.9% in the first quarter of last year, primarily from the impact of pricing of small quantity medical waste customers.

SG&A: Domestic and Canada RCS SG&A expenses decreased \$8.9 million, or 7.2%, for the first quarter of 2018 to \$114.6 million from \$123.5 million in the first quarter of last year primarily from the reduction of integration and operational optimization activities arising from the 2015 Shred-it acquisition. As a percentage of revenues, SG&A decreased to 17.9% for the first quarter of 2018 compared to 19.5% in the first quarter of last year.



Income from operations: Domestic and Canada RCS income from operations decreased \$8.7 million, or 5.6%, for the first quarter of 2018 to \$145.9 million from \$154.6 million in the first quarter of last year. Comparison of income from operations between the first quarter of 2018 and 2017 was primarily driven by the items described in Gross profit above, partially offset by the decrease in SG&A.

#### International RCS:

In millions

|  | Three Months Ended March 31, |           |         |           |         |          | Change |  |
|--|------------------------------|-----------|---------|-----------|---------|----------|--------|--|
|  | 2018                         |           | 2017    |           |         |          |        |  |
|  | \$                           | % Revenue | \$      | % Revenue | \$      | %        |        |  |
| Revenues                                     | \$180.3                      | 100.0 %   | \$181.6 | 100.0 %   | \$(1.3) | (0.7 %)  |        |  |
| Gross profit                                 | 62.8                         | 34.8 %    | 58.5    | 32.2 %    | 4.3     | 7.4 %    |        |  |
| Selling, general and administrative expenses | 58.3                         | 32.3 %    | 46.7    | 25.7 %    | 11.6    | 24.8 %   |        |  |
| Income from operations                       | 4.5                          | 2.5 %     | 11.8    | 6.5 %     | (7.3)   | (61.9 %) |        |  |

Revenues: International RCS revenue decreased \$1.3 million, or 0.7%, for the first quarter of 2018 to \$180.3 million from \$181.6 million in the first quarter of last year. Overall organic revenues decreased \$2.1 million, or 1.2%, primarily due to exiting certain patient transport service contracts in the U.K. Acquisitions in the International RCS segment contributed \$1.7 million to revenues. Divestitures related to the sale of certain assets in the U.K. and South Africa reduced revenues by \$10.8 million. The net effect of acquisitions and divestitures resulted in a 5.0% decrease in revenues in the first quarter of 2018. The effect of foreign exchange rates favorably impacted international revenues for the first quarter of 2018 by \$9.9 million, or 5.5%, as certain foreign currencies strengthened against the U.S. dollar.

Gross profit: International RCS gross profit increased \$4.3 million, or 7.4%, for the first quarter of 2018 to \$62.8 million from \$58.5 million in the first quarter of last year due to divesting a lower margin patient transport business in the U.K. in the second quarter of 2017. As a percentage of revenues, gross profit increased to 34.8% for the first quarter of 2018 compared to 32.2% in the first quarter of last year.

SG&A: International RCS SG&A expenses increased \$11.6 million, or 24.8%, for the first quarter of 2018 to \$58.3 million from \$46.7 million in the first quarter of last year, primarily due to \$5.9 million of Operational Optimization charges and \$2.7 million of regulatory compliance, consulting and professional expenses related to non-recurring litigation matters. As a percentage of revenues, SG&A increased to 32.3% in 2018 compared to 25.7% in the first quarter of last year.

Income from operations: International RCS income from operations decreased \$7.3 million, or 61.9%, for the first quarter of 2018 to \$4.5 million from \$11.8 million in the first quarter of last year. Comparison of income from operations between the first quarter of 2018 and 2017 was primarily driven by the items described in SG&A above, partially offset by the increase in Gross profit.

