STERICYCLE INC
Form 10-K
February 28, 2019

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, 2018

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 1-37556

Stericycle, Inc.

(Exact name of registrant as specified in its charter)

Delaware	36-3640402
(State or other jurisdiction of incorporation or organization)	(IRS Employer Identification Number)

28161 North Keith Drive

Lake Forest, Illinois 60045

(Address of principal executive offices, including zip code)

(847) 367-5910

(Registrant's telephone number, including area code)

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

Common stock, par value $.01 per share	Nasdaq Global Select Market
(Title of each class)	(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 Section 15(d) of the Act. 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 every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit 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, a smaller reporting company, or an emerging growth company. See the definition of "large accelerated filer", "accelerated filer" "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

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

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

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

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, 2018): $5,596,897,370.

On February 25, 2019, there were 90,703,162 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 2019 Annual Meeting of Stockholders to be held on May 22, 2019.

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PART I

Disclosure Regarding Forward-Looking Statements

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

This document may contain forward-looking statements that involve risks and uncertainties, some of which are beyond our control (for example, general economic and market conditions). In particular, statements pertaining to our acquisition activity, business transformation, future dividend policy, capital expenditures, cost savings initiatives and remediation efforts with respect to identified material weaknesses contain forward-looking statements. When we use words such as "believes," "expects," "anticipates," "estimates" or similar expressions, we are making forward-looking statements. Actual results could differ significantly from the results described here. Factors that could cause such differences include changes in governmental regulation of the collection, transportation, treatment and disposal of regulated waste or the proper handling and protection of personal and confidential information, the level of government enforcement of regulations governing regulated waste collection and treatment or the proper handling and protection of personal and confidential information, decreases in the volume of regulated wastes or personal and confidential information collected from customers, the ability to implement our ERP or execute on Business Transformation initiatives and achieve the anticipated benefits and cost savings, charges related to the portfolio rationalization strategy or the failure of this strategy to achieve the desired results, failure to consummate a strategic alternative transaction with respect to Communication and Related Services or other non-core businesses, potential charges related to a strategic alternative transaction with respect to Communication and Related Services, or the failure of any such transaction to achieve desired results, the obligations to service substantial indebtedness and comply with the covenants and restrictions contained in private placement notes and credit agreements, political, economic, inflationary, currency and other risks related to our foreign operations, the outcome of pending or future litigation including litigation with respect to the U.S. Foreign Corrupt Practices Act, changing market conditions in the healthcare industry, competition and demand for services in the regulated waste and secure information destruction industries, changes in the demand and price for recycled paper, failure to maintain an effective system of internal control over financial reporting, delays in implementing remediation efforts with respect to existing material weakness, identification of additional material weaknesses, failure of current remediation efforts to address existing material weaknesses, disruptions in or attacks on information technology systems, as well as other factors described in filings with the U.S. Securities and Exchange Commission, including this Annual Report on Form 10-K and subsequent Quarterly Reports on Forms 10-Q. As a result, past financial performance should not be considered a reliable indicator of future performance, and investors should not use historical trends to anticipate future results or trends. To the extent permitted under applicable law, we make no commitment to disclose any subsequent revisions to forward-looking statements.

PART I

Item 1. Business

Overview

Services

Incorporated in 1989, Stericycle is a multinational business-to-business services provider with a focus on regulated and compliance solutions. Our core purpose is to help our customers fulfill their promise by providing solutions that protect people and brands, promote health and safeguard the environment. Over our nearly 30-year history, Stericycle has developed the scale, expertise and experience to handle many complicated and often behind-the-scenes services that allow our more than one million customers to focus on running their business. As of December 31, 2018, we served customers in all 50 states of the United States ("U.S."), Puerto Rico, and in 21 other countries.

We are one of the leading providers in our service lines, which include:

Service line	Revenue Service Category
Medical waste management services (including reusable sharps disposal management services)	Medical Waste and Compliance Solutions
Pharmaceutical waste services	Medical Waste and Compliance Solutions
Compliance programs under the Steri-Safe®, Clinical Services, First Practice Management, SeguriMed, and EnviroAssure brand names	Medical Waste and Compliance Solutions
Hazardous waste management services	Retail and Healthcare - Medical Waste and Compliance Solutions Industrial - Manufacturing and Industrial Services
Secure information destruction (including document and hard drive destruction services)	Secure Information Destruction Services
Live voice and automated communication services including afterhours answering, appointment scheduling, appointment reminders, secure messaging, and event registration	Communication and Related Services
Regulated recall and returns management communication, logistics, and data management services for expired, withdrawn or recalled products	Communication and Related Services

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Operations for our full portfolio of services are established in the U.S., Canada, Ireland, the Netherlands, and Spain. We offer all of our services, except for hazardous waste management, in the United Kingdom ("U.K."). Only regulated waste operations are in Argentina, Brazil, Chile, Japan, Mexico, Portugal, Republic of Korea, and Romania. Only secure information destruction services are provided in Australia, Austria, Belgium, France, Germany, Luxembourg, and Singapore. Secure information destruction services under the Shred-it® brand are also provided in the United Arab Emirates through a joint venture with the Company's portion of income reported as an equity investment.

Our worldwide network includes leased and owned properties which include the following:

307	251	14	67	2
Transfer Sites	Processing Facilities	Communication Centers	Office Locations	Landfill Locations

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We are currently headquartered in Lake Forest, Illinois but have recently executed a lease for a new headquarters in Bannockburn, Illinois, which we expect to occupy beginning in 2019.

Customers

Our broad offering of services appeals to a wide range of small and large business customers. The majority of our customers are healthcare businesses (hospitals, physician, and dental practices, outpatient clinics, long-term care facilities, etc.). We also provide services to retailers, manufacturers, financial services providers, professional services providers, governmental entities, and other businesses.

We serve customers in all 50 U.S. states, Puerto Rico, and 21 other countries worldwide. No single customer accounts for more than 1.1% of our total revenues, and our top ten customers collectively account for approximately 6.3% of total revenues. We provide service to the majority of our customers under multi-year contracts. Although we generally have several standard contracts, terms vary depending upon the customer's service requirements, types of services, and geographies.

Segments

Our three operating segments are:

- Domestic and Canada Regulated Waste and Compliance Services ("Domestic and Canada RCS")
- International Regulated Waste and Compliance Services ("International RCS")
- Domestic Communication and Related Services ("Domestic CRS")

Revenues by service for each of the operating segments for the years ended December 31, 2018, 2017, and 2016, respectively were as follows:

In millions

	Years ended December 31,		
	2018	2017	2016
Domestic and Canada RCS			
Medical Waste and Compliance Solutions	$1,496.1	$1,538.5	$1,548.0
Secure Information Destruction Services	778.3	704.9	634.7
Manufacturing and Industrial Services	270.4	275.0	294.3
Communication and Related Services (Canada only)	29.3	33.5	31.8
Total	$2,574.1	$2,551.9	$2,508.8
International RCS			
Medical Waste and Compliance Solutions	$436.5	$485.1	$515.0
Secure Information Destruction Services	132.7	118.5	112.8
Manufacturing and Industrial Services	58.8	76.1	87.1
Communication and Related Services	27.1	27.9	36.8
Total	$655.1	$707.6	$751.7
Domestic CRS			
Communication and Related Services	$256.7	$321.2	$301.8

Domestic CRS does not consistently meet the quantitative criteria to be a separate reportable segment and therefore is included in the "All Other" reporting segment along with costs related to our corporate headquarters and shared services functions.

Financial and other information related to our reporting segments is included in Part II, Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations and Part II, Item 8. Financial Statements and Supplementary Data; Note 17 - Segment Reporting.

Our Business Model

Regulated Business-to-Business Operations

We focus on providing business-to-business services in areas of operations that are highly regulated. By helping our customers maintain compliance with complex regulations, we protect people and brands, promote health, and safeguard the environment. Governmental legislation and regulation increasingly requires the proper handling and disposal of items such as medical waste, hazardous waste, pharmaceutical waste, and personal confidential information. Regulated waste can be defined as any material with government-imposed guidelines for handling the material for transportation or disposal.

- Medical waste, such as needles, syringes, gloves, cultures, and potentially infectious agents, blood and blood products, can potentially cause an infectious disease.
- Hazardous waste is designated and governed by federal and local environmental protection agencies. It generally includes waste that is considered dangerous or potentially harmful to our health or the environment during transportation and disposal.
- Pharmaceutical waste may be hazardous or nonhazardous and consists of expired, recalled, or otherwise unused pharmaceuticals.
- Personal confidential information includes documents and e-media containing protected healthcare information, financial information, or other confidential information.

Small Customers with Recurring Service Needs

We also focus on serving smaller businesses which often have an even greater need for support with compliance matters because they tend to lack the specialized staff that is found at larger businesses. With a small business, regulatory and compliance matters are often managed by a business owner, office manager, or facility supervisor who manage multiple functions for the organization and often lack the time and resources to properly investigate and comply with a wide range of regulations that may impact their operations.

Organic Growth from New Customers and Additional Services

As a leading provider of regulated and compliance solutions, we continue to focus on enhancing our service offerings and platforms to exceed customer expectations. We have developed a strong and loyal customer base, with, we believe, a revenue retention rate of approximately 90% (based on our internal customer attrition analysis) and have been able to leverage these customer relationships to provide additional services. Our growth strategy focuses on securing new customer relationships and selling additional services to existing customers.

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Growth through Acquisition

The various regulated waste and compliance, including secure documentation destruction, services that we provide tend to be in highly fragmented industries. We have proven that acquisitions are a steady and efficient way to scale operations, build critical customer density for transportation and treatment operations, and enter new markets or geographies, as well as provide opportunity to introduce our additional services to the acquired customers. In our early history, acquisitions were a key strategy to rapidly building our customer base and route density in the United States. We have been able to expand internationally through acquisition and now serve customers in 20 international markets outside the U.S. Stericycle has completed over 500 acquisitions, with 21, completed during 2018. We expect to continue our acquisition strategy, remaining focused on small, highly accretive, tuck-in acquisitions that broaden our various service capabilities while creating value for our shareholders.

