

TIME WARNER INC.
Form DEF 14A
April 29, 2016
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

SCHEDULE 14A
Proxy Statement Pursuant to Section 14(a) of the
Securities Exchange Act of 1934
(Amendment No.)

Filed by the Registrant

Filed by a Party other than the Registrant

Check the appropriate box:

Preliminary Proxy Statement

Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))

Definitive Proxy Statement

Definitive Additional Materials

Soliciting Material Pursuant to § 240.14a-12

Time Warner Inc.

(Name of Registrant as Specified In Its Charter)

(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

Payment of Filing Fee (Check the appropriate box):

- No fee required.
- Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.
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 - (1) Amount Previously Paid:

 - (2) Form, Schedule or Registration Statement No.:

 - (3) Filing Party:

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April 29, 2016

Dear Fellow Shareholder:

Delivering Sustained Strong Financial Performance

In 2015, Time Warner made great progress in executing its strategy while delivering solid financial performance, with revenue growing 3% to \$28 billion, adjusted operating income increasing 19% to \$6.9 billion, and adjusted EPS growing 14% to \$4.75 – exceeding our earnings outlook despite \$0.50-per-share headwinds from foreign exchange rates. Over the past eight years through the end of 2015, the Company has delivered a total return to shareholders of over 140% – far outpacing the S&P 500.

Along with most major U.S. media and entertainment companies, however, our stock price fell in the second half of 2015, largely due to concerns about long-term trends in the U.S. television industry regarding the number of multi-channel TV subscribers, TV ratings, TV advertising growth, and competition from broadband-delivered video services. So in this year’s letter to shareholders, we want to focus on how we are addressing the challenges and opportunities in the television industry and why we’re highly confident about the Company’s future.

Transforming Our Structure

Over the past several years, we have transformed Time Warner from a traditional media conglomerate to a company focused on high-quality video content and global brands in television, feature films, and video games. This enables us to take advantage of the growing worldwide demand for quality video content *and* gives us greater flexibility to distribute our content both inside and outside the traditional media ecosystem in ways that meet changing consumer expectations and viewing habits.

While streamlining the Company, we maintained the scale in our strategically aligned businesses. With the #1 television and film studio in the world at Warner Bros., and the strongest group of cable networks at Turner and Home Box Office, we have critical competitive advantages in producing the best programming; negotiating favorable distribution deals with traditional and broadband distributors; and launching new services and products. It also provides us with powerful efficiencies that help fuel growth.

Executing Our Strategy Designed for an Evolving Industry

As we’ve transformed the Company, we’ve executed a business strategy that capitalizes on our advantages to navigate and help shape the future of the television and media industries.

1. We’re using our scale to invest in a concentrated portfolio of strong brands, and to create compelling content, that resonate with consumers around the world and across all platforms.

Home Box Office, long recognized as the home of the best programming on television, extended its record of success in 2015, receiving 43 Primetime Emmy Awards, the most of any network for the 14th year in a row. This year, HBO plans to increase its original programming hours worldwide by 50% with an expanded line-up to appeal to multiplatform audiences, including programs from Sesame Street, Jon Stewart, Bill Simmons, and Vice.

Turner is also increasing its investment in original programming and strengthening its leading brands in news, kids, sports and entertainment. In 2015, CNN grew primetime ratings 29% in its key demographic; Cartoon Network was the only top three kids network to grow ratings; and Turner extended its agreements with the NBA and NCAA, securing must have sports programming for its entertainment networks and digital properties. And this year, Turner is focused on refreshing its leading entertainment networks, TBS and TNT, with more original, on-demand, and cutting-edge programming to appeal to younger and multiplatform audiences.

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Warner Bros., which has been the #1 producer of primetime shows for U.S. broadcast networks for 12 of the past 13 seasons, is expanding its production slate. Already the largest supplier of programming to Turner and HBO, Warner Bros. is supplying more original programming to premium and basic cable networks as well as broadband video services. Warner Bros. is also developing strong global franchises, such as ones from DC Entertainment, LEGO, and the world of Harry Potter from J.K. Rowling, to drive growth across film, TV, video games, and consumer products.

2. We're leveraging our scale and technology to meet consumer demand both inside and outside the traditional TV ecosystem and create additional revenue streams for our Company.

The number of U.S. households that subscribe to a traditional television bundle is expected to continue to decline modestly over the next few years, so we're working with our distribution partners to help retain subscribers by enhancing the attractiveness of traditional television bundles through offering more on-demand programming and enabling more multi-platform viewing. With our concentrated portfolio of strong networks and must-watch programming, we also plan to capture a greater share of the industry's affiliate revenues.

At the same time, we're aggressively pursuing opportunities to distribute our networks and content outside the traditional TV ecosystem. In April 2015, HBO successfully launched its stand-alone broadband service, HBO NOW, and this year it's focused on expanding HBO NOW's distribution. In 2015, Turner and HBO also secured carriage on new, smaller broadband-delivered bundles, and we're actively exploring other opportunities to launch new broadband-delivered services. In addition to delivering our networks over broadband, we're expanding our online presence in other ways—for example, we're increasing our investment in CNN.com, which was the most viewed digital news source, and bleacherreport.com, which was the #2 digital sports destination in the U.S. last year.

We're also investing in technology, not only to support the broadband distribution of our content, but also to improve the effectiveness and value of advertising across platforms—combining the power of television with the targeting ability of digital platforms.

3. We're expanding internationally to take advantage of growing demand for content and increasing pay television and broadband penetration.

Outside the U.S., we're focused on gaining scale, particularly in territories with strong long-term growth prospects, and we tailor our programming and distribution strategies to optimize our returns in each market. A good example is Home Box Office's international strategy. HBO- and Cinemax-branded networks are distributed in over 60 countries across Latin America, Asia, and Europe. Those networks feature both U.S. and local programming with distribution models appropriate for each market: some are premium networks as in the U.S., while others are ad-supported. HBO has also been rolling out stand-alone broadband services in select countries, starting in the Nordics and now expanding to Latin America and Spain. And, in territories where HBO sees a larger opportunity in licensing its content, it has reached agreements with top networks and distributors with a focus on Home of HBO deals. Turner and Warner Bros. are likewise focused on increasing share in key regions, and all of our businesses collaborate with each other to capitalize on their combined scale outside the U.S.

4. We're focused on both operating and capital efficiency to drive shareholder returns.

We're tightly controlling overhead costs to help fund investments in content and growth initiatives. We're also executing a disciplined and balanced capital allocation strategy, with clear priorities: first, invest fully in our

businesses; second, selectively pursue M&A; and third, provide direct returns to shareholders. In 2015, the Company invested almost \$11.5 billion in our businesses, spent close to \$700 million on M&A (focused on enhancing the Company's broadband-distribution capabilities), and returned \$4.8 billion to shareholders through dividends and share repurchases.

Reviewing and Refining Our Strategy for Long-Term Success

Time Warner's structure, strategy, and strong execution have positioned the Company for sustained future growth. With the accelerating pace of change in the media and entertainment industry, the Board is engaged with management in continually reviewing, refining, and overseeing the execution of the Company's strategy. We're focused on delivering superior performance over the long-term by ensuring that your Company thrives in a world in which high-quality video content will remain enormously popular across the globe, and in which programming will be delivered in a growing number of ways and viewed by consumers on-demand on an ever-expanding array of devices.

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On behalf of the full Board of Directors, we want to express our appreciation for your investment in Time Warner and encourage you to vote your shares. Every shareholder's vote is important.

We also invite you to attend the Company's 2016 Annual Meeting of Shareholders. The meeting will be held on Friday, June 17, 2016, at 10:00 a.m. (local time) at Warner Bros. Studios, 4000 Warner Boulevard, in Burbank, California. If you are not able to attend the meeting, you may listen to the webcast live at www.timewarner.com/annualmeetingmaterials.

Sincerely,

Jeffrey L. Bewkes
Chairman of the Board

Stephen F. Bollenbach
Lead Independent Director

and Chief Executive Officer

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NOTICE OF 2016 ANNUAL MEETING OF SHAREHOLDERS

Annual Meeting Date: Friday, June 17, 2016

Time: 10:00 a.m. (local time)

Location: Warner Bros. Studios, 4000 Warner Boulevard, Burbank, California 91522

You are cordially invited to attend Time Warner Inc. s 2016 Annual Meeting of Shareholders.

Meeting Agenda

1. Elect the 11 directors named in the Proxy Statement;
2. Ratify the appointment of Ernst & Young LLP as the Company s independent auditor for 2016;
3. Hold an annual advisory vote to approve named executive officer compensation; and
4. Transact such other business as may properly come before the Annual Meeting.

Record Date

You can vote at the Annual Meeting if you were a shareholder of record at the close of business on April 20, 2016.

Voting

Whether or not you plan to attend the Annual Meeting in person, please promptly submit your proxy or voting instructions by Internet, telephone or mail by following the instructions in your Notice of Internet Availability of Proxy Materials, proxy card or voting instruction form. Any holder of record who is present at the Annual Meeting may vote in person, which will revoke any previously submitted proxy. If your shares are held through a bank,

brokerage firm or other nominee and you want to vote your shares in person at the Annual Meeting, you will need to contact your bank, brokerage firm or nominee to obtain a written proxy from it.

Attending the Annual Meeting

All Time Warner shareholders (as of the record date) are invited to attend the Annual Meeting. The Company has implemented security measures for the Annual Meeting. If you attend the Annual Meeting in person, you will be required to present valid, government-issued photo identification, such as a driver's license or passport, and an admission ticket to be admitted to the Annual Meeting. For instructions on how to obtain an admission ticket, please see *General Information* beginning on page 97. In addition, packages and bags may be inspected and other measures may be employed to enhance the security of persons attending the Annual Meeting. These procedures may require additional time, so please plan your arrival time accordingly. To avoid disruption, admission may be limited once the Annual Meeting begins. A map with directions to the Annual Meeting is provided on the last page of the Proxy Statement.

Listening to the Live Webcast of the Annual Meeting:

If you are unable to attend the meeting in person, you may listen to the live webcast of the Annual Meeting at www.timewarner.com/annualmeetingmaterials.

By order of the Board of Directors,

Paul F. Washington

Corporate Secretary

April 29, 2016

Important Notice Regarding the Availability of Proxy Materials for the Annual Meeting of Shareholders to Be Held on Friday, June 17, 2016:

This Proxy Statement and the Company's 2015 Annual Report to Shareholders are available electronically at www.timewarner.com/annualmeetingmaterials.

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This summary highlights information contained in this Proxy Statement. The Company encourages you to read the entire Proxy Statement carefully before voting.

Time Warner Inc.

Time Warner is a global leader in media and entertainment that owns and operates television networks and produces and distributes television programming, films, videogames and other high-quality video content on traditional and emerging platforms worldwide. The Company has three operating divisions: Turner, Home Box Office and Warner Bros.

Leading domestic and international television networks and related digital properties in entertainment, sports, kids and news
2016 Annual Meeting

Leading premium television services in the U.S. HBO and Cinemax

Largest television and film studio in the world

| | |
|---|---|
| Date: | Friday, June 17, 2016 |
| Time: | 10:00 a.m. (local time) |
| Location: | Warner Bros. Studios, 4000 Warner Boulevard, Burbank, California 91522 |
| Record date: | April 20, 2016 |
| Voting: | Shareholders as of the record date are entitled to vote. Each share of common stock is entitled to one vote for each nominee and one vote for each of the other matters properly presented at the Annual Meeting. |
| Admission to the Annual Meeting: | If you attend the Annual Meeting in person, you will be required to present valid, government-issued photo identification, such as a driver's license or passport, and admission ticket to be admitted to the Annual Meeting. |
| Meeting Webcast: | www.timewarner.com/annualmeetingmaterials |
| Matters to Be Voted on at the Annual Meeting | |

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Business Highlights

Time Warner's Strategy

Time Warner has pursued a strategy that uses its leading brands, distinctive intellectual property and global scale to capitalize on the growing demand for high-quality video content around the world. First, the Company invests in a concentrated portfolio of leading television networks, as well as compelling television programming, top Hollywood movies, and other forms of content, that appeal to audiences globally and across platforms. Second, the Company uses its scale and technology to meet consumer demand for the Company's networks and content both inside and outside the traditional TV ecosystem, on-demand and across a variety of platforms. Third, the Company continues to expand its businesses internationally in territories with strong long-term growth potential, taking advantage of the growing global demand for video content and increasing pay television and broadband penetration. Finally, the Company's on-going focus on operating and capital efficiency helps fund investments for future growth and substantial returns of capital to shareholders.

Strong Financial Performance in 2015

The continued execution of the Company's long-term strategy led to the delivery of strong financial performance in 2015.

Adjusted Operating Income¹ increased 19% to \$6.9 billion

Adjusted earnings per share¹ (Adjusted EPS) increased 14% to \$4.75, which exceeded the Company's outlook for the year. The Company was able to achieve this growth despite an approximate \$0.50-per-share headwind from foreign exchange rates.

Free Cash Flow¹ totaled \$3.6 billion

Returned \$4.8 billion to shareholders through dividends and share repurchases, including a 10% increase in the Company's quarterly dividend

(1) See Annex A for definitions of the non-GAAP financial measures used in this Proxy Statement and reconciliations of the non-GAAP financial measures to the most directly comparable financial measures calculated in accordance with generally accepted accounting principles in the United States (GAAP).

2 Time Warner lies include identifying and attracting new customers and serving our existing account base of approximately 4,500 large account customers. In addition to securing new contracts, our marketing and sales personnel provide consulting services to our health care customers, assisting them in reducing the amount of medical waste that they generate, training their employees on safety issues and implementing programs to audit, classify and segregate medical waste in a proper manner. We believe that the implementation of more stringent Clean Air Act and other federal regulations directly and indirectly affecting medical waste will enable us to improve our marketing efforts to large account customers because the additional costs that they will incur to comply with these regulations will make the costs of our services more attractive, particularly relative to their

use of their own incinerators. NATIONAL ACCOUNTS. As a result of our extensive geographic coverage, we are the only medical waste business capable of servicing national account customers (i.e., customers requiring medical waste disposal services at various geographically dispersed locations). We will continue to selectively focus on national accounts. CONTRACT AND SERVICE AGREEMENTS. We have long-term contracts with substantially all of our customers. We negotiate individual service agreements with each large account and small account customer. Although we have a standard form of agreement, particularly for small account customers, terms may vary depending upon the customer's service requirements and the volume of medical waste generated and, in some jurisdictions, requirements imposed by statute or regulation. Service agreements typically include provisions relating to the types of containers, frequency of collection, pricing, treatment and documentation for tracking purposes. Each agreement also specifies the customer's obligation to pack its medical waste in approved containers. Substantially all of our agreements with small account customers contain automatic renewal provisions. Service agreements are generally for a period of one to five years, although customers may terminate on written notice and, in most service areas, upon payment of a penalty. Many payment options are available, including flat monthly, quarterly or annual charges. We may set our prices on the basis of the number of containers that we collect, the weight of the medical waste that we collect and treat, the number of collection stops that we make on the customer's route, the number of collection stops that we make for a particular multi-site customer, and other factors. We have a diverse customer base, with no single customer accounting for more than 1% of revenues, and our top 10 customers accounting for less than 3% of revenues. We do not believe that the loss of any single customer would have a material adverse effect on our business, financial condition or results of operations. INTERNATIONAL We have also expanded beyond the United States and Canada. In 1996, we entered into an agreement with a Brazilian company, Companhia Auxiliar de Viacao e Obras, or CAVO, to assist in exploring opportunities for the commercialization of our medical waste management technology in South America. This relationship was expanded in July 1998, when we entered into an agreement for an exclusive license to use our ETD technology in Brazil and for the sale to CAVO of two fully integrated ETD processing lines for use in treating medical waste in the Sao Paulo, Brazil metropolitan market. In 1998, we formed Medam S.A. de C.V., or Medam, a Mexican joint venture company, to utilize our ETD technology to treat medical waste primarily in the Mexico City market. Medam operates a treatment facility with a 50 metric-ton per day capacity. This facility, which is the largest medical waste treatment facility permitted to date in Mexico, became operational in June 1998. In September 1999, we increased our interest in Medam from 24.5% to 49.0%, and in July 2000, we acquired a further 15.0% to give us a 64.0% interest in the joint venture. In August 2001, Medam completed the acquisition of Mexico City-based medical waste management company, Tecnicas Medio Ambientales Winco S.A. de C.V. In 1999, we established a joint venture in Argentina, Medam, B.A. Srl, to utilize our ETD technology to treat medical waste primarily in the Buenos Aires market. We also entered into agreements to supply ETD equipment and license ETD technology and other proprietary rights to Medam B.A., and to provide consulting assistance to Medam B.A. in the installation, start-up and validation of the ETD processing equipment in the joint venture's treatment facility in Buenos Aires. In June 2000, we entered into agreements with Aso Cement Co., Ltd and Aso Mining Co., Ltd, to establish an ETD processing facility in Japan. Under these agreements, we will supply ETD processing equipment to Aso and provide consulting assistance to Aso in the installation, start-up and validation of the ETD equipment. In addition, we exclusively licensed to Aso our ETD technology and other proprietary rights for use in certain select territories within Japan. In August 2000, we established a joint venture, Evertrade Medical Waste (Proprietary) Limited, a South Africa corporation, to utilize our ETD technology to treat medical waste in the Republic of South Africa. We also entered into agreements to supply ETD equipment and license ETD technology and other proprietary rights to Evertrade Medical Waste, and to provide consulting assistance to Evertrade Medical Waste in the installation, start-up and validation of the ETD processing equipment in the joint venture's treatment facility in South Africa. In August 2001, we concluded an agreement with SteriCorp Limited, an Australian company, under which we provided financing to SteriCorp through the purchase of convertible notes, licensed to it our ETD technology for use in Australia, New Zealand, Malaysia, Indonesia and Thailand and agreed to sell to it an ETD processing line and assist in its installation. TREATMENT TECHNOLOGIES We primarily use three treatment technologies for treating regulated medical waste: autoclaving, incineration and our proprietary ETD technology. Our current capacity to treat regulated medical

waste is approximately divided among these technologies in the following percentages: - autoclaving..... 70% - incineration..... 18% - our proprietary ETD technology... 12% We vary our treatment of medical waste among available treatment technologies based on the type of waste and capacity and pricing considerations in each service area, in order to minimize operating costs and capital investments.

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

INCINERATION. Incineration burns medical waste at elevated temperatures and reduces it to ash. Incineration reduces the volume of waste, and it is the recommended treatment and disposal option for some types of medical waste such as anatomical waste or residues from chemotherapy procedures. Air 33 emissions from incinerators can contain certain byproducts which are subject to federal, state and, in some cases, local regulation. In some circumstances the ash byproduct of incineration may be regulated.

ETD TREATMENT PROCESS. ETD includes a system for grinding medical waste. After grinding, ETD uses an oscillating field of low-frequency radio waves to heat medical waste to temperatures that destroy pathogens such as viruses, bacteria, fungi and yeast, without melting the plastic content of the waste. ETD employs low-frequency radio waves because they can penetrate deeper than high-frequency waves, like microwaves, which can penetrate medical waste of a typical density only to a depth of approximately five inches. ETD uses frequencies that match the physical properties of medical waste, enabling the ETD treatment process to kill pathogens at temperatures as low as 90 degreesC. Although ETD is effective in destroying pathogens present in anatomical waste, we do not currently treat anatomical waste using the ETD process. We believe that ETD offers advantages over many other methods of treating medical waste. We believe that it is easier to get permits for ETD facilities than for incineration facilities because ETD does not produce fluid or air pollution. ETD facilities also can be more cost-effective to construct than incinerators or autoclaves with shredding capability. ETD also renders medical waste unrecognizable and thus more acceptable for landfills and reduces the volume of waste as well. It may also facilitate recycling of polypropylene plastics and some of the ETD-treated waste may be used for fuel in "waste-to-energy" electrical plants.

FACILITIES We lease office space for our corporate offices in Lake Forest, Illinois. We own or lease four ETD treatment facilities, 10 incineration facilities, 17 autoclave facilities and five facilities that use a combination of these methods or other methods (including two facilities owned or leased by 3CI). All of our treatment facilities also serve as collection sites. We own or lease 95 additional transfer and collection sites (including six sites owned or leased by 3CI). We consider that these facilities are adequate for our present and anticipated needs. Substantially all of our owned facilities are pledged to secure our indebtedness under our senior credit facility. We do not own or operate any landfills or any other type of disposal site. After treatment, all remaining waste materials are transported to unaffiliated parties for permanent disposal.

COMPETITION The medical waste services industry is highly competitive. It consists of many different types of service providers, including a large number of regional and local companies. Another major source of competition is the on-site treatment of medical waste by some large-quantity generators, particularly hospitals. In addition, we face potential competition from businesses that are attempting to commercialize alternate treatment technologies or products designed to reduce or eliminate the generation of medical waste, such as reusable or degradable medical products. We compete for service agreements primarily on the basis of cost-effectiveness, quality of service and geographic location. We also attempt to compete by demonstrating to customers that we can do a better job in reducing their potential liability. Our ability to obtain new service agreements may be limited by the fact that a potential customer's current vendor may have an excellent service history or a long-term service contract or may offer prices to the potential customer that are lower than ours.