All Other:

In millions

|  | Three Months Ended March 31, |           |        |          |         |         |    |   |
|--|------------------------------|-----------|--------|----------|---------|---------|----|---|
|  | 2018                         |           | 2017   |          | Change  |         |    |   |
|  | \$                           | %         | \$     | %        | \$      | %       | \$ | % |
| Revenues                                     | \$76.2                       | 100.0 %   | \$77.1 | 100.0 %  | \$(0.9) | (1.2 %) |    |   |
| Gross profit                                 | 35.2                         | 46.2 %    | 32.1   | 41.6 %   | 3.1     | 9.7 %   |    |   |
| Selling, general and administrative expenses | 131.5                        | 172.6 %   | 84.0   | 108.9 %  | 47.5    | 56.5 %  |    |   |
| Loss from operations                         | (96.3)                       | (126.4 %) | (51.9) | (67.3 %) | (44.4)  | 85.5 %  |    |   |

All Other includes Domestic Communication and Related Services operations which consists of services including inbound/outbound communication, automated patient reminders, online scheduling, notifications, product retrievals, product returns, and quality audits, as well as expenses related to Corporate support, shared services functions, stock-based compensation, certain non-recurring litigation matters, implementation of the new revenue recognition and lease accounting standards, internal control remediation activities and Business Transformation charges.

Revenues: Other revenues, related to Domestic Communication and Related Services, decreased \$0.9 million, or 1.2%, for the first quarter of 2018 to \$76.2 million from \$77.1 million in the first quarter of last year.

Gross profit: Other gross profit increased \$3.1 million, or 9.7%, for the first quarter of 2018 to \$35.2 million from \$32.1 million in the first quarter of last year. As a percentage of revenues, gross profit increased to 46.2% for the first quarter of 2018 compared to 41.6% in the first quarter of last year.

SG&A: Other SG&A expenses increased \$47.5 million, or 56.5%, for the first quarter of 2018 to \$131.5 million from \$84.0 million in the first quarter of last year, due to \$24.8 million in regulatory compliance, consulting and professional expenses, primarily related to certain non-recurring litigation matters, \$22.1 million of Business Transformation related charges, and \$5.8 million of consulting and professional services related to the implementation of the new accounting standards and internal control remediation activities.

Loss from operations: Other loss from operations increased \$44.4 million, or 85.5%, for the first quarter of 2018 to \$96.3 million from \$51.9 million in the first quarter of last year. Comparison of loss from operations between 2018 and 2017 was primarily driven by the items described in SG&A above.

#### Liquidity and Capital Resources

The Company believes it has sufficient liquidity to support its ongoing operations and to invest in future growth to create value for its shareholders. Operating cash flows and the Company's \$1.2 billion senior credit facility are the Company's primary sources of liquidity and are expected to be used for, among other things, payment of interest and principal on the Company's long-term debt obligations, acquisitions, capital expenditures necessary to support growth and productivity improvements, including associated with our multiyear Business Transformation, and any Board of Director approved shareholder distribution.

The Company's credit facilities contain a number of covenants, including financial covenants, to which the Company was in compliance at March 31, 2018. On March 23, 2018, the Company entered into certain amendments to its senior credit facility, term loan and private placement note agreements related to the



definition of EBITDA (as described in the credit agreements). The amendments allow for certain add-backs, up to a maximum of \$200.0 million on a trailing twelve month basis, related to cash charges associated with Business Transformation, Operational Optimization and litigation matters to the calculation of EBITDA for debt covenant compliance purposes. These amendments are in effect from January 1, 2018 through December 31, 2019.

**Working Capital:** At March 31, 2018, our working capital decreased \$33.3 million to (\$189.3) million compared to (\$156.0) million at December 31, 2017.

Current assets decreased \$2.8 million at March 31, 2018 to \$810.6 million from \$813.4 million at December 31, 2017, primarily driven by a \$18.2 million decrease in prepaid expenses related to the timing of our income tax payments, partially offset by a \$9.4 million increase in net accounts receivable and \$7.2 increase in cash. Days sales outstanding ("DSO") was 64 days and 63 days at March 31, 2018 and December 31, 2017, respectively.

Current liabilities increased \$30.5 million at March 31, 2018 to \$999.9 million from \$969.4 million at December 31, 2017, primarily due to a \$22.0 million increase in accrued professional services and a \$16.8 million increase in accrued compensation, offset by an \$18.2 million decrease in accounts payable.

**Net Cash Provided or Used:** Net cash provided by operating activities decreased \$57.9 million, or 34.4%, in the first quarter of 2018 to \$110.4 million from \$168.3 million in the first quarter of 2017, primarily from Business Transformation charges and certain non-recurring litigation matters during 2018 described above.

