

STERICYCLE INC
Form 10-K
February 28, 2014
Table of Contents

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

FORM 10-K

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 2013

or

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

For the transition period from _____ to _____
Commission File Number 0-21229

Stericycle, Inc.
(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of incorporation or organization)

28161 North Keith Drive
Lake Forest, Illinois 60045
(Address of principal executive offices, including zip code)
(847) 367-5910
(Registrant's telephone number, including area code)

36-3640402
(IRS Employer Identification Number)

Securities registered pursuant to Section 12(b) of the Act:

Common stock, par value \$.01 per share
(Title of each class)

NASDAQ Global Select Market
(Name of each exchange on which registered)

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

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.
YES NO

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Securities Act of 1934. YES NO

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

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

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

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

Edgar Filing: STERICYCLE INC - Form 10-K

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

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

State the aggregate market value of voting and non-voting common equity held by non-affiliates computed by reference to the price at which common equity was last sold as of the last business day of the registrant's most recently completed second fiscal quarter (June 30, 2013): \$9,488,205,563.

On February 14, 2014, there were 85,158,773 shares of the Registrant's Common Stock outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Information required by Items 10, 11, 12 and 13 of Part III of this Report is incorporated by reference from the Registrant's definitive Proxy Statement for the 2014 Annual Meeting of Stockholders to be held on May 21, 2014.

Table of Contents

Stericycle, Inc.
 2013 ANNUAL REPORT ON FORM 10-K
 TABLE OF CONTENTS

	Page No.
<u>PART I.</u>	
<u>Item 1. Business</u>	<u>1</u>
<u>Item 1A. Risk Factors</u>	<u>11</u>
<u>Item 1B. Unresolved Staff Comments</u>	<u>14</u>
<u>Item 2. Properties</u>	<u>14</u>
<u>Item 3. Legal Proceedings</u>	<u>14</u>
<u>Item 4. Mine Safety Disclosures</u>	<u>14</u>
<u>PART II.</u>	
<u>Item 5. Market Price for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities</u>	<u>15</u>
<u>Item 6. Selected Financial Data</u>	<u>18</u>
<u>Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	<u>19</u>
<u>Item 7A. Quantitative and Qualitative Disclosures about Market Risk</u>	<u>30</u>
<u>Item 8. Financial Statements and Supplementary Data</u>	<u>31</u>
<u>Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure</u>	<u>65</u>
<u>Item 9A. Controls and Procedures</u>	<u>65</u>
<u>Item 9B. Other Information</u>	<u>66</u>
<u>PART III.</u>	
<u>Item 10. Directors, Executive Officers and Corporate Governance</u>	<u>66</u>
<u>Item 11. Executive Compensation</u>	<u>66</u>
<u>Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters</u>	<u>66</u>
<u>Item 13. Certain Relationships and Related Transactions, and Director Independence</u>	<u>66</u>

Item 14. Principal Accounting Fees and Services 67

PART IV.

Item 15. Exhibits and Financial Statement Schedules 68

Signatures 72

Table of Contents

PART I

Item 1. Business

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

Overview

Services

We are in the business of providing regulated and compliance solutions to healthcare and commercial businesses. This includes the collection and processing of specialized waste for disposal, and a variety of training, consulting, recall/return, communication, and compliance services. We operate integrated regulated waste management networks in the United States, Argentina, Brazil, Canada, Chile, Ireland, Japan, Mexico, Portugal, Romania, Spain, and the United Kingdom. Our worldwide networks include a total of 166 processing facilities, 155 transfer sites, and 70 other service facilities. Our regulated waste processing technologies are primarily autoclaving as well as incineration and our proprietary electro-thermal-deactivation system (“ETD”).

The regulated solutions we provide include: medical waste disposal, our Steri-Safe® medical waste and compliance program, our Clinical Services program, our Sharps Management Service featuring Bio Systems® reusable sharps containers, pharmaceutical waste disposal, hazardous waste disposal, and medical safety products. Our compliance solutions include: training, consulting, inbound/outbound communications, data reporting, and other regulatory compliance services. In addition to our regulated and compliance solutions, we offer regulated recall and returns management solutions which encompass a number of services for a variety of businesses, but consist primarily of managing the recall, withdrawal, or return of expired or recalled products and pharmaceuticals.

Customers

We serve approximately 566,000 customers worldwide, of which approximately 20,000 are large-quantity generators, such as hospitals, blood banks and pharmaceutical manufacturers, and approximately 546,000 are small-quantity generators, such as outpatient clinics, medical and dental offices, long-term and sub-acute care facilities, veterinary offices, municipalities and retail pharmacies.