GOVERNMENTAL REGULATION We operate within the medical waste management industry, which is subject to extensive and frequently changing federal, state and local laws and regulations. This statutory and regulatory framework 34 imposes compliance burdens and risks on us, including requirements to obtain and maintain government permits. These permits grant us the authority, among other things: - to construct and operate treatment and transfer facilities; - to transport medical waste within and between relevant jurisdictions; and - to handle particular regulated substances. Our permits must be periodically renewed and are subject to modification or revocation by the regulatory authority. We are also subject to regulations that govern the definition, generation, segregation, handling, packaging,

transportation, treatment, storage and disposal of medical waste. We are also subject to extensive regulations designed to minimize employee exposure to medical waste. In addition, we are subject to foreign laws and regulations. FEDERAL REGULATION. There are at least four federal agencies that have authority over medical waste. These agencies are the EPA, OSHA, the U.S. DOT and the U.S. Postal Service. These agencies regulate medical waste under a variety of statutes and regulations. Medical Waste Tracking Act of 1988. In the late 1980s, the EPA outlined a two-year demonstration program pursuant to MWTA, which was added to the Resource Conservation and Recovery Act of 1976. The MWTA was adopted in response to health and environmental concerns over infectious medical waste after medical waste washed ashore on beaches, particularly in New York and New Jersey, during the summer of 1988. Public safety concerns grew following media reports of careless management of medical waste. The MWTA was intended to be the first step in addressing these problems. The primary objective of the MWTA was to ensure that medical wastes which were generated in a covered state and which posed environmental problems, including an unsightly appearance, were delivered to disposal or treatment facilities with minimum exposure to waste management workers and the public. The MWTA's tracking requirements included accounting for all waste transported and imposed civil and criminal sanctions for violations. In regulations implementing the MWTA, the EPA defined medical waste and established guidelines for its segregation, handling, containment, labeling and transport. The MWTA demonstration program expired in 1991, but the MWTA established a model followed by many states in developing their specific medical waste regulatory frameworks. Clean Air Act Regulations. In August 1997, the EPA adopted regulations under the Clean Air Act Amendments of 1990 that limit the discharge into the atmosphere of pollutants released by medical waste incineration. These regulations required every state to submit to the EPA for approval a plan to meet minimum emission standards for these pollutants. See "-- State and Local Regulation." In 1997, the EPA estimated that of the approximately 1,100 small, 690 medium and 460 large medical waste incinerators in operation in May 1996, approximately 83-90% of the small incinerators, 60-95% of the medium incinerators and up to 35% of the large incinerators will be closed as hospitals seek less expensive methods of medical waste disposal rather than incur the cost of installing the necessary air pollution control systems to comply with the EPA's regulations. We currently operate 10 incinerators. Because our facilities are modern and well maintained, we believe that our future capital expenditures required to bring our incinerators into compliance with these new regulations will be covered by our normal capital expenditure budget. We believe that we will be successful in obtaining all necessary federal and state permits to continue the operation of our incinerators. The Natural Resources Defense Council, an environmental organization, has sued the EPA challenging the validity of its regulations on the grounds that the minimum emissions standards are too lenient. If successful, this lawsuit could result in the EPA's adoption of stricter air emissions standards for medical waste incinerators. Stricter emissions standards could benefit us if the result is that hospitals and other generators increase or accelerate their use of outside medical waste treatment contractors like us. Stricter emissions standards could also increase the cost to bring our own incinerators into compliance with the more stringent standards. We might also face price increases for treatment of medical waste that we deliver to other parties for incineration. 35 Occupational Safety and Health Act of 1970. The Occupational Safety and Health Act of 1970 authorizes OSHA to issue occupational safety and health standards. OSHA regulations are designed to minimize the exposure of employees to hazardous work environments. Various standards apply to certain aspects of our operations. These regulations govern, among other things: - exposure to bloodborne pathogens and other potentially infectious materials; - lock out/tag out procedures; - medical surveillance requirements; - use of respirators and personal protective equipment; - emergency planning; - hazard communication; - noise; - ergonomics; and - forklift safety. We are subject to unannounced OSHA safety inspections at any time. Our employees are required by our policy to receive new employee training, annual refresher training and training in their specific tasks. As part of our medical surveillance program, employees receive pre-employment physicals, including drug testing, annually-required medical surveillance and exit physicals. We also subscribe to a drug-free workplace policy. Resource Conservation and Recovery Act of 1976. In 1976, Congress passed the Resource Conservation and Recovery Act of 1976, or RCRA, as a response to growing public concern about problems associated with the handling and disposal of solid and hazardous waste. RCRA required the EPA to promulgate regulations identifying hazardous wastes. RCRA also created standards for the generation, transportation, treatment, storage and disposal of solid and hazardous wastes. These standards included a

documentation program for the transportation of hazardous wastes and a permit system for solid and hazardous waste disposal facilities. Medical wastes are currently considered non-hazardous solid wastes under RCRA. However, some substances collected by us from some of our customers, including photographic fixer developer solutions, lead foils and dental amalgam, are considered hazardous wastes. We use landfills operated by parties unrelated to us for the disposal of treated medical waste from two of our ETD facilities and for the disposal of incinerator ash and autoclaved waste. Waste is not regulated as hazardous under RCRA unless it contains hazardous substances exceeding certain quantities or concentration levels, meets specified descriptions, or exhibits specific hazardous characteristics. Following treatment, waste from our ETD and autoclave facilities is disposed of as nonhazardous waste. At our incineration facilities, we test ash from the incineration process to determine whether it must be disposed of as hazardous waste. We employ quality control measures to check incoming medical waste for specific types of hazardous substances. Our customer agreements also require our customers to exclude different kinds of hazardous substances or radioactive materials from the medical waste they provide us. We use a different type of contract for the relatively small number of customers from whom we pick up hazardous wastes.

DOT Regulations. The U.S. DOT, has put regulations into effect under the Hazardous Materials Transportation Authorization Act of 1994 which require us to package and label medical waste in compliance with designated standards, and which incorporate bloodborne pathogens standards issued by OSHA. Under these standards, we must, among other things, identify our packaging with a "biohazard" marking on the outer packaging, and our medical waste container must be sufficiently rigid and strong to prevent tearing or bursting and must be puncture-resistant, leak-resistant, properly sealed and impervious to moisture. 36 DOT regulations also require that a transporter be capable of responding on a 24-hour-a-day basis in the event of an accident, spill, or release to the environment of a hazardous material. We have entered into an agreement with CHEMTREC, an organization that provides 24-hour emergency spill notification in the United States and Canada, to provide this service, and we also have agreements with several emergency response organizations to provide spill cleanup services in some of our service areas. Our drivers are trained on topics such as safety, hazardous materials, medical waste, hazardous chemicals and infectious substances. Employees are trained to deal with emergency spills and releases of hazardous materials, and we have a written contingency plan for these events. Our vehicles are outfitted with spill control equipment and the drivers are trained in its use.

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

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

STATE AND LOCAL REGULATION. We conduct business in numerous states. Each state has its own regulations related to the handling, treatment and storage of medical waste. Although there are many differences among the various state laws and regulations, many states have followed the medical waste model under the MWTA and are implementing programs under RCRA. In each of the states where we operate a treatment facility or a transfer station, we are required to comply with numerous state and local laws and regulations as well as our operating plan for each site. State agencies involved in regulating the medical waste industry are frequently the departments of health and environmental protection agencies. In addition, many local governments have ordinances, local laws and regulations, such as zoning and health regulations, that affect our operations. States usually regulate medical waste as a solid or "special" waste and not as a hazardous waste under RCRA. State definitions of medical waste include: - microbiological waste (cultures and stocks of infectious agents); -

pathology waste (human body parts from surgical procedures and autopsies); - blood and blood products; and - sharps. Most states require segregation of different types of medical waste at the hospital or other location where they were created. A majority of states require that the universal biohazard symbol or a label appear on medical waste containers. Storage regulations may apply to the party generating the waste, the treatment facility, the transport vehicle, or all three. Storage rules seek to identify and secure the storage area for public safety as well as set standards for the manner and length of storage. Many states require employee training for safe environmental cleanup through emergency spill and decontamination plans. Many states also require that transporters carry spill equipment in their vehicles. Those states whose regulatory framework relies on the MMTA model have tracking document systems in place. Some states (Washington, for example) regulate the prices that we may charge. 37 We maintain numerous governmental permits and licenses to conduct our business. Our permits vary from state to state based upon our activities within that state and on the applicable state and local laws and regulations. These permits include: - transport permits for solid waste, medical waste and hazardous substances; - permits to construct and operate treatment facilities; - permits to construct and operate transfer stations; - permits governing discharge of sanitary water and registration of equipment under air regulations; - approvals for the use of ETD and other technologies to treat medical waste; and - various business operator's licenses. We believe that we are currently in compliance in all material respects with our permits and applicable laws and regulations. Pursuant to medical waste incinerator regulations adopted by the EPA in 1997, every state was required by September 1998 to adopt a plan to comply with federal guidelines which, among other things, limit the release of some airborne pollutants from medical waste incinerators to levels prescribed by the EPA. Each state's implementation plan must be at least as restrictive as the federal emissions standards. If a state in which we operate an incinerator adopts more stringent limits than the federal emissions standards, it could be very expensive for us to bring our incinerator into compliance with the state's requirements. See "-- Governmental Regulation -- Federal Regulation -- Clean Air Act Regulations." FOREIGN AND TERRITORIAL REGULATION. We presently conduct business in several provinces in Canada. Our activities in British Columbia are governed at the federal level by the Canadian Transportation of Dangerous Goods Act and the Canadian Environmental Protection Act, and at the provincial level by comparable legislation. The Canadian Environmental Protection Act regulates, among other things, the transborder movement of medical waste. The federal Transportation of Dangerous Goods Act regulates the movement of dangerous goods, including infectious substances, by all modes of transportation. It imposes joint and several liability on all persons who are responsible for, or who caused or contributed to the release of any dangerous substance into the environment. Any business engaged in a regulated activity is presumed to be liable for any release, unless the business can demonstrate that it acted reasonably. Provincial legislation typically regulates the storage, transportation and disposal of waste, including biomedical waste, and imposes strict, joint and several liability for all the costs of cleanup of contaminated sites. We presently conduct business in the United States territory of Puerto Rico. Our storage and treatment activities in Puerto Rico are governed at the territorial level by the Puerto Rico Environmental Quality Board, while the U.S. DOT regulates the transportation of medical waste in Puerto Rico and applies the regulations promulgated under the Hazardous Materials Transportation Authorization Act of 1994. We believe that we have obtained all permits required by Canadian federal and provincial legislation and by federal and territorial legislation applicable to Puerto Rico. We also conduct business in Mexico and Argentina through joint ventures. We believe that our joint venture operations, are in compliance with all material applicable laws, rules and regulations. If we expand our operations into other foreign jurisdictions, we will be required to comply with the laws and regulations of each of these jurisdictions. PERMITTING PROCESS. Each state in which we currently operate, and each state in which we may operate in the future, has a specific permitting process. After we have identified a geographic area in which we want to locate a treatment or transfer facility, we identify one or more locations for a potential new site. Typically, we will develop a site contingent on obtaining zoning approval and local and state operating authority. Most communities rely on state authorities to provide operating rules and safeguards for their community. Usually the state provides public notice of the project and, if enough public interest is shown, 38 a public hearing may be held. If we are successful in meeting all regulatory requirements, the state may issue a permit to construct the treatment facility or transfer station. Once the facility is constructed, the state may again issue public notice of its intent to issue an operating permit and may provide an opportunity for public opposition or other action that

may impede our ability to construct or operate the planned facility. Permitting for transportation operations frequently involves registration of vehicles, inspection of equipment, and background investigations on our officers and directors. We have been successful in obtaining permits for our current medical waste transfer, treatment and processing facilities and for our transportation operations. Several of our past attempts to construct and operate medical waste treatment facilities, however, have met with significant community opposition. In some of these cases, we have withdrawn our permit application.

PATENTS AND PROPRIETARY RIGHTS We consider the protection of our technology to be important to our business. Our policy is to protect our technology by a variety of means, including applying for patents in the United States and in some foreign countries. We hold ten United States patents relating to the ETD treatment process and other aspects of processing medical waste. We have filed or have been assigned patent applications in several foreign countries and we have received patents in Australia, Canada, France, Hong Kong, Hungary, Mexico, Russia, South Korea and the United Kingdom. The term of the first-to-end of our existing United States patents relating to our ETD treatment process will currently end in October 2009. We own federal registrations of the trademarks "Steri-Fuel(R)," "Steri-Plastic(R)," and "Steri-Tub(R)," the service mark Stericycle(R) and a service mark consisting of a nine-circle design. There can be no assurance that our registered or unregistered trademarks or service marks will not infringe upon the rights of other parties. The requirement to change any of our trademarks, service marks or trade names could result in the loss of any goodwill associated with that trademark, service mark or trade name and could entail significant expense. There can be no assurance that any pending or future patent applications will be granted, that any issued patents will provide us with competitive advantages, or that our patents will not be challenged by other parties. In addition, there can be no assurance that other companies will not develop similar processes or avoid our patents. Litigation or administrative proceedings may be necessary to enforce the patents issued to us or to determine the scope and validity of others' proprietary rights. Any litigation or administrative proceeding could result in substantial cost to us and distraction of our management. A ruling against us in any litigation or administrative proceeding could have a material adverse effect on our business. Our commercial success may also depend on our not infringing patents issued to other parties. There can be no assurance that patents belonging to other parties will not require us to alter our processes, pay licensing fees or cease using any current or future processes. In addition, there can be no assurance that we would be able to license the technology rights that we may require at a reasonable cost or at all. If we could not obtain a license to any infringing technology that we currently use, it could have a material adverse effect on our business. We also rely on unpatented and unregistered trade secrets, proprietary know-how and continuing technological innovation. We try to protect this information, in part, by confidentiality agreements with our employees, vendors and consultants. There can be no assurance that these agreements will not be breached, that we would have adequate remedies for any breach or that our trade secrets or know-how will not otherwise become known or independently discovered by other parties.

39 EMPLOYEES As of June 30, 2001, we had 2,452 full-time and 78 part-time employees (including employees of our subsidiaries). Approximately 225 of our drivers, transportation helpers and plant workers are covered by a total of eight collective bargaining agreements with local unions of the International Brotherhood of Teamsters. These agreements expire at various dates from April 2002 to April 2004. We consider our employee relations to be satisfactory.

POTENTIAL LIABILITY AND INSURANCE The medical waste industry involves potentially significant risks of statutory, contractual, tort and common law liability claims. Potential liability claims could involve, for example: - cleanup costs; - personal injury; - damage to the environment; - employee matters; - property damage; or - alleged negligence or professional errors or omissions in the planning or performance of work. We could also be subject to fines or penalties in connection with violations of regulatory requirements. We carry \$26 million of liability insurance (including umbrella coverage), and under a separate policy, \$10 million of aggregate pollution and legal liability insurance (\$5 million per incident), which we consider sufficient to meet regulatory and customer requirements and to protect our employees, assets and operations. Our pollution liability insurance excludes liabilities under CERCLA. There can be no assurance that we will not face claims under CERCLA or similar state laws resulting in substantial liability for which we are uninsured and which could have a material adverse effect on our business. Our insurance programs utilize large deductible plans offered by a commercial insurance company. Large deductible plans allow us the benefits of cost-effective risk financing while protecting us from catastrophic risk with specific stop loss insurance limiting the amount of

self-funded exposure for any one loss and aggregate stop loss insurance limiting the self-funding exposure for any one year. **LEGAL AND OTHER PROCEEDINGS** We operate in a highly regulated industry and are exposed to regulatory inquiries or investigations from time to time. Government authorities can initiate investigations for a variety of reasons. We have been involved in several legal and administrative proceedings that have been settled or otherwise resolved on terms acceptable to us, without having a material adverse effect on our business. In addition, we have had discussions with the Missouri Department of Natural Resources, or DNR, to settle proposed civil penalties stemming from alleged legal and regulatory violations. Discussions between us and the Missouri DNR are ongoing and unresolved on this enforcement matter. We believe that the resolution of this matter will not have a material adverse effect on us. We are also a party to various legal proceedings arising in the ordinary course of business. We believe that the resolution of these other matters will not have a material adverse effect on us. **40 MANAGEMENT** The following table provides the name, position and age of our executive officers and directors: **NAME AGE POSITION ---- - - - - - - - - - -** Mark C.

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|---------------------------|----|--|------------------------------|----|--|
| Miller..... | 45 | President, Chief Executive Officer and a Director | Richard T. Kogler..... | 41 | Executive Vice President and Chief Operating Officer |
| Frank J.M. ten Brink..... | 44 | Executive Vice President and Chief Financial Officer | Anthony J. Tomasello..... | 54 | Executive Vice President and Chief Technical Officer |
| Jack W. Schuler..... | 60 | Chairman of the Board of Directors | John P. Connaughton..... | 36 | Director |
| Rod F. Dammeyer..... | 60 | Director | Patrick F. Graham..... | 61 | Director |
| John Patience..... | 53 | Director | Thomas R. Reusche..... | 46 | Director |
| Peter Vardy..... | 70 | Director | L. John Wilkerson, Ph.D..... | 57 | Director |

Mark C. Miller has served as our President and Chief Executive Officer and a director since joining us in May 1992. From May 1989 until he joined us, Mr. Miller served as vice president for the Pacific, Asia and Africa in the International Division of Abbott Laboratories, which he joined in 1976 and where he held a number of management and marketing positions. He is a director of Ventana Medical Systems, Inc. and Lake Forest Hospital. Mr. Miller received a B.S. degree in computer science from Purdue University, where he graduated Phi Beta Kappa. Richard T. Kogler joined us as Chief Operating Officer in December 1998. From May 1995 through October 1998, Mr. Kogler was vice president and chief operating officer of American Disposal Services, Inc., a solid waste management company. From October 1984 through May 1995, Mr. Kogler served in a variety of management positions with Waste Management, Inc. Mr. Kogler received a B.A. degree in chemistry from St. Louis University. Frank J.M. ten Brink has served as our Vice President, Finance and Chief Financial Officer since June 1997. From 1991 until 1996 he served as chief financial officer of Hexacomb Corporation, and from 1996 until joining us, he served as chief financial officer of Telular Corporation. Prior to 1991, he held various financial management positions with Interlake Corporation and Continental Bank of Illinois. Mr. ten Brink received a B.B.A. degree in international business and a M.B.A. degree in finance from the University of Oregon. Anthony J. Tomasello has served as our Executive Vice President and Chief Technical Officer since January 1999 and previously had served as Vice President, Operations since joining us in August 1990. For eight years prior to joining us, Mr. Tomasello was president and chief operating officer of Pi Enterprises and Orbital Systems, companies providing process and automation services. From 1980 to 1982, he served as vice president of operations for Spang and Company, an operating service firm specializing in resource recovery and recycling for manufacturing and process industries. Mr. Tomasello received a B.S. degree in mechanical engineering from the University of Pittsburgh. Jack W. Schuler has served as our Chairman of the Board of Directors since January 1990. From January 1987 to August 1989, Mr. Schuler served as president and chief operating officer of Abbott Laboratories, where he served as a director from April 1985 to August 1989. Mr. Schuler serves as a director of Chiron Corporation, Medtronic, Inc. and Ventana Medical Systems, Inc. He is a co-founder of Crabtree Partners LLC, a private investment firm in Lake Forest, Illinois, which was formed in June 1995. 41 Mr. Schuler received a B.S. degree in mechanical engineering from Tufts University and a M.B.A. degree from the Stanford University Graduate School of Business Administration. John P. Connaughton has served as a director since November 1999. He has been a managing director of Bain Capital, LLC since 1997 and a member of the firm since 1989. Prior to joining Bain Capital, LLC, Mr. Connaughton was a consultant at Bain & Company, where he worked in consumer products and health care strategy consulting. Mr. Connaughton serves as a director of Dade Behring, Inc., Datek Online Holdings, Inc., DealTime.com Ltd., Epoch Senior Living, The Island ECN, Inc. and Vivra, Inc. Mr. Connaughton received a B.S. degree in

commerce from the University of Virginia and a M.B.A. degree from the Harvard University Graduate School of Business, where he was a Baker Scholar. Rod F. Dammeyer has served as a director since January 1998. He is the President of CAC, llc, a private company providing capital investment and management advisory services, and is the retired vice chairman of Anixter International, where he served from 1985 until February 2001, and the retired managing partner of Equity Group Corporate Investments, where he served from 1995 until June 2000. Mr. Dammeyer serves as a director of Arris Group, Inc., GATX Corporation, Peregrine Systems, Inc. and TeleTech Holdings, Inc., and as a trustee of The University of Chicago Hospitals and Health System and of Van Kampen Investments, Inc. closed-end funds. He received a B.S. degree from Kent State University. Patrick F. Graham has served as a director since May 1991. Mr. Graham is employed by The Gillette Company and is a director of Intelidata Technologies, Inc. He was a co-founder of Bain & Company, Inc., where he served in a number of positions from 1973 to 1997. He received a B.A. degree in economics from Knox College and a M.B.A. degree from the Stanford University Graduate School of Business Administration. John Patience has served as a director since our incorporation in March 1989. He is a co-founder and partner of Crabtree Partners LLC, a private investment firm in Lake Forest, Illinois, which was formed in June 1995. From January 1988 to March 1995, Mr. Patience was a general partner of Marquette Venture Partners, L.P., a venture capital fund which he co-founded and which led our initial capitalization. Mr. Patience serves as a director of Ventana Medical Systems, Inc. He received B.A. and LL.B. degrees from the University of Sydney in Sydney, Australia, and a M.B.A. degree from the Wharton School of Business of the University of Pennsylvania. Thomas R. Reusche has served as a director since November 1999. He is a managing director and co-founder of Madison Dearborn Partners, LLC. Prior to founding Madison Dearborn Partners, LLC in 1992, Mr. Reusche was a senior investment manager of First Chicago Venture Capital, which comprised the private equity investment activities of First Chicago Corporation, the holding company parent of First National Bank of Chicago. Mr. Reusche serves as a director of Hines Horticulture, Inc., Woods Equipment Company and a number of private companies. He has received an A.B. degree from Brown University and a M.B.A. degree from the Harvard University Graduate School of Business. Peter Vardy has served as a director since July 1990. He is the managing director of Peter Vardy & Associates, an international environmental consulting firm in Chicago, Illinois, which he founded in June 1990. From April 1973 to May 1990, Mr. Vardy served at Waste Management, Inc., where he was vice president, environmental management. Mr. Vardy received a B.S. degree in geological engineering from the University of Nevada. L. John Wilkerson, Ph.D. has served as a director since July 1992. Dr. Wilkerson is a general partner of Galen Partners, L.P. and Galen Partners International, L.P., affiliated health care venture capital funds, and serves as a director of Ventro Corp. and several privately held health care companies. Dr. Wilkerson received a B.S. degree in biological sciences from Utah State University and a Ph.D. degree in managerial economics and marketing research from Cornell University.