Business Transformation

Stericycle is focused on driving long-term growth and profitability and delivering enhanced shareholder value. As part of our business strategy, in the third quarter of 2017, we initiated a comprehensive multiyear Business Transformation with the objective to improve long-term operational and financial performance. The Business Transformation is based on a strategic vision to build a best-in-class enterprise performance management ("EPM") operating model and includes streamlining our portfolio, realigning our processes and organizational structure to drive efficiency, and implementing an enterprise resource planning ("ERP") system.

Key initiatives of the Business Transformation include:

- Portfolio Rationalization: Executing on a comprehensive review of the Company's global service lines to identify and pursue the divestiture of non-strategic assets.
- Operational Optimization: Standardizing route planning logistics, modernizing field operations, and driving network efficiency across facilities.
- Organizational Excellence and Efficiency: Redesigning the Company's organizational structure to optimize resources and align around a global shared business services model.
- Commercial Excellence: Aligning our sales and service organizations around the customer, standardizing our customer relationship management process, and expanding customer self-service options.
- Strategic Sourcing: Reducing spend through global procure-to-pay processes and leveraging organizational scale.

Execution of the Business Transformation began in 2017 with the identification and validation of key transformational opportunities as well as an organizational restructuring which occurred during the fourth quarter of 2017. Execution of the Business Transformation is expected to continue with the implementation of an enterprise resource planning system in the U.S. and Canada during 2020 followed by the international rollout beginning in 2021.

On August 2, 2018, we announced, as part of the Portfolio Rationalization strategy within Business Transformation that we are pursuing strategic alternatives for the recall and communications services which are non-core Communication & Related Services business ("CRS"), demonstrating our commitment to streamlining our portfolio. The process, which is being conducted with the assistance of financial and legal advisers, is considering a range of strategic alternatives for CRS, with a focus on pursuing the outcome that will drive the most value for Stericycle shareholders.

Refer to Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations and Item 8. Financial Statements and Supplementary Data; Note 4 – Restructuring, Divestitures, and Assets Held For Sale.

Market Size and Growth Potential

We provide a wide range of services across multiple market segments and industries. Based on various industry studies and management's estimates, we estimate the size of the global market for the services we provide, in the geographies where we currently operate is approximately $38 billion (including global markets with established regulatory frameworks for medical waste plus global markets in which Stericycle operates for hazardous waste, information destruction and communication services. Growth in this industry in which we operate is driven by a number of factors, including:

- Aging Population: The average age of the population in the countries where we operate 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 medical waste, hazardous waste, and pharmaceutical waste, as well as an increase in confidential healthcare records requiring secure destruction.
- Pressure to Reduce Healthcare Costs While Improving Outcomes: The healthcare industry is under pressure to reduce costs and at the same time improve healthcare outcomes for patients served. By outsourcing services not directly tied to the delivery of healthcare services, these organizations can potentially reduce costs and improve staff efficiencies. By leveraging third party experts, healthcare organizations may also limit their potential liability for regulatory compliance.
- Enforcement of Waste Regulations: Enforcement of regulations relating to the management of regulated waste is increasing. Penalties for violations can be costly and high profile, thereby impacting a business' overall reputation. Greater enforcement combined with higher penalties results in more compliance and a corresponding increase in potential customers. We believe that many businesses are unaware either of the need for proper training of employees or of applicable regulatory requirements.
- Increased Business Focus on Sustainability: Businesses large and small are continuing to realize that a focus on sustainability is now essential to operating efficiently and meeting the increasing demands of customers for environmental responsibility. Such pressures are driving proper disposal of pharmaceuticals, recycling efforts, creative disposal efforts for unused inventory, shred-all policies for paper, and other initiatives supported by our services.
- Regulation of Privacy and Information Security and Concerns over Data Breaches: The continued development and growth of the secure information destruction industry has been driven, in part, by the need for compliance with increasing government regulation with respect to privacy and information security. These regulations take different forms, with some requiring organizations to establish reasonable measures to protect against loss, theft and unauthorized access, use and disclosure, and others imposing data retention requirements that require businesses to destroy or render anonymous personal information when it's no longer required for a legal or legitimate business

purpose. Secure information destruction services are increasingly a standard measure that organizations use to meet their legal safeguarding and retention requirements.

- Market Expansion Due to Increased Outsourcing: With regard to secure information destruction services and communication services, we believe significant market growth will come from increased reliance on outsourced service providers. Many small businesses currently do not use services or manage these needs with internal resources and solutions. Opportunity exists to convert these businesses as the trend to outsource support services continues.

Competitive Strengths

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

- Strong Service Relationships with Customers: We offer our customers necessary services which require routine access to their facilities, operating information, or customer data. This relationship, supported by a history of strong service, allows us access to decision makers to offer additional opportunities.
- Long-term Contracts: The majority of services we provide involve long-term contracts that are often renewed.
- Established Network of Processing and Transportation Locations in Each Country: We believe that our infrastructure network results in an efficient operation with alternate treatment or destruction options for our customers. The scale of our network also provides us the ability to be the single-source provider for customers with multiple locations across the country and gives us the flexibility to quickly redirect services or operations to another location if the need arises due to severe weather, power outages, or other disruptions.
- Routing Logistics: Within our logistics-based services lines, we maintain a vast transportation network that is focused on route efficiency. This advantage has been built from a deliberate focus on route density and technological investments to optimize routing at both the individual truck and geographic market level. Our Business Transformation and ERP implementation will improve our routing efficiencies by providing the opportunity to leverage our infrastructure across services lines.
- Industry Leadership and Expertise: Based on our infrastructure and revenues, we maintain a global leadership position across our various services lines, including regulated medical waste, retail and healthcare hazardous waste, secure information destruction, and product recalls and returns. We attract and retain highly experienced team members who have a deep understanding of the industries they serve, the regulatory climate, and the evolving needs of the customers we serve. We collaborate regularly with a wide range of stakeholders and interest groups. We proactively work with organizations like the CDC, DEA, OSHA, EPA, and many other government and regulatory bodies, including law enforcement. Our experts are frequent speakers at hospital networks, industry trade associations, and actively engage in numerous community meetings each year.
- Secure Management of Information for Destruction: With the acquisition of Shred-it, Stericycle is the global leader in secure information destruction. Our processes for managing information for destruction meet or exceed the requirements of the National Association for Information Destruction (“NAID”) AAA Certification and support our customers’ requirements to comply with the Gramm-Leach-Bliley Act (“GLBA”), the Fair and Accurate Credit Transaction Act (“FACTA”), and Health Insurance Portability and Accountability Act (“HIPAA”) Privacy Rules in the U.S., the General Data

Protection Regulation (“GDPR”) covering the European Union (“EU”), and other data security regulations abroad.

- Broad Range of Services: We leverage our expertise in specialty waste and compliance to offer our customers a broad range of complementary services. Offering multiple services reduces administrative burden for our customers as fewer vendors are required. Additionally, we believe loyalty among customers is stronger when more than one service is leveraged.

Regulated Waste and Compliance Service Operations

Collection and Transportation

The collection process for regulated waste streams begins at the customer location with segregation. To assure regulatory compliance, we will not accept material from customers unless it complies with our waste acceptance protocols and is properly stored or packaged in containers that we have either supplied or approved.

Our fleet of vehicles then collects containers at the customer location. The majority of collected waste is then transported directly to one of our processing facilities or to one of our transfer stations until it’s 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 the utilization of the facility and the volume of waste that it processes.

Processing and Disposal of Regulated Medical Waste

Upon arrival at a processing facility, containers or boxes of regulated waste undergo a quality control process to verify that they do not contain any unacceptable substances. Any container or box that is discovered to contain unacceptable waste goes through a corrective action process which could include redirecting the waste, returning the waste to the customer, and/or notifying the appropriate regulatory authorities. From there, regulated medical waste is processed using one of several treatments or processing technologies, predominantly at one of our wholly-owned facilities:

- Autoclaving: Autoclaving is the primary method of medical waste treatment. This process relies on steam at high temperature and pressure to kill pathogens and render materials non-infectious.
- Alternative Technologies: We use a number of different non-incineration alternatives to autoclaves, predominantly outside of the U.S. The processes used by these technologies are similar, as the regulated waste is heated to a specified temperature for a required time to kill the pathogens. This is not always under pressure. Depending on local requirements, the waste may be shredded before or after treatment to render it unrecognizable.
- 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, 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.

Upon completion of the particular treatment process, the resulting waste or incinerator ash is transported for disposal in a landfill owned by unaffiliated third parties. In some countries, where permitted by regulation, the treated waste is recovered, including recovery as fuel in waste-to-energy processes.

Processing and Disposal of Hazardous Wastes

Our technicians receive hazardous wastes either as expired goods requiring deconstruction or as defined hazardous wastes. Expired goods are deconstructed to recover metals and plastics for recycling thereby minimizing the total volume of waste disposed of as hazardous waste. Materials that are predefined as hazardous upon collection are bulked together or consolidated at treatment storage and disposal facilities for more efficient transport to the final disposal or processing destination. Whenever possible, we seek sustainable solutions for managing materials including alternative uses, recovery processes, recycling options, fuel blending, or energy recovery. When sustainable options do not exist, these wastes are sent to third parties for incineration, landfill or water treatment.

Destruction and Recycling of Secure Information

If not shredded on site in a Shred-it® truck with proprietary information destruction technology, documents are sent to a shredding facility for secure destruction. Documents are cross-cut shredded and then baled to be sold as sorted office paper (“SOP”) for recycling.