Net cash used in investing activities decreased \$5.7 million, or 11.4%, in the first quarter of 2018 to \$44.1 million from \$49.8 million in the first quarter of 2017. Our capital expenditures decreased by \$4.6 million in the first quarter of 2018 and, as a percentage of revenues, were at 3.2% and 3.7% in 2018 and 2017, respectively.

Net cash used in financing activities decreased \$54.5 million, or 46.5%, in the first quarter of 2018 to \$62.6 million from \$117.1 million in the same period of 2017. We repaid a net of \$40.9 million of our senior credit facility and term loan facility in the first quarter of 2018 compared to \$92.3 million in the first quarter of 2017. We had preferred share repurchases of \$7.4 million and \$9.6 million during the first quarter of 2018 and 2017, respectively. Dividends of \$8.8 million and \$9.4 million were paid during the first quarter of 2018 and 2017, respectively, to holders of our Series A Preferred Stock.

#### Critical Accounting Policies and Estimates

As discussed in the Annual Report on Form 10-K for the year ended December 31, 2017 (the "2017 Form 10-K"), the preparation of the consolidated financial statements in conformity with U.S. GAAP requires management to make certain estimates and assumptions that affect the amount of reported assets and liabilities and disclosure of contingent assets and liabilities at the date of the Condensed Consolidated Financial Statements and revenues and expenses during the periods reported. Actual results may differ from those estimates.

Effective January 1, 2018, the Company adopted ASU No. 2014-19 "Revenue from Contracts with Customers" ("ASC 606") using the modified retrospective method to all contracts that were not completed as of January 1, 2018. See Note 1 - Basis of Presentation and Summary of Significant Accounting Policies and Note 2 – Revenues from Contracts with Customers for additional information on the adoption of ASC 606.





### Item 3. Quantitative and Qualitative Disclosures about Market Risk

We are subject to market risks arising from changes in interest rates. Our potential additional interest expense over one year that would result from a hypothetical, instantaneous and unfavorable change of 100 basis points in the interest rate on all of our variable rate obligations would be approximately \$14.7 million on a pre-tax basis.

We have exposure to commodity pricing for gas and diesel fuel for our trucks, for the purchases of containers and boxes, and for the price we receive for recycled paper. We do not hedge these items to manage the exposure.

We have exposure to foreign currency fluctuations. We have subsidiaries in multiple foreign countries whose functional currency is the local currency. Our international subsidiaries use local currency denominated lines of credit for their funding needs which has no exposure to currency fluctuations. We translate the results of our international operations using an average monthly exchange rate. Changes in foreign currency exchange rates could unfavorably impact our consolidated results of operations.

We operate in a highly competitive market. We have exposure to other service providers providing cheaper solutions. As physician practices are consolidated by larger hospital groups we have exposure related to negotiating leverage that large quantity generators have through professional purchasing departments, which may have a negative impact to our revenues as contracts renew.

### Item 4. Controls and Procedures

Evaluation of disclosure controls and procedures.

The term "disclosure controls and procedures" is defined in Rule 13a-15(e) of the Securities Exchange Act of 1934 as "controls and other procedures of an issuer that are designed to ensure that information required to be disclosed by the issuer in the reports that it 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.

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 March 31, 2018 (the end of the period covered by this Quarterly Report on Form 10-Q). Based upon that evaluation, our President and Chief Executive Officer and Chief Financial Officer have concluded that our disclosure controls and procedures were not effective as of March 31, 2018, because of material weaknesses in internal control over financial reporting described below.

#### Internal Control Over Financial Reporting.

Management of Stericycle is responsible for establishing and maintaining adequate internal control over financial reporting (as defined in Rules 13a-15(f) and 15d(f) under the Exchange Act). Internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external reporting purposes in accordance with United States generally accepted accounting principles (US GAAP). Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements.



Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate. A material weakness is a deficiency, or a combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the company's annual or interim financial statements will not be prevented or detected on a timely basis.

Stericycle conducted an assessment of the effectiveness of its internal control over financial reporting as of December 31, 2017 based on the criteria established by Internal Control-Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO Framework").

As of December 31, 2017, Stericycle management had identified material weaknesses in the control environment and control activity components of the COSO framework that continued to be pervasive across our internal control processes. Specifically, the material weaknesses relate to not fully designing, implementing and monitoring financial reporting controls that sufficiently mitigate the identified risks of material misstatement to the financial statements and insufficient design, implementation and monitoring of general information technology controls to support the effective operation of financial controls.