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MANAGEMENT OWNERSHIP AND SELLING STOCKHOLDERS MANAGEMENT OWNERSHIP
The following table provides certain information regarding the beneficial ownership of our common stock as of October 1, 2001 by each of our directors, each of our executive officers and all of our directors and executive officers as a group. None of our directors and executive officers is selling any shares in this offering: **SHARES OWNED PERCENTAGE PRIOR TO AND AFTER OWNED OFFERING(1) AFTER OFFERING(2)**

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|-------|-------|-------------------------|---------|------|------------------------|---------|-----|-----------------------------|----|---------------------------|--------|---|---------------------------|--------|---|-----------------------|---------|-----|------------------------|----|------------------------|---------|---|-----------------------------------|--------|---|----------------------------|--------|---|-------------------------------|--------|---|-------------------------------|---------|---|---|-----------|-------|-------|---|---------------|
| ----- | ----- | Jack W. Schuler(3)..... | 917,589 | 4.3% | Mark W. Miller(4)..... | 586,942 | 2.8 | John P. Connaughton(5)..... | -- | * Rod F. Dammeyer(6)..... | 18,097 | * | Patrick F. Graham(7)..... | 17,818 | * | John Patience(8)..... | 227,984 | 1.1 | Thomas Reusche(9)..... | -- | * Peter Vardy(10)..... | 161,731 | * | L. John Wilkerson, Ph.D.(11)..... | 45,262 | * | Richard T. Kogler(12)..... | 30,942 | * | Frank J.M. ten Brink(13)..... | 66,956 | * | Anthony J. Tomasello(14)..... | 110,571 | * | All directors and executive officers as a group (12 persons)..... | 2,183,892 | 10.3% | ----- | * | Less than 1%. |
|-------|-------|-------------------------|---------|------|------------------------|---------|-----|-----------------------------|----|---------------------------|--------|---|---------------------------|--------|---|-----------------------|---------|-----|------------------------|----|------------------------|---------|---|-----------------------------------|--------|---|----------------------------|--------|---|-------------------------------|--------|---|-------------------------------|---------|---|---|-----------|-------|-------|---|---------------|

(1) This column includes shares of common stock issuable upon the exercise of stock options or warrants exercisable as of or within 60 days after October 1, 2001. (2) The percentages in this column were calculated on the basis of an assumed total of 21,226,184 shares of common stock outstanding following completion of this offering, consisting of 15,686,321 shares outstanding as of October 1, 2001, 1,000,000 new shares sold by us in the offering, 1,700,000 shares sold by the selling stockholders in this offering following conversion of a portion of their shares of Series

A convertible stock, and 2,839,863 shares issuable upon the conversion of the selling stockholders' remaining shares of Series A convertible preferred stock, assuming the conversion of all shares of Series A convertible preferred stock, including the shares converted in connection with this offering, as of October 1, 2001. In addition, shares of common stock issuable under stock options or warrants exercisable as of or within 60 days after October 1, 2001 are considered outstanding for purposes of computing the percentage of the person holding the option or warrant but are not considered outstanding for purposes of computing the percentage of any other person. (3) The shares shown as beneficially owned by Mr. Schuler include 58,924 shares issuable upon the exercise of stock options or warrants exercisable as of or within 60 days after October 1, 2001 and 35,218 shares owned by his wife and trusts for the benefit of his children, with respect to which Mr. Schuler disclaims any beneficial ownership. (4) The shares shown as beneficially owned by Mr. Miller include 115,943 shares issuable upon the exercise of stock options or warrants exercisable as of or within 60 days after October 1, 2001 and 76,346 shares owned by trusts for the benefit of his sons, with respect to which Mr. Miller disclaims beneficial ownership. (5) Mr. Connaughton is a managing director of Bain Capital, LLC. See "-- Selling Stockholders." Mr. Connaughton has assigned to Bain Capital, LLC all stock options granted to him under our Directors Stock Option Plan, of which options for 22,787 shares are exercisable as of or within 60 days after October 1, 2001. As a managing director of Bain Capital, LLC, Mr. Connaughton may be deemed to share voting and dispositive power with respect to the shares of our stock owned by 43 the Bain Entities. Mr. Connaughton disclaims any beneficial interest in these stock options or shares except to the extent of any pecuniary interest arising from his managing directorship of Bain Capital, LLC. (6) The shares shown as beneficially owned by Mr. Dammeyer include 17,097 shares issuable upon the exercise of stock options or warrants exercisable as of or within 60 days after October 1, 2001 and 1,000 shares owned by his wife, with respect to which Mr. Dammeyer disclaims beneficial ownership. (7) The shares shown as beneficially owned by Mr. Graham include 12,035 shares issuable upon the exercise of stock options or warrants exercisable as of or within 60 days after October 1, 2001. (8) The shares shown as beneficially owned by Mr. Patience include 50,141 shares issuable upon the exercise of stock options or warrants exercisable as of or within 60 days after October 1, 2001. (9) Mr. Reusche is a managing director of Madison Dearborn Partners, LLC. See "-- Selling Stockholders." Mr. Reusche has assigned to Madison Dearborn Partners, LLC all stock options granted to him under our Directors Stock Option Plan, of which options for 22,787 shares are exercisable as of or within 60 days after October 1, 2001. As a managing director of Madison Dearborn Partners, LLC, Mr. Reusche may be deemed to share voting and dispositive power with respect to the shares of our stock owned by the MDP Entities. Mr. Reusche disclaims any beneficial interest in these stock options or shares except to the extent of any pecuniary interest arising from his managing directorship of Madison Dearborn Partners, LLC. (10) The shares shown as beneficially owned by Mr. Vardy include 61,735 shares issuable upon the exercise of stock options or warrants exercisable as of or within 60 days after October 1, 2001 and 33,614 shares owned by trusts for the benefit of his children, with respect to which Mr. Vardy disclaims any beneficial ownership. (11) The shares shown as beneficially owned by Dr. Wilkerson include 2,909 shares issuable upon the exercise of stock options exercisable as of or within 60 days after October 1, 2001, which he has assigned to Galen Advisors LLC. Dr. Wilkerson disclaims any beneficial interest in these stock options except to the extent of any pecuniary interest arising from his membership interest in Galen Advisors, LLC. (12) The shares shown as beneficially owned by Mr. Kogler include 25,942 shares issuable upon the exercise of stock options or warrants exercisable as of or within 60 days after October 1, 2001. (13) The shares shown as beneficially owned by Mr. ten Brink include 58,496 shares issuable upon the exercise of stock options or warrants exercisable as of or within 60 days after October 1, 2001. (14) The shares shown as beneficially owned by Mr. Tomasello include 23,164 shares issuable upon the exercise of stock options or warrants exercisable as of or within 60 days after October 1, 2001. SELLING STOCKHOLDERS The selling stockholders consist of investment funds associated with Bain Capital, LLC, or the Bain Entities, and investment funds associated with Madison Dearborn Partners, LLC, or the MDP Entities. The shares of our common stock covered by this prospectus that the MDP Entities and Bain Entities are selling are shares that we issued to them upon their conversion of a portion of their shares of our Series A convertible preferred stock. See "Description of Capital Stock -- Convertible Preferred Stock." If the underwriters' over-allotment option is exercised in full, the MDP Entities and the Bain Entities together will sell an additional 405,000 shares of our common stock, requiring the conversion of further shares of our

convertible preferred stock. The following table provides the names of the selling stockholders, the number of shares of our common stock that each selling stockholder is selling. The table also provides the number of shares of our common stock that each selling stockholder owned immediately prior to this offering, and the number of 44 shares and the percentage of outstanding shares that each selling stockholder will own after completion of this offering. SHARES OWNED SHARES OWNED AFTER OFFERING OFFERED PRIOR TO ----- FOR SALE OFFERING(1) NUMBER PERCENTAGE(2) -----

| | | | | |
|---|---------|-----------|-----------|--|
| MDP Entities: Madison Dearborn Capital Partners III, L.P. | 828,210 | | | |
| 2,222,856 1,394,645 6.6% Madison Dearborn Special Equity III, L.P. ... | 18,390 | 49,357 | 30,967 | * Special |
| Advisors Fund I, LLC..... | 3,400 | 9,125 | 5,725 | * |
| ----- | | | | ----- |
| Total..... | | | | |
| 850,000 2,281,338 1,431,338 6.7% Bain Entities: Bain Capital Fund VI, L.P. | 581,635 | 1,545,455 | | |
| 963,820 4.5 BCIP Associates II..... | 102,833 | 273,236 | 170,403 | * BCIP Associates |
| II-B..... | 14,095 | 37,452 | 23,357 | * BCIP Associates II-C..... |
| | 30,217 | 80,288 | 50,072 | * BCIP |
| Trust Associates II..... | 29,563 | 78,552 | 48,989 | * BCIP Trust Associates II-B..... |
| | 4,718 | 12,537 | | |
| 7,819 * PEP Investments Pty. Limited..... | 1,939 | 5,152 | 3,213 | * Brookside Capital Partners Fund L.P. |
| | 42,500 | 112,926 | 70,426 | * Sankaty High Yield Asset Partners, L.P. |
| | 42,500 | 112,926 | 70,426 | * ----- |
| ----- | | | | ----- |
| Total..... | 850,000 | 2,258,525 | 1,408,525 | 6.6% ----- * Less than 1%. |

(1) Assumes the conversion as of October 1, 2001 of all 74,625 shares outstanding of our Series A convertible preferred stock, consisting of 37,500 shares owned by the MDP Entities and 37,125 shares owned by the Bain Entities. (2) The percentages in this column were calculated on the basis of an assumed total of 21,226,184 shares of common stock outstanding following completion of this offering, consisting of 15,663,501 shares outstanding as of October 1, 2001, 1,000,000 new shares sold by us in the offering, 1,700,000 shares sold by the selling stockholders in this offering following conversion of a portion of their shares of Series A convertible stock, and 2,839,863 shares issuable upon the conversion of the selling stockholders' remaining shares of Series A convertible preferred stock, assuming the conversion of all shares of Series A convertible preferred stock, including the shares converted in connection with this offering, as of October 1, 2001. Thomas R. Reusche, who is a managing director of Madison Dearborn Partners, LLC, and John P. Connaughton, who is a managing director of Bain Capital, LLC, have served as two of our directors since November 1999 as the respective nominees of the MDP Entities and the Bain Entities. For a description of the arrangements that we have with the MDP Entities and the Bain Entities, see "Description of Capital Stock -- Preferred Stock." 45 DESCRIPTION OF CAPITAL STOCK Our authorized capital stock consists of 30,000,000 shares of common stock, par value \$.01 per share, of which 15,686,321 shares were issued and outstanding as of October 1, 2001, and 1,000,000 shares of convertible preferred stock, par value \$.01 per share, 100,000 shares of which have been designated as Series A convertible preferred stock. We have issued 75,000 of these latter shares, of which 46,545 shares will remain issued and outstanding following completion of this offering. COMMON STOCK As of October 1, 2001, there were 15,686,321 shares of our common stock outstanding. Our outstanding shares of common stock are validly issued, fully paid and nonassessable. Holders of common stock are entitled to one vote per share on all matters to be voted upon by the stockholders but do not have cumulative voting rights in respect of the election of directors. Subject to the preferences of any outstanding shares of convertible preferred stock, holders of common stock are entitled to receive dividends if, when and as declared by our Board of Directors out of legally available funds. In the event of liquidation, dissolution or winding up, holders of common stock are entitled to share ratably in all of our assets remaining after payment or provision for payment of our liabilities and the preferences of any outstanding shares of convertible preferred stock. Holders of common stock have no preemptive or other subscription rights to purchase any additional securities, and there are no conversion rights or redemption or sinking fund provisions in respect of our common stock. All shares of common stock to be outstanding upon completion of this offering will be fully paid and nonassessable. CONVERTIBLE PREFERRED STOCK In November 1999, we issued and sold 75,000 shares of our Series A convertible preferred stock to the MDP Entities and the Bain Entities (including a partnership that converted its 375 shares prior to this offering) for \$1,000 per share, or \$75.0 million in the aggregate, in cash, less various fees and expenses. We used the net proceeds from the sale to finance a portion of the purchase price of our BFI acquisition. DIVIDENDS. The Series A convertible preferred stock bears preferential dividends, payable in additional shares of Series A convertible preferred stock, at the rate of 3.375% per annum from the date of

issuance. Dividends accrue daily and accumulate annually on the anniversary date of the initial issuance. The Series A convertible preferred stock is also entitled to share pro rata with holders of common stock, on the basis of the number of shares of common stock into which the Series A convertible preferred Stock is convertible, in all other dividends and distributions. LIQUIDATION. Upon any liquidation, dissolution or winding up, holders of Series A convertible preferred stock are entitled to be paid, before any distribution or payment is made to holders of common stock, the greater of (i) the sum of \$1,000 per share plus accumulated preferential dividends and accrued and unpaid dividends not yet accumulated (the "liquidation value") or (ii) the amount that would be payable if the Series A convertible preferred stock had been converted into common stock. VOTING. Holders of Series A convertible preferred stock are entitled to vote with holders of common stock as a single class on each matter submitted to a vote of our stockholders. Each share of Series A convertible preferred stock has a number of votes equal to the number of votes possessed by the common stock into which the Series A convertible preferred stock is convertible. As long as the MDP Entities and the Bain Entities and their affiliates hold 50% or more of the "underlying common stock" (i.e., the shares of common stock issuable, or previously issued, upon conversion of the Series A convertible preferred stock), they will have the right, voting as a separate class, to elect two directors to our Board of Directors. If MDP Entities and the Bain Entities and their affiliates cease to hold 50% but still hold 25% or more of the underlying common stock, they will have the right, voting as a separate class, to elect one director; and if they cease to hold 25% of the underlying common stock, their right to elect directors as a separate class will terminate. The sale of the shares of common stock being sold by the MDP Entities and the Bain Entities in this offering will not affect their right to elect two of our directors. 46 CONVERSION. Each holder of Series A convertible preferred stock may at any time, upon 10 business days' notice, convert all or part of the holder's Series A Convertible preferred stock into shares of common stock. The price at which a holder may convert is \$17.50 per share, subject to adjustment. The conversion price will be adjusted if (i) we issue or are deemed to issue additional shares of common stock for a price per share less than the conversion price or the market price at the time of issuance or (ii) we issue or are deemed to issue options, warrants or convertible securities with an exercise price or conversion price per share less than the conversion price or the market price at the time of issuance. The conversion price will also be adjusted in certain other circumstances. There will be no adjustment of the conversion price to the extent that in any fiscal year, we issue common stock in connection with acquisitions approved by the Board of Directors or grant or reprice stock options (at a price not lower than the market price at the time of grant or repricing), and the aggregate number of shares of common stock issued or for which options are granted or repriced does not exceed 4.0% of the shares of common stock outstanding on the last trading day of the prior fiscal year. For purposes of any adjustment to the conversion price, the "market price" per share for common stock is the average closing price over the 20 business day period preceding the date of determination. REDEMPTION AT OUR OPTION. Beginning in May 2002, if the closing price of our common stock exceeds 150% of the conversion price for 20 consecutive trading days, we may elect, upon at least 30 days' prior written notice, to redeem all (but not part) of the outstanding shares of Series A convertible preferred stock, subject to any holder's right to convert its shares into common stock prior to the redemption date. If we make such an election, the redemption price will equal the liquidation value to the date of redemption. REDEMPTION AT HOLDER'S OPTION. At any time after a change of control, or after the occurrence of a bankruptcy event which continues for 60 days, each holder of Series A convertible preferred stock may require us to redeem all or any part of the holder's shares at a price equal to the liquidation value per share, upon 15 days' prior written notice. COVENANTS AND RESTRICTIONS. Under the stock purchase agreement pursuant to which we sold the Series A convertible preferred stock to the MDP Entities and the Bain Entities, we agreed to various covenants and restrictions. These covenants and restrictions include our grant of preemptive rights to holders of Series A convertible preferred stock under certain circumstances and our agreement to provide them with specified financial and business information. REGISTRATION RIGHTS AGREEMENT. In connection with our sale of the Series A convertible preferred stock, we also entered into a registration rights agreement with the MDP Entities and the Bain Entities. This agreement requires us, at the request of holders of a majority of the underlying common stock, to register all or any portion of their shares under the Securities Act in an underwritten public offering. Holders of Series A convertible preferred stock are limited to three such registrations. The agreement also grants holders of Series A convertible preferred stock "piggyback" registration

rights. In all registrations (with certain limited exceptions), we will be required to pay the expenses of registration of the holders of Series A convertible preferred stock (excluding the underwriting discounts and commissions). CORPORATE GOVERNANCE AGREEMENT. At the closing in November 1999 of our sale of Series A convertible preferred stock to the Bain Entities and the MDP Entities, we also entered into a corporate governance agreement. This agreement contains, among other provisions, provisions intended to implement the right of the Bain Entities and the MDP Entities to elect directors to our board. The agreement requires us to nominate their two designees for election to our Board of Directors, and if our stockholders fail to elect a nominated designee, to appoint the nominated designee as a director (increasing the number of our directors to permit the appointment, if necessary). The corporate governance agreement also provides that until the earlier of (i) the date on which MDP Entities and the Bain Entities and their permitted transferees cease to own any Series A convertible preferred stock, (ii) the date on which they have completed a distribution of the Series A convertible preferred stock to their partners or (iii) the first anniversary of closing, the MDP Entities and the Bain 47 Entities and their transferees and affiliates will not acquire beneficial ownership of more than 30% of our voting power or acquire or attempt to acquire control of us, except in response to a proposal that has been made to the stockholders that would materially and adversely affect them. In addition, the corporate governance agreement contains specified restrictions, for a period of five years, on the ability of the MDP Entities and the Bain Entities to transfer their shares of Series A convertible preferred stock (but not the shares of common stock issuable upon conversion of those shares). The agreement also provides that the approval of holders of a majority of the underlying common stock is required for us to: (1) engage in mergers, acquisitions or divestitures of specified sizes, (2) enter into contracts with our officers, directors, employees or affiliates, except for ordinary employment contracts, benefit plans and transactions with our subsidiaries, and (3) incur indebtedness or issue specified capital stock that would cause our fixed charge coverage ratio to be less than 2.0 to 1.0. SHARES ELIGIBLE FOR FUTURE SALE Upon completion of this offering, we will have 18,386,321 shares of common stock outstanding (based upon shares outstanding as of October 1, 2001). Of these shares, approximately 16,602,841 shares, including the 2,700,000 shares offered hereby (or approximately 17,007,841 shares if the underwriters' over-allotment option is exercised in full) will be freely tradeable without restriction or further registration under the Securities Act. All of the remaining 1,783,480 shares are eligible for sale under Rule 144 on the date of this offering. Our executive officers and directors and the selling stockholders, who together will hold 4,597,369 shares of common stock upon completion of this offering (all of which are eligible for sale under Rule 144 on the date of this offering), have entered into lock-up agreements with the Credit Suisse First Boston Corporation, on behalf of the underwriters, pursuant to which the holders have agreed not to offer, sell, contract to sell, grant any option to purchase or otherwise dispose of, directly or indirectly, any of their shares of common stock, or any shares that they may acquire through the exercise of stock options or warrants or, in the case of the selling stockholders, upon conversion of their shares of Series A convertible preferred stock, or to exercise any of their registration rights in respect of their stock, for a period of 90 days beginning on the date of this Offering without the prior written consent of Credit Suisse First Boston Corporation on behalf of the underwriters. See "Underwriting." Our registration rights agreement with the MDP Entities and the Bain Entities requires us, at the request of holders of a majority of the underlying common stock, to register all or any portion of their shares under the Securities Act in an underwritten public offering. Following the expiration of the 90-day lock-up agreements with Credit Suisse First Boston Corporation entered into by the selling stockholders, 2,839,863 shares will be subject to the registration rights of the selling stockholders, assuming the conversion of all shares of our Series A convertible preferred stock as of October 1, 2001. See "Description of Capital Stock -- Convertible Preferred Stock -- Registration Rights Agreement" and "Underwriting." 48 UNDERWRITING UNDERWRITING Under the terms and subject to the conditions contained in an underwriting agreement dated October , 2001 we and the selling stockholders have agreed to sell to the underwriters named below, for whom Credit Suisse First Boston Corporation, UBS Warburg LLC, Merrill Lynch, Pierce, Fenner & Smith Incorporated, Bear, Stearns & Co. Inc. and William Blair & Company, L.L.C. are acting as representatives, the following respective numbers of shares of common stock: NUMBER OF SHARES UNDERWRITER ----- Credit Suisse First Boston Corporation..... UBS Warburg LLC..... Merrill Lynch, Pierce, Fenner & Smith Incorporated..... Bear, Stearns & Co. Inc. William Blair & Company, L.L.C.

Total..... ===== The underwriting agreement provides that the underwriters are obligated to purchase all the shares of common stock in the offering if any are purchased, other than those shares covered by the over-allotment option described below. The underwriting agreement also provides that if an underwriter defaults the purchase commitments of non-defaulting underwriters may be increased or the offering may be terminated. The selling stockholders have granted to the underwriters a 30-day option to purchase up to 405,000 additional outstanding shares at the initial public offering price less the underwriting discounts and commissions. The option may be exercised only to cover any over-allotments of common stock. The underwriters propose to offer the shares of common stock initially at the public offering price on the cover page of this prospectus and to selling group members at that price less a selling concession of \$ per share. The underwriters and selling group members may allow a discount of \$ per share on sales to other broker/dealers. After the public offering the representatives may change the public offering price and concession and discount to broker/dealers. The following table summarizes the compensation and estimated expenses we and the selling stockholders will pay: PER SHARE TOTAL ----- WITHOUT WITH WITHOUT WITH OVER-ALLOTMENT OVER-ALLOTMENT OVER-ALLOTMENT

| | | | | | | | |
|-----------------------------|-------------|--------------------------------|-------------|--|-------------|-------|---|
| Commissions paid by us..... | \$ \$ \$ \$ | Expenses payable by us(1)..... | \$ \$ \$ \$ | Underwriting Discounts and Commissions paid by selling stockholders..... | \$ \$ \$ \$ | ----- | (1) Includes the expenses of the selling stockholders, which we have agreed to pay under the registration rights agreement that we have entered into with them. See "Description of Capital Stock -- Convertible Preferred Stock -- Registration Rights Agreement." We have agreed that we will not offer, sell, contract to sell, pledge or otherwise dispose of, directly or indirectly, or file with the Securities and Exchange Commission a registration statement under the Securities Act relating to, any shares of our common stock or securities convertible into or exchangeable or exercisable for any shares of our common stock, or publicly disclose the intention to make any offer, 49 sale, pledge, disposition or filing, without the prior written consent of Credit Suisse First Boston Corporation for a period of 90 days after the date of this prospectus, it being understood and agreed that we may continue to grant stock options in the ordinary course of business under our stock option plans and may issue stock upon the exercise of stock options granted in the ordinary course of business under our stock option plans or upon the exercise of warrants outstanding as of the date of the initial public offering of the common stock offered pursuant to this prospectus or upon the conversion of shares of our Series A convertible preferred stock outstanding as of the date of the initial public offering of the common stock offered pursuant to this prospectus. Our officers and directors and certain of our existing stockholders, including the selling stockholders, have agreed that they will not offer, sell, contract to sell, pledge or otherwise dispose of, directly or indirectly, any shares of our common stock or securities convertible into or exchangeable or exercisable for any shares of our common stock, enter into a transaction that would have the same effect, or enter into any swap, hedge or other arrangement that transfers, in whole or in part, any of the economic consequences of ownership of our common stock, whether any of these transactions are to be settled by delivery of our common stock or other securities, in cash or otherwise, or publicly disclose the intention to make any offer, sale, pledge or disposition, or to enter into any transaction, swap, hedge or other arrangement, without, in each case, the prior written consent of Credit Suisse First Boston Corporation for a period of 90 days after the date of this prospectus. We and the selling stockholders have agreed to indemnify the underwriters against liabilities under the Securities Act, or contribute to payments that the underwriters may be required to make in that respect. In connection with the offering, the underwriters may engage in stabilizing transactions, over-allotment transactions, syndicate covering transactions, and penalty bids and passive market making in accordance with Regulation M under the Securities Exchange Act of 1934. - Stabilizing transactions permit bids to purchase the underlying security so long as the stabilizing bids do not exceed a specified maximum. - Over-allotment involves sales by the underwriters of shares in excess of the number of shares the underwriters are obligated to purchase, which creates a syndicate short position. The short position may be either a covered short position or a naked short position. In a covered short position, the number of shares over-allotted by the underwriters is not greater than the number of shares that they may purchase in the over-allotment option. In a naked short position, the number of shares involved is greater than the number of shares in the over-allotment option. The underwriters may close out any covered short position by either exercising their over-allotment option and/or purchasing shares in the open market. - |
|-----------------------------|-------------|--------------------------------|-------------|--|-------------|-------|---|

Syndicate covering transactions involve purchases of the common stock in the open market after the distribution has been completed in order to cover syndicate short positions. In determining the source of shares to close out the short position, the underwriters will consider, among other things, the price of shares available for purchase in the open market as compared to the price at which they may purchase shares through the over-allotment option. If the underwriters sell more shares than could be covered by the over-allotment option, a naked short position, the position can only be closed out by buying shares in the open market. A naked short position is more likely to be created if the underwriters are concerned that there could be downward pressure on the price of the shares in the open market after pricing that could adversely affect investors who purchase in the offering.