Communication and Related Services Overview

Our Communication Solutions service line provides a broad range of live voice and automated service offerings to assist our clients in delivering a best in class communications stream with their patients and customers. Our team serves as a client representative providing answering services, appointment scheduling, appointment reminders, event registration, and other necessary communications. Providing these solutions requires sophisticated information management systems to redirect calls, store and quickly retrieve live voice protocols or client data, send automated communications, or provide easily accessible reporting and activity details to our customers. Beyond the information management system infrastructure, call center staffing and proper education levels are critical to our success. We leverage sophisticated workflow analysis and staffing tools to ensure appropriate resources are in place in order to handle call volumes quickly and consistently across our multiple call centers during peak volumes.

Our Expert Solutions service line specializes in partnering with automotive, food/beverage, medical device, pharmaceutical, consumer goods manufacturers, and retailers to support them through critical recalls, retrievals, or audit processes to ensure brand protection. Services could include notification services to impacted customers, call center services to support a recall or retrieval, removing impacted product from distribution, processing recalled product and supporting remedy requirements, and compliance reporting. These solutions are highly customized based on the product being recalled or retrieved and the specific needs of the client.

Competition

The industries and markets in which we operate are highly competitive, and barriers to entry are low. Our competitors consist of many different types of service providers, including national, regional, and local companies. In the regulated waste and secure information destruction industries, another major source of competition is on-site management. For regulated medical waste, some large-quantity generators, particularly hospitals, may choose an onsite autoclave or other treatment process. For secure information destruction, many businesses may choose to use small, on-site shredders for their documents. Similarly, customers could handle recalls or communication needs internally.

In addition, we face potential competition from businesses that are attempting to commercialize a wide range of technologies that directly or indirectly reduce the need for regulated medical waste, hazardous waste or secure information destruction services.

Governmental Regulation

The regulated medical waste, hazardous waste, secure information destruction, and recall industries are subject to numerous regulations. In many countries there are multiple regulatory agencies at the local and national level that affect our customers or our services. This 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
- to handle particular regulated substances.

Our permits may be subject to modification or revocation by the issuing authority and, in some jurisdictions, are subject to periodic renewal. Periodic renewals may be subject to public participation and can lead to additional regulatory oversight. 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 at the federal, state and local levels.

U.S. Federal and Foreign Regulation

We are subject to substantial regulations enacted and enforced by the U.S. government and by the governments of the foreign jurisdictions in which we conduct regulated waste and secure information destruction operations. The regulatory requirements with which we must comply 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, ethical business conduct, and proper handling and management of regulated waste streams, controlled substances, and personal and confidential information.

Environmental Protection

Certain service lines within our business are 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 potential 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. 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 10 incinerators we currently operate in the U.S. must comply with the emissions standards imposed by the applicable states permitting authorities pursuant to regulations promulgated under the Clean Air Act as well as state and/or municipal waste permit requirements.

Examples of environmental laws applicable to our international operations include the Waste Framework Directive, Environmental Liabilities Directive, Industrial Emissions Directive and the Shipments of Waste Regulations in the EU, Ley 154 (Residuos Patogenicos) 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. Additional environmental laws at the federal and/or local levels apply to regulated waste management in other markets in which we conduct business.

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Employee Health and Welfare

We are 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 U.S. federal laws relating to employee health and welfare applicable to our business are in the Occupational Safety and Health Act of 1970 ("OSHA"), which establishes specific employer responsibilities including engineering controls, administrative controls, training, policies and programs complying with the regulations, and 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 blood-borne pathogens, hazard communication, personal and protective equipment.

Examples of employee health and welfare laws applicable to our international operations include the European Framework Directive on Safety and Health at Work (Directive 89/391 EEC), and various provisions of the Canada Labour Code and related occupational safety and health regulations in the provinces and territories of Canada.

Transportation

Various laws regulating the transportation of waste and other potentially hazardous 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. These regulations are defined within the Pipeline Hazardous Materials Safety Administration ("PHMSA") and the Federal Motor Carrier Safety Administration ("FMCSA"). These federal requirements plus additional state requirements are closely monitored internally. Due to our fleet size we are regularly subject to road side inspections. These inspections have a cumulative effect on our compliance history and require us to remain in good standing so as not to jeopardize our permits.

Examples of transportation laws applicable to our international operations 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, and globally the International Maritime Dangerous Goods Code and the IATA Dangerous Goods Regulations.

Document Management

Numerous laws and regulations require proper protection of confidential customer information by business parties that have access to such information. In the U.S., the most commonly cited regulations include the Fair and Accurate Credit Transaction Act (“FACTA”) Final Disposal Rule, the FACTA Red Flag Rule, the Health Insurance Portability and Accountability Act (“HIPAA”) Privacy Rule, and the Gramm-Leach Bliley Act (“GLBA”). Furthermore the General Data Protection Regulation (“GDPR”) provides the framework for data privacy and data protection for companies that conduct business in Europe.

For the transportation of secure information for destruction, we are regulated by the U.S. DOT as a commercial motor carrier. The processes for the destruction of secure information destruction processes are not regulated by any government agency. However, the National Association of Information Destruction (“NAID”) maintains a certification to ensure that destruction processes support the needs of organizations to meet laws and regulations relating to the protection of confidential information. We currently hold the NAID AAA Certification for our operations in North America. Further, the Payment Card

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Industry ("PCI") Security Standards Council has developed Data Security Standards which are imposed upon merchants utilizing credit cards and require destruction of documents and media in accordance with their standards.

Ethical Business Conduct

Various international regulations governing ethical business practices apply to our business, including but not limited to, the U.S. Foreign Corrupt Practices Act (“FCPA”), the U.K. Bribery Act (“Bribery Act”), and the Brazilian Clean Companies Act. These laws may apply to our business on both a global and local basis, and ban unethical behavior such as the payment of bribes to government officials for the purpose of gaining an improper business advantage, improper maintenance of our books and records, as well as other financial transparency requirements.

Use of the Mail in the U.S.

The United States Postal Service ("USPS") has its own set of specific regulations defined in Publication 52 which governs the use of the postal system for mailing of hazardous, restricted and perishable materials. More specifically, mailback management offerings for sharps, medical waste, and pharmaceutical wastes, require us to obtain and maintain authorization permits from the USPS. We have obtained permits from the USPS to conduct our "mail-back" programs which 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 wastes to be sent directly to a treatment facility.

Controlled Substances

Our service offerings for the recall, return and/or destruction of controlled substance pharmaceuticals are subject to numerous laws and regulations under various international federal agencies, such as the Drug Enforcement Administration ("DEA") in the U.S. and the Home Office Drugs and Firearm Licensing Unit in the U.K. These regulations apply to both the closed loop management of controlled substances as well as the return of unused controlled substances from consumers. These regulations typically require facilities to obtain a controlled substance registration in addition to other pharmaceutical licenses and meet certain criteria in order to collect, process, and dispose of controlled substances. These regulations have very strict requirements for the management of employees, the type of security within facilities, recordkeeping, and the reporting of all controlled substances managed at the facility. Much like our other permitting, the registration must be updated regularly and subjects us to inspection and enforcement.

U.S. and Foreign Local Regulation

We conduct business in all 50 U.S. States and Puerto Rico. Because the U.S. EPA does 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 medical waste. Many states have followed requirements similar to the Medical Waste Tracking Act of 1988 or have placed medical waste regulations under solid waste regulations. Hazardous waste in the U.S. is regulated under the RCRA. In addition, certain states may have their own regulations for handling, treatment and storage of hazardous wastes. Regulated garbage (sometimes referred to as “APHIS waste” taken from the Animal Plant and Health Inspection Service) is another area of regulatory requirements we are subject to pursuant to regulations promulgated by the U.S. Department of Agriculture ("USDA") and Customers and Border Patrol. The USDA typically inspects our facilities receiving such APHIS waste on a quarterly basis.

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 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, Trademarks and Proprietary Rights

Stericycle holds eight patents in the U.S., Canada, and Australia for the recovery of reusable medical devices in a sharps container and holds two patents (U.S. and Canada) for the processing and updating of event-related information using automated reminders. With the acquisition of Shred-it, we hold patents in the U.S. and Canada for a three-staged shredder, with one patent application pending in the EU. We also hold patents in the U.S., Canada, and the EU for Securshield®, our proprietary locks for shredding containers.

We own federal registrations for a number of trademarks/service marks including Stericycle®, SRCL, Steri-Safe®, Stericycle ExpertRECALL®, Sustainable Solutions®, CSRX, LiveAnswer®, Shred-it®, Securit®, Community Shred-it®, Making Sure it's Secure®, and our company logo service mark consisting of a nine-circle design. We also hold international registrations for Stericycle, the nine-circle design used in our logo, and the Shred-it® name and design.

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 several insurance coverages including property, workers compensation, general liability, employer's liability, pollution liability, privacy and security liability, event management, cyber-liability, and miscellaneous professional services errors and omissions coverages. We also carry umbrella policies that cover general liability, auto and employers liability. We regularly evaluate other lines of coverage to respond to specific business needs but consider our current insurance coverage to be sufficient to meet regulatory as well as customer requirements and to protect our employees, assets, and operations.

Executive Officers of the Registrant

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

Name	Position	Age
Charles A. Alutto	Chief Executive Officer	53
Cindy J. Miller	President and Chief Operating Officer	56
Daniel V. Ginnetti	Executive Vice President and Chief Financial Officer	50
Kurt M. Rogers	Executive Vice President, General Counsel and Corporate Secretary	47
William J. Seward	Executive Vice President and Chief Commercial Officer	51
Joseph A. Reuter	Executive Vice President and Chief People Officer	57
David W. Stahl	Executive Vice President and Chief Information Officer	53
Michael S. Weisman	Executive Vice President and Chief Ethics and Compliance Officer	60
Richard M. Moore	Executive Vice President of North American Operations	57

Charlie Alutto has served as Chief Executive Officer since October 2018 and as a Director since November 2012. From January 2013 until September 2018, he served as our President and Chief Executive Officer. He joined us in May 1997 following our acquisition of the company where he was then employed. He became an executive officer in February 2011 and served as President, Stericycle USA. He previously held various management positions with us, including Vice President and Managing Director of SRCL Europe and Corporate Vice President of our large quantity generator business unit. Mr. Alutto earned a bachelor of science degree from Providence College and a masters of business administration from St. John's University.