#### Planned Remediation of Material Weaknesses

Stericycle has invested considerable time and resources towards redesigning our internal controls over financial reporting. The progress we have made can be summarized as follows:

- We engaged consultants to help review and make recommendation with respect to the redesign of our internal controls over financial reporting;
- We added additional resources and enhanced existing positions in accounting, finance, tax, and information technology to support the redesigned controls including hiring a Chief Accounting Officer, a new General Counsel and a Chief Ethics and Compliance Officer;
- We engaged subject matter experts to perform an assessment and develop a strategic information technology infrastructure and architecture roadmap;
- We developed a framework to identify risks of material misstatement to our financial statements and made progress towards designing appropriate controls to mitigate those risks;
- We issued significant and critical accounting policies later in 2017 to assist our finance organization with accounting for transactions appropriately and on a timely basis along with compliance expectations;
- We expanded the training of our employees to reinforce the importance of a strong control environment;
- We have developed and enhanced a number of standardized processes to enforce individual accountability for performance and compliance across the Company;
- We established a technical accounting group within the Controllershship function with responsibility to ensure that the accounting for complex or non-routine transactions is appropriate;
- We implemented a tool to facilitate centralized monitoring. The tool is a central repository for policies, quarterly checklists to confirm adherence with policies, account reconciliations and month end close checklists and dash boarding;

- We instituted monthly legal entity and management reporting reviews of financial statements to evaluate results, observe adherence to policies and agree on necessary actions to be taken before considering the period closed; and
- We enhanced our Disclosure Committee processes and reviews by adding experienced and knowledgeable members to the committee, implementing disclosure surveys to capture input from appropriate areas and levels throughout the organization and evolving and expanding existing processes.

While we have put forth significant effort in our remediation activities as described above, additional actions are required to fully remediate the material weaknesses. In addition, while certain of the above activities have already improved our internal controls over financial reporting, many of these improvements have not operated for a sufficient period of time to be able to conclude on effectiveness. We remain committed to continue investing significant time and resources and taking actions to remediate the material weaknesses in our internal control over financial reporting as we work to further streamline disparate information technology systems and enhance our control environment. We believe the investment in our technology enabled business transformation is indicative of our commitment to enhance our people, processes and systems and strengthen our internal control over financial reporting.

Below we have described the remedial actions we are taking to address the identified material weaknesses and enhance our overall control environment.

#### Control Environment

- We are developing, enhancing, and implementing the remaining necessary standardized policies in the other areas of accounting and general information technology to communicate and reinforce individual accountability for performance of internal control responsibilities across the Company;
- We are continuing to create new roles and hire additional accounting and information technology personnel with appropriate backgrounds and skill sets;
- We are training our employees on our recently issued significant and critical accounting policies to assist our finance organization with accounting for transactions appropriately and on a timely basis;
- The training of our employees to reinforce the importance of a strong control environment and clearly communicate expectations will be ongoing, to emphasize the technical requirements for controls that are designed, implemented and operating effectively and to set the appropriate expectations on internal controls through establishing the related policies and procedures; and
- We are continuing to review, analyze, and properly document our processes related to internal controls over financial reporting.

#### Control Activities

- We are developing an internal control framework for our general information technology controls which will ensure we are appropriately identifying and assessing changes that could significantly impact the system of internal control;
- We are designing and implementing effective review and approval controls over the accurate recording, presentation, and disclosure of revenue and related costs as well as complex and non-routine transactions;
- We are designing and implementing effective review and approval controls over account reconciliations, journal entries, and management estimates across our remaining internal control

processes. These controls will address the accuracy and completeness of the data used in the performance of the respective control;

• We have established a policy over the segregation of incompatible duties within our IT systems and are working to implement such policy across the Company to advance required remediation efforts;

• We are implementing standardized policies to address the completeness and accuracy of data used in the performance of controls and information technology controls across the Company; and

- We are working to standardize and simplify the Company's disparate information systems.

When fully implemented and operational, we believe the measures described above will remediate the control deficiencies that have led to the material weaknesses we have identified and strengthen our internal controls over financial reporting. We are committed to continuing to improve our internal control processes and we will continue to review our financial reporting controls and procedures. As we continue to evaluate and work to improve our internal controls over financial reporting, we may determine to take additional measures to address control deficiencies or modify certain activities of the remediation measures described above.