- Penalty bids permit the representatives to reclaim a selling concession from a syndicate member when the common stock originally sold by the syndicate member is purchased in a stabilizing or syndicate covering transaction to cover syndicate short positions. 50 - In passive market making, market makers in the common stock who are underwriters or prospective underwriters may, subject to limitations, make bids for or purchases of our common stock until the time, if any, at which a stabilizing bid is made. These stabilizing transactions, syndicate covering transactions and penalty bids may have the effect of raising or maintaining the market price of our common stock or preventing or retarding a decline in the market price of the common stock. As a result the price of our common stock may be higher than the price that might otherwise exist in the open market. These transactions may be effected on The Nasdaq National Market or otherwise and, if commenced, may be discontinued at any time. DLJ Capital Funding Inc., which serves as the syndication arranger for the lenders, the lead arranger and the book manager, under our existing senior secured credit facility, is an affiliate of Credit Suisse First Boston Corporation. Credit Suisse First Boston Corporation, through its investment funds, CSFB Fund Investments VI, L.P., CSFB Fund Investments 1998, L.P., DLJ Fund Investment Partners II, L.P., DLJ Private Equity Partners, L.P., and DLJ Private Equity Employee Fund, L.P., is an investor in one of the Madison Dearborn funds. Donaldson Lufkin & Jenrette Securities Corporation, an affiliate of Credit Suisse First Boston Corporation, was the placement agent in our sale of \$125 million of 12 3/8% senior subordinated notes due 2009. We have engaged, and may in the future engage, Credit Suisse First Boston Corporation in investment banking transactions for which they receive customary compensation. Credit Suisse First Boston Corporation currently makes a market in both our debt and equity securities. A prospectus in electronic format may be made available on the web sites maintained by one or more of the underwriters participating in this offering. The representatives may agree to allocate a number of shares to underwriters for sale to their online brokerage account holders. Internet distributions will be allocated by the underwriters that will make internet distributions on the same basis as other allocations. Credit Suisse First Boston Corporation may effect an on-line distribution through its affiliate CSFBdirect Inc., an on-line broker dealer, as a selling group member. NOTICE TO CANADIAN RESIDENTS RESALE RESTRICTIONS The distribution of the common stock in Canada is being made only on a private placement basis exempt from the requirement that we and the selling shareholders prepare and file a prospectus with the securities regulatory authorities in each province where trades of common stock are made. Any resale of the common stock in Canada must be made under applicable securities laws which will vary depending on the relevant jurisdiction, and which may require resales to be made under available statutory exemptions or under a discretionary exemption granted by the applicable Canadian securities regulatory authority. Purchasers are advised to seek legal advice prior to any resale of the common stock. REPRESENTATIONS OF PURCHASERS By purchasing common stock in Canada and accepting a purchase confirmation a purchaser is representing to us the selling shareholders and the dealer from whom the purchase confirmation is received that: - the purchaser is entitled under applicable provincial securities laws to purchase the common stock without the benefit of a prospectus qualified under those securities laws, - where required by law, that the purchaser is purchasing as principal and not as agent, and - the purchaser has reviewed the text above under "Resale Restrictions." 51 RIGHTS OF ACTION -- ONTARIO PURCHASERS The securities being offered are those of a foreign issuer and Ontario purchasers will not receive the contractual right of action prescribed by Ontario securities law. As a result, Ontario purchasers must rely on other remedies that may be available, including common law rights of action for damages or rescission or rights of action under the civil liability provisions of the U.S. federal securities laws. ENFORCEMENT OF LEGAL RIGHTS All of the issuer's directors and officers as well as the experts named herein and the selling shareholders may be located outside of Canada and, as a result, it may not be possible for Canadian purchasers to effect service of process

within Canada upon the issuer or such persons. All or a substantial portion of the assets of the issuer and such persons may be located outside of Canada and, as a result, it may not be possible to satisfy a judgment against the issuer or such persons in Canada or to enforce a judgment obtained in Canadian courts against such issuer or persons outside of Canada.

TAXATION AND ELIGIBILITY FOR INVESTMENT Canadian purchasers of common stock should consult their own legal and tax advisors with respect to the tax consequences of an investment in the common stock in their particular circumstances and about the eligibility of the common stock for investment by the purchaser under relevant Canadian legislation.

LEGAL MATTERS Certain legal matters in connection with the common stock offered hereby are being passed upon for us by Johnson and Colmar, Chicago, Illinois and for the underwriters by Skadden, Arps, Slate, Meagher & Flom LLP, New York, New York. Skadden, Arps, Slate, Meagher & Flom LLP has from time to time represented, and may continue to represent, Bain Capital, LLC and some of its affiliates in connection with legal matters. Some partners of Skadden, Arps, Slate, Meagher & Flom LLP, counsel to the underwriters, are members in a limited liability company that is an investor in one of the Bain Capital funds.

EXPERTS The consolidated financial statements of Stericycle, Inc. and Subsidiaries at December 31, 1999 and 2000, and for each of the three years in the period ended December 31, 2000, appearing in this prospectus and the registration statement have been audited by Ernst & Young LLP, independent auditors, as set forth in their report thereon, appearing elsewhere herein, and are included in reliance upon such report given on the authority of such firm as experts in accounting and auditing.

WHERE YOU CAN FIND MORE INFORMATION We file annual, quarterly and special reports, proxy statements and other documents with the Securities and Exchange Commission, or the SEC. You may read and copy any document that we file with the SEC at the SEC's Public Reference Room at 450 Fifth Street, N.W., Washington, D.C. 20549 and at the SEC's public reference rooms in New York, New York and Chicago, Illinois. You may obtain information about the operation of the SEC's public reference rooms by calling the SEC at 1-800-SEC-0330. The SEC maintains an Internet website that provides access to the documents that we have filed with the SEC. The SEC's website is <http://www.sec.gov>. A link to the SEC's website appears on our own website, <http://www.stericycle.com>. We have filed with the SEC a registration statement on Form S-3 under the Securities Act with respect to the common stock to be sold in this offering. The SEC allows us to "incorporate by reference" 52 into this prospectus the documents that we file with the SEC, which means that we can disclose important information to you by referring to those documents. The information incorporated by reference is considered to be part of this prospectus, and documents that we file with the SEC in the future will automatically update and supersede prior information, including information contained in or incorporated by reference into this prospectus. We incorporate by reference the following documents, as well as any other documents that we file with the SEC in the future pursuant to Sections 13(a), 13(c), 14 or 15(d) of the Securities Exchange Act of 1934 until all of the common stock offered under this prospectus has been sold: - our Annual Report on Form 10-K for the fiscal year ended December 31, 2000; - our Quarterly Reports on Form 10-Q for the quarters ended March 31 and June 30, 2001, and on Form 10-Q/A (filed on August 15, 2001) for the quarter ended June 30, 2001; - our Current Report on Form 8-K, filed on October 15, 2001; - our Current Report (Amended) on Form 8-K/A, filed on December 29, 1999; and - the description of our common stock in the Registration Statement on Form 8-A that we filed on August 21, 1996, together with any amendment or report that we may file for the purpose of updating this description. You may request a copy of these filings, at no cost, by writing or telephoning us at the following address and telephone number: Stericycle, Inc. 28161 North Keith Drive Lake Forest, Illinois 60045 Attention: Investor Relations Telephone: (847) 607-2012 53

STERICYCLE, INC. AND SUBSIDIARIES INDEX TO FINANCIAL STATEMENTS

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(Unaudited)..... F-36 Notes to Condensed Consolidated Financial Statements
(Unaudited)..... F-37 F-1 REPORT OF INDEPENDENT AUDITORS The Board of Directors Stericycle, Inc. We have audited the accompanying consolidated balance sheets of Stericycle, Inc. and Subsidiaries as of December 31, 1999 and 2000, and the related consolidated statements of operations, changes in shareholders' equity, and cash flows for each of the three years in the period ended December 31, 2000. Our audits also included the financial statement schedule listed in the Index at page F-1. These financial statements and schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements and schedule based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audits provide a reasonable basis for our opinion. In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Stericycle, Inc. and Subsidiaries at December 31, 1999 and 2000, and the consolidated results of their operations and their cash flows for each of the three years in the period ended December 31, 2000, in conformity with accounting principles generally accepted in the United States. Also, in our opinion, the related financial statement schedule, when considered in relation to the basic financial statements taken as a whole, presents fairly in all material respects the information set forth therein. Ernst & Young LLP Chicago, Illinois February 23, 2001 F-2 STERICYCLE, INC. AND SUBSIDIARIES CONSOLIDATED BALANCE SHEETS DECEMBER 31, ----- 1999 2000 ----- (IN THOUSANDS, EXCEPT FOR SHARE AND PER SHARE DATA) ASSETS Current assets: Cash and cash equivalents..... \$ 19,344 \$ 2,666 Short-term investments..... 285 281 Accounts receivable, less allowance for doubtful accounts of \$980 in 1999 and \$3,625 in 2000..... 48,284 71,225 Parts and supplies..... 2,035 3,216 Prepaid expenses..... 863 1,858 Other..... 6,729 11,765 ----- Total current assets..... 77,540 91,011 ----- Property, plant and equipment: Land..... 7,308 7,486 Buildings and improvements..... 29,123 26,565 Machinery and equipment..... 50,011 54,040 Office equipment and furniture..... 5,182 6,515 Construction in progress..... 386 3,834 ----- 92,010 98,440 Less accumulated depreciation..... (16,898) (24,532) ----- Property, plant and equipment, net..... 75,112 73,908 ----- Other assets: Goodwill, less accumulated amortization of \$7,974 in 1999 and \$24,507 in 2000..... 421,001 418,790 Other..... 22,133 14,273 ----- Total other assets..... 443,134 433,063 ----- Total assets..... \$595,786 \$597,982 ===== ===== LIABILITIES AND SHAREHOLDERS' EQUITY Current liabilities: Current portion of long term debt..... \$ 5,741 \$ 5,097 Accounts payable..... 14,347 14,444 Due to seller..... 3,576 1,631 Accrued compensation..... 7,569 3,887 Accrued acquisition related expenses..... 7,101 3,766 Accrued liabilities..... 12,206 13,783 Deferred revenue..... 142 505 ----- Total current liabilities..... 50,682 43,113 ----- Long-term debt, net of current portion..... 355,444 345,104 Other liabilities..... 2,351 3,628 Redeemable preferred stock: Series A convertible preferred stock (par value \$.01 per share, 100,000 shares authorized, 75,000 shares outstanding in 1999 and 2000, liquidation preference of \$75,340 and \$77,883 at December 31, 1999 and 2000, respectively)..... 69,195 71,437 Common shareholders' equity: Common stock (par value \$.01 per share, 30,000,000 shares authorized, 14,734,106 issued and outstanding in 1999, 15,208,866 issued and outstanding in 2000)..... 147 152 Additional paid-in capital-common stock..... 136,691 141,304 Accumulated deficit..... (18,724) (6,756) ----- Total shareholders' equity..... 118,114 134,700 ----- Total liabilities and shareholders' equity..... \$595,786 \$597,982 ===== ===== The accompanying notes are an integral part of these financial statements. F-3

STERICYCLE, INC. AND SUBSIDIARIES CONSOLIDATED STATEMENTS OF OPERATIONS YEAR ENDED DECEMBER 31, ----- 1998 1999 2000 -----

----- (IN THOUSANDS, EXCEPT SHARE AND PER SHARE DATA)

| | | | | | | | | | | |
|---------------|-----------|--------------------------------|---|---|-------------------------------------|-----------------------------|------------|--|---|--|
| Revenues..... | \$ 66,681 | \$ 132,848 | \$ 323,722 | Costs and expenses: Cost of revenues..... | 45,328 | 86,123 | 196,345 | Selling, general and administrative..... | 14,929 | |
| 26,480 | 59,457 | Acquisition-related costs..... | -- 7,961 | 4,454 | ----- Total costs and expenses..... | | | | | |
| 60,257 | 120,564 | 260,256 | ----- | | | Income from operations..... | | | | |
| 6,424 | 12,284 | 63,466 | Other income (expense): Interest income..... | | | 713 | 1,144 | 558 | Interest expense..... | |
| (777) | (6,195) | (39,785) | Other income, net..... | | | 1 | 565 | (423) | ----- Total other income (expense)..... | |
| (63) | (4,486) | (39,650) | Income before income taxes..... | | | 6,361 | 7,798 | 23,816 | Income tax expense (benefit)..... | |
| | | | | | | 648 | (6,170) | 9,305 | ----- Net income..... | |
| | | | | | | \$ 5,713 | \$ 13,968 | \$ 14,511 | ===== | |
| | | | Earnings per share -- basic..... | | | \$ 0.54 | \$ 0.96 | \$ 0.80 | ===== | |
| | | | Earnings per share -- diluted..... | | | \$ 0.51 | \$ 0.92 | \$ 0.72 | ===== | |
| | | | Weighted average number of common shares outstanding-- basic..... | | | 10,647,086 | 14,240,084 | 14,879,103 | ===== | |
| | | | Weighted average number of common shares outstanding-- diluted..... | | | 11,263,528 | 15,241,778 | 20,092,844 | ===== | |

The accompanying notes are an integral part of these financial statements. F-4 STERICYCLE, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS YEAR ENDED DECEMBER 31, ----- 1998 1999 2000 ----- (IN THOUSANDS) OPERATING

| | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
|-----------------------------|----------|-----------|-----------|---|--------|-----|------------------------------------|-------|-------|--------|----------------------------|------------|----|--|---------|----------|----------|-------------------------|-------|-----|-------|-----------------------|----|-----|---------|-------------------|-----|---------|---------|-----------------------|-------|-------|----|--------------------|----------|---------|---|-------------|--------------------------|---------|--------|---------|-----------------------|-------|---------|-----|--|--|--|
| ACTIVITIES: Net income..... | \$ 5,713 | \$ 13,968 | \$ 14,511 | Adjustments to reconcile net income to net cash provided by operating activities: Issuance of warrants..... | -- 192 | 160 | Depreciation and amortization..... | 4,064 | 9,879 | 23,469 | Deferred income taxes..... | -- (7,119) | -- | Change in operating assets and liabilities, net of effects of acquisitions: Accounts receivable..... | (1,884) | (31,595) | (21,979) | Parts and supplies..... | (420) | 526 | (881) | Prepaid expenses..... | 58 | 320 | (1,085) | Other assets..... | 302 | (1,759) | (1,737) | Accounts payable..... | 1,781 | 7,845 | 66 | Due to seller..... | -- 3,576 | (1,353) | Tax benefit of disqualifying dispositions of stock options..... | -- -- 1,059 | Accrued liabilities..... | (6,223) | 17,980 | (2,124) | Deferred revenue..... | 1,471 | (2,036) | 363 | ----- Net cash provided by operating activities..... | | |
| | | | | INVESTING ACTIVITIES: | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| | | | | Payments for acquisitions and international investments, net of cash acquired..... | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| | | | | (19,775) (422,280) (4,516) | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| | | | | Proceeds from sale of property..... | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| | | | | 405 -- -- | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| | | | | Proceeds from maturity of short-term investments..... | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| | | | | -- 447 502 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| | | | | Purchases of short-term investments..... | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| | | | | (41) -- -- | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| | | | | Capital expenditures..... | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| | | | | (4,342) (3,795) (11,586) | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| | | | | ----- Net cash used in investing activities..... | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| | | | | (23,753) (425,628) (15,600) | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| | | | | FINANCING ACTIVITIES: Net proceeds and repayment from bank lines of credit..... | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| | | | | 16,386 (16,359) 5,000 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| | | | | Net proceeds and repayment from subordinated debt..... | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| | | | | 2,750 (2,750) -- | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| | | | | Proceeds from long term bank debt..... | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| | | | | -- 225,000 -- | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| | | | | Repayment of long term debt..... | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| | | | | (3,189) (4,366) (16,428) | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| | | | | Payments of deferred financing costs..... | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| | | | | (218) (10,828) (631) | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| | | | | Principal payments on capital lease obligations..... | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| | | | | (1,273) (290) (1,487) | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| | | | | Net proceeds from secondary public offering of common stock..... | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| | | | | -- 47,158 -- | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| | | | | Net proceeds from (payments related to) issuance of preferred stock..... | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| | | | | -- 68,855 (300) | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| | | | | Proceeds from other issuances of common stock..... | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| | | | | 344 492 2,299 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| | | | | ----- Net cash provided by (used in) financing activities..... | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| | | | | 14,800 431,912 (11,547) | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| | | | | ----- Net increase (decrease) in cash and cash equivalents..... | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| | | | | (4,091) 18,061 (16,678) | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| | | | | Cash and cash equivalents at beginning of period..... | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| | | | | 5,374 1,283 19,344 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| | | | | ----- Cash and cash equivalents at end of period..... | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| | | | | \$ 1,283 \$ 19,344 \$ 2,666 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| | | | | ===== | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| | | | | Non-cash activities: Net issuances of notes payable for certain acquisitions... \$ 195 \$ 103 \$ 250 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| | | | | Net issuances of | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |

| | | | | |
|---|----------------------|-----------------|-----------|---|
| common stock and warrants for certain acquisitions..... | \$ 2,568 | \$ 3,043 | \$ 1,260 | The |
| accompanying notes are an integral part of these financial statements F-5 | STERICYCLE, INC. AND | | | |
| SUBSIDIARIES CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY | | | | |
| YEARS ENDED DECEMBER 31, 1998, 1999 AND 2000 NOTES RECEIVABLE FOR TOTAL ISSUED | | | | |
| AND ADDITIONAL COMMON SHARE- OUTSTANDING PAID-IN STOCK ACCUMULATED | | | | |
| HOLDERS' SHARES AMOUNT CAPITAL PURCHASES DEFICIT EQUITY ----- | | | | |
| ----- (IN THOUSANDS) BALANCES AT DECEMBER 31, 1997... | 10,473 | \$105 | \$ 82,986 | |
| \$(4) \$(38,061) \$ 45,026 Issuance of common stock for exercise of options and warrants and employee stock | | | | |
| purchases..... | 226 | 2 342 | -- -- 344 | Common stock issued for acquisitions..... |
| | | | | 167 |
| | | | | 2,566 |
| | | | | -- -- |
| 2,568 Principal payments under note receivable..... | -- -- | 4 (4) | -- | Net income..... |
| | | | | -- -- -- |
| | | | | 5,713 |
| 5,713 ----- BALANCES AT DECEMBER 31, 1998... | 10,866 | 109 | 85,894 | -- |
| (32,352) 53,651 Issuance of common stock for exercise of options and warrants and employee stock | | | | |
| purchases..... | 148 | 1 633 | -- -- 634 | Common stock issued for acquisitions..... |
| | | | | 220 |
| | | | | 2 3,041 |
| | | | | -- -- |
| 3,043 Secondary public offering of common stock (net of offering costs)..... | 3,500 | 35 | 47,123 | -- -- |
| 47,158 Preferred dividends..... | -- -- -- | (340) (340) | -- -- -- | 13,968 |
| | | | | 13,968 |
| | | | | ----- |
| ----- BALANCES AT DECEMBER 31, 1999... | 14,734 | 147 | 136,691 | -- (18,724) 118,114 |
| Issuance of common stock for exercise of options and warrants and employee stock purchases..... | 449 | | | |
| 5 2,294 -- -- 2,299 Common stock and warrants issued for acquisitions..... | 26 | -- | 1,260 | -- -- 1,260 |
| Tax benefit of disqualifying dispositions of stock options..... | -- -- | 1,059 | -- -- | 1,059 |
| Preferred dividends..... | -- -- -- | (2,543) (2,543) | -- -- -- | 14,511 |
| | | | | 14,511 |
| | | | | ----- |
| ----- BALANCES AT DECEMBER 31, 2000... | 15,209 | \$152 | \$141,304 | -- \$ (6,756) \$134,700 |

===== The accompanying notes are an integral part of these financial statements F-6 STERICYCLE, INC. AND SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2000 Unless the context requires otherwise, "we," "us" or "our" refers to Stericycle, Inc. and its subsidiaries on a consolidated basis. NOTE 1 -- DESCRIPTION OF BUSINESS We provide regulated medical waste collection, transportation, and treatment services to our customers and related training, education and compliance programs and consulting services. We also sell ancillary supplies and transport pharmaceuticals, photographic chemicals, lead foil and amalgam for recycling in selected geographic service areas. We are also expanding into international markets through joint ventures and by licensing our proprietary technology and selling associated equipment. NOTE 2 -- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES Principles of Consolidation: The consolidated financial statements include the accounts of Stericycle, Inc. and its wholly-owned subsidiaries, Stericycle of Arkansas, Inc., Stericycle of Washington, SWD Acquisitions Corporation, Environmental Control Co., Inc. ("ECCO"), Waste Systems, Inc. ("WSI") (the majority shareholder of 3CI Complete Compliance Corporation), Med Tech Environmental Ltd. ("Med-Tech"), BFI Medical Waste, Inc. ("BFI"), BFI Medical Waste, Inc. (Puerto Rico) as well as our 64% ownership in Medam (a Mexican company). All significant intercompany accounts and transactions have been eliminated. In addition, we have a 33% ownership in Medam B.A. Srl (an Argentine company) and a 26.5% ownership in Evertrade Medical Waste (Pty) Ltd. (a South African company) which are both accounted for using the equity method. Revenue Recognition: We recognize revenue at the time of medical waste collection. Revenue and costs on contracts to supply our proprietary treatment equipment are accounted for by the percentage of completion method, whereby income is recognized based on the estimated stage of completion of the individual contract. Cash Equivalents and Short-Term Investments: We consider all highly liquid investments with a maturity of less than three months when purchased to be cash equivalents. Short-term investments consist of highly liquid investments in corporate debt obligations which mature in less than one year and are classified as held-to-maturity. These obligations are stated at amortized cost, which approximates fair market value. Interest income is recognized as earned. Property, Plant and Equipment: Property, plant and equipment are stated at cost. Depreciation and amortization, which include the depreciation of assets recorded under capital leases, are computed using the straight-line method over the estimated useful lives of the assets as follows: Buildings and improvements..... 10 to 30 years Machinery and equipment..... 3 to 10 years Office equipment and furniture..... 5 to 10 years Software..... 3 to 7 years Goodwill: Goodwill is amortized using the straight-line

method over 25 years except for the goodwill related to our acquisition of the medical waste business of Browning-Ferris Industries, Inc. (the "BFI acquisition"), F-7 STERICYCLE, INC. AND SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED) which is being amortized over 40 years. Amortization expense for 1998, 1999 and 2000 related to goodwill was approximately \$1.5 million, \$4.3 million and \$13.8 million, respectively. We continually evaluate the value and future benefits of our goodwill. We assess recoverability from future operations using cash flows of the related acquired business as a measure. Under this approach, the carrying value of goodwill would be reduced if it becomes probable that our best estimate for expected undiscounted future cash flows of the related business would be less than the carrying amount of goodwill over its remaining amortization period. For the three-year period ended December 31, 2000, there were no adjustments to the carrying amounts of goodwill resulting from these evaluations. New Plant Development and Permitting Costs: We expense costs associated with the operation of new plants prior to the commencement of services to customers and all initial and most on-going costs related to permitting. Income Taxes: Deferred income taxes reflect the net tax effect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. Deferred tax liabilities and assets are determined based on the differences between the financial statement and tax basis of assets and liabilities using enacted tax rates in effect for the year in which the differences are expected to reverse. Financial Instruments: Our financial instruments consist of cash and cash equivalents, short-term investments, accounts receivable and payable and long-term debt. The fair values of these financial instruments were not materially different from their carrying values. Financial instruments which potentially subject us to concentrations of credit risk consist principally of accounts receivable. Credit risk on trade receivables is minimized as a result of the large size of our customer base. No single customer represents greater than 1% of total accounts receivable. We perform ongoing credit evaluation of our customers and maintain allowances for potential credit losses. These losses, when incurred, have been within the range of our expectations. Use of Estimates: The preparation of financial statements in conformity with generally accepted accounting principles requires us to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates. Derivative Reporting: In June 1998, the Financial Accounting Standards Board issued SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activity." SFAS No. 133 provides comprehensive and consistent standards for the recognition and measurement of derivative and hedging activities. It requires that derivatives be recorded on the consolidated balance sheets at fair value and establishes criteria for hedges of changes in fair value of assets, liabilities or firm commitments, hedges of variable cash flows of forecasted transactions and hedges of foreign currency exposures of net investments in foreign operations. Changes in the fair value of derivatives that do not meet the criteria for hedges would be recognized in the consolidated statement of operations. This statement was effective for us beginning January 1, 2001. The adoption of SFAS No. 133 did not have a material impact on us. F-8 STERICYCLE, INC. AND SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED) Segment Reporting: Effective January 1, 1998, we adopted the Financial Accounting Standards Board's Statement of Financial Accounting Standards No. 131, "Disclosures about Segments of an Enterprise and Related Information" ("FAS 131"). FAS 131 establishes standards for the way that public business enterprises report information about operating segments in annual financial statements and requires that those enterprises report selected information about operating segments in interim financial reports. It also establishes standards for related enterprise-wide disclosures about products and services, geographic areas, and major customers. The adoption of FAS 131 did not affect our results of operations or financial position, but did affect our disclosures. Our operating segments (Stericycle, Inc., BFI, WSI and Med Tech) have similar economic characteristics and are similar in the nature of their products and services, treatment processes, types of customers, methods of distribution of services, and nature of their regulatory environments. Based on this conclusion, we have not presented segment disclosure information. We have provided our enterprise-wide disclosures in Note 14. NOTE 3 -- INCOME TAXES At December 31, 2000, we had net operating loss carryforwards for federal income tax purposes of approximately \$9.4 million (excluding 3CI and Med-Tech), which expire beginning in 2006. Based on the Internal Revenue Code of 1986, as amended, and changes in our ownership, utilization of the net operating loss carryforwards is subject to annual limitations which could significantly restrict or partially eliminate the utilization of the net operating losses. Additionally,

we have an alternative minimum tax credit carryforward of \$0.3 million available indefinitely as well as a foreign tax credit of approximately \$2.2 million which will begin to expire beginning in 2004. Significant components of our income tax expense (benefit) for the years ended December 31, 1998, 1999 and 2000 are as follows:

| | | | | | | | | | | | |
|--|----------------------|-----------|-------------|--------------------------------|---|--|---------------|---|-------|-----|-----|
| 1998 | 1999 | 2000 | ----- | ----- | ----- | Deferred Federal..... | \$ -- | \$(6,015,000) | | | |
| \$4,450,000 | State..... | -- | (1,104,000) | 530,000 | ----- | ----- | -- | (7,119,000) | | | |
| 4,980,000 | Current Federal..... | 243,000 | 100,000 | 3,165,000 | State..... | | | | | | |
| 405,000 | 849,000 | 1,160,000 | ----- | ----- | Total Provisions..... | \$648,000 | \$(6,170,000) | | | | |
| \$9,305,000 | ===== | ===== | ===== | ===== | A reconciliation of the income tax provision computed at the federal statutory rate to the effective tax rate for the years ended December 31, 1998, 1999 and 2000 is as follows: | | | | | | |
| 1998 | 1999 | 2000 | ----- | ----- | ----- | Federal statutory income tax rate..... | 34.0% | 34.0% | 35.0% | | |
| Effect of: State taxes, net of federal tax effect..... | 4.0 | 7.6 | 5.0 | Alternative minimum taxes..... | 3.8 | -- | -- | Non deductible goodwill amortization..... | 1.8 | 3.9 | 0.4 |
| Change in valuation allowance..... | (33.4) | (126.9) | (1.2) | Other..... | -- | 2.3 | (0.1) | ----- | | | |
| ----- | ----- | ----- | ----- | Effective tax rate..... | 10.2% | (79.1)% | 39.1% | F-9 STERICYCLE, INC. AND SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED) | | | |