Cindy Miller joined us as President and Chief Operating Officer in October, 2018. She was appointed as a Director effective February 28, 2019. She previously served as President, Global Freight Forwarding for United Parcel Service ("UPS") and had a 30-year career with UPS starting as a driver and progressing to district manager for operating regions in the U.S. and then managing director for regions in Europe, the Middle East, and Africa before becoming President of the European region. Ms. Miller received a bachelor of arts degree from Pennsylvania State University and an Executive MBA from the London Business School.

Dan Ginnetti was appointed Chief Financial Officer ("CFO") in August, 2014. He joined Stericycle as Area Vice President of Finance in 2003. In 2004 he was promoted to Area Vice President for Stericycle's Western, and later, Midwestern business units. Following that, he was promoted to Senior Vice President of Operations for the U.S. and Canada. He returned to financial management in 2013, becoming Vice President of Corporate Finance and then CFO in August 2014. Prior to joining Stericycle, Mr. Ginnetti held various finance and accounting positions with The Ralph M. Parsons Company, a worldwide engineering firm, and Ryan Herco Products Corp., a national industrial plastics distributor. Mr. Ginnetti received a bachelor of science degree from the University of California, Santa Barbara.

Kurt Rogers was named Executive Vice President, General Counsel and Corporate Secretary in July 2017. Mr. Rogers previously served as Chief Legal Officer and Secretary of Vonage Holdings Corp., a publicly-listed software technology and communications company, for more than seven years. Earlier, Mr. Rogers was a partner with international law firms Bingham McCutchen LLP (now Morgan, Lewis & Bockius LLP) and Latham & Watkins LLP and as an associate with Rogers & Wells LLP (now Clifford Chance LLP), where

he represented clients in litigation, intellectual property and other matters. Mr. Rogers received a bachelor of science degree in Industrial and Labor Relations from Cornell University and his juris doctor degree from Cornell Law School.

Bill Seward joined Stericycle as Executive Vice President and Chief Commercial Officer in February 2019. Prior to joining Stericycle, Mr. Seward spent 28 years with UPS, most recently as President of UPS' North American export business since 2016 and President of International Sales from 2012 to 2015. His previous experience includes three years as Vice President of European Region Sales, two years as Vice President of Northeast U.S. Regional Sales and previous other sales, marketing, and staff roles. Mr. Seward received a bachelor of arts degree from the University at Albany (SUNY).

Joe Reuter joined Stericycle as Executive Vice President and Chief People Officer in January 2019. Previously, Mr. Reuter served as President, International Human Resources at UPS, since April 2016. Prior to that, he served as Vice President of the Europe Region human resources for three years and Vice President of Human Resources for the Global Freight Forwarding business for one year. He began his career as a parcel service provider and supervisor before moving into the human resources field and supporting UPS operating districts across the U.S. with increasingly larger areas of responsibility. Mr. Reuter received a bachelor of arts degree from the University of South Dakota.

David Stahl was named Executive Vice President and Chief Information Officer in April 2018 after serving as Senior Vice President for approximately 18 months. Prior to joining Stericycle, Mr. Stahl served as the Chief Information Officer at Hillshire Brands Company for two years, where he implemented an IT transformation, and as Chief Information Officer at Duracell (a Berkshire Hathaway Company) for two years, where he established a new operating platform for Duracell following its separation from the Procter & Gamble Company. He also spent eight years with Tellabs, Inc. in roles of increasing responsibility within quality and IT, as well as quality roles with Underwriters Laboratories, 3Com Corporation, and Emerson Electronics. Mr. Stahl received a bachelor of science degree from Ohio Northern University.

Michael Weisman joined Stericycle as Executive Vice President and Chief Ethics and Compliance Officer in April, 2018. Mr. Weisman previously served as Chief Ethics and Compliance Officer for The Kraft Heinz Company, a publicly-listed packaged foods company, which he joined through Kraft Foods in July of 2015. Prior to the merger with Heinz Foods he served as Chief Counsel, Compliance for Kraft Foods from July 2014 and as Vice President, Ethics and Compliance for U.S. Foods and Career Education Corporation from February, 2013. He was also with the law firm Katten Muchin Rosenman, LLP for more than 10 years, four as partner, and served as a member of the firm's White Collar Defense, Internal Investigations and Compliance Practice Group. Mr. Weisman received a bachelor of science degree from the University of Illinois and his juris doctor degree from Chicago-Kent College of Law.

Rich Moore joined Stericycle as Executive Vice President of North American Operations in January 2019. Prior to joining Stericycle, Mr. Moore spent 30 years with UPS, most recently as President of UPS' Illinois District since 2016. Previously he served for three years as Vice President of European Operations, five years as President of the Northeast District, and three years as District Manager for Utah, Idaho, and Southern Nevada, in addition to other operations and transportation staff roles. Mr. Moore received a bachelor of science degree from Manhattan College and a masters of business administration from National Louis University.

PART I

Employees

At December 31, 2018 we had approximately 22,500 full time employees of which approximately 1,700 are covered by collective bargaining agreements.

Available Information

We maintain an internet website, www.stericycle.com, which provides a variety of information about the Company and where the Company's Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K, and all amendments to those reports are available free of charge, as soon as reasonably practicable, following the time they are filed with or furnished to the Securities and Exchange Commission ("SEC"). Reports and proxy and information statements that are filed electronically with the SEC are available on the SEC's website, www.sec.gov.

Item 1A. Risk Factors

Our consolidated results of operations, financial position, cash flows and reputation can be adversely affected by various risks. These risks include the principal factors listed below and the other matters set forth in this Form 10-K. There may be additional risks of which we are not presently aware or that we currently believe are immaterial that could have an adverse impact on our business.

We are subject to extensive governmental regulation, which is frequently difficult, expensive and time-consuming with which to comply; noncompliance could adversely affect our operations and efforts to grow our business results.

The regulated waste management and secure information destruction industries are subject to extensive federal, state and local laws and regulations relating to the collection, transportation, packaging, labeling, handling, documentation, reporting, treatment and disposal of regulated waste and the proper handling and protection of personal and confidential information. Our business requires us to obtain many permits, authorizations, approvals, certificates, and other types of governmental permissions and to comply with various regulations in every jurisdiction in which we operate. Federal, state and local regulations change often, and new regulations are frequently adopted. Changes in the regulations could require us to obtain new permits or to change the way in which we operate our business. We might be unable to obtain the new permits that we require, and the cost of compliance with new or changed regulations could be significant.

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

If we encounter regulatory compliance issues in the course of operating our businesses, we may experience adverse publicity, which may intensify if such non-compliance results in civil or criminal liability. This adverse publicity may harm our reputation, and result in difficulties in attracting new customers, or retaining existing customers.

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

We believe that strict enforcement of laws and regulations relating to regulated waste collection and treatment, the proper handling and protection of personal and confidential information, and recalls and retrieval of products by governmental authorities can have a positive effect on our business. These laws and regulations increase the demand for our services. Relaxation of enforcement, government shutdowns, or other changes in governmental regulation of regulated waste, personal and confidential information or products to be recalled or retrieved could increase the number of competitors we face or reduce or delay the need for our services.

Unfavorable market conditions, including those driven by economic or social trends, may impact the volume of regulated wastes or personal and confidential information we collect from customers.

The compliance-based services we provide rely on the generation of regulated wastes or personal and confidential information by our customers. The amount of material generated by our customers may be impacted by macro-economic trends associated with manufacturing and industrial markets, healthcare market dynamics, and trends associated with electronic and digital record keeping. Many of our services are provided on a subscription basis with a monthly fee to minimize short-term or cyclical variability associated with these factors. However, some of our services are provided on a transactional basis, and long-term trends resulting from these factors could reduce the demand for our services, whether we provide them on a subscription or transactional basis.

We may experience difficulties executing on our multiyear Business Transformation.

We began a comprehensive, multiyear Business Transformation during the third quarter of 2017 with the intent of implementing a global enterprise performance management (“EPM”) operating model. This new operating model is expected to standardize global end-to-end processes, align the company around key performance indicators, improve data management and decision making, and improve the Company’s profitability. A global enterprise resource planning (“ERP”) system is the central component of our Business Transformation and will become the backbone of our performance management model. With an ERP, we will integrate our services lines and geographies onto one operating system. In addition to the implementation of a best-in-class system, there are five key initiatives of the Business Transformation which include: portfolio rationalization, operational optimization, organizational excellence and efficiency, commercial excellence, and strategic sourcing.

There is no assurance that the Business Transformation will achieve the anticipated benefits that we expect. Further, the ERP platform will require significant investment of human and financial resources and we may experience significant delays, increased costs and other difficulties. If the execution of our Business Transformation fails to achieve its intended benefits, our business, financial condition, and results of operation could be adversely affected.

PART I

Restrictions in our private placement notes and our Credit Agreement could adversely affect our business, financial condition, results of operations, ability to make distributions and value of our securities.

Our private placement notes and Credit Agreement entered as of November 17, 2017 (as amended, the "Credit Agreement") contain customary affirmative covenants, including, among others, covenants pertaining to the delivery of financial statements; certain financial covenants; notices of default and certain other material events; payment of obligations; preservation of corporate existence, rights, privileges, permits, licenses, franchises and intellectual property; maintenance of property and insurance and compliance with laws, as well as customary negative covenants, including, among others, limitations on the incurrence of liens, investments and indebtedness; mergers and certain other fundamental changes; dispositions of assets; restricted payments; changes in our line of business; transactions with affiliates and burdensome agreements. These covenants could affect our ability to operate our business, increase the amount of interest expense we ultimately pay pursuant to the Credit Agreement and private placement notes, and may limit our ability to take advantage of potential business opportunities as they arise.