Notwithstanding the existence of the material weaknesses as described above, we believe that the Condensed Consolidated Financial Statements in this Quarterly Report fairly present, in all material respects, our financial position, results of operations and cash flows as of the dates, and for the periods, presented, in conformity with U.S. GAAP.

Changes in internal controls.

We have undertaken strategic remediation actions to address the material weaknesses in our internal controls over financial reporting. These remediation actions continued throughout the quarter ended March 31, 2018 but have not materially affected our internal control over financial reporting.

## PART III

## PART II – OTHER INFORMATION

## Item 1. Legal Proceedings

See Note 14 - Legal Proceedings in the Note to the Condensed Consolidated Financial Statements (Item 1 of Part I).

## Item 1A. Risk Factors

There were no significant changes in the Company's risk factors during the three months ended March 31, 2018. For further information about the Company's risk factors, refer to Part 1, "Item 1A. Risk Factors" in the Company's Annual Report on Form 10-K for the year ended December 31, 2017.

## Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

Under resolutions that our Board of Directors has adopted, we have been authorized to purchase a total of 24,621,640 shares of our common stock on the open market. As of March 31, 2018, we had purchased a cumulative total of 22,072,357 shares. There were no repurchases of shares of our common stock during the three months ended March 31, 2018.

The following table provides information about our repurchase of depository shares of mandatory convertible preferred stock during the three months ended March 31, 2018:

## Issuer Purchase of Equity Securities

| Period                         | Total Number of Depository Shares Repurchased | Average Price Paid Per Share | Total Number of Shares Purchased as Part of Publicly Announced Plans or Program | Maximum Number of Shares that May Yet Be Purchased Under the Plans or Program |
|--------------------------------|---|------------------------------|---|---|
| January 1 - January 31, 2018   | -   | \$ -                         | N/A   | N/A   |
| February 1 - February 28, 2018 | 151,900                                       | 49.05                        | N/A   | N/A   |
| March 1 - March 31, 2018       | -   | -                            | N/A   | N/A   |
| Total                          | 151,900                                       | \$ 49.05                     | N/A   | N/A   |





## PART IV

## Item 6. Exhibits

See the Exhibit Index for a list of exhibits filed or furnished with this report, which Exhibit Index is incorporated herein by reference.