Paid income taxes were \$1,030,000, \$2,014,000 and \$1,966,000 in 1998, 1999 and 2000, respectively. Our deferred tax liabilities and assets as of December 31, 1999 and 2000 are as follows:

| | | | | | | | | | | | | |
|---------------|-------------|--|-------------------------------------|---|--|---|-----------|-----------|------------|--------------------------------|--------------|--------------|
| 1999 | 2000 | ----- | ----- | Deferred tax liabilities: Property, plant, and equipment..... | \$ (2,511,000) | \$ (3,085,000) | | | | | | |
| Goodwill..... | (4,014,000) | (6,861,000) | Other..... | (201,000) | | | | | | | | |
| (2,127,000) | ----- | ----- | Total deferred tax liabilities..... | (6,726,000) | (12,073,000) | Deferred tax assets: Accrued liabilities..... | 2,561,000 | 3,807,000 | Other..... | | | |
| 1,538,000 | 2,291,000 | Net operating tax loss carryforward..... | 19,095,000 | 16,378,000 | Alternate minimum tax credit carryforward..... | 238,000 | 324,000 | ----- | ----- | Total deferred tax assets..... | 23,432,000 | 22,800,000 |
| 16,706,000 | 10,727,000 | Valuation allowance..... | (9,587,000) | (8,588,000) | ----- | ----- | ----- | ----- | ----- | Net deferred tax assets..... | \$ 7,119,000 | \$ 2,139,000 |
| ----- | ----- | ----- | ----- | ----- | ----- | ----- | ----- | ----- | ----- | ----- | ----- | ----- |

During the fourth quarter of 1999, we re-evaluated the estimated amount of valuation allowance required in light of the profitability achieved in 1997, 1998 and 1999 as well as the improved profitability expected in future years as a result of the BFI acquisition in November 1999. As a result, we reduced the valuation allowance on deferred tax assets in accordance with SFAS No. 109, "Accounting for Income Taxes," to an amount that we believe is more likely than not of being recovered. Accordingly, an income tax benefit of approximately \$6.3 million was reflected in the fourth quarter. The amount of net deferred tax assets estimated to be recoverable was based upon our assessment of the likelihood of near term operating income coupled with uncertainties with respect to the impact of future market conditions. At December 31, 1999 and 2000, the valuation allowance relates principally to the net operating loss carryforward at 3CI. NOTE 4 --

ACQUISITIONS During the year ended December 31, 2000, we purchased customer lists and selected other assets of seven medical waste management businesses. The aggregate purchase price for these acquisitions was approximately \$3.2 million, of which \$2.4 million was paid in cash, \$0.5 million was paid by the issuance of unregistered shares of our common stock, and \$0.3 million was paid by the issuance of promissory notes. In certain cases, the purchase price is subject to downwards adjustment if revenues from customer contracts acquired do not reach certain specified levels. On July 1, 2000 we increased our ownership in our Mexico joint venture, Medam S.A. de C.V. ("Medam"), to 64% from 49% by purchasing an additional 15% interest from our co-venturer. We paid the purchase price of \$1.6 million by combination of cash installment payments and warrants to purchase common stock. The increase in ownership changes our accounting method for the joint venture from the equity to the consolidation method beginning July 1, 2000. In November 1999, we completed the acquisition from Allied Waste Industries, Inc. ("Allied") of the medical waste business of Browning-Ferris Industries, Inc. ("BFI") in the United States, Canada and Puerto Rico. Prior to our acquisition, BFI had been the largest provider of regulated medical waste services in the United States, with revenues of \$201.7 million for the 12 months ended June 30, 1999. The F-10 STERICYCLE, INC. AND SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED) purchase price for our acquisition was \$410.5 million in cash. We paid the purchase price from the following sources, in addition to cash on hand: (i)

\$225.0 million in borrowings under the term loan facilities of a new senior credit facility that we established with DLJ Capital Funding, Inc., Bankers Trust Company and Bank of America, N.A.; (ii) \$125.0 million in proceeds from the sale of 12 3/8% senior subordinated notes due 2009; and (iii) \$75.0 million in proceeds from the issuance of new Series A Convertible Preferred Stock to investment funds affiliated with Bain Capital, LLC and Madison Dearborn Partners, LLC. These transactions were completed concurrently with the completion of our acquisition of the BFI medical waste business. See Note 5 -- Long Term Debt -- Senior Credit Facility and -- Senior Subordinated Notes and Note 10 -- Series A Preferred Stock. In addition, during the year ended December 31, 1999, we purchased the customer lists and selected other assets of 13 medical waste management businesses. The aggregate purchase price for these acquisitions was approximately \$8.2 million, of which \$6.5 million was paid in cash, \$1.6 million was paid by the issuance of unregistered shares of our common stock, and \$0.1 million was paid by the issuance of promissory notes. In addition, we assumed certain liabilities of the sellers aggregating approximately \$0.1 million. In certain cases, the purchase price is subject to downwards adjustment if revenues from customer contracts acquired do not reach certain specified levels. In December 1998 and January 1999, we acquired all of the outstanding stock and warrants of Med-Tech Environmental Ltd. ("Med-Tech"). Med-Tech, which is located in Toronto, Canada, provides medical waste management services in Canada and the northeastern United States. We paid a total of approximately \$3.1 million in cash for the Med-Tech shares and warrants that we acquired. In October 1998, we purchased Med-Tech's junior secured indebtedness of approximately \$3.6 million, paying the face value of the acquired debt, in the form of \$2.9 million in cash and 36,940 shares of Common Stock, and replacing a letter of credit of approximately \$1.6 million (which was returned in January 1999). In October 1998, we acquired all the outstanding capital stock of Waste Systems, Inc. ("WSI"). The purchase price was \$10.0 million in cash and the grant of certain exclusive negotiation and first refusal rights to the sellers in respect of the purchase, for installation and operation in the Federal Republic of Germany, of medical waste treatment units incorporating our proprietary ETD technology. WSI owns approximately 55.5% of the common stock and all of the preferred stock of 3CI Complete Compliance Corporation ("3CI"), which provides regulated medical waste management services in the southeastern United States. 3CI's common stock is traded over-the-counter under the symbol "TCCC." WSI also owns a secured promissory note from 3CI which, as amended in December, 1998, is payable to WSI in the principal amount of approximately \$5.6 million on or before March 31, 2001. In addition, during 1998, we acquired customer contracts and certain assets of 10 regulated medical waste businesses. The purchase price for these six acquisitions was paid in the form of cash, issuance of our common stock, assumption of liabilities, and in two cases delivery of notes payable in 1998. For financial reporting purposes these acquisition transactions were accounted for using the purchase method of accounting. The total purchase price for 1998, 1999 and 2000 of \$22.5 million, \$424.4 million and \$3.1 million respectively, net of cash acquired, was allocated to assets acquired and liabilities assumed based on the estimated fair market value at the date of acquisition. The total purchase price of 1998, 1999, and 2000 acquisitions includes the value of 167,000, 220,058 and 26,000 shares respectively, of our common stock issued to the sellers. The excess of the purchase price over the fair market value of the net assets acquired is reflected in the accompanying Consolidated Balance Sheets as goodwill. The results of operations of these acquired businesses are included in the Consolidated Statement of Operations from the date of the acquisition. The effect of these acquisitions would not have a significant effect on our operations, except for the BFI, Med-Tech, and Waste Systems acquisitions.

F-11 STERICYCLE, INC. AND SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

The following unaudited pro forma results of the operations assumes that the BFI acquisition occurred as of January 1, 1999 after giving effect to certain adjustments including amortization of goodwill, increased interest expense on debt incurred in connection with the acquisitions and adjustments to record incremental recurring costs associated with the consolidation of the operations as the historical results of operations of BFI did not reflect these costs:

| | |
|--|---------------------------------------|
| YEAR ENDED DECEMBER 31, 1999 ----- | (IN THOUSANDS, EXCEPT PER SHARE DATA) |
| Pro forma revenues..... | \$304,386 |
| Pro forma net income*..... | 20,277 |
| Pro forma diluted net income per share*..... | 1.07 |

* includes a tax benefit of \$6.3 million in 1999 The pro forma financial information does not purport to be indicative of the results of operations that would have occurred had the transactions taken place at the beginning of the period indicated or of future results of operations. NOTE 5 -- LONG TERM DEBT Long term debt

consists of the following at December 31: 1999 2000 ----- (IN THOUSANDS) Industrial development revenue bonds..... \$ 1,145 \$ 990 Obligations under capital leases..... 6,140 4,749 Notes payable to bank..... 225,000 215,456 Senior subordinated debt..... 125,000 125,000 Notes payable..... 3,900 4,006 ----- 361,185 350,201 Less: current portion..... 5,741 5,097 ----- Total..... \$355,444 \$345,104 =====

In connection with our May 1997 purchase of ECCO's stock, a 10-year note for \$2,300,000 was issued to the owners of ECCO. The note is payable in 10 equal annual installments due on May 1 of each year starting in 1998. The note bears interest at the rate of 6.86% per annum. During 1992, we entered into an obligation to finance the development of our Woonsocket, Rhode Island facility. The development and purchase of substantially all of the property and equipment for the facility was financed from the issuance of industrial development revenue bonds. The bonds are due in various amounts through 2017 at fixed interest rates ranging from 6.5% to 7.375% and are collateralized by the property and equipment at the facility. The terms of an agreement entered into in connection with the issuance of the bonds contain, among other provisions, requirements for maintaining defined levels of working capital and various financial ratios including debt to net worth.

F-12 STERICYCLE, INC. AND SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

Payments due on long-term debt excluding capital lease obligations, during each of the five years subsequent to December 31, 2000 are as follows: (IN THOUSANDS)

| | | | |
|-----------|----------|-----------------|---------|
| 2001..... | \$ 4,143 | 2002..... | 15,588 |
| 2003..... | 17,283 | 2004..... | 19,148 |
| 2005..... | 23,685 | Thereafter..... | 265,605 |

The company paid interest of \$0.7 million, \$2.2 million and \$37.9 million for the fiscal years ended December 31, 1998, 1999 and 2000, respectively. At December 31, 2000 property under capital leases included with property, plant and equipment in the accompanying Consolidated Balance Sheet is as follows: (IN THOUSANDS) Machinery and Equipment..... \$ 43 Vehicles..... 5,741 Less -- accumulated depreciation and amortization..... (1,350) ----- \$ 4,435 =====

Minimum future lease payments under capital leases are as follows: (IN THOUSANDS)

| | |
|-----------------|----------|
| 2001..... | \$ 1,334 |
| 2002..... | 1,288 |
| 2003..... | 1,041 |
| 2004..... | 844 |
| 2005..... | 711 |
| Thereafter..... | 691 |

Total minimum lease payments..... 5,909 Less amounts representing interest..... (1,160) ----- Present value of net minimum lease payments..... 4,749 Less current portion..... 954 -----

Long-term obligations under capital leases..... \$ 3,795 =====

Senior Credit Facility In November 1999, we established a term loan and revolving credit facility under a credit agreement with various financial institutions. The facility consists of: (i) a six-year revolving credit facility of up to \$50.0 million; (ii) a six-year term loan A in the principal amount of up to \$75.0 million; and (iii) a seven-year term loan B in the principal amount of up to \$150.0 million. The Company borrowed the full amount available under term loan A and term loan B principally to finance a portion of the purchase price of our acquisition of BFI. As of December 31, 2000, we have made \$5.0 million in payments on the term loan A and \$9.5 million in payments on the term loan B. In addition, we had \$5.0 million outstanding under the revolving credit facility.

F-13 STERICYCLE, INC. AND SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

REPAYMENT. Term loan A matures in quarterly installments, resulting in aggregate annual amortization payments as a percentage of the initial principal amount as follows:

| | |
|---|-------|
| ANNUAL YEAR AMORTIZATION ---- (IN PERCENTAGE OF THE INITIAL PRINCIPAL AMOUNT) 2000..... | 2.5% |
| 2001..... | 7.5% |
| 2002..... | 12.5% |
| 2003..... | 22.5% |
| 2004..... | 25.0% |
| 2005..... | 30.0% |

Term loan B matures in quarterly installments, resulting in aggregate annual amortization payments as a percentage of the initial principal amount as follows:

| | |
|--|-------|
| ANNUAL YEAR AMORTIZATION ---- (IN PERCENTAGE OF THE INITIAL PRINCIPAL AMOUNT) 2000-2005..... | 1.0% |
| 2006..... | 94.0% |

GUARANTEES AND SECURITY. Our credit facility is secured by a first-priority perfected lien (subject to customary exceptions) on: (i) substantially all of our property and assets and substantially all of the property and assets of our subsidiaries,

other than certain unrestricted subsidiaries and foreign subsidiaries; (ii) all of the capital stock or similar equity interests of all of our direct and indirect subsidiaries with the exception that no more than 65% of the capital stock or similar equity interests of our foreign subsidiaries which is directly held by us or by a domestic subsidiary has been pledged, and no capital stock of our foreign subsidiaries which are held by a foreign subsidiary has been pledged; and (iii) all intercompany notes other than intercompany notes held by the Company's foreign subsidiaries. The credit facility is guaranteed on a senior secured basis by entities customary for transactions of this nature, including all of our direct and indirect domestic subsidiaries (other than any unrestricted subsidiaries). INTEREST. At our option, the interest rates per annum applicable to the revolving credit facility, term loan A and term loan B are fluctuating rates of interest determined by reference to (a) the London Interbank Offered Rate ("LIBOR") plus the applicable margin, or (b) a base rate which is the greater of the prime rate and the rate which is 1/2 of 1% in excess of the rates on overnight federal funds transactions as published by the Federal Reserve Bank of New York, plus the applicable margin. The applicable margin is determined on the basis of our total leverage ratio. At December 31, 2000, the range on the rate of interest on term loan A was 8.95%-9.25% per annum, and the range on the rate of interest on term loan B was 9.95%-12.00% per annum. PREPAYMENTS. We are permitted at any time voluntarily to prepay the obligations under the term loans and to reduce the amount committed under the revolving credit facility without any penalty or premium. We are required to prepay the term loans with: (i) 100% of the net proceeds of specified asset sales, proceeds from condemnation and the like, and proceeds from loss or casualty, subject to customary exceptions for repairs and replacements; (ii) 100% of the net proceeds from the sale or issuance of debt securities; (iii) 50% of the net proceeds from the issuance of equity securities, subject to customary adjustments to be mutually determined; (iv) 75% of excess cash flow, subject to customary adjustments to F-14 STERICYCLE, INC. AND SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED) be mutually determined; and (v) 100% of payments by or on behalf of Allied in respect of any purchase price adjustments in connection with the BFI acquisition. Prepayments will be applied pro rata to term loan A and term loan B and will be applied to scheduled installments on each loan on a pro rata basis (with the exception that the lenders with respect to term loan B can decline to be prepaid). At December 31, 2000, we had prepaid the term loan A by \$3.1 million and had prepaid the term loan B by \$8.0 million. COVENANTS; EVENTS OF DEFAULT. The credit facility contains covenants restricting our ability and the ability of any of our subsidiaries to, among other things: incur debt; subject our assets to liens; make investments; incur contingent liabilities; pay dividends; merge or sell assets; make capital expenditures; enter into sale/lease-back transactions; enter into new businesses; discount receivables; and enter into affiliate transactions. In addition, the credit facility requires us to meet financial performance tests, including a maximum leverage ratio and a minimum cash interest coverage ratio and, as we elect, either a minimum fixed charge coverage ratio or minimum EBITDA (earnings before interest expense, income taxes, depreciation and amortization). The credit facility contains conditions under which an event of default under the credit facility will exist, including: failure to make payments when due under the credit facility; defaults in other agreements; breach of covenants; material misrepresentations; involuntary or voluntary bankruptcy; judgments or attachments against us; dissolution; and changes in control. Senior Subordinated Notes In November 1999, we issued 12 3/8% Series A Senior Subordinated Notes due 2009 in the aggregate principal amount of \$125.0 million. In connection with the issuance of the Series A notes to the initial purchasers, we agreed to make an offer to holders of the Series A notes to exchange their notes for substantially identical Series B notes registered under the Securities Act. This exchange offer was completed in January 2000, with holders of all the Series A notes exchanging their notes for new, registered 12 3/8% Series B notes. We used the net proceeds from the sale of the notes to finance a portion of the purchase price of our acquisition of BFI. The notes are general unsecured obligations of ours, and are subordinated in right of payment to our debt under our senior credit facility. The notes will mature on November 15, 2009. Interest on the notes accrues at the rate of 12 3/8% per annum and is payable semiannually on May 15 and November 15, beginning on May 15, 2000. SUBSIDIARY GUARANTEES. The notes are guaranteed by all of our subsidiaries except our foreign subsidiaries and 3CI. All of our subsidiaries are restricted subsidiaries for purposes of the trust indenture pursuant to which the notes were issued. Under certain circumstances, we may designate one or more subsidiaries as an unrestricted subsidiary. An unrestricted subsidiary is not subject to many of the restrictive covenants in the trust indenture and, if it has previously been a guarantor of the notes, is

released from its guarantee. REDEMPTION AT OUR OPTION. Prior to November 15, 2002, we may elect to redeem, from the net proceeds of one or more equity offerings, up to 35% of the initial aggregate principal amount of the notes at a redemption price of 112.375% of the principal amount redeemed, plus accrued interest to the redemption date. Except for any such permitted redemptions, we may not otherwise redeem the notes prior to November 15, 2004. After this date, we may elect to redeem all or any part of the notes at a redemption price (expressed as a percentage of the principal amount redeemed) during the 12-month F-15 STERICYCLE, INC. AND SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED) period beginning on November 15 of the year indicated, plus accrued interest to the redemption date, as follows:

| | | | |
|----------------------|-------|--------------------------|-----------|
| YEAR PERCENTAGE ---- | ----- | 2004..... | 106.1875% |
| | | 2005..... | 104.1250% |
| | | 2006..... | 102.0625% |
| | | 2007 and thereafter..... | 100.0000% |

Under the trust indenture, we are permitted to acquire the notes by means other than a redemption, for example, pursuant to a tender offer or by purchases in the open market, if the acquisition does not otherwise violate the terms of the indenture. The agreements governing our senior credit facility, however, currently prohibit us from purchasing any notes. REDEMPTION AT HOLDER'S OPTION. At any time after a change of our control, each holder of the notes may require us to repurchase in cash all or any part of the holder's notes for 101% of their aggregate principal amount plus accrued interest to the date of repurchase. In addition, under certain circumstances, we are required to use a portion of the net proceeds from asset sales or the issuance of stock to offer to redeem the outstanding notes on a pro rata basis at a redemption price of 100% of the aggregate principal amount redeemed plus accrued interest to the redemption date. We are not otherwise required to make mandatory redemptions with respect to the notes. COVENANTS; EVENTS OF DEFAULT. The trust indenture contains covenants restricting our ability and the ability of any of our subsidiaries to, among other things: incur debt (including debt junior to our senior debt but senior to the notes); subject our assets to liens; make investments; incur contingent liabilities; pay dividends; merge or sell assets; make capital expenditures; enter into sale/lease-back transactions; enter into new businesses; discount receivables; and enter into affiliate transactions. The trust indenture contains conditions under which an event of default under the notes will exist, including: failure to make payments when due; breach of covenants in the indenture and notes; material misrepresentations; involuntary or voluntary bankruptcy; and judgments or attachments against us. acceleration of the notes following an event of default will not be effective until the acceleration of our debt our senior credit facility. NOTE 6 -- LEASE COMMITMENTS We lease various plant equipment, office furniture and equipment, motor vehicles and office and warehouse space under operating lease agreements which expire at various dates over the next eight years. The leases for most of the properties contain renewal provisions. Rent expense for 1998, 1999, and 2000 was \$3,508,000, \$6,823,000 and \$11,167,000 respectively. F-16 STERICYCLE, INC. AND SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED) Minimum future rental payments under non-cancelable operating leases that have initial or remaining terms in excess of one year as of December 31, 2000 for each of the next five years and in the aggregate are as follows: (IN THOUSANDS)

| | | | |
|------------------------------------|----------|-----------------|-------|
| 2001..... | \$ 8,020 | 2002..... | 7,200 |
| 2003..... | 6,283 | 2004..... | 5,379 |
| 2005..... | 4,359 | Thereafter..... | 3,039 |
| Total minimum rental payments..... | | \$34,280 | ===== |

NOTE 7 -- ACQUISITION-RELATED EXPENSES During the year ended December 31, 2000 we recorded \$4,454,000 of acquisition related expenses compared to \$7,961,000 in the year ended December 31, 1999. The closure of redundant offices and eliminating excess revenue producing assets resulted in costs being incurred for severance and closure expenses of \$3,351,000. Transition related expenses of \$1,103,000 were incurred as part of the transition. The following table reflects the activity related to the 1999 and 2000 acquisition related costs (in thousands): CHARGES EXPECTED IN CHARGES IN FUTURE 1999 2000 PERIODS ----- Severance and closure costs..... \$3,373 \$3,351 -- Transition expenses..... 1,659 1,103 \$1,000 Other non-recurring acquisition related costs..... 2,929 -- -- Total.....