Our ability to comply with the covenants and restrictions contained in the private placement notes and our Credit Agreement may be affected by events beyond our control, including prevailing economic, financial, and industry conditions. If market or other economic conditions deteriorate, our ability to comply with these covenants may be impaired. A failure to comply with these provisions could result in a default or an event of default. Upon an event of default, unless waived, the lenders could elect to terminate their commitments, cease making further loans, require cash collateralization of letters of credit, cause their loans to become due and payable in full and force us and our subsidiaries into bankruptcy or liquidation. If the payment of our debt is accelerated, our assets may be insufficient to repay such debt in full, and the holders of our stock could experience a partial or total loss of their investment. See Part II, Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations, Liquidity and Capital Resources.

Servicing debt and funding other obligations requires a significant amount of cash, and our ability to generate sufficient cash depends on many factors, some of which are beyond our control.

Our ability to make payments on and refinance our indebtedness and to fund our operations and capital expenditures, including capital expenditures associated with our Business Transformation, depends on our ability to generate cash flow and secure financing in the future. Our ability to generate future cash flow depends, among other things, upon:

- future operating performance;
- general economic conditions;
- competition; and
- litigation, legislative and regulatory factors affecting our operations and business.

Some of these factors are beyond our control. There is no assurance that our business will generate cash flow from operations or that future debt or equity financings will be available to us to enable us to pay our indebtedness or to fund other needs. As a result, we may need to refinance all or a portion of our indebtedness on or before maturity. There is no assurance that we will be able to refinance any of our indebtedness on favorable terms, or at all. Any inability to generate sufficient cash flow or refinance our indebtedness on favorable terms could have an adverse effect on our financial condition.

The amount of our indebtedness could adversely affect our business.

As of December 31, 2018, we had a total of $2.8 billion of outstanding indebtedness, including long-term debt and short-term debt and not reduced by unamortized debt issuance costs. We also have the ability to incur additional indebtedness subject to our financial covenants.

Our leverage could have adverse consequences on our business, including the following:

- we may be required to dedicate a substantial portion of our available cash to payments of principal and interest on our indebtedness;
- our ability to access credit markets on terms we deem acceptable may be impaired; and
- we may be limited in our flexibility to adjust to changing market conditions.

Risks from our international operations could adversely affect our business, financial condition and results of operations.

We have established operations in the U.S. and 20 other countries. Foreign operations carry special risks including:

- exchange rate and interest rate fluctuations;
- substantial inflation in certain markets;
- dependence in certain markets on government entities as customers;
- delays in the collection of accounts receivable related to certain government funding practices;
- government controls;
- import and export license requirements;
- political or economic instability;
- changes in or compliance with U.S., local or other applicable laws and regulations, including laws and regulations concerning anti-corruption, anti-bribery (i.e. FCPA, U.K. Bribery Act and similar laws), global trade, trade sanctions, competition, privacy and data protection;
- trade restrictions;
- changes in tariffs and taxes;
- industry or macro-economic trends;
- permitting and regulatory standards;
- differences in local laws, regulations, practices, and business customs;
- restrictions on repatriating foreign profits back to the U.S. or movement of funds to other countries;
- difficulties in staffing and managing international operations;
- increases and volatility in labor costs; and
- property ownership restrictions in certain countries.

Any of the foregoing or other factors associated with doing business abroad could adversely affect our business, financial condition and results of operations.

We have operations in Latin America, and changes in the business, regulatory, political or social climate could adversely affect our operations there, which could adversely affect our results of operations and growth plans.

We have business operations in Argentina, Brazil, Chile and Mexico. Doing business in those countries exposes us to risks related to political instability, corruption, economic volatility, social unrest, tax and foreign investment policies, public safety and security, and uncertain application of laws and regulations. Consequently, actions or events in any of those countries that are beyond our control could restrict our ability to operate there or otherwise adversely affect the profitability of those operations. Furthermore, changes in the business, regulatory or political climate in any of those countries, or significant fluctuations in currency exchange rates, could affect our ability to continue our operations there, which could have a material adverse impact on our prospects, results of operations and cash flows.

We face continuing risks relating to compliance with the FCPA and other anti-corruption and anti-bribery laws.

On June 12, 2017, the SEC issued a subpoena to the Company, requesting documents and information relating to the Company's compliance with the FCPA or other foreign or domestic anti-corruption laws with respect to certain of the Company's operations in Latin America. In addition, the Department of Justice ("DOJ") has notified the Company that it is investigating this matter in parallel with the SEC. The Company is cooperating with these agencies. The Company is also conducting an internal investigation of these and other matters, including outside of Latin America, under the oversight of the Audit Committee of the Board of Directors and with the assistance of outside counsel, and this investigation has found evidence of improper conduct. These matters (and other matters which may arise or of which we become aware in the future) may be deemed to violate the FCPA and other anti-corruption and anti-bribery laws. Such determinations could subject us to, among other things, enforcement actions by the SEC or the DOJ or other regulatory bodies, fines, penalties, or litigation, which could adversely affect our business, financial condition and results of operations. In addition, any significant settlement amount may require us to incur additional indebtedness, adversely affect our liquidity and ability to service our indebtedness, or require us to restructure or amend the terms of our indebtedness. See Part II, Item 8. Financial Statements and Supplementary Data; Note 19 – Legal Proceedings in the Consolidated Financial Statements for more information regarding currently pending legal proceedings.

We are subject to a number of pending lawsuits.

We are a defendant in a number of pending lawsuits and may be named as a defendant in future lawsuits. These current and future matters may result in significant liabilities and diversion of our management's time, attention and resources. Given the uncertain nature of litigation generally, we are not able in all cases to estimate the amount or range of loss that could result from an unfavorable outcome in these matters. In view of these uncertainties, the outcome of these matters may result in charges in excess of any established reserves and, to the extent available, liability insurance. Protracted litigation, including any adverse outcomes, may have an adverse impact on our reputation, business, financial condition or results of operations. In addition, any significant judgment or settlement amount may require us to incur additional indebtedness, adversely affect our liquidity and ability to service our indebtedness, or require us to restructure or amend the terms of our indebtedness. See Part II, Item 8. Financial Statements and

Supplementary Data; Note 19 - Legal Proceedings in the Consolidated Financial Statements for more information regarding currently pending legal proceedings.

Changing market conditions in the healthcare industry, including healthcare consolidation and healthcare reform, could drive down our profits and slow our growth.

Within the U.S., the healthcare industry is evolving to meet competing demands for increased healthcare coverage of a growing and aging population and economic pressures to reduce healthcare costs. As a result of these dynamics, hospital networks are consolidating physician practices into their networks, independent practices are consolidating together, and healthcare providers are focused on cutting costs within their businesses. These changes exert downward pricing pressure, including the impact of Group Purchasing Organization ("GPO") rebates and administrative fees, on services that we provide to healthcare customers which could adversely affect our profitability and growth. Commitments made in connection with the settlement of the small quantity medical customer contract class action lawsuits (the "MDL Action"), as discussed in Part II, Item 8. Financial Statements and Supplementary Data; Note 19 - Legal Proceedings may affect our ability to increase prices in the future and a deterioration in our customer relationships as a result of the MDL Action may affect our ability to sell additional services to our customers, both of which could adversely affect our profitability and growth.

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

The industries in which we participate are very competitive because of low barriers to entry, among other reasons. This competition has required us in the past to reduce our prices to our customers, may require us to reduce our prices in the future or may affect our ability to increase prices in the future. Substantial price reductions or our inability to increase prices could significantly reduce our earnings.

We face direct competition from a large number of small, local competitors. Because it requires very little financial investment to compete in the collection and transportation of regulated wastes or the secure destruction of personal and confidential information, there are many regional and local companies in these industries. We face competition from these businesses, and competition from them is likely to exist in new locations to which we may expand in the future. In addition, large national companies with substantial resources operate in the markets we serve. For example, in the U.S., Waste Management, Inc., Clean Harbors, Inc., and Iron Mountain Incorporated all offer competing services.

If we fail to maintain an effective system of internal controls over financial reporting, including remediating known material weaknesses in our internal controls as of December 31, 2018, we may not be able to report our financial results timely and accurately or prevent fraud, which could adversely affect investor confidence in our company, our results of operations and our stock price.

As disclosed in more detail in Part II, Item 9A. Controls and Procedures of this Report, we have identified material weaknesses as of December 31, 2018, in our internal controls over financial reporting. Due to these material weaknesses, we have also concluded our internal control over financial reporting was ineffective as of December 31, 2018.

Notwithstanding the material weaknesses that existed as of December 31, 2018, management has concluded that the consolidated financial statements included in this Annual Report fairly present, in all material respects, our financial position, results of operations and cash flows as of the dates, and for the

periods, presented, in conformity with U.S. GAAP. Our management has taken action to remediate these material weaknesses, as discussed in more detail under Part II, Item 9A. Controls and Procedures of this Report, and is committed to continue investing significant time and resources and taking actions to remediate the material weaknesses in our internal control over financial reporting as we work to further integrate acquisitions, streamline disparate information technology systems, and enhance our control environment. Any failure to maintain or implement required new or improved controls, or any difficulties we encounter in their implementation, could result in additional significant deficiencies or material weaknesses, and result in material misstatements in our financial statements that could result in a restatement of financial statements.

Attacks on our information technology systems could damage our reputation, negatively impact our businesses and expose us to litigation risk.

We use computers in substantially all aspects of our business operations. We also use mobile devices, social networking and other online activities to connect with our employees and our customers. We rely heavily on various proprietary and third-party information systems. Our reputation for the secure handling of customer and other sensitive information is critical to the success of our business. Although we have implemented safeguards and taken steps to prevent potential cyber incidents and security breaches, our preventative measures may not be entirely effective as our information technology and network infrastructure may still be vulnerable to attacks by hackers or breaches due to employee error, malfeasance, computer viruses, power outages, natural disasters, acts of terrorism or other disruptions. A cybersecurity incident and breach of our information systems could lead to theft, destruction, misappropriation or release of sensitive and/or confidential information or intellectual property which could result in business disruption, negative publicity, violation of privacy laws, loss of customers, brand damage, adverse financial and operational results, and potential litigation.