For large-quantity generators of regulated waste such as hospitals and for pharmaceutical companies and distributors, we offer:

- our regulated waste management services;
- our Bio Systems® reusable sharps disposal management services;
- our pharmaceutical waste services;
- our Integrated Waste Stream Solutions (IWSS) program;
- a variety of products and services for infection control;
- our regulated recall and returns management services for expired or recalled products and pharmaceuticals; and
- a variety of communication services.

For small-quantity generators of regulated waste such as doctors’ offices, dentists, retailers or other commercial businesses, we offer:

- our regulated waste management services;
- our Steri-Safe® OSHA, HIPAA compliance, and clinical services programs;
- a variety of products and services for infection control;

Table of Contents

our regulated recall and returns management services for expired or recalled products and pharmaceuticals; and a variety of communication services.

We benefit from significant customer diversification. No one customer accounts for more than 1.2% of our total revenues, and our top ten customers account for 6.3% of total revenues.

Industry Overview

Governmental legislation and regulation increasingly requires the proper handling and disposal of regulated waste which includes such items as medical waste, hazardous waste, and pharmaceutical waste. Regulated waste is generally any medical waste that can cause an infectious disease and includes: single-use disposable items, such as needles, syringes, gloves and other medical supplies; cultures and stocks of infectious agents; blood and blood products; hazardous waste; and regulated pharmaceutical waste, which consists of expired or recalled pharmaceuticals.

We believe that in 2013 the size of the global market for the services we provide was approximately \$15.5 billion.

Industry growth is driven by a number of factors. These factors include:

Aging of Population: The average age of the population in the countries we operate in is rising. As people age, they typically require more medical attention and a wider variety of tests, procedures and medications, leading to an increase in the quantity of regulated waste generated.

Pressure to Reduce Healthcare Costs: The healthcare industry is under pressure to reduce costs. We believe that our services can help healthcare providers to reduce their handling and compliance costs and to reduce their potential liability for employee exposure to bloodborne pathogens and other infectious agents. In addition, hospital institutions continue to outsource services which we can provide.

Environmental and Safety Regulation: We believe that many businesses that are not currently using third party regulated waste management services are unaware either of the need for proper training of employees or of the requirements of OSHA and other regulations regarding the handling of regulated waste. These businesses include manufacturing facilities, schools, restaurants, hotels and other businesses where employees may come into contact with bloodborne pathogens or handle hazardous materials. Similarly, the proper handling of expired or recalled products requires an expertise that many businesses lack or find inefficient to provide.

Shift to Off-Site Treatment: We believe that patient care is continuing to shift from institutional higher-cost acute-care settings to less expensive, smaller, off-site treatment alternatives, with a resulting increase in the number of regulated waste generators that cannot treat their own regulated waste.

Control of Drug Diversion: The U.S. Drug Enforcement Administration (“DEA”) has recently emphasized improved control of the handling and shipment of controlled substances to prevent diversion and counterfeiting, thus increasing the utility to pharmaceutical manufacturers and distributors of a returns service for expired or recalled pharmaceuticals.

Competitive Strengths

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

Broad Range of Services: We offer our customers a broad range of services. We work with businesses across a number of industries such as healthcare, manufacturing, and retail to safely and efficiently dispose of regulated materials, ensure regulatory compliance, improve employee and customer safety, protect their brands, improve communications with patients, and manage corporate and personal risk.

Established Network of Processing and Transportation Locations in Each Country: We believe that our network of locations results in a very efficient operation.

Table of Contents

Diverse Customer Base and Revenue and Cost Stability: We have a diverse customer base and contractual relationships in all the markets in which we operate. We are also generally protected from the cost of regulatory changes or increases in fuel, insurance or other operating costs because our regulated waste contracts typically allow us to adjust our prices to reflect these cost changes.

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

Experienced Senior Management Team: We have experienced leadership. Our five most senior executives collectively have over 135 years of management experience in the health care and waste management industries.

Ability to Integrate Acquisitions: Since 1993 we have completed 348 acquisitions in the United States and internationally and have demonstrated a consistent ability to integrate our acquisitions into our operations successfully.

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

Expand Range of Services and Products: We believe that we continue to have opportunities to expand our business by increasing the range of products and services we offer our existing customers. For example, to small-quantity customers, we also offer OSHA compliance services through our Steri-Safe® program and communication solutions; to large-quantity customers, we also offer our Sharps Management Services using Bio Systems® reusable containers, our pharmaceutical waste disposal services and communication solutions.