\$7,961 \$4,454 \$1,000 ===== In 1999 and 2000, we paid approximately \$3,789,000 and \$7,502,000 of these acquisition related expenses and, at December 31, 1999 and 2000, \$4,172,000 and \$1,124,000 was accrued. F-17 STERICYCLE, INC. AND SUBSIDIARIES NOTES TO CONSOLIDATED

FINANCIAL STATEMENTS -- (CONTINUED) NOTE 8 -- NET INCOME PER COMMON SHARE The following table sets forth the computation of basic and diluted net income per share: YEAR ENDED DECEMBER 31 ----- 1998 1999 2000 -----

| | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
|--|----------|-----------|-----------|--------------------------------|----------|---------|-------|--|-------|--------|--------|---|--------|-------|-------|--|----------|-----------|-----------|-------|---|------------|------------|------------|--|---------|---------|---------|---------------|---------|--------|---------|----------------------------------|------------|-----------|-------|---------------------------------------|---------|-----------|-----------|-------|---|------------|------------|------------|-------|---------------------------------|---------|---------|---------|-------|-----------------------------------|---------|---------|---------|-------|--|
| (IN THOUSANDS, EXCEPT SHARE AND PER SHARE DATA) Numerator: Net income..... | \$ 5,713 | \$ 13,968 | \$ 14,511 | Preferred stock dividends..... | -- (340) | (2,543) | ----- | Numerator for basic earnings per share -- income available to common stockholders..... | 5,713 | 13,628 | 11,968 | Effect of dilutive securities: Preferred stock dividends..... | -- 340 | 2,543 | ----- | Numerator for diluted earnings per share -- income available to common stockholders after assumed conversions..... | \$ 5,713 | \$ 13,968 | \$ 14,511 | ===== | Denominator: Denominator for basic earnings per share -- weighted-average shares..... | 10,647,083 | 14,240,084 | 14,879,103 | Effect of dilutive securities: Employee stock options..... | 473,723 | 338,540 | 640,714 | Warrants..... | 142,722 | 86,482 | 195,328 | Convertible preferred stock..... | -- 576,672 | 4,377,699 | ----- | Dilutive potential common shares..... | 616,445 | 1,001,694 | 5,213,741 | ----- | Denominator for diluted earnings per share -- adjusted weighted-average shares and assumed conversions..... | 11,263,528 | 15,241,778 | 20,092,844 | ===== | Basic net income per share..... | \$ 0.54 | \$ 0.96 | \$ 0.80 | ===== | Diluted net income per share..... | \$ 0.51 | \$ 0.92 | \$ 0.72 | ===== | For additional information regarding our outstanding employee stock options and outstanding warrants, see Note 9. In 1998, 1999 and 2000, options and warrants to purchase 67,615 shares, 458,363 shares and 41,471 shares respectively, at exercise prices of \$15.50-\$69.02, \$12.75-\$18.13, and \$25.06-\$42.47 respectively, were not included in the computation of diluted earnings per share because the effect would be antidilutive. NOTE 9 -- STOCK OPTIONS AND WARRANTS |
|--|----------|-----------|-----------|--------------------------------|----------|---------|-------|--|-------|--------|--------|---|--------|-------|-------|--|----------|-----------|-----------|-------|---|------------|------------|------------|--|---------|---------|---------|---------------|---------|--------|---------|----------------------------------|------------|-----------|-------|---------------------------------------|---------|-----------|-----------|-------|---|------------|------------|------------|-------|---------------------------------|---------|---------|---------|-------|-----------------------------------|---------|---------|---------|-------|--|

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

F-18 STERICYCLE, INC. AND SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED) In 1997, our Board of Directors and shareholders approved the 1997 Stock Option Plan (the "1997 Plan"), which provides for the granting of 1,500,000 shares of common stock in the form of stock options to selected officers, directors and employees of the Company and its subsidiaries. The exercise price of options granted under the 1997 Plan must be at least equal to the fair market value of the common stock on the date of grant. All options granted to date have 10-year terms and vest over periods of up to five years after the date of grant. In 1995, our Board of Directors and shareholders approved an incentive compensation plan (the "1995 Plan"), which as amended and restated in 1996, provides for the granting of 1,500,000 shares of common stock in the form of stock options and restricted stock to employees, officers, directors and consultants. The exercise price of options granted under the 1995 Plan must be at least equal to the fair market value of the common stock on the date of grant. All options granted to date have 10-year terms and vest over periods of up to four years after the date of grant. In June 1996, our Board of Directors adopted and in July, 1996, our shareholders approved, the Directors Stock Option Plan (the "Directors Plan"). The Directors Plan authorizes stock options for a total of 285,000 shares of common stock to be granted to our outside directors. Option grants are made by the Board of Directors at the times and in amounts that the Board determines, taking into account any guidelines that the Board may adopt for this purpose. The exercise price of options granted under the Directors Plan must be at least equal to the fair market value of the common stock on the date of grant. Options granted prior to April 1, 1998 vest in 16 consecutive quarterly installments; options granted after March 31, 1998 vest in 12 equal monthly installments. Shares of the Company's common stock have been reserved for issuance upon the exercise of options and warrants. These shares have been reserved as follows at December 31, 2000: 1995 Plan options..... 420,549 1996 Directors Plan options..... 285,000 1997 Plan options..... 1,170,009 2000 Plan options..... 500,000 Warrants..... 177,289 ----- Total shares reserved..... 2,552,847 ===== A summary of stock option information follows: 1998 1999

2000 ----- WEIGHTED WEIGHTED WEIGHTED AVERAGE
 AVERAGE AVERAGE EXERCISE EXERCISE EXERCISE SHARES PRICE SHARES PRICE SHARES
 PRICE ----- Outstanding at beginning of year..... 845,861
 \$ 4.98 945,970 \$ 8.37 1,572,359 \$11.22 Granted..... 360,238 \$13.92 840,579 \$12.91 583,106 \$20.63
 Exercised..... (155,979) \$ 2.21 (146,419) \$ 2.36 (358,249) \$ 9.57 Cancelled/Forfeited.....
 (104,150) \$ 8.89 (67,771) \$11.36 (156,258) \$13.97 ----- Outstanding at end of year.....
 945,970 \$ 8.37 1,572,359 \$11.22 1,640,958 \$14.66 Exercisable at end of year..... 393,084 \$ 5.37 448,948 \$
 8.49 532,518 \$11.46 Available for future grant..... 1,434,821 662,013 734,600 F-19 STERICYCLE, INC. AND
 SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED) Options
 outstanding and exercisable as of December 31, 2000 by price range: OUTSTANDING EXERCISABLE

----- AVERAGE WEIGHTED WEIGHTED REMAINING AVERAGE
 AVERAGE LIFE IN EXERCISE EXERCISE RANGE OF EXERCISE PRICES SHARES YEARS PRICE
 SHARES PRICE ----- \$0.53-\$10.25..... 297,270
 4.88 \$ 7.36 228,456 \$ 7.17 \$10.81-\$12.75..... 541,127 8.46 \$12.73 98,821 \$12.65
 \$13.25-\$18.125..... 310,215 6.59 \$14.60 180,770 \$14.77 \$20.25-\$42.47..... 492,346 9.44
 \$21.22 24,471 \$22.33 ----- 1,640,958 7.75 \$14.66 532,518 \$11.46 We have elected to

follow Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees" (APB 25)
 and related interpretations in accounting for our employee stock options because, as discussed below, the
 alternative fair value accounting provided for under Statement of Financial Accounting Standards No. 123,
 "Accounting for Stock-Based Compensation" ("FAS 123"), requires use of option valuation models that were
 not developed for use in valuing employee stock options. Under APB 25, because the exercise price of our
 employee stock options approximate the market price of the underlying stock on the date of grant, no
 compensation expense is recognized. Pro forma information regarding net income and net income per share is
 required by FAS 123 as if we had accounted for our employee stock options granted subsequent to December
 31, 1994 under the fair value method of that statement. Options granted in 1998, 1999 and 2000 were valued
 using the Black- Scholes option pricing model. Options granted in 1996 and 1995, as a non-public company,
 were valued using the minimum value method. The following assumptions were used in 1998, 1999 and 2000:
 expected volatility of 0.61 in 1998, 0.62 in 1999 and 0.61 in 2000; risk-free interest rates ranging from 4.5% to
 4.8% in 1998, 4.83% to 6.73% in 1999, and 5.02% to 6.69% in 2000; a dividend yield of 0%; and a
 weighted-average expected life of the option of 72 months. The weighted-average fair values of options granted
 during 1998, 1999 and 2000 were \$6.52 per share, \$7.27 per share, and \$10.18 per share, respectively. Option
 value models require the input of highly subjective assumptions. Because our employee stock options have
 characteristics significantly different from those of traded options, and because changes in the subjective input
 assumptions can materially affect the fair value estimate, in management's opinion, the existing method does not
 necessarily provide a reliable single measure of the fair value of its employee stock options. For purposes of pro
 forma disclosures, the estimated fair value of the options is amortized to expense over the option vesting period.
 Our pro forma information follows (in thousands, except for per share information): YEAR ENDED

DECEMBER 31, ----- 1998 1999 2000 ----- Pro forma net
 income..... \$4,485 \$11,860 \$10,585 Pro forma net income per share -- diluted..... \$
 0.40 \$ 0.78 \$ 0.53 The pro forma effect in 1998, 1999 and 2000 is not representative of the pro forma effect in
 future years as the pro forma disclosures reflect only the fair value of stock options granted subsequent to
 December 31, 1994. Warrants: In May 1996, in connection with a loan from certain shareholders, directors and
 officers, we issued warrants to purchase 226,036 shares of common stock at \$7.96 per share. These warrants
 expire in May F-20 STERICYCLE, INC. AND SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL
 STATEMENTS -- (CONTINUED) 2001. In 1998 and 2000, warrants to purchase 35,940 shares and 178,794
 shares, respectively, were exercised. At December 31, 2000, warrants to purchase 11,302 shares remained
 outstanding. In connection with a subordinated loan agreement, six directors were granted five-year warrants to
 purchase shares of our common stock exercisable at any time after the first anniversary of the grant date in
 December 1998 and in January 1999, the lenders were granted warrants to purchase, in the aggregate, 18,970
 shares of Common Stock at \$14.50 per share, 43,551 shares of Common Stock at \$15.50 per share and 59,092
 shares of Common Stock at \$16.50 per share. In June 2000, in connection with our acquisition of an additional

15% interest in Medam, we issued warrants to purchase 44,374 shares of our common stock. Of these warrants, warrants for 31,128 shares are immediately exercisable, while the remaining 13,246 shares become contingently exercisable over five years. The exercise price of the warrants is \$17.50 per share. NOTE 10 -- SERIES A PREFERRED STOCK In November 1999, we issued and sold 75,000 shares of Series A Convertible Preferred Stock for \$1,000 per share, or \$75.0 million in the aggregate, in cash, less various fees and expenses. The company used the net proceeds from the sale to finance a portion of the purchase price of our BFI acquisition. DIVIDENDS. The Series A Convertible Preferred Stock bears preferential dividends, payable in additional shares of Series A Convertible Preferred Stock, at the rate of 3.375% per annum from the date of issuance. Dividends accrue daily and accumulate annually on the anniversary date of the initial issuance. The Series A Convertible Preferred Stock is also entitled to share pro rata with holders of Common Stock, on the basis of the number of shares of Common Stock into which the Series A Convertible Preferred Stock is convertible, in all other dividends and distributions. LIQUIDATION. Upon any liquidation, dissolution or winding up of the Company, holders of Series A Convertible Preferred Stock are entitled to be paid, before any distribution or payment is made to holders of Common Stock, the greater of (i) the sum of \$1,000 per share plus accumulated preferential dividends plus accrued and unpaid dividends not yet accumulated (the "liquidation value") or (ii) the amount that would be payable if the Series A Convertible Preferred Stock had been converted into common stock. VOTING. Holders of Series A Convertible Preferred Stock are entitled to vote with holders of Common Stock as a single class on each matter submitted to a vote of the Company's stockholders. Each share of Series A Convertible Preferred Stock has a number of votes equal to the number of votes possessed by the Common Stock into which the Series A Convertible Preferred Stock is convertible. As long as the initial investors of the Series A Convertible Preferred Stock and their affiliates hold 50% or more of the "underlying common stock" (i.e., the shares of common stock issuable, or previously issued, upon conversion of the Series A Convertible Preferred Stock), they will have the right, voting as a separate class, to elect two directors to the Company's Board of Directors. If the initial investors and their affiliates cease to hold 50% but still hold 25% or more of the underlying common stock, they will have the right, voting as a separate class, to elect one director; and if they cease to hold 25% of the underlying common stock, their right to elect directors as a separate class will terminate. CONVERSION. Each holder of Series A Convertible Preferred Stock may at any time, upon 10 business days' notice, convert all or part of the holder's Series A Convertible Preferred Stock into shares of common stock. The price at which a holder may convert is \$17.50 per share, subject to adjustment. The conversion price will be adjusted if (i) the Company issues or is deemed to issue additional shares of common stock for a price per share less than the conversion price or the market price at the time of issuance or (ii) the Company issues or is deemed to issue options, warrants or convertible securities with an exercise price or conversion price per share less than the conversion price or the market price at the time of issuance. The conversion price will also be adjusted in certain other circumstances. F-21 STERICYCLE, INC. AND SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED) There will be no adjustment of the conversion price to the extent that in any fiscal year, the Company issues common stock in connection with acquisitions approved by the Board of Directors or grants or reprices stock options (at a price not lower than the market price at the time of grant or repricing), and the aggregate number of shares of common stock issued or for which options are granted or repriced does not exceed 4.0% of the shares of common stock outstanding on the last trading day of the prior fiscal year. For purposes of any adjustment to the conversion price, the "market price" per share for common stock is the average closing price over the 20 business day period preceding the date of determination. REDEMPTION AT COMPANY'S OPTION. Beginning on May 12, 2002, if the closing price of common stock exceeds 150% of the conversion price for 20 consecutive trading days, the Company may elect, upon at least 30 days' prior written notice, to redeem all (but not part) of the outstanding shares of Series A Convertible Preferred Stock, subject to any holder's right to convert its shares into common stock prior to the redemption date. If the Company makes such an election, the redemption price will equal the liquidation value to the date of redemption. REDEMPTION AT HOLDER'S OPTION. At any time after a change of control, or after the occurrence of a bankruptcy event which continues for 60 days, each holder of Series A Convertible Preferred Stock may require the Company to redeem all or any part of the holder's shares at a price equal to the liquidation value per share, upon 15 days' prior written notice. COVENANTS AND RESTRICTIONS. Under the stock purchase agreement with the initial investors, the

Company agreed to various covenants and restrictions. These covenants and restrictions include the Company's grant of preemptive rights to holders of Series A Convertible Preferred Stock under certain circumstances and the Company's agreement to provide them with specified financial and business information. REGISTRATION RIGHTS AGREEMENT. The Company and the initial investors entered into a registration rights agreement at closing. This agreement requires the Company, at the request of holders of a majority of the underlying common stock at any time after the first anniversary of closing, to register all or any portion of their shares under the Securities Act in an underwritten public offering. Holders of Series A Convertible Preferred Stock are limited to three such registrations. The agreement also grants holders of Series A Convertible Preferred Stock "piggyback" registration rights. In all registrations (with certain limited exceptions), the Company will be required to pay the expenses of registration of the holders of Series A Convertible Preferred Stock (excluding the underwriting discounts and commissions). CORPORATE GOVERNANCE AGREEMENT. The Company and the initial investors also entered into a corporate governance agreement at closing. This agreement contains certain provisions intended to implement the right of the initial investors to elect directors to the Company's Board of Directors. It also provides that until the earlier of (i) the date on which the initial investors and their permitted transferees cease to own any Series A Convertible Preferred Stock, (ii) the date on which the initial investors have completed a distribution of the Series A Convertible Preferred Stock to their partners or (iii) the first anniversary of closing, the initial investors and their transferees and affiliates will not acquire beneficial ownership of more than 30% of the voting power of the Company or acquire or attempt to acquire control of the Company, except in response to a proposal that has been made to the stockholders that would materially and adversely affect the investors, or pursuant to the exercise of their preemptive rights. The corporate governance agreement also contains specified restrictions, for a period of five years, on the initial investors' ability to transfer their shares of Series A Convertible Preferred Stock (but not the shares of common stock issuable upon conversion of those shares). In addition, the agreement provides that the approval of holders of a majority of the underlying common stock is required for the company to: (1) engage in mergers, acquisitions or divestitures of specified sizes, (2) enter into contracts with the Company's officers, directors, employees or affiliates, except for ordinary employment contracts, benefit plans and transactions with the Company's subsidiaries, and (3) incur indebtedness or issue specified F-22 STERICYCLE, INC. AND SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED) capital stock that would cause the Company's fixed charge coverage ratio to be less than 1.75 to 1.0 (2.0 to 1.0 after the second anniversary of the initial issuance of the Series A Convertible Preferred Stock). NOTE 11 -- EMPLOYEE BENEFIT PLAN We have a 401(k) defined contribution retirement savings plan covering substantially all employees. Each participant may elect to defer a portion of his or her compensation subject to certain limitations. We may contribute up to 50% of the first 5% of compensation contributed to the plan by each employee. Our contributions for the years ended December 31, 1998, 1999, and 2000 were approximately \$10,000, \$49,000 and \$782,000 respectively. NOTE 12 -- RELATED PARTIES In September 1999, we announced the formation of a new joint venture, Medam, B.A. Srl, an Argentine corporation, to utilize our ETD technology to treat medical waste primarily in the Buenos Aires market. In 1999 and 2000, we recorded \$2,866,000 and \$507,000 in revenues, respectively, related to the sale of equipment and other agreements. In August 2000, we announced the formation of a new joint venture, Evertrade Medical Waste (Pty) Ltd, to service the medical waste market in South Africa using our ETD technology. The joint venture company will be headquartered in Johannesburg, South Africa. In 2000, we recorded \$5,085,000 in revenue related to the sale of equipment and other agreements. NOTE 13 -- LEGAL PROCEEDINGS We operate in a highly regulated industry and are exposed to regulatory inquiries or investigations from time to time. Investigations can be initiated for a variety of reasons. We have been involved in several legal and administrative proceedings that have been settled or otherwise resolved on terms acceptable to us, without having a material adverse effect on our business, financial condition or results of operations. We are also a party to various legal proceedings arising in the ordinary course of business. We believe that the resolution of these other matters will not have a material adverse affect on our business, financial condition or results of operation. NOTE 14 -- PRODUCTS AND SERVICES AND GEOGRAPHIC INFORMATION Summary revenue information for the Company's products and services is as follows: YEAR ENDED DECEMBER 31, ----- 1998 1999 2000 ----- (IN THOUSANDS) Medical waste management services..... \$59,669 \$126,286 \$316,549 Proprietary

equipment and technology license sales.... 7,012 6,562 7,173 ----- Total.....
 \$66,681 \$132,848 \$323,722 ===== F-23 STERICYCLE, INC. AND
 SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED) Summary
 financial information by geographic area is as follows: YEAR ENDED DECEMBER 31,
 ----- 1998 1999 2000 ----- (IN THOUSANDS) Revenues: United
 States..... \$59,206 \$119,618 \$304,512 Foreign countries..... 7,475
 13,230 19,210 ----- Total..... \$66,681 \$132,848 \$323,722 =====
 ===== Long-lived assets: United States..... \$66,853 \$508,956 \$494,755
 Foreign countries..... 9,092 9,290 12,216 ----- Total.....
 \$75,945 \$518,246 \$506,971 ===== Revenues are attributed to countries based on the
 location of customers. In 1998, 1999 and 2000, we provided medical waste management services to customers
 in Canada and Mexico, and licensed proprietary equipment to Brazilian and Japanese companies and to joint
 ventures in Argentina and South Africa. NOTE 15 -- SELECTED QUARTERLY FINANCIAL DATA
 (UNAUDITED) The following table summarizes our unaudited consolidated quarterly results of operations as
 reported for 1998, 1999 and 2000 (in thousands, except for per share amounts): FIRST SECOND THIRD
 FOURTH QUARTER QUARTER QUARTER QUARTER 1998 1998 1998 1998 -----
 Revenues..... \$13,255 \$14,763 \$16,741 \$21,922 Gross profit..... 3,957
 4,432 5,878 7,086 Income before acquisition related costs..... 867 1,164 2,085 2,308 Net
 income..... 780 1,088 1,553 2,292 Basic earnings per common share..... 0.07 0.10
 0.15 0.22 Diluted earnings per common share*..... 0.07 0.10 0.14 0.20 FIRST SECOND THIRD FOURTH
 QUARTER QUARTER QUARTER QUARTER 1999 1999 1999 1999 -----
 Revenues..... \$23,868 \$25,019 \$25,398 \$58,563 Gross profit..... 8,007
 8,540 8,740 21,438 Income before acquisition related costs..... 2,923 3,354 3,469 10,499 Net
 income..... 2,427 2,560 2,882 6,099 Basic earnings per common share..... 0.19 0.18
 0.20 0.41 Diluted earnings per common share*..... 0.18 0.17 0.19 0.35 F-24 STERICYCLE, INC. AND
 SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED) FIRST
 SECOND THIRD FOURTH QUARTER QUARTER QUARTER QUARTER 2000 2000 2000 2000 -----
 ----- Revenues..... \$77,668 \$79,557 \$81,066 \$85,431 Gross
 profit..... 30,311 31,296 31,915 33,855 Income before acquisition related costs..... 15,827
 16,570 17,150 18,373 Net income..... 3,773 3,086 3,433 4,219 Basic earnings per common
 share..... 0.21 0.17 0.19 0.24 Diluted earnings per common share*..... 0.19 0.15 0.17 0.21
 ----- * Earnings per share are calculated on a quarterly basis, and, as such, the amounts may not total the
 calculated full-year earnings per share. NOTE 16 -- CONDENSED CONSOLIDATING FINANCIAL
 INFORMATION Payments under the Company's senior subordinated notes (the Notes) are unconditionally
 guaranteed, jointly and severally, by all of the Company's wholly domestic subsidiaries, which include ECCO,
 WSI, Med-Tech and BFI and certain other subsidiaries which have insignificant assets and operations
 (collectively, the "guarantors"). Financial information concerning the Guarantors as of and for the years ended
 December 31, 2000, 1999 and 1998 is presented below for purposes of complying with the reporting
 requirements of the Guarantor Subsidiaries. The financial information concerning the Guarantors is being
 presented through condensed consolidating financial statements since the Company has more than minimal
 independent operations and the guarantees are full and unconditional and are joint and several. Guarantor
 financial statements have not been presented because management does not believe that such financial
 statements are material to investors. F-25 STERICYCLE, INC. AND SUBSIDIARIES NOTES TO
 CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED) CONDENSED CONSOLIDATING
 BALANCE SHEET DECEMBER 31, 2000 (IN THOUSANDS) COMBINED STERICYCLE AND
 GUARANTOR GUARANTOR NON-GUARANTOR STERICYCLE, INC. SUBSIDIARIES SUBSIDIARIES
 SUBSIDIARIES ELIMINATIONS CONSOLIDATED -----
 ----- ASSETS Current assets: Cash and cash equivalents..... \$ 1,408 \$ 595 \$ 2,003 \$ 663 \$ -- \$
 2,666 Other current assets..... 78,193 12,220 90,413 7,113 (9,181) 88,345 -----
 ----- Total current assets..... 79,601 12,815 92,416 7,776 (9,181) 91,011 Property, plant and equipment,
 net..... 60,165 242 60,407 13,501 -- 73,908 Goodwill, net..... 377,178 29,384 406,562