Our management depends on relevant and reliable information for decision-making purposes, including key performance indicators and financial reporting. A lack of relevant and reliable information could preclude us from optimizing our overall performance. Any significant loss of data, failure to maintain reliable data, disruptions affecting our information systems, or delays or difficulties in transitioning to new systems could adversely affect our business, financial condition and results of operations. In addition, our ability to continue to operate our businesses without significant interruption in the event of a disaster or other disruption depends in part on the ability of our information systems to operate in accordance with our disaster recovery and business continuity plans. If our information systems fail and our redundant systems or disaster recovery plans are not adequate to address such failures, or if our business interruption insurance does not sufficiently compensate us for any losses that we may incur, our revenues and profits could be reduced and the reputation of our brands and our business could be adversely affected. In addition, remediation of such problems could result in significant, unplanned capital investments.

Fluctuations in the commodity market related to the demand and price for recycled paper may affect our business, financial condition and results of operations.

We sell nearly all of the shredded paper from our secure information destruction business to paper companies and recycled paper brokers. Sorted office paper is marketed as a commodity and is subject to significant demand and price fluctuations beyond our control. Historically, economic and market shifts, fluctuations in capacity and changes in foreign currency exchange rates have created cyclical changes in prices, sales volume and margins for pulp and paper products. The length and magnitude of industry

cycles have varied over time and by product, but generally reflect changes in macroeconomic conditions and levels of industry capacity. The overall levels of demand for the pulp and paper products, and consequently its sales and profitability, reflect fluctuations in levels of end-user demand, which depend in part on general macroeconomic conditions in North America and worldwide, as well as increasing use of digitalization. As a result, the market demand for recycled paper can be volatile due to factors beyond our control. Lack of demand for our shredded paper material could adversely affect our business, financial condition and results of operations.

We may incur significant charges as a result of our portfolio optimization strategy; our portfolio optimization strategy may not achieve the desired results.

As part of our long-term strategy for improving our profitability and return on invested capital, we continue to evaluate the performance of our entire portfolio of assets and businesses. Based on this evaluation, we may sell certain assets or businesses or exit particular markets. Any divestitures resulting from this strategy may cause us to record significant write-offs, including those related to goodwill and other intangible assets. In addition, divestitures we complete may not yield the targeted improvements in our business. Any charges that we are required to record or the failure to achieve the intended financial results associated with our portfolio optimization strategy could have a material adverse effect on our business, financial condition or results of operations.

A change or deterioration in our relations with our employees or an increase in labor and employment costs could have a materially adverse effect on our business, financial condition and results of operations.

Labor and employment is one of our highest costs and increases in employment costs could materially affect our cost structure and our profitability. We compete with other businesses in our markets for qualified employees and the labor supply is sometimes tight in our markets. A shortage of qualified employees or further unionization would require us to incur additional costs related to wages and benefits; inefficiencies in operations; unanticipated costs in sourcing temporary or third party labor; legal fees and interference with customer relationships.

The Company is a party to 15 collective bargaining agreements in the U.S. and Canada, covering approximately 700 employees, or approximately 4.0%, of our total U.S. and Canadian workforce and further agreements and works councils covering approximately 1,000 employees in our other international locations. These agreements expire on a scheduled basis depending upon the negotiated length of the contract's term. Collective bargaining agreement negotiations occur every year depending upon which agreements expire and whether one or both parties seek the modification of terms.

There can be no assurance that we will be able to negotiate the terms of future agreements with unions in a manner acceptable to the Company. There is also no guarantee that current non-union employees will not seek union representation resulting in additional collective bargaining agreements with associated increased costs to the Company. Potential work disruptions from labor disputes may disrupt our businesses and adversely affect our brand, customer relations, financial condition and results of operations.

If we are unable to acquire regulated waste, secure information destruction and other businesses, our revenue and profit growth may be slowed.

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

- identify suitable businesses to buy;
- complete the purchase of those businesses on terms acceptable to us; and
- avoid or overcome any concerns expressed by regulators.

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

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

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

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

We may not realize the synergies and growth opportunities that are anticipated from acquisitions.

The benefits we expect to achieve as a result of acquisitions that we complete will depend, in part, on our ability to realize targeted synergies and anticipated growth opportunities. Our success in realizing these synergies and growth opportunities, and the timing of this realization, depends on the successful integration of other business and operations with our pre-existing business and operations. Even if we are able to integrate these businesses and operations successfully, this integration may not result in the realization of the full benefits of the synergies and growth opportunities we currently expect within the anticipated time frame or at all.

We will incur integration costs in connection with our acquisition strategy.

Our business strategy includes growth through acquisition. Each acquisition includes a detailed execution plan to integrate the acquired operations into Stericycle’s existing infrastructure to achieve synergies. We expect to incur costs to implement such cost savings measures. We anticipate that we will incur certain non-recurring charges in connection with this integration, including costs and charges associated with integrating operations, processes and systems and valuations and purchase accounting activities. We cannot identify the timing, nature and amount of all such charges. The significant acquisition-related integration costs could adversely affect our results of operations in the period in which such charges are recognized or our cash flow in the period in which any related costs are actually paid. We believe that synergies will come from the elimination of duplicative costs such as selling, general and administrative expenses, as well as the realization of other efficiencies related to the integration of the businesses such as the optimization of logistics, truck and plant utilization, improvements in route density and facility optimization, and contact center efficiencies. We also believe such synergies will offset incremental acquisition-related costs over time, but this net benefit may not be achieved in the near term, or at all.

Market conditions could adversely change and our earnings could decline resulting in charges to impair intangible assets, such as goodwill.

As a result of our various acquisitions, the Consolidated Balance Sheet at December 31, 2018 contains goodwill of $3.2 billion and other intangible assets, net of accumulated amortization of $1.6 billion. In accordance with Accounting Standards Codification Topic 350, Intangibles – Goodwill and Other, we evaluate on an ongoing basis whether facts and circumstances indicate any impairment to the value of indefinite-lived intangible assets such as goodwill. As circumstances after an acquisition can change, we may not realize the value of these intangible assets. During 2018 and 2017, we wrote off $16.0 million and $21.0 million, respectively, of operating permits, tradenames and customer relationships. Additionally in 2018, we recognized $358.7 million of non-cash goodwill impairment charges related to our Domestic CRS and Latin America reporting units. In 2017, we recognized $65.0 million of non-cash goodwill impairment charges related to our Latin America reporting unit. We recognized these impairments due to a reduction of forecasted future cash flows in each reporting unit, as discussed in the Impairment section of Part II, Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations and Item 8. Financial Statements and Supplementary Data; Note 6 – Goodwill and Other Intangible Assets. The recognition of any potential future impairments could have a material adverse impact on our results of operations.

The handling of regulated waste exposes us to the risk of environmental liabilities.

As a company engaged in regulated waste management, we face risks of liability for environmental contamination. The federal Comprehensive Environmental Response, Compensation and Liability Act of 1980 ("CERCLA") and similar state laws impose strict liability on current or former owners and operators of facilities that release hazardous substances into the environment as well as on the businesses that generate those substances and the businesses that transport them to our facilities. Responsible parties may be liable for substantial investigation and clean-up costs even if they operated their businesses properly and complied with applicable federal and state laws and regulations. Liability under CERCLA may be joint and several, which means that if we were found to be a business with responsibility for a particular CERCLA site, we could be required to pay the entire cost of the investigation and clean-up even if we were not the party responsible for the release of the hazardous substance and other companies might also be liable.

Our pollution liability insurance excludes liabilities under CERCLA. Thus, if we were to incur liability under CERCLA and if we could not identify other parties responsible under the law whom we are able to compel to contribute to our expenses, the cost to us could be substantial and could impair our profitability and

reduce our liquidity. Our customer service agreements make clear that the customer is responsible for making sure that only appropriate materials are disposed of. If there were a claim against us that a customer might be legally liable for, we might not be successful in recovering our damages from the customer, see Item 8. Financial Statements and Supplementary Data; Note 19 – Legal Proceedings.

Tax interpretations and changes in tax regulations and legislation could adversely affect us.

Tax interpretations, regulations and legislation in the various jurisdictions in which we operate are subject to measurement uncertainty and the interpretations can impact net income, income tax expense or recovery, and deferred income tax assets or liabilities. Tax rules and regulations, including those relating to foreign jurisdictions, are subject to interpretation and require judgment by us that may be challenged by the applicable taxation authorities upon audit. Although we believe our assumptions, judgements and estimates are reasonable, changes in tax laws or our interpretation of tax laws and the resolution of any tax audits could significantly impact the amounts provided for income taxes in our consolidated financial statements.

On December 22, 2017, the U.S. government enacted comprehensive tax legislation commonly referred to as the Tax Cuts and Jobs Act (the "Tax Act"). The Tax Act reduced the U.S. federal statutory tax rate, broadened the corporate tax base through the elimination or reduction of deductions, exclusions, and credits, limited the ability of U.S. corporations to deduct interest expense, and transitioned to a territorial tax system which allows for the repatriation of foreign earnings to the U.S. with a 100% federal dividends received deduction prospectively. In addition, the Tax Act required a one-time transitional tax on foreign cash equivalents and previously unremitted earnings. Several of the new provisions enacted as part of the Tax Act require clarification and guidance from the U.S. Internal Revenue Service ("IRS") and Treasury Department. These or other changes in U.S. tax laws could impact our profits, effective tax rate, and cash flows.

We have accumulated net operating losses ("NOLs") arising from our operations and foreign and domestic acquisitions of approximately $344.4 million as of December 31, 2018. We have recognized valuation allowances to reduce these amounts to our current estimate for NOLs that will be recoverable against future taxable income prior to their expiration in accordance with the appropriate tax regulations. If our estimates change or we do not generate sufficient taxable income prior to the expiration of these NOLs we may have to record additional valuation allowances resulting in higher income tax expense.