Improve Margins: We intend to continue working to improve our margins by increasing our base of small-quantity customers and focusing on service strategies that more efficiently meet the needs of our large-quantity customers.

Seek Complementary Acquisitions: We intend to continue to seek opportunities to acquire businesses that expand our networks and service capabilities in the United States and internationally that will increase our customer base. We believe that selective acquisitions can enable us to improve our operating efficiencies through increased utilization of our service infrastructure.

Acquisitions

We have substantial experience in evaluating potential acquisitions and determining whether a particular business can be integrated into our operations with minimal disruption. Once a business is acquired, we implement programs and procedures to improve customer service, sales, marketing, routing, equipment utilization, employee productivity, operating efficiency, and overall profitability.

We have completed 348 acquisitions from 1993 through 2013, with 194 in the United States and 154 internationally. During 2013, we completed 49 acquisitions, of which 13 were domestic businesses and 36 were international businesses in Latin America, Europe, Canada, and Japan.

International

We conduct regulated waste operations in Argentina, Brazil, Canada, Chile, Ireland, Japan, Mexico, Portugal, Romania, Spain, and the United Kingdom. We began our operations in Canada and Mexico in 1998, Argentina in 1999, the United Kingdom in 2004, Ireland in 2006, Chile in 2008, Romania and Portugal in 2009, Brazil and Japan in 2010, and Spain in 2011. Our international service offerings are primarily regulated waste services. We also have started an international presence for our returns and quality audit program. While our international customers are primarily large quantity generators, we are expanding our small quantity

Table of Contents

customer base through programs similar to our Steri-Safe program such as Stericycle Clinical Services in Canada and select countries in Europe.

Regulated Waste Services and Operations

Collection and Transportation: In many respects, our regulated waste business is one of logistics. Efficiency of collection and transportation of regulated waste is a critical element of our operations because it represents the largest component of our operating costs.

For regulated waste, we supply specially designed reusable leak-resistant and puncture-resistant plastic containers to most of our large-quantity customers and many of our larger small-quantity customers. To assure regulatory compliance, we will not accept regulated waste from customers unless it complies with our acceptance protocols and is properly packaged in containers that we have either supplied or approved.

We collect containers or corrugated boxes of regulated waste from our customers depending upon customer requirements, contract terms and volume of waste generated. The waste is then transported directly to one of our processing facilities or to one of our transfer stations where it is combined with other regulated waste and transported to a processing facility.

Transfer stations allow us to temporarily hold small loads of waste until they can be consolidated into full truckloads and transported to a processing facility. Our use of transfer stations in a “hub and spoke” configuration improves the efficiency of our collection and transportation operations by expanding the geographic area that a particular processing facility can serve thereby increasing utilization of the facility by increasing the volume of waste that it processes.

We collect some expired or recalled products, but more typically, customers ship them directly to our processing facilities.

Processing and Disposal: Upon arrival at a processing facility, containers or boxes of regulated waste are typically scanned to verify that they do not contain any unacceptable substances like radioactive material. Any container or box that is discovered to contain unacceptable waste is returned to the customer and the appropriate regulatory authorities are informed.

The regulated waste is then processed using one of our various treatment or processing technologies. Upon completion of the particular process, the resulting waste or incinerator ash is transported for resource recovery, recycling or disposal in a landfill owned by unaffiliated third parties. After plastic containers such as our Steri-Tub® or Bio Systems® containers have been emptied, they are washed, sanitized and returned to customers for re-use. Some of our regulated waste streams are sent to third parties for processing and ultimate disposal.

Upon receipt at a processing facility, expired or recalled products are counted and logged, and controlled substances are stored securely. In accordance with the manufacturer’s instructions, expired or recalled products are then returned to the manufacturer or destroyed in compliance with applicable regulations.

Documentation: We provide complete documentation to our customers for all regulated waste that we collect in accordance with applicable regulations and customer requirements.

Processing Technologies

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

Stericycle was founded on the belief that there was a need for safe, secure and environmentally responsible management of regulated medical waste. From our beginning, we have encouraged the use of

Table of Contents

non-incineration treatment technologies such as autoclaving and our ETD process. While we recognize that some state regulations currently mandate that some types of regulated waste must be incinerated, we also know from years of experience working with our customers that there are ways to reduce the amount of regulated waste that is ultimately incinerated. The most effective strategy that we have seen involves comprehensive education of our customers in waste minimization and segregation.