## Exhibit Index

| Exhibit Index | Description  |
|---------------|--|
| 3.1           | <u>Amended and restated certificate of incorporation (incorporated by reference to Exhibit 3.1 to our registration statement on Form S-1 declared effective on August 22, 1996 (Registration No. 333-05665))</u>   |
| 3.2           | <u>First certificate of amendment to amended and restated certificate of incorporation (incorporated by reference to Exhibit 3.1 to our current report on Form 8-K filed November 29, 1999)</u>  |
| 3.3           | <u>Second certificate of amendment to amended and restated certificate of incorporation (incorporated by reference to Exhibit 3.4 to our annual report on Form 10-K for 2002)</u>  |
| 3.4           | <u>Third certificate of amendment to amended and restated certificate of incorporation (incorporated by reference to Exhibit 3.4 to our registration statement on Form S-4 declared effective on October 10, 2007 (Registration No. 333-144613))</u>   |
| 3.5           | <u>Fourth certificate of amendment to amended and restated certificate of incorporation (incorporated by reference to Exhibit 3(i).1 to our quarterly report on Form 10-Q filed August 7, 2014)</u>  |
| 3.6           | <u>Certificate of Elimination of the Certificate of Designations relating to Series A Convertible Preferred Stock, par value 0.01 per share (incorporated by reference to Exhibit 3.1 and 4.1 to our current report on Form 8-K filed September 15, 2015)</u>  |
| 3.7           | <u>Certificate of Designations setting forth the specific rights, preferences, limitations, restrictions and other terms and conditions of the Mandatory Convertible Preferred Stock (incorporated by reference to Exhibit 4.1 to our Registration Statement on Form 8-A filed September 15, 2015)</u>                             |
| 3.8           | <u>Amended and restated bylaws (incorporated by reference to Exhibit 3(ii).1 to our current report on Form 8-K filed June 1, 2016)</u>   |
| 10.1†         | <u>Form of Stock Option Award Agreement under 2008 Incentive Stock Plan (incorporated by reference to Exhibit 10.1 to our current report on Form 8-K filed March 15, 2018)</u>   |
| 10.2†         | <u>Form of Stock Option Award Agreement under 2011 Incentive Stock Plan (incorporated by reference to Exhibit 10.2 to our current report on Form 8-K filed March 15, 2018)</u>   |
| 10.3†         | <u>Form of Stock Option Award Agreement under 2014 Incentive Stock Plan (incorporated by reference to Exhibit 10.3 to our current report on Form 8-K filed March 15, 2018)</u>   |
| 10.4†         | <u>Form of Stock Option Award Agreement under 2017 Long-Term Incentive Plan (incorporated by reference to Exhibit 10.4 to our current report on Form 8-K filed March 15, 2018)</u>   |
| 10.5†         | <u>Form of Restricted Stock Unit Award Agreement under 2017 Long-Term Incentive Plan (incorporated by reference to Exhibit 10.5 to our current report on Form 8-K filed March 15, 2018)</u>  |
| 10.6†         | <u>Form of Performance-Based Restricted Stock Unit Award Agreement under 2017 Long-Term Incentive Plan (incorporated by reference to Exhibit 10.6 to our current report on Form 8-K filed March 15, 2018)</u>  |
| 10.7†         | <u>Form of Performance-Based Restricted Stock Unit Award Agreement (Business Transformation) under 2017 Long-Term Incentive Plan (incorporated by reference to Exhibit 10.7 to our current report on Form 8-K filed March 15, 2018)</u>  |
| 10.8*         | <u>First Amendment, dated as of March 23, 2018, to the Credit Agreement dated as of November 17, 2017, entered into by Stericycle, Inc. and certain of its subsidiaries as borrowers, Bank of America, N.A., as administrative agent and the financial institutions from time to time party thereto (incorporated by reference</u> |

to Exhibit 10.1 to our current report on Form 8-K filed March 26, 2018)

- 10.9\* Third Amendment, dated as of March 23, 2018, to the Note Purchase Agreement dated as of August 18, 2010, as amended, entered into by Stericycle, Inc. and the holders of the notes party thereto (incorporated by reference to Exhibit 10.2 to our current report on Form 8-K filed March 26, 2018)
- 10.10\* Third Amendment, dated as of March 23, 2018, to the Note Purchase Agreement dated as of October 22, 2012, as amended, entered into by Stericycle, Inc. and the holders of the notes party thereto (incorporated by reference to Exhibit 10.3 to our current report on Form 8-K filed March 26, 2018)
- 10.11\* Fourth Amendment, dated as of March 23, 2018, to the Note Purchase Agreement dated as of April 30, 2015, as amended, entered into by Stericycle, Inc. and the holders of the notes party thereto

PART IV

- 10.12\* Second Amendment, dated as of March 23, 2018, to the Note Purchase Agreement dated as of October 1, 2015, entered into by Stericycle, Inc. and the holders of the notes party thereto (incorporated by reference to Exhibit 10.5 to our current report on Form 8-K filed March 26, 2018)
- 31.1 Rule 13a-14(a)/15d-14(a) Certification of Chief Executive Officer
- 31.2 Rule 13a-14(a)/15d-14(a) Certification of Chief Financial Officer
- 32 Section 1350 Certification of Chief Executive Officer and Chief Financial Officer
- 101.INS XBRL Instance Document
- 101.SCH XBRL Taxonomy Extension Schema Document
- 101.CAL SBRL Taxonomy Extension Calculation Linkbase Document
- 101.DEF XBRL Taxonomy Definition Linkbase Document
- 101.LAB XBRL Taxonomy Extension Label Linkbase Document
- 101.PRE XBRL Taxonomy Extension Presentation Linkbase Document

† Management contract

\* The Company agrees to furnish supplementally a copy of any omitted exhibit or appendix to the Securities and Exchange Commission upon request.

SIGNATURES

SIGNATURES

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

Dated: May 3, 2018

STERICYCLE, INC.

(Registrant)

By: /s/ Daniel V. Ginnetti

Daniel V. Ginnetti

Executive Vice President and Chief Financial Officer

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