In addition, we may periodically restructure our legal entities and if taxing authorities were to disagree with our tax positions in connection with any such restructurings, our effective tax rate could be materially affected. In connection with such restructurings we could also incur additional charges associated with consulting fees and other charges.

We face risks associated with project work and services that are provided on a non-recurring basis.

While the majority of our business is based on long-term contracts for regularly scheduled service, we do have a portion of revenue which is derived from short-term projects or services that we provide on a non-recurring basis. Product recall and retrieval events, one-time purge events for secure information destruction, and certain hazardous waste services that we provide on a project or non-recurring basis are not predictable in terms of frequency, size or duration. Our customers' need for these services could be influenced by regulatory changes, fluctuations in commodity market performance, natural disasters and

acts of God, or other factors beyond our control. Variability in the demand for these services could adversely affect our business, financial condition and results of operations.

The handling, transportation, and treatment of regulated waste carries with it the risk of personal injury to employees and others.

Our business requires our employees to handle materials that may be infectious or hazardous to life and property in other ways. While we try to handle such materials with care and in accordance with accepted and safe methods, the possibility of accidents, leaks, spills, and acts of God always exists.

Examples of incidents that may present possible exposure to hazardous materials include:

- truck accidents;
- damaged or leaking containers;
- improper storage of regulated waste by customers;
- improper placement by customers of materials into the waste stream that we are not authorized or able to process, such as certain body parts and tissues; or
- malfunctioning treatment plant equipment, such as power outages, or ineffective backup systems.

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

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

The handling of secure information for destruction exposes us to potential data security risks that could result in monetary damages against us and could otherwise damage our reputation, and adversely affect our business, financial condition and results of operations.

The protection of customer, employee, and company data is critical to our business. The regulatory environment in the U.S. and Canada surrounding information security and privacy is increasingly demanding, with the frequent imposition of new and constantly changing requirements. Certain legislation, including the FACTA, the HIPAA, the Economic Espionage Act in the U.S., the Personal Information Protection and Electronic Documents Act in Canada and the General Data Protection Regulation in the EU, require documents to be securely destroyed to avoid identity theft and inadvertent disclosure of confidential and sensitive information. A significant breach of customer, employee, or company data could attract a substantial amount of media attention, damage our customer relationships and reputation, and result in lost sales, fines, or lawsuits. In addition, an increasing number of countries have introduced and/or increased enforcement of comprehensive privacy laws or are expected to do so. The continued emphasis on information security as well as increasing concerns about government surveillance may lead customers to request us to take additional measures to enhance security and/or assume higher liability under our contracts. As a result of legislative initiatives and customer demands, we may have to modify our operations to further improve data security. Any such modifications may result in

increased expenses and operational complexity, and adversely affect our reputation, business, financial condition and results of operations.

Our participation in multi-employer pension plans may subject us to liabilities that could materially adversely affect our liquidity, cash flows and results of operations.

We participate in multi-employer pension plans administered by employer and union trustees. To the extent that those plans are underfunded, the Employee Retirement Income Security Act of 1974, as amended by the Multi-Employer Pension Plan Amendments Act of 1980 ("ERISA"), may subject us to substantial liabilities in the event we, whether partially or totally, cease to have obligations to contribute to the plans. Under current law regarding multi-employer defined benefit plans, circumstances such as a plan's termination, an employer's partial or complete withdrawal from, or the mass withdrawal of all contributing employers from, an underfunded multi-employer defined benefit plan can trigger our obligation to make payments to the plan for our proportionate share of the multi-employer plan's unfunded vested liabilities. Furthermore, the Pension Protection Act of 2006 added new funding rules generally applicable to plan years beginning after 2007 for multi-employer plans that are classified as "endangered," "seriously endangered," or "critical" status. If plans in which we participate are in critical status or underfunded, we could be required to make additional contributions.

Based upon the information available to us from plan administrators as of March 31, 2018, one of the multi-employer pension plans in which we participate is underfunded. The Pension Protection Act requires that underfunded pension plans improve their funding ratios within prescribed intervals based on the level of their underfunding. We have been notified that one plan is in "critical" status and this plan may require additional contributions. The amount of additional funds we may be obligated to contribute in the future cannot be estimated, as such amounts will be based on future levels of employee work that require the specific use of the union employees covered by these plans, investment returns and the level of underfunding of such plans. Additional funding could adversely affect our liquidity, cash flows and results of operations. For more information, see Part II, Item 8. Financial Statements and Supplementary Data; Note 12 – Retirement and Other Employee Benefit Programs in the Consolidated Financial Statements.

Increases in transportation costs may adversely affect our business and reduce our earnings.

We maintain a vast transportation network and an extensive fleet of transportation vehicles. A significant increase in market prices for trucks or fuel could adversely affect our business through higher transportation costs and reduce our operating margins and reported earnings.

Some of our customers have suffered financial difficulties affecting their credit risk, which could negatively impact our operating results.

We provide service to a number of customers, including governmental entities and municipalities, some of which have suffered significant financial difficulties in recent years. Some of these entities could be unable to pay amounts owed to us or renew contracts with us at previous or increased rates. The inability of our customers to pay us in a timely manner or to pay increased prices, particularly large national accounts, could negatively affect our operating results.

Our success depends on our executive officers and other key personnel. If we lose key personnel or are unable to hire additional qualified personnel, our business may be harmed.

Our future success depends to a significant degree on the skills, experience and efforts of our executive officers and key personnel. We have experienced significant turnover in our executive team in recent periods. The unexpected loss of the services of any of our executive officers could have an adverse effect on our operations. There can be no assurance that our executive succession planning, retention or hiring efforts will be successful. Competition for skilled and experienced management personnel is intense, and our future success will also depend on our ability to attract and retain qualified personnel, and a failure to attract and retain new qualified personnel could have an adverse effect on our operations.

Natural disasters or other catastrophic events could negatively affect our business, financial condition and results of operations.

Natural disasters such as hurricanes, typhoons or earthquakes could negatively affect our operations and financial performance. Such events could result in physical damage to one or more of our facilities or equipment, the temporary lack of an adequate work force in a market, and the temporary disruption in transportation services which we rely on to deliver waste to our facilities. These events could prevent or delay shipments and reduce both volumes and revenue. Weather conditions and other event driven special projects may also cause variations in our results. We may be required to suspend operations in some of our locations, which could have a material adverse effect on our business, financial condition and results of operation.

Item 1B. Unresolved Staff Comments

None.

Item 2. Properties

Details regarding our worldwide properties can be found under Item 1. Business. We believe that these processing and other facilities are adequate for our present and currently anticipated future needs.

Item 3. Legal Proceedings

See Part II, Item 8. Financial Statements and Supplementary Data; Note 19 - Legal Proceedings in the Consolidated Financial Statements.

Item 4. Mine Safety Disclosures

Not Applicable.

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Item 5. Market Price for the Registrant’s Common Equity and Related Stockholder Matters and Issuer Purchase of Equity Securities

The Company’s common stock is listed on the Nasdaq Global Select Market under the ticker symbol "SRCL." There were 88 shareholders of record as of February 25, 2019.

We did not declare or pay any cash dividends on our common stock during 2018, 2017 or 2016. We currently expect that we will retain future earnings for debt repayment and use in the operation and expansion of our business and do not anticipate paying any cash dividends on our common stock in the foreseeable future.

Under resolutions that our Board of Directors adopted, we have been authorized to purchase a cumulative total of 24,621,640 shares of our common stock on the open market. As of December 31, 2018, we had purchased a cumulative total of 22,219,146 shares. No common stock purchases were made during 2018. See Part II, Item 8. Financial Statements and Supplementary Data; Note 14 – Preferred Stock in the Consolidated Financial Statements for a description of our repurchases of depository shares of mandatory convertible preferred stock and details of their conversion into common stock during 2018. We applied the common stock equivalent of repurchases of preferred stock against the number of shares of our common stock authorized for repurchase by the Board of Directors.

Performance Graph

The following graph compares the cumulative total return (i.e., share price appreciation plus dividends) on our common stock over the five-year period ended December 31, 2018 with the cumulative total return for the same period on the S&P 500 Index, the Dow Jones U.S. Waste & Disposal Services Index, the Nasdaq Global Select Index, and the S&P Mid Cap 400 Index.

The Company has included the Nasdaq Global Select Market Composite Index, replacing the Nasdaq National Market Composite Index as the Company’s common stock is registered on the Nasdaq Global Select Market. In addition, the Company’s common stock is no longer included as part of the S&P 500 Index, as of December 31, 2018, and the S&P 500 Index will be excluded from future performance analysis. Instead the Company is now included as a part of the S&P Mid Cap 400 Index which has been included in the performance analysis below and will be included in the performance analysis in future periods.

The graph assumes that $100 was invested on December 31, 2013 in our common stock and in the shares represented by each of the four indices, and that all dividends were reinvested.

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The stock price performance of our common stock reflected in the following graph is not necessarily indicative of future performance.