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

ETD: Our ETD treatment process includes a system for grinding regulated waste. After grinding, ETD uses an oscillating field of low-frequency radio waves to heat regulated waste to temperatures that destroy pathogens such as viruses, bacteria, fungi and yeast without melting the plastic content of the waste. ETD does not produce regulated air or water emissions.

Incineration: Incineration burns regulated 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 regulated waste such as anatomical waste or residues from chemotherapy procedures and non-hazardous pharmaceutical waste. Air emissions from incinerators can contain certain byproducts that are subject to federal, state, and in some cases, local regulation. In some circumstances, the ash byproduct of incineration may be regulated.

Marketing and Sales

Marketing Strategy: We use both telemarketing and direct sales efforts to obtain new customers. In addition, our drivers may also participate in our regulated waste marketing efforts by actively soliciting small-quantity customers they service.

Small-Quantity Customers: We target small-quantity customers as a growth area of our regulated waste business. We believe that when small-quantity regulated waste customers understand the potential risks of failing to comply with applicable regulations, they appreciate the value of the services that we provide. We consider this factor to be the basis for the higher gross margins that we have achieved with our small-quantity customers relative to our large-quantity customers. We believe that the same potential exists in processing returns of hazardous and expired products for smaller customers.

Steri-Safe® and Communication Solutions: Our domestic Steri-Safe® OSHA compliance program provides an integrated regulated waste management and compliance-assistance service for small-quantity customers who typically lack the internal personnel and systems to comply with OSHA regulations. Customers for our Steri-Safe® service pay a predetermined subscription fee in advance for regulated waste collection and processing services, and can also choose from available packages of training and education services and products designed to help them to comply with OSHA regulations. We believe that the implementation of our Steri-Safe® service provides us with an enhanced opportunity to leverage our existing customer base through the program's diversified product and service offerings. In 2010 and 2011, we introduced a similar program called Clinical Services in Canada, Ireland, Portugal, Spain, and the United Kingdom. We offer a variety of services to healthcare providers designed to enhance office productivity and efficiency, and to improve communications with patients. We also serve hospitals and larger facilities. We believe that our communication solutions afford us an additional opportunity to leverage our existing small-quantity customer base.

Mail-Back Program: We also operate a domestic "mail-back" program by which we can reach small-quantity regulated waste customers located in outlying areas that would be inefficient to serve using our

Table of Contents

regular route structure. Our mail-back program has allowed us to service customers as far away as Hawaii, Alaska, Guam, and the Virgin Islands. Our mail-back program is also used in home care patient settings.

Large-Quantity Customers: Our marketing efforts to large-quantity customers are conducted by account executives, service specialists and healthcare compliance specialists focused on serving as a trusted advisor to our customers. In this role, our field resources provide advice, training, and consultative services to assist our large-quantity customers reach their objectives of staying in compliance with local, state, and federal regulations, reducing their impact on the environment, and maintaining a safe work environment for their staff and patients.

We offer individual waste stream services, including regulated waste management services, such as medical waste, pharma waste, hazardous waste, and Sharps Management Service featuring our Bio Systems® reusable containers. Additionally, we have the ability to manage the full spectrum of waste streams generated by a facility with our Integrated Waste Stream Solutions service. Many of Stericycle's services for large-quantity customers deliver fully integrated, turnkey solutions which include program design, clinical staff education, implementation support, onsite service personnel, and the necessary service equipment to support each program.

National Accounts: As a result of our extensive geographic coverage, we are capable of servicing national account customers (i.e., customers requiring regulated waste management services at various geographically dispersed locations).

Contracts: We have multi-year contracts with the majority of our customers. We negotiate individual contracts with each customer. Although we have several standard forms of contract, terms may vary depending upon the customer's service requirements and the volume of regulated waste generated, and in some jurisdictions, statutory and regulatory requirements. Substantially all of our contracts with small-quantity customers contain automatic renewal provisions.

Competition

The industries and markets in which we operate are highly competitive, and barriers to entry into the regulated waste collection and disposal business, the pharmaceutical returns business, and the communication solutions business are very low. Our competitors consist of many different types of service providers, including a large number of national, regional and local companies. In the regulated waste industry, another major source of competition is the on-site treatment of regulated waste by some large-quantity generators, particularly hospitals. Similarly, customers could handle recalls or communication solutions internally.