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| | | | | | | | | | | |
|---|---|---|---|--------------------------------------|---|---|----------------------------------|---------------------------------|--------|-------------------|
| 12,228 | -- | 418,790 | Investment in subsidiaries..... | 63,306 | 3,308 | 66,614 | -- | (66,614) | -- | Other assets..... |
| 19,234 | 6,582 | 25,816 | 124 (11,667) | 14,273 | ----- Total assets..... | | | | | |
| \$599,484 | \$52,331 | \$651,815 | \$33,629 | \$(87,462) | \$597,982 | ===== | | | | |
| ===== LIABILITIES AND SHAREHOLDERS' EQUITY Current liabilities: Current portion of | | | | | | | | | | |
| long-term debt..... | \$ 4,035 | \$ -- | \$ 4,035 | \$ 1,062 | \$ -- | \$ 5,097 | Other current liabilities..... | 43,175 | 1,233 | |
| 44,408 | 2,793 | (9,185) | 38,016 | ----- Total current liabilities..... | | | | | 47,210 | |
| 1,233 | 48,443 | 3,855 | (9,185) | 43,113 | Long-term debt, net of current portion..... | 344,142 | -- | 344,142 | | |
| 12,585 | (11,623) | 345,104 | Other liabilities..... | 1,995 | -- | 1,995 | 1,633 | -- | 3,628 | |
| 71,437 | -- | 71,437 | -- | 71,437 | Convertible preferred stock..... | 134,700 | 51,098 | 185,798 | 15,556 | |
| 134,700 | ----- Total liabilities and shareholders' equity... \$599,484 | | | | | \$52,331 | | | | |
| \$651,815 | \$33,629 | \$(87,462) | \$597,982 | ===== F-26 | | | | | | |
| STERICYCLE, INC. AND SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- | | | | | | | | | | |
| (CONTINUED) CONDENSED CONSOLIDATING BALANCE SHEET DECEMBER 31, 1999 (IN | | | | | | | | | | |
| THOUSANDS) COMBINED STERICYCLE AND GUARANTOR GUARANTOR NON-GUARANTOR | | | | | | | | | | |
| STERICYCLE, INC. SUBSIDIARIES SUBSIDIARIES SUBSIDIARIES ELIMINATIONS CONSOLIDATED | | | | | | | | | | |
| ----- ASSETS Current assets: Cash and cash | | | | | | | | | | |
| equivalents..... | \$ 18,808 | \$ 246 | \$ 19,054 | \$ 290 | \$ -- | \$ 19,344 | Other current assets..... | 52,928 | 8,840 | |
| 4,648 | (8,220) | 58,196 | ----- Total current assets..... | | | | | 71,736 | 9,086 | |
| 4,938 | (8,220) | 77,540 | Property, plant and equipment, net..... | 15,029 | 49,932 | 64,961 | 10,151 | -- | | |
| 75,112 | Goodwill, net..... | 40,920 | 369,914 | 410,834 | 10,167 | -- | 421,001 | Investment in subsidiaries..... | | |
| 441,423 | 3,627 | 445,050 | -- | (445,050) | -- | Other assets..... | 17,817 | 13,617 | | |
| ----- Total asset..... | | | | | \$586,925 | \$446,176 | \$1,033,101 | \$28,931 | | |
| \$(466,246) | \$595,786 | ===== LIABILITIES | | | | | | | | |
| AND SHAREHOLDERS' EQUITY Current liabilities: Current portion of long-term debt..... \$ | | | | | | | | | | |
| 3,954 | \$ 892 | \$ 4,846 | \$ 895 | \$ -- | \$ 5,741 | Other current liabilities..... | 43,517 | 5,084 | | |
| 48,601 | 4,677 | (8,337) | 44,941 | ----- Total current liabilities..... | | | | | 47,471 | |
| 50,682 | Long-term debt, net of current portion..... | 349,794 | 4,539 | 354,333 | 13,970 | (12,859) | 355,444 | | | |
| Other liabilities..... | 2,351 | -- | 2,351 | -- | 2,351 | Convertible preferred stock..... | 69,195 | -- | | |
| 69,195 | -- | 69,195 | -- | 69,195 | Common shareholders' equity..... | 118,114 | 435,661 | 553,775 | | |
| 9,389 | (455,050) | 118,114 | ----- Total liabilities and shareholders' equity... \$586,925 | | | | | \$446,176 | | |
| \$1,033,101 | \$28,931 | ===== F-27 | | | | | | | | |
| \$(466,246) | \$595,786 | STERICYCLE, INC. AND SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- | | | | | | | | |
| (CONTINUED) CONDENSED CONSOLIDATING STATEMENT OF INCOME YEAR ENDED | | | | | | | | | | |
| DECEMBER 31, 2000 (IN THOUSANDS) COMBINED STERICYCLE AND NON- GUARANTOR | | | | | | | | | | |
| GUARANTOR GUARANTOR STERICYCLE, INC. SUBSIDIARIES SUBSIDIARIES SUBSIDIARIES | | | | | | | | | | |
| ELIMINATIONS CONSOLIDATED | | | | | | | | | | |
| Revenues..... | \$135,981 | \$158,992 | \$294,973 | \$29,580 | \$(831) | \$323,722 | Cost of revenues..... | | | |
| 78,593 | 96,568 | 175,161 | 22,015 | (831) | 196,345 | Selling, general and administrative expenses..... | 34,419 | | | |
| 19,695 | 54,114 | 5,343 | -- | 59,457 | Acquisition related expenses..... | 4,454 | -- | | | |
| 4,454 | -- | 4,454 | -- | 4,454 | ----- Total costs and expenses..... | | | | | |
| 117,466 | 116,263 | 233,729 | 27,358 | (831) | 260,256 | ----- | | | | |
| Income from operations..... | 18,515 | 42,729 | 61,244 | 2,222 | -- | 63,466 | Equity | | | |
| in net income (loss) of subsidiaries..... | 28,001 | (1,025) | 26,976 | -- | (26,976) | -- | Other (expense) income, | | | |
| net..... | (38,329) | 483 | (37,846) | (1,804) | -- | (39,650) | ----- Income before | | | |
| income taxes..... | 8,187 | 42,187 | 50,374 | 418 | (26,976) | 23,816 | Income tax expense (benefit).... | | | |
| (6,324) | 15,462 | 9,138 | 167 | -- | 9,305 | ----- Net income..... | | | | |
| \$ 14,511 | \$ 26,725 | \$ 41,236 | \$ 251 | \$(26,976) | \$ 14,511 | ===== CONDENSED | | | | |
| CONSOLIDATING STATEMENT OF INCOME YEAR ENDED DECEMBER 31, 1999 (IN THOUSANDS) | | | | | | | | | | |
| COMBINED STERICYCLE AND NON- GUARANTOR GUARANTOR GUARANTOR STERICYCLE, | | | | | | | | | | |
| INC. SUBSIDIARIES SUBSIDIARIES SUBSIDIARIES ELIMINATIONS CONSOLIDATED | | | | | | | | | | |
| ----- Revenues..... | | | | | | | | | | |
| \$ 61,069 | \$46,618 | \$107,687 | \$25,533 | \$(372) | \$132,848 | Cost of revenues..... | 38,455 | 28,892 | | |
| 67,347 | 19,086 | (310) | 86,123 | Selling, | | | | | | |

general and administrative expenses..... 15,478 6,306 21,784 4,931 (235) 26,480 Acquisition related expenses..... 7,961 -- 7,961 -- -- 7,961 ----- Total costs and expenses..... 61,894 35,198 97,092 24,017 (545) 120,564 ----- Income (loss) from operations... (825) 11,420 10,595 1,516 173 12,284 Equity in net income (loss) of subsidiaries..... 8,675 119 8,794 -- (8,794) -- Other (expense) income, net..... (3,934) 778 (3,156) (1,157) (173) (4,486) ----- Income before income taxes..... 3,196 12,317 16,233 359 (8,794) 7,798 Income tax expense (benefit).... (10,052) 3,882 (6,170) -- -- (6,170) ----- Net income..... \$ 13,968 \$ 8,435 \$ 22,403 \$ 359 \$(8,794) \$ 13,968 =====

===== F-28 STERICYCLE, INC. AND SUBSIDIARIES
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED) CONDENSED CONSOLIDATING STATEMENT OF INCOME YEAR ENDED DECEMBER 31, 1998 (IN THOUSANDS) COMBINED STERICYCLE AND NON- GUARANTOR GUARANTOR GUARANTOR STERICYCLE, INC. SUBSIDIARIES SUBSIDIARIES SUBSIDIARIES ELIMINATIONS CONSOLIDATED -----

----- Revenues..... \$52,357 \$9,598 \$61,955 \$4,726 \$ -- \$66,681 Cost of revenues..... 35,194 6,334 41,528 3,800 -- 45,328 Selling, general and administrative expenses..... 12,789 1,408 14,197 732 -- 14,929 ----- Total costs and expenses..... 47,983 7,742 55,725 4,532 -- 60,257 ----- Income from operations..... 4,374 1,856 6,230 194 -- 6,424 Equity in net income (loss) of subsidiaries..... 2,081 (106) 1,975 -- (1,975) -- Other (expense) income, net..... (244) 144 (100) 37 -- (63) ----- Income before income taxes..... 6,211 1,894 8,105 231 (1,975) 6,361 Income tax expense..... 498 150 648 -- -- 648 ----- Net income..... \$ 5,713 \$1,744 \$ 7,457 \$ 231 \$(1,975) \$ 5,713 =====

===== F-29 STERICYCLE, INC. AND SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED) CONDENSED CONSOLIDATING STATEMENT OF CASH FLOWS DECEMBER 31, 2000 (IN THOUSANDS) COMBINED STERICYCLE AND NON- GUARANTOR GUARANTOR GUARANTOR STERICYCLE, INC. SUBSIDIARIES SUBSIDIARIES SUBSIDIARIES ELIMINATIONS CONSOLIDATED -----

----- Cash flows from operating activities: Net cash provided by operating activities.... \$ 2,911 \$ 4,801 \$ 7,712 \$ 2,757 \$ -- \$ 10,469 ----- Cash flows from investing activities: Capital expenditures..... (8,816) (2,109) (10,925) (661) -- (11,586) Payment for acquisitions and international investments, net of cash acquired..... (3,044) (1,456) (4,500) (16) -- (4,516) Proceeds from maturity of short-term investments..... 502 -- 502 -- -- 502 ----- Net cash used in investing activities..... (11,358) (3,565) (14,923) (677) -- (15,600) ----- Cash flows from financing activities: Net proceeds from bank line of credit..... 5,000 -- 5,000 -- -- 5,000 Principal payments on capital lease obligations..... (309) (887) (1,196) (291) -- (1,487) Repayment of long term debt.... (15,012) -- (15,012) (1,416) -- (16,428) Payments of deferred financing costs..... (631) -- (631) -- -- (631) Proceeds from issuance of common stock..... 2,299 -- 2,299 -- -- 2,299 Payments related to issuance of preferred stock..... (300) -- (300) -- -- (300) ----- Net cash used in financing activities..... (8,953) (887) (9,840) (1,707) -- (11,547) ----- Net (decrease) increase in cash and cash equivalents..... \$(17,400) \$ 349 \$(17,051) \$ 373 \$ -- (16,678)

===== Cash and cash equivalents at beginning of period..... 19,344 ----- Cash and cash equivalents at end of period..... \$ 2,666 ===== F-30 STERICYCLE, INC. AND SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED) CONDENSED CONSOLIDATING STATEMENT OF CASH FLOWS DECEMBER 31, 1999 (IN THOUSANDS) COMBINED STERICYCLE AND NON- GUARANTOR GUARANTOR GUARANTOR STERICYCLE, INC. SUBSIDIARIES SUBSIDIARIES SUBSIDIARIES ELIMINATIONS CONSOLIDATED -----

----- Cash flows from operating activities: Net cash provided by operating activities.... \$ 4,951 \$ 283 \$ 5,234 \$ 6,543 \$ -- \$ 11,777 ----- Cash flows from investing activities: Capital expenditures..... (2,534) (85) (2,619) (1,176) -- (3,795) Payment for acquisitions and international investments, net of cash acquired..... (418,280) -- (418,280) (4,000) -- (422,280) Proceeds from maturity of short-term investments..... 447 -- 447 -- 447 -----

----- Net cash used in investing activities..... (420,367) (85) (420,452) (5,176)
-- (425,628) ----- Cash flows from financing activities: Net proceeds from
bank line of credit..... (16,359) -- (16,359) -- -- (16,359) Repayment of long term debt..... (3,884) --
(3,884) (482) -- (4,366) Principal payments on capital lease obligations..... (50) (125) (175) (115) -- (290)
Proceeds from long term debt.... 350,000 -- 350,000 -- -- 350,000 Net payments on subordinated
debt..... (2,750) -- (2,750) -- -- (2,750) Payment of deferred financing costs..... (10,828)
-- (10,828) -- -- (10,828) Net proceeds from common stock offering..... 47,158 -- 47,158 -- -- 47,158
Proceeds from issuance of preferred stock..... 68,855 -- 68,855 -- -- 68,855 Proceeds from other issuances
of common stock..... 492 -- 492 -- -- 492 ----- Net cash provided by
(used in) financing activities..... 432,634 (125) 432,509 (597) -- 431,912 -----
----- Net increase in cash and cash equivalents..... \$ 17,218 \$ 73 \$ 17,291 \$ 770 \$ -- 18,061 =====
===== ----- Cash and cash equivalents at beginning of period.....
1,283 ----- Cash and cash equivalents at end of period..... \$ 19,344 ===== F-31 STERICYCLE, INC.
AND SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)
CONDENSED CONSOLIDATING STATEMENT OF CASH FLOWS DECEMBER 31, 1998 (IN
THOUSANDS) COMBINED STERICYCLE AND NON- GUARANTOR GUARANTOR GUARANTOR
STERICYCLE, INC. SUBSIDIARIES SUBSIDIARIES SUBSIDIARIES ELIMINATIONS CONSOLIDATED
----- Cash flows from operating activities: Net
cash provided by operating activities.... \$ 3,749 \$ 278 \$ 4,027 \$ 835 \$ -- \$ 4,862 -----
----- Cash flows from investing activities: Capital expenditures..... (3,629) (271) (3,900) (442) -- (4,342)
Payment for acquisitions and international investments, net of cash acquired..... (19,775) -- (19,775) -- --
(19,775) Proceeds of short-term investments..... (41) -- (41) -- -- (41) Proceeds from sale of
property..... 395 10 405 -- -- 405 ----- Net cash used in investing
activities..... (23,050) (261) (23,311) (442) -- (23,753) ----- Cash flows
from financing activities: Net proceeds from bank line of credit..... 16,589 -- 16,589 (203) -- 16,386
Repayment of long term debt..... (2,513) (6) (2,519) (670) -- (3,189) Principal payments on capital lease
obligations..... (1,273) -- (1,273) -- -- (1,273) Proceeds from subordinated debt..... 2,750 --
2,750 -- -- 2,750 Payment of deferred financing costs..... (218) -- (218) -- -- (218) Proceeds from
issuance of common stock offering..... 344 -- 344 -- -- 344 ----- Net cash
provided by (used in) financing activities..... 15,679 (6) 15,673 (873) -- 14,800 -----
----- Net (decrease) increase in cash and cash equivalents..... \$ (3,622) \$ 11 \$ (3,611) \$(480) \$ --
(4,091) ===== ----- Cash and cash equivalents at beginning of
period..... 5,374 ----- Cash and cash equivalents at end of period..... \$ 1,283 ===== F-32
SCHEDULE II -- VALUATION AND ALLOWANCE ACCOUNTS (IN THOUSANDS) BALANCE
BALANCE DECEMBER 31, CHARGES OTHER WRITE-OFFS/ DECEMBER 31, 1997 TO EXPENSE
CHARGES(1) PAYMENTS 1998 ----- Allowance for doubtful
accounts..... \$ 361 \$ 642 \$ 574 \$ (676) \$ 901 Deferred tax valuation allowance..... 14,582 4,899 --
-- 19,481 BALANCE BALANCE DECEMBER 31, CHARGES OTHER WRITE-OFFS/ DECEMBER 31,
1998 TO EXPENSE CHARGES(1) PAYMENTS 1999 -----
Allowance for doubtful accounts..... \$ 901 \$ 842 \$ 202 \$ (965) \$ 980 Accrued severance and closure
costs..... -- 3,373 -- (210) 3,163 Accrued transitions expenses..... -- 1,659 -- (650) 1,009 Deferred
tax valuation allowance..... 19,481 (9,894) -- -- 9,587 BALANCE BALANCE DECEMBER 31,
CHARGES OTHER WRITE-OFFS/ DECEMBER 31, 1999 TO EXPENSE CHARGES(1) PAYMENTS 2000
----- Allowance for doubtful accounts..... \$ 980 \$ 1,552
\$1,996 \$ (903) \$ 3,625 Accrued severance and closure costs..... 3,163 3,351 -- (5,390) 1,124 Accrued
transition expenses..... 1,009 1,103 -- (2,112) -- Deferred tax valuation allowance..... 9,857
(999) -- -- 8,588 ----- (1) Amounts consist primarily of costs assumed from acquired companies
recorded prior to the date of acquisition. All schedules other than Schedule II -- Valuation and Allowance
Accounts, set forth above, are omitted as the required information is inapplicable or is presented in the
consolidated financial statements or the related notes. F-33 STERICYCLE, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEET JUNE 30, 2001 ----- (UNAUDITED) (IN

| | | | | |
|---|---|---|--|--|
| THOUSANDS, EXCEPT SHARE AND PER SHARE DATA) ASSETS | | | | |
| Current assets: | Cash and cash equivalents..... | \$ 3,164 | Short-term investments..... | 319 |
| | Accounts receivable, less allowance for doubtful accounts of \$3,810..... | 68,049 | Parts and supplies..... | 3,999 |
| | Prepaid expenses..... | 2,099 | Other..... | 12,368 |
| | ----- Total current assets..... | | 89,998 ----- | |
| Property, plant and equipment: | Land..... | 7,486 | Building and improvements..... | 27,090 |
| | Machinery and equipment..... | 54,473 | Office equipment and furniture..... | 7,043 |
| | Construction in progress..... | 10,754 | ----- | |
| | 106,846 | Less accumulated depreciation..... | (29,720) | ----- |
| | Property, plant and equipment, net..... | 77,126 | ----- | |
| | Other assets: Goodwill, less accumulated amortization of \$32,073..... | 412,774 | ----- | |
| | Other..... | 15,987 | ----- | |
| | ----- Total other assets..... | | 428,761 ----- | |
| | Total assets..... | | \$595,885 ===== | |
| LIABILITIES AND SHAREHOLDERS' EQUITY | | | | |
| Current liabilities: | Current portion of long term debt..... | \$ 6,942 | Accounts payable..... | 10,052 |
| | Due to seller..... | 1,474 | Accrued compensation..... | 4,965 |
| | Accrued acquisition related expenses..... | 911 | Accrued liabilities..... | 21,683 |
| | Deferred revenue..... | 797 | ----- | |
| | ----- Total current liabilities..... | | 46,824 ----- | |
| | Long-term debt, net of current portion..... | 328,562 | Other liabilities..... | 3,240 |
| | Redeemable preferred stock Series A convertible preferred stock (par value \$.01 share, 100,000 shares authorized, 74,625 outstanding, liquidation preference of \$78,784)..... | 72,339 | Common shareholders' equity | |
| | Common stock (par value \$.01 per share, 30,000,000 shares authorized, 15,483,640 issued and outstanding)..... | 155 | Additional paid-in capital..... | 144,279 |
| | Accumulated other comprehensive loss on derivative instruments..... | (2,027) | Retained earnings..... | 2,513 |
| | ----- Total shareholders' equity..... | | 144,920 ----- | |
| | ----- Total liabilities and shareholders' equity..... | | \$595,885 ===== | |
| ===== F-34 STERICYCLE, INC. AND SUBSIDIARIES CONDENSED CONSOLIDATED STATEMENTS OF INCOME FOR THE SIX MONTHS ENDED JUNE 30, ----- 2001 2000 ----- (IN THOUSANDS, EXCEPT SHARE AND PER SHARE DATA) (UNAUDITED) | | | | |
| Revenues..... | \$ 174,384 | \$ 157,225 | Costs and expenses: Cost of revenues..... | 105,119 |
| | 95,618 | Selling, general and administrative expenses..... | 32,078 | 29,210 |
| | Acquisition related costs..... | 327 | 1,407 | ----- |
| | ----- Total costs and expenses..... | | 137,524 126,235 ----- | |
| | ----- Income from operations..... | | 36,860 30,990 ----- | |
| | ----- Other income (expense): Interest income..... | | 180 308 | |
| | Interest expense..... | (18,456) | (19,810) | Other income..... |
| | (28) ----- | | (726) ----- | |
| | ----- Total other income (expense)..... | | (19,002) (19,530) ----- | |
| | Income before income taxes..... | 17,858 | 11,460 | Income tax expense..... |
| | 7,247 | 4,601 | ----- | |
| | ----- Net income..... | | \$ 10,611 \$ 6,859 ===== | |
| | ===== Earnings per share -- basic..... | | \$ 0.61 \$ 0.38 ===== | |
| | ===== Earnings per share -- diluted..... | | \$ 0.51 \$ 0.35 ===== | |
| | ===== Weighted average number of common shares outstanding -- basic..... | | 15,323,297 14,784,264 ===== | |
| | ===== Weighted average number of common shares outstanding -- diluted..... | | 20,729,704 19,824,059 ===== | |
| ===== The accompanying notes are an integral part of these financial statements. F-35 STERICYCLE, INC. AND SUBSIDIARIES CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS FOR THE SIX MONTHS ENDED JUNE 30 ----- 2001 2000 ----- (IN THOUSANDS) (UNAUDITED) OPERATING ACTIVITIES: Net income..... | | | | |
| | \$ 10,611 | \$ 6,859 | Adjustments to reconcile net income to net cash provided by (used in) operating activities: FAS 133 ineffective portion of cash flow hedges..... | 13 |
| | -- | Stock compensation expense..... | 82 | 80 |
| | Depreciation and amortization..... | 12,323 | 11,612 | Changes in operating assets and liabilities, net of effect of acquisitions: Accounts receivable..... |
| | 3,152 | (10,023) | Parts and supplies..... | (783) |
| | (1,039) | Prepaid expenses..... | (241) | (1,144) |
| | Other assets..... | (1,629) | 1,221 | Accounts payable..... |
| | (4,392) | (2,821) | Accrued liabilities..... | 3,877 |
| | (5,488) | Deferred revenue..... | 292 | 97 |

| | | | | |
|-------|--|----------|----------|--|
| ----- | Net cash provided by (used in) operating activities..... | 23,305 | (646) | ----- |
| ----- | INVESTING ACTIVITIES: Payments for acquisitions and international investments, net of cash acquired..... | (3,957) | (1,624) | Short term investments..... (38) 237 |
| ----- | Capital expenditures..... | (6,619) | (3,550) | ----- |
| ----- | Net cash used in investing activities..... | (10,614) | (4,937) | ----- |
| ----- | FINANCING ACTIVITIES: Repayment of long term debt..... | (8,901) | (15,129) | Net proceeds and repayments on line of credit..... (5,000) 6,700 |
| ----- | Payments of deferred financing costs..... | -- | (522) | Principal payments on capital lease obligations..... (796) (965) |
| ----- | Proceeds from issuance of common stock..... | 2,504 | 768 | ----- |
| ----- | Net cash used in financing activities..... | (12,193) | (9,148) | ----- |
| ----- | Net increase (decrease) in cash and cash equivalents..... | 498 | (14,731) | ----- |
| ----- | Cash and cash equivalents at beginning of period..... | 2,666 | 19,344 | ----- |
| ----- | Cash and cash equivalents at end of period..... | \$ 3,164 | \$ 4,613 | ===== |