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

Governmental Regulation

The regulated waste industry is subject to extensive regulations. In many countries there are multiple regulatory agencies at the local and national level that affect our services. This statutory and regulatory framework imposes a variety of compliance requirements, including requirements to obtain and maintain government permits. We maintain numerous governmental permits, registrations, and licenses to conduct our business in the jurisdictions in which we operate. Our permits vary by jurisdiction based upon our activities within that jurisdiction and on the applicable laws and regulations of that jurisdiction. These permits grant us the authority, among other things:

- to construct and operate collection, transfer and processing facilities;
- to transport regulated waste within and between relevant jurisdictions; and

Table of Contents

to handle particular regulated substances.

Our permits must be periodically renewed and are subject to modification or revocation by the issuing authority. We are also subject to regulations that govern the definition, generation, segregation, handling, packaging, transportation, treatment, storage and disposal of regulated waste. In addition, we are subject to extensive regulations to ensure public and employee health and safety.

U.S. Federal and Foreign Regulation: We are subject to substantial and dynamic regulations enacted and enforced by the U.S. government and by the governments of the foreign jurisdictions in which we conduct regulated waste operations. The specific statutory and regulatory requirements we must comply with vary from jurisdiction to jurisdiction. The laws governing our domestic and international operations generally consist of statutes, legislation and regulations concerning environmental protection, employee health and welfare, transportation, the use of the mail, and proper handling and management of regulated waste streams and controlled substances.

Environmental Protection: Our business is subject to extensive and evolving environmental regulations in all of the geographies in which we operate. Generally, the environmental laws we are subject to regulate the handling, transporting, and disposing of hazardous and non-hazardous waste, the release or threatened release of hazardous substances into the environment, the discharge of pollutants into streams, rivers, groundwater and other surface waters, and the emission of pollutants into the air. The principal environmental laws that govern our operations in the U.S. are state environmental regulatory agencies as they provide the specific legislative and or regulatory frameworks which require the management and treatment of regulated medical waste. Additionally, the Resource Conservation and Recovery Act of 1976 (“RCRA”), the Comprehensive Environmental Response, Compensation and Liability Act of 1980 (“CERCLA”), and the Clean Air Act of 1970 are the federal regulations that affect management of certain aspects of regulated medical waste and all RCRA hazardous wastes. Though regulated medical waste is currently considered non-hazardous solid waste under RCRA, some substances we collect from some of our customers, including pharmaceuticals, retail products, photographic fixer developer solutions, lead foils and dental amalgam, are considered hazardous waste. CERCLA and state laws similar to it may impose strict, joint and several liabilities on the current and former owners and operators of facilities from which release of hazardous substances has occurred and on the generators and transporters of the hazardous substances that come to be located at these facilities. The eight incinerators at six facilities we currently operate in the U.S. must comply with the emissions standards imposed by the applicable states pursuant to regulations promulgated under the Clean Air Act.

Examples of environmental laws applicable to our international operations include the Waste Framework Directive, Environmental Liabilities Directive, IPPC (Integrated Pollution Prevention and Control) Directive, and Waste Incineration Directive in the European Union (“EU”), the Waste Management Act in Ireland, Ley 154 (Residuos Patogénicos) in Argentina, Lei 12.305/2010 (Lei Ordinária) Institui A Política Nacional De Resíduos Sólidos in Brazil, and the Canadian Environmental Protection Act and related regulations in Canada.

Employee Health and Welfare: We are also subject to numerous regulations promulgated to protect and promote worker health and welfare through the implementation and enforcement of standards designed to prevent illness, injury and death in the workplace. The primary law relating to employee health and welfare applicable to our business in the U.S. is the Occupational Safety and Health Act of 1970, which establishes specific employer responsibilities including engineering controls, administrative controls, training, policies and programs complying with the regulations and ultimately recordkeeping and reporting, all in an effort to ensure a safe workplace. Various OSHA standards apply to almost all aspects of our operations and govern such matters as exposure to bloodborne pathogens, hazard communication, personal protective equipment, etc.

Table of Contents

Employee health and welfare laws governing our business in foreign jurisdictions include examples such as the Workplace Health and Safety Directive and the Directive concerning ionizing radiation in the EU, and various provisions of the Canada Labour Code and related regulations in Canada.

Transportation: Various laws regulating the transportation of waste and other potentially dangerous materials also apply to the services we provide. In the U.S., the Department of Transportation (“DOT”) has promulgated regulations which deal with two different aspects of transportation: hazardous materials transport and safety in transportation. The Pipeline Hazardous Materials Safety Administration (“PHMSA”) requires specific packaging and labeling of regulated hazardous materials and wastes to ensure public safety. For regulated medical waste PHMSA incorporates the OSHA bloodborne pathogens standard and requires containers that meet certain specifications including but not limited to: proper markings (biohazard symbol, UN code, etc.), sufficient strength and rigidity, leakproofness and puncture resistance. Other hazardous materials such as expired pharmaceuticals, waste chemicals, damaged retail products which are hazardous wastes are also subject to DOT PHMSA regulations. We identify pharmaceutical products by their National Drug Code number and classify them by according to the EPA classification criteria and identify the proper handling, transportation and disposal requirements. Federal Motor Carrier Safety Administration (“FMCSA”) regulates safety of drivers and vehicles which requires us to ensure driver and vehicle fitness through training, medical surveillance and inspection. These requirements are closely monitored internally and due to our fleet size we are regularly subject to road side inspections. These inspections have an accumulative effect on our compliance history and require that we maintain in good standing so not to risk permits.

Examples of transportation laws we must comply with internationally include the Directive on the Inland Transportation of Dangerous Goods in the EU and the Transport of Dangerous Goods Act and related regulations in Canada.

Use of the Mail: United States Postal Service (“USPS”) has their own set of specific regulations under the Domestic Mail Manual which govern the use of the postal system for mailing of hazardous materials (of which regulated medical waste is a part). More specifically, our sharps and medical waste mailback management offering, require us to obtain and maintain authorization permits from the USPS. We have obtained permits from the USPS to conduct our “mail-back” program, to provide a convenient service for customers who need such a service with approved containers for “sharps” (needles, knives, broken glass and the like) or other regulated medical wastes directly to our treatment facilities.

Controlled Substances: In the U.S., our regulated recall and returns management services business is subject to laws and regulations under the Drug Enforcement Administration (“DEA”) regulating the closed loop management of controlled substances. Our returns service for expired and recalled pharmaceuticals accepts controlled substances as part of their service offering and is therefore subject to DEA regulations. These regulations require facilities to obtain a registration from the DEA and meet certain criteria in order to be able to collect, process and dispose of controlled substances. DEA has very strict requirements for management of employees, the type of security within facilities, recordkeeping and reporting of all controlled substances managed at the facility. Much like permitting, the registration must be updated regularly and subjects us to inspection and enforcement by DEA agents.

U.S. and Foreign Local Regulation: We conduct business in all 50 states and Puerto Rico. Because the federal EPA did not promulgate regulations for regulated medical waste at a national level, each state has its own regulations related to the handling, treatment and storage of regulated waste. Many states have followed similar requirements to the Medical Waste Tracking Act of 1988 or have placed medical waste regulations under solid waste regulations. In each state where we operate a processing facility or a transfer station, we are required to comply with varying state and local laws and regulations which may also require a specific operating plan. In addition, many local governments have ordinances and regulations, such as zoning or wastewater regulations that affect our operations. Similarly, our international operations are subject

Table of Contents

to regulations enacted and enforced at the provincial, municipal, and local levels of government in addition to the national regulations with which we must comply.

Patents and Proprietary Rights

We hold United States patents relating to the ETD treatment process and other aspects of processing regulated waste. We have filed or have been assigned patent applications in several foreign countries. The last of our current United States patents relating to our ETD treatment process expires in January 2019.

We own federal registrations for a number of trademarks/servicemarks including Stericycle®, Steri-Safe®, Steri-Fuel®, Steri-Plastic®, Steri-Tub®, Direct Return®, Stericycle ExpertRECALL®, Sustainable Solutions®, and a service mark consisting of a nine-circle design used in our company logo.

Potential Liability and Insurance

The regulated 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 \$55 million of liability insurance (including umbrella coverage), and under a separate policy, \$10 million of aggregate pollution and legal liability insurance (\$10 million per incident). We consider this insurance sufficient to meet regulatory and customer requirements and to protect our employees, assets and operations.

Employees

As of December 31, 2013, we had 14,092 full-time and 832 part-time employees, of which 8,376 were employed in the United States and 6,548 internationally. A total of 15 collective bargaining agreements with local unions of the International Brotherhood of Teamsters cover approximately 424 of our U.S. drivers, transportation helpers and plant workers. These agreements expire at various dates through June 2016. We also have approximately 1,765 employees in Latin America, 110 employees in Canada, and 65 employees in Europe under collective bargaining agreements. We consider our employee relations to be satisfactory.

Executive Officers of the Registrant

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