The accompanying notes are an integral part of these financial statements. F-36 STERICYCLE, INC. AND SUBSIDIARIES NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS JUNE 30, 2001 Unless the context requires otherwise, "we," "us" or "our" refers to Stericycle, Inc. and its subsidiaries on a consolidated basis. NOTE 1 -- BASIS OF PRESENTATION The accompanying condensed consolidated financial statements have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission. Certain information and footnote disclosures normally included in annual consolidated financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted pursuant to such rules and regulations; but we believe the disclosures in the accompanying condensed consolidated financial statements are adequate to make the information presented not misleading. In our opinion, all adjustments necessary for a fair presentation for the periods presented have been reflected and are of a normal recurring nature. These condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto for the year ended December 31, 2000, as included herein. The results of operations for the six-month period ended June 30, 2001 are not necessarily indicative of the results that may be achieved for the entire year ending December 31, 2001. NOTE 2 -- STOCK OPTIONS During the six months ended June 30, 2001, options to purchase 516,767 shares of common stock were granted to employees. These options vest ratably over a five year period and have an exercise price ranging from \$28.63-\$45.92 per share. NOTE 3 -- STOCK ISSUANCES During the six months ending June 30, 2001, options to purchase 215,726 shares of common stock were exercised at prices ranging from \$0.53-\$22.50 per share. In addition, warrants with rights to purchase 56,538 shares of common stock were exercised at a prices ranging from \$7.96-\$16.50 per share. NOTE 4 -- INCOME TAXES At June 30, 2001, we had net operating loss carryforwards for federal income tax purposes of approximately \$7.5 million (excluding 3CI and Med-Tech) which expire beginning in 2006. NOTE 5 -- DERIVATIVE INSTRUMENTS We have entered into interest rate swap agreements that effectively convert a portion of our floating-rate debt to a fixed-rate basis for the next 2 years, thus reducing the impact of interest rate changes on future interest expense. In addition during the year ended December 31, 2000, we entered into an interest rate collar agreement reducing the impact of interest rate changes on future interest expense. This agreement expires in March 2002. Approximately 85% (\$175 million) of our outstanding floating-rate debt was designated as hedged items to interest rate swap/collar agreements at June 30, 2001. The differential to be paid or received is accrued monthly as an adjustment to interest expense. We adopted SFAS 133 on January 1, 2001 which requires us to adjust instruments that are designated and qualify as cash flow hedges. The effective portion of the gain or loss on the derivative instrument is recognized as a component of other comprehensive income (loss) and is reclassified into earnings in the same period during which the hedged transaction affects earnings. The remaining gain or loss in excess of the cumulative change in the present value of future cash flows of the hedged item, if any, is recognized in current earnings during the period of change. F-37 STERICYCLE, INC. AND SUBSIDIARIES NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED) Adoption of this new accounting standard resulted in a \$0.2 million effect of change in accounting principle, which has been recorded as other comprehensive loss. During the six months ended June 30, 2001, we recognized a net loss of \$0.1 million related to the ineffective portion of our hedging instruments. Activity related to the accumulated loss on derivative instruments is as follows: Balance at January 1, 2001..... \$ 0 Initial adoption of FAS 133..... (225) Change associated with

current period hedge transactions.... (1,895) Amount reclassified into earnings..... 93 -----
 Balance at June 30, 2001..... \$(2,027) ===== Included in the balance at June 30, 2001 is
 \$0.6 million related to the interest rate collar which is expected to be reclassified into earnings during the 12
 months ended June 30, 2002. NOTE 6 -- COMPREHENSIVE INCOME Total comprehensive income was \$8.6
 million for the six months ended June 30, 2001. The components of comprehensive income are net income and
 the change in cumulative unrealized losses on derivative instruments recorded in accordance with FAS 133.
 NOTE 7 -- ADOPTION OF NEW ACCOUNTING STANDARD In June 2001, the Financial Accounting
 Standards Board issued Statements of Financial Accounting Standards No. 141, Business Combinations, and
 No. 142, Goodwill and Other Intangible Assets, effective for fiscal years beginning after December 15, 2001.
 Under the new rules, goodwill will no longer be amortized but will be subject to annual impairment tests in
 accordance with the Statements. Other intangible assets will continue to be amortized over their useful lives. We
 will apply the new rules on accounting for goodwill and other intangible assets beginning in the first quarter of
 2002. Application of the nonamortization provisions of the Statement is expected to result in an increase in net
 income of \$8.5 million (\$0.40 per diluted share) per year. During 2002, we will perform the first of the required
 impairment tests of goodwill and indefinite lived intangible assets as of January 1, 2002 and have not yet
 determined what the effect of these tests will be on our earnings and financial position. F-38 STERICYCLE,
 INC. AND SUBSIDIARIES NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS --
 (CONTINUED) NOTE 8 -- NET INCOME PER COMMON SHARE The following table sets forth the
 computation of basic and diluted net income per share (in thousands, except share and per share data): SIX
 MONTHS ENDED JUNE 30, ----- 2001 2000 ----- Numerator: Net
 income..... \$ 10,611 \$ 6,859 Preferred stock dividends..... (1,294)
 (1,292) ----- Numerator for basic earnings per share..... \$ 9,317 \$ 5,567 Effect of
 dilutive securities: Preferred stock dividends..... 1,294 1,292 ----- Numerator for
 diluted earnings per share income available to common stockholders after assumed conversions..... \$ 10,611 \$
 6,859 ===== Denominator: Denominator for basic earnings per share Weighted
 average shares..... 15,323,297 14,784,264 Effect of dilutive securities: Employee stock
 options..... 847,291 546,645 Warrants..... 93,871 133,578
 Convertible preferred stock..... 4,465,245 4,359,572 ----- Dilutive potential
 common shares..... 5,406,407 5,039,795 ----- Denominator for diluted earnings per
 share adjusted weighted average shares and assumed conversions..... 20,729,704 19,824,059 =====
 ===== Earnings per share -- Basic..... \$ 0.61 \$ 0.38 =====
 Earnings per share -- Diluted..... \$ 0.51 \$ 0.35 ===== NOTE 9 --
 CONDENSED CONSOLIDATING FINANCIAL INFORMATION Payments under the Company's senior
 subordinated notes are unconditionally guaranteed, jointly and severally, by all of the Company's wholly-owned
 domestic subsidiaries, which include Environmental Control Company, Inc., acquired in May 1997, Waste
 Systems, Inc., acquired October 1, 1998, Med-Tech Environmental, Inc., acquired December 31, 1998, BFI
 Medical Waste, Inc., acquired on November 12, 1999, and certain other subsidiaries which have insignificant
 assets and operations (collectively, "the guarantors"). Financial information concerning the guarantors as of
 June 30, 2001 and for the six month periods ended June 30, 2001 and 2000 is presented below for purposes of
 complying with the reporting requirements of the guarantor subsidiaries. The financial information concerning
 the guarantors is being presented through condensed consolidating financial statements since we have more than
 minimal independent operations and the guarantees are full and unconditional and are joint and several.
 Financial statements for the guarantors have not been presented because management does not believe that such
 financial statements are material to investors. F-39 STERICYCLE, INC. AND SUBSIDIARIES NOTES TO
 CONDENSED CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED) CONDENSED
 CONSOLIDATING BALANCE SHEET JUNE 30, 2001 (IN THOUSANDS) (UNAUDITED) COMBINED
 STERICYCLE AND NON- GUARANTOR GUARANTOR GUARANTOR STERICYCLE, INC.
 SUBSIDIARIES SUBSIDIARIES SUBSIDIARIES ELIMINATIONS CONSOLIDATED -----
 ----- ASSETS Current assets: Cash and cash equivalents... \$
 1,515 \$ 322 \$ 1,837 \$ 1,327 \$ -- \$ 3,164 Other current assets..... 76,547 16,708 93,255 7,670 (14,091) 86,834
 ----- Total current assets..... 78,062 17,030 95,092 8,997 (14,091) \$

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89,998 Property, plant and equipment, net..... 64,349 309 64,658 12,468 -- 77,126 Goodwill, net..... 391,975 8,604 400,579 12,195 -- 412,774 Investment in subsidiaries.... 46,786 3,608 50,394 -- (50,394) -- Other assets..... 21,407 5,797 27,204 (54) (11,163) 15,987 -----
 ----- Total assets..... \$602,579 \$35,348 \$637,927 \$33,606 \$(75,648) \$595,885 =====
 ===== LIABILITIES AND SHAREHOLDERS' EQUITY Current liabilities: Current portion of long-term debt..... \$ 5,984 \$ -- \$ 5,984 \$ 958 \$ -- \$ 6,942 Other current liabilities... 49,103 1,085 50,188 3,785 (14,091) 39,882 ----- Total current liabilities..... 55,087 1,085 56,172 4,743 (14,091) 46,824 Long-term debt, net of current portion..... 328,130 -- 328,130 11,379 (10,947) 328,562 Other liabilities..... 1,887 -- 1,887 1,353 -- 3,240 Convertible preferred stock... 72,339 -- 72,339 -- -- 72,339 Common shareholders' equity... 145,136 34,263 179,399 16,131 (50,610) 144,920 ----- Total liabilities and shareholders' equity..... \$602,579 \$35,348 \$637,927 \$33,606 \$(75,648) \$595,885 =====

===== F-40 STERICYCLE, INC. AND SUBSIDIARIES NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED) CONDENSED CONSOLIDATING STATEMENT OF INCOME SIX MONTHS ENDED JUNE 30, 2001 (IN THOUSANDS) (UNAUDITED) COMBINED STERICYCLE AND NON- GUARANTOR GUARANTOR GUARANTOR STERICYCLE, INC. SUBSIDIARIES SUBSIDIARIES SUBSIDIARIES ELIMINATIONS CONSOLIDATED -----
 ----- Revenues..... \$148,660 \$8,690 \$157,350 \$17,699 \$ (665) \$174,384 Cost of revenues..... 88,068 5,366 93,434 12,350 (665) 105,119 Selling, general and administrative expense..... 28,360 653 29,013 3,065 -- 32,078 Acquisition-related expenses..... 327 -- 327 -- -- 327 ----- Total costs and expenses..... 116,755 6,019 122,774 15,415 (655) 137,524 ----- Income from operations..... 31,905 2,671 34,576 2,284 -- 36,860 Equity in net income (loss) of subsidiaries..... 3,689 1,073 4,762 -- (4,762) -- Other (expense) income, net..... (18,145) 314 (17,831) (1,171) -- (19,002) ----- Income (loss) before income taxes..... 17,449 4,058 21,507 1,113 (4,762) 17,858 Income tax expense (benefit)..... 6,838 220 7,058 189 -- 7,247 ----- Net income..... \$ 10,611 \$3,838 \$ 14,449 \$ 924 \$(4,762) \$ 10,611 =====

===== CONDENSED CONSOLIDATING STATEMENT OF INCOME SIX MONTHS ENDED JUNE 30, 2000 (IN THOUSANDS) (UNAUDITED) COMBINED STERICYCLE AND NON- GUARANTOR GUARANTOR GUARANTOR STERICYCLE, INC. SUBSIDIARIES SUBSIDIARIES SUBSIDIARIES ELIMINATIONS CONSOLIDATED -----
 ----- Revenues..... \$ 30,547 \$113,451 \$143,998 \$13,345 \$ (118) \$157,225 Cost of revenues..... 17,423 68,421 85,844 9,892 (118) 95,618 Selling, general and administrative expense..... 12,416 14,460 26,876 2,334 -- 29,210 Acquisition related expenses..... 1,407 -- 1,407 -- -- 1,407 ----- Total costs and expenses..... 31,246 82,881 114,127 12,226 (118) 126,235 ----- Income (loss) from operations..... (699) 30,570 29,871 1,119 -- 30,990 Equity in net income (loss) of subsidiaries..... 19,561 (251) 19,310 -- (19,310) -- Other (expense) income, net..... (18,873) 174 (18,699) (831) -- (19,530) ----- Income (loss) before income taxes..... (11) 30,493 30,482 288 (19,310) 11,460 Income tax expense (benefit)..... (6,870) 11,471 4,601 -- -- 4,601 ----- Net income..... \$ 6,859 \$ 19,022 \$ 25,881 \$ 288 \$(19,310) \$ 6,859 =====

===== F-41 STERICYCLE, INC. AND SUBSIDIARIES NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED) CONDENSED CONSOLIDATING STATEMENT OF CASH FLOW SIX MONTHS ENDED JUNE 30, 2001 (IN THOUSANDS) (UNAUDITED) COMBINED STERICYCLE AND NON- GUARANTOR GUARANTOR GUARANTOR STERICYCLE, INC. SUBSIDIARIES SUBSIDIARIES SUBSIDIARIES ELIMINATIONS CONSOLIDATED -----
 ----- Cash flows from operating activities: Net cash (used in) provided by operating activities..... \$ 21,525 \$(120) \$ 21,405 \$1,900 \$ -- \$ 23,305 ----- Cash flows from investing activities: Capital expenditures..... (5,864) (153) (6,017) (602) -- (6,619) Payments for acquisitions and international investments, net of cash acquired..... (3,957) -- (3,957) -- -- (3,957) Proceeds from maturity of short-term

investments..... (38) -- (38) -- (38) ----- Net cash used in investing activities..... (9,859) (153) (10,012) (602) -- (10,614) ----- Cash flows from financing activities: Net proceeds from bank line of credit..... (5,000) -- (5,000) -- (5,000) Principal payments on capital lease obligations..... (796) -- (796) -- (796) Repayment of long term debt..... (8,267) -- (8,267) (634) -- (8,901) Payments of deferred financing costs..... -- -- -- Proceeds from issuance of common stock..... 2,504 -- 2,504 -- 2,504 ----- Net cash used in financing activities..... (11,559) -- (11,559) (634) -- (12,193) ----- Net (decrease) increase in cash and cash equivalents..... \$ 107 \$(273) \$ (166) \$ 664 \$ -- 498 ===== Cash and cash equivalents at beginning of period..... 2,666 ----- Cash and cash equivalents at end of period..... \$ 3,164 =====

STERICYCLE, INC. AND SUBSIDIARIES NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED) CONDENSED CONSOLIDATING STATEMENT OF CASH FLOW SIX MONTHS ENDED JUNE 30, 2000 (IN THOUSANDS) (UNAUDITED) COMBINED STERICYCLE AND NON- GUARANTOR GUARANTOR GUARANTOR STERICYCLE, INC. SUBSIDIARIES SUBSIDIARIES SUBSIDIARIES ELIMINATIONS CONSOLIDATED -----

----- Cash flows from operating activities: Net cash (used in) provided by operating activities..... \$ (4,335) \$ 2,982 \$ (1,353) \$ 707 \$ -- \$ (646) ----- Cash flows from investing activities: Capital expenditures..... (1,853) (1,446) (3,299) (251) -- (3,550) Payments for acquisitions and international investments, net of cash acquired..... (642) (982) (1,624) -- (1,624) Proceeds from maturity of short-term investments..... 237 -- 237 -- 237 ----- Net cash used in investing activities..... (2,258) (2,428) (4,686) (251) -- (4,937) ----- Cash flows from financing activities: Net proceeds from bank line of credit..... 6,700 -- 6,700 -- 6,700 Principal payments on capital lease obligations..... (84) (632) (716) (249) -- (965) Repayment of long term debt..... (15,161) -- (15,161) 32 -- (15,129) Payments of deferred financing costs..... (522) -- (522) -- (522) Proceeds from issuance of common stock..... 768 -- 768 -- 768 ----- Net cash used in financing activities..... (8,299) (632) (8,931) (217) -- (9,148) ----- Net (decrease) increase in cash and cash equivalents..... \$(14,892) \$ (78) \$(14,970) \$ 239 \$ -- (14,731) ===== Cash and cash equivalents at beginning of period..... 19,344 ----- Cash and cash equivalents at end of period..... \$ 4,613 =====

F-43 [STERICYCLE LOGO] The Stericycle System 1. [Photo] 2. [Photo] Stericycle helps healthcare Our team of drivers not only picks providers protect patients and up medical waste from customers, employees from the potential but also participates in the hazards of medical waste with marketing and sales effort by appropriate disposal receptacles, actively soliciting small accounts such as this puncture-resistant, while they service their routes. leak-proof Steri-Tub(R) collection container. 3. [Photo] 4. [Photo] After transporting the waste to a After treatment, the waste has now processing facility, Stericycle been rendered noninfectious and treats the waste in a variety of unrecognizable. The treated waste ways. In this case it is being can now be recycled, used to treated using Stericycle's provide energy, or sent to a patented electro-thermal third-party owned landfill. deactivation (ETD) process. Ancillary Services and Products [Photo] [Photo] Stericycle's Steri-Safe(SM) program Stericycle also offers other products helps clients develop internal and services such as a "mail-back" systems and processes to maintain service through which they can reach compliance with OSHA and other small account customers located in relevant regulations. outlying areas that would be inefficient to serve using their regular route structure. Stericycle LOGO PART II

INFORMATION NOT REQUIRED IN THE REGISTRATION STATEMENT ITEM 14. OTHER EXPENSES OF ISSUANCE AND DISTRIBUTION The following table shows various costs and expenses in connection with the sale and distribution of the securities being registered (other than underwriting discounts and commissions). All amounts shown are estimates except the Securities and Exchange Commission registration fee, The Nasdaq National Market listing fees and the NASD registration fee. We will pay all of these expenses: SEC registration fees..... \$ 35,381.48 Nasdaq National Market listing fees..... 17,500.00 NASD registration fee..... 19,152.59 Legal fees and expenses..... 275,000.00 Accounting fees and expenses..... 125,000.00 Printing expenses..... 50,000.00 Miscellaneous..... 27,965.93

----- Total..... \$550,000.00 ===== ITEM 15. INDEMNIFICATION OF DIRECTORS AND OFFICERS Section 145 of the Delaware General Corporation Law provides generally that a person sued as a director, officer, employee or agent of a corporation may be indemnified by the corporation in non-derivative suits for expenses (including attorneys' fees), judgments, fines, and amounts paid in settlement if he or she acted in good faith and in a manner that he or she reasonably believed to be in or not opposed to the corporation's best interests. In the case of criminal actions and proceedings, the person also must not have had reasonable cause to believe that his or her conduct was unlawful. Indemnification of expenses is also authorized in stockholder derivative actions if the person acted in good faith and in a manner that he or she reasonably believed to be in or not opposed to the corporation's best interests and if he or she has not been found liable to the corporation. Even in this latter instance, the court may determine that, in view of all the circumstances, the person is entitled to indemnification for such expenses as the court deems proper. A person sued as a director, officer, employee or agent of a corporation who has been successful in defense of the action must be indemnified by the corporation against expenses. Article Fifth of our bylaws requires us to indemnify our directors, officers, employees and agents to the maximum extent permitted by Delaware law. Article Fifth also requires us to advance the litigation expenses of a director or officer upon receipt of his or her written undertaking to repay all amounts advanced if it is ultimately determined that he or she is not entitled to indemnification. Section 102(b)(7) of the Delaware General Corporation Law permits a corporation to include a provision in its certificate of incorporation eliminating or limiting the personal liability of a director to the corporation or its stockholders for monetary damages for a breach of the director's fiduciary duty of care. The provision may not eliminate or limit the liability of a director for breaching his or her duty of loyalty, failing to act in good faith, engaging in intentional misconduct or knowingly violating a law, declaring an illegal dividend or approving an illegal stock repurchase, or obtaining an improper personal benefit. Article Ninth of our amended and restated certificate of incorporation eliminates the personal liability of our directors to the fullest extent permitted by Section 102(b)(7). By reason of directors' and officers' liability insurance that we maintain, our directors and officers are insured against actual liabilities, including liabilities under the federal securities laws, for acts or omissions related to the conduct of their duties. II-1

ITEM 16. EXHIBITS EXHIBIT NUMBER DESCRIPTION ----- 1.1 -- Form of underwriting agreement 5.1 -- Form of opinion of Johnson and Colmar 23.1 -- Consent of Ernst & Young LLP 23.2 -- Consent of Arthur Andersen LLP 23.3 -- Consent of Johnson and Colmar (filed as part of Exhibit 5.1) 24.1 -- Power of attorney (included under the caption "Power of Attorney" in Part II of this Registration Statement

ITEM 17. UNDERTAKINGS Filings Incorporating Subsequent Exchange Act Documents by Reference The registrant undertakes that, for purposes of determining any liability under the Securities Act, each filing of the registrant's annual report pursuant to Section 13(a) or Section 15(d) of the Exchange Act which is incorporated by reference in this registration statement shall be deemed to be a new registration statement relating to the securities offered therein, and the offering of such securities at that time shall be deemed to be the initial bona fide offering thereof. Registration Statement Permitted by Rule 430A The registrant hereby undertakes that: (1) For purposes of determining any liability under the Securities Act of 1933, the information omitted from the form of prospectus filed as part of this registration statement in reliance upon Rule 430A and contained in a form of prospectus filed by the registrant pursuant to Rule 424(b)(1) or (4) or 497(h) under the Securities Act shall be deemed to be part of this registration statement as of the time that it was declared effective. (2) For the purpose of determining any liability under the Securities Act of 1933, each post-effective amendment that contains a form of prospectus shall be deemed to be a new registration statement relating to the securities offered therein, and the offering of such securities at that time shall be deemed to be the initial bona fide offering thereof. Request for Acceleration of Effective Date Insofar as indemnification for liabilities arising under the Securities Act of 1933 may be permitted to directors, officers and controlling persons of the registrant as described in Item 15, or otherwise, the registrant has been advised that in the opinion of the SEC such indemnification is against public policy as expressed in the Securities Act and is, therefore, unenforceable. In the event that a claim for indemnification against such liabilities (other than the payment by the registrant of expenses incurred or paid by a director, officer or controlling person of the registrant in the successful defense of any action, suit or proceeding) is asserted by such director, officer or controlling person in connection with the securities being registered, the registrant will, unless in the opinion of its counsel the matter has been settled by controlling precedent, submit

to a court of appropriate jurisdiction the question whether such indemnification by it is against public policy as expressed in the Securities Act of 1933 and will be governed by the final adjudication of such issue. II-2

SIGNATURES Pursuant to the requirements of the Securities Act of 1933, as amended, the registrant has duly caused this Amendment No. 2 to Registration Statement to be signed on its behalf by the undersigned, thereunto duly authorized, in the Village of Lake Forest, State of Illinois, on October 18, 2001. STERICYCLE, INC. By /s/ MARK C. MILLER ----- Mark C. Miller President and Chief Executive Officer

POWER OF ATTORNEY Pursuant to the requirements of the Securities Act of 1933, as amended, this Amendment No. 2 to Registration Statement has been signed below by the following persons in the capacities and on the dates indicated.

| NAME | TITLE | DATE | |
|------------------|---|------------------------|--|
| ----- | * Chairman of the Board | October 18, 2001 | |
| ----- | Directors Jack W. Schuler | /s/ MARK C. MILLER | President, Chief Executive |
| October 18, 2001 | ----- | Officer and a Director | Mark C. Miller (Principal Executive Officer) |
| ----- | * Chief Financial Officer | October 18, 2001 | |
| ----- | (Principal Finance and Frank J.M. ten Brink | Accounting Officer) | * |
| Director | October 18, 2001 | ----- | John P. Connaughton * Director |
| October 18, 2001 | ----- | Rod F. Dammeyer | * Director |
| ----- | Patrick F. Graham | * Director | October 18, 2001 |
| ----- | John Patience | * Director | October 18, 2001 |
| ----- | Thomas R. Reusche | * Director | October 18, 2001 |
| ----- | Peter Vardy | * Director | October 18, 2001 |
| ----- | L. John Wilkerson, Ph.D. | *By /s/ MARK C. MILLER | |
| ----- | Mark C. Miller | Attorney-in-fact | II-3 |

INDEX TO EXHIBITS

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| ----- | 24.1 -- Power of attorney (included under the caption "Power of Attorney" in Part II of this Registration Statement |
| ----- | * To be filed by amendment |