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Item 6. Selected Financial Data

In millions, except per share data

	Years Ended December 31,				
	2018	2017	2016	2015	2014
Statements of (Loss) Income Data					
Revenues	$3,485.9	$3,580.7	$3,562.3	$2,985.9	$2,555.6
Depreciation and amortization	255.9	249.5	252.5	127.4	104.6
Goodwill impairment	358.7	65.0	-	-	-
(Loss) income from operations [1]	(161.1)	(7.6)	433.8	487.6	556.3
Mandatory convertible preferred stock dividend	(25.5)	(36.3)	(39.4)	(10.1)	-
Gain on repurchase of preferred stock	16.9	17.3	11.3	-	-
Net (loss) income attributable to Stericycle, Inc. common shareholders	(253.3)	23.4	178.2	256.9	326.5
(Loss) earnings per common share attributable to Stericycle, Inc. common shareholders - diluted [2]	$(2.91)	$0.27	$2.08	$2.98	$3.79
Statements of Cash Flow Data					
Net cash from:					
Operating activities	$165.7	$508.6	$560.8	$386.1	$448.5
Investing activities	(147.5)	(193.0)	(195.6)	(2,533.9)	(462.8)
Financing activities	(25.7)	(321.2)	(376.8)	2,185.4	(30.0)
Balance Sheet Data					
Cash and cash equivalents	$34.3	$42.2	$44.2	$55.6	$22.2
Total assets	6,455.5	6,988.3	6,980.1	7,065.2	4,373.3
Long-term debt, net	2,663.9	2,615.3	2,877.3	3,040.4	1,527.2
Stericycle, Inc. equity [1]	$2,587.4	$2,896.6	$2,805.8	$2,729.9	$1,895.0

[1] See Part II, Item 8. Financial Statements and Supplementary Data; Note 1 – Basis of Presentation and Summary of Significant Accounting Policies.

[2] See Part II, Item 8. Financial Statements and Supplementary Data; Note 15 – (Loss) Earnings per Common Share ("EPS") in the Consolidated Financial Statements for information concerning the computation of diluted EPS.

For more details on the items below, see Part II, Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations.

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Net (loss) income attributable to Stericycle, Inc. common shareholders (including the total negative impact to (Loss) earnings per share attributable to Stericycle, Inc. common shareholders), included the following after-tax effects for each of the years ended December 31, 2018, 2017, 2016, 2015, and 2014, respectively:

In millions

	Years Ended December 31,				
	2018	2017	2016	2015	2014
After-tax charges (income)					
Business Transformation	$61.2	$20.0	$-	$-	$-
Intangible Amortization	97.7	77.4	83.5	29.8	-
Acquisition and Integration	7.8	26.2	38.1	55.4	27.8
Operational Optimization	22.9	46.8	40.4	24.0	10.1
Divestitures	16.0	7.1	23.2	-	-
Litigation, Settlements and Regulatory Compliance	74.2	203.5	4.4	39.8	4.0
Impairment	314.5	67.2	1.4	-	-
Other	25.6	15.3	4.1	-	-
Preferred Stock Dividends	27.5	36.3	39.4	10.1	-
U.S. Tax Reform	8.8	(129.8)	-	-	-
Total after-tax impacts	$656.2	$370.0	$234.5	$159.1	$41.9
Negative impact to (Loss) earnings per share attributable to Stericycle, Inc. common shareholders - diluted	$7.36	$4.07	$2.45	$1.76	$0.48

For the purpose of calculating the impact to (Loss) earnings per share attributable to Stericycle, Inc. common shareholders, of our mandatory convertible preferred stock in the years ended December 31, 2018, 2017, 2016, and 2015, we calculate the impact by excluding the mandatory convertible preferred stock dividend and using the "if-converted" method of share dilution, weighted in 2018 for the period prior to its conversion into common stock in September 2018 and weighted in 2015 for the period after issuance in September 2015.

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

The following discussion of Stericycle's financial condition and results of operations should be read in conjunction with our Consolidated Financial Statements and related notes in Part II, Item 8. Financial Statements and Supplementary Data of this Report.

Overview

Stericycle is a multinational business-to-business services provider with a core purpose to help our customers fulfill their promise by providing solutions that protect people and brands, promote health, and safeguard the environment. We are focused on driving long-term growth, profitability, and delivering enhanced shareholder value and operate in highly regulated markets which, we believe will continue to grow as a result of a number of factors (see Part I – Item 1. Business). We aim to take advantage of that growth both organically, by focusing on enhancing our service offerings and platforms, and by acquisitions in what we believe are highly fragmented industries. We serve customers in all 50 states of the United States ("U.S."), Puerto Rico, and in 21 other countries. As part of our business strategy, in the third quarter of 2017, we initiated a comprehensive multi-year Business Transformation (see below).

For further information on the Company's business, segments, and services, see Part I, Item 1. Business.

Highlights for the year ended December 31, 2018 compared to the prior year include:

- Revenues of $3.49 billion, a decrease of 2.6%, driven by the expected declines in the small quantity ("SQ") medical waste business and Communication and Related Services ("CRS"), foreign exchange, and divestitures, partially offset by strong organic growth in Secure Information Destruction.
- Gross profit of $1.38 billion, a decrease of 5.9%, primarily attributable to the expected impact of SQ mix and pricing, non-cash impairment charges and the impact of lower call volumes and smaller recall events in CRS. We also continue to see challenges with our Latin America business as a result of prolonged market declines and cost pressures.
- Loss per share of $2.91, due to $358.7 million in non-cash goodwill impairment charges related to CRS and Latin America reporting units, and other items discussed further below.

During the third quarter of 2018, we funded the $295.0 million SQ medical waste customer class action settlement (the "SQ settlement"). We announced during the fourth quarter of 2018 that we had reached a proposed resolution with Plaintiffs and their counsel in the pending Securities Class Action Lawsuit. (For additional information, see Part II, Item 8. Financial Statements and Supplementary Data; Note 19 – Legal Proceedings in the Consolidated Financial Statements).

We entered into several amendments to the Credit Agreement, which cover our senior credit facility and term loan, and the various note purchase agreements which cover the private placement notes. These amendments adjusted the definition of EBITDA for purposes of the calculation of, and allowed for an increase in, the permitted Consolidated Leverage Ratio. In addition, terms were added which, under certain circumstances, would lead to increases in the interest rates charged on the senior credit facility, term loan and private placement notes. In connection with the underlying terms, we saw an increase of 0.25% in the interest rate charged on our senior credit facility and term loan and total increases of 0.75%

on the interest rates charged on our private placement notes. We expect that the annual impact of these interest rate increases on our Interest Expense, Net will be approximately $11.8 million. (For additional information, see Part II, Item 8, Financial Statements and Supplementary Data; Note 8 – Debt in the Consolidated Financial Statements).

Finally, in September 2018, our Series A Mandatory Convertible Preferred Stock ("Series A Preferred Stock") was converted, in accordance with the terms of issue, into a total of 4.7 million shares of our common stock (for additional information, see Part II, Item 8. Financial Statements and Supplementary Data; Note 14 – Preferred Stock in the Consolidated Financial Statements).

The following table identifies key strategies and other significant matters impacting our business for the years ended December 31, 2018, 2017, and 2016, respectively (amounts are stated pre-tax except when noted):

In millions

	Years Ended December 31,		
	2018	2017	2016
Pre-tax items:			
Included in Cost of revenues ("COR")			
Business Transformation	$8.1	$0.7	$-
Operational Optimization	-	0.4	9.0
Impairment (excluding goodwill)	17.6	-	-
Total included in COR	25.7	1.1	9.0
Included in Selling, general and administrative ("SG&A")			
Business Transformation	74.5	30.6	-
Intangible Amortization	130.3	118.4	129.3
Acquisition and Integration	9.8	40.7	60.9
Operational Optimization	29.4	70.7	50.1
Divestitures	20.5	9.5	27.1
Litigation, Settlements and Regulatory Compliance	93.2	327.7	7.2
Impairment (excluding goodwill)	8.9	-	1.4
Other	29.1	24.8	8.8
Total included in SG&A	395.7	622.4	284.8
Goodwill impairment	358.7	65.0	-
Included in Other expense, net			
Other (including highly inflationary exchange loss)	3.8	-	(0.6)
Capital Allocation (debt modification fees)	2.7	-	-
Total included in Other expense, net	6.5	-	(0.6)
Total pre-tax	$786.6	$688.5	$293.2
After tax items:			
Capital Allocation (preferred dividends)	$25.5	$36.3	$39.4
U.S. Tax Reform	8.8	(129.8)	-
Total after-tax	$34.3	$(93.5)	$39.4

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The above strategies and other significant matters include the following types of activities:

	Cash Charges				Non-Cash
	Closure and Exit Costs [1]	Internal [2]	Consulting and Professional Fees	Other [3]	Charges [4]
Business Transformation	√	√	√	√	√
Acquisition and Integration	√	√	√	√	√
Operational Optimization	√	√	√	√	√
Divestitures			√	√	√
Litigation, Settlements and Regulatory Compliance			√	√	√
Other			√		

(1) Includes employee and contract termination, facility closure and clean up costs.
(2) Includes dedicated resources, including project related incentive compensation and stock based compensation.
(3) Includes other costs related to each strategy e.g. software maintenance fees, changes in contingent consideration and environmental provisions.
(4) Includes impairments, accelerated depreciation and/or amortization and gain/loss on disposal.

Business Transformation

The Business Transformation is based on a strategic vision to build a best-in-class enterprise performance management ("EPM") operating model to enable the Company to operate more efficiently, provide an enhanced experience to customers, better capitalize on future growth opportunities and establish greater controls and oversight to drive more consistent results. Additionally, a key component to the Business Transformation is the implementation of an enterprise resource planning ("ERP") system which will leverage standard processes throughout the organization to accelerate decision making, expedite acquisition integration, remediate compliance and control issues, and enable real-time analytics.

Key initiatives of the Business Transformation include:

- Portfolio Rationalization: Executing on a comprehensive review of the Company's global service lines to identify and pursue the divestiture of non-strategic assets (see divestitures section, below for decision criteria and divestiture related charges).
- Operational Optimization: Standardizing route planning logistics, modernizing field operations, and driving network efficiency across facilities.
- Organizational Excellence and Efficiency: Redesigning the Company's organizational structure to optimize resources and align around a global shared business services model.
- Commercial Excellence: Aligning our sales and service organizations around the customer, standardizing our customer relationship management process, and expanding customer self-service options.
- Strategic Sourcing: Reducing spend through global procure-to-pay processes and leveraging organizational scale.

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Execution of the Business Transformation began in 2017 with the identification and validation of key transformational opportunities as well as an organizational restructuring which occurred during the fourth quarter of 2017. Execution of the Business Transformation is expected to continue through 2022 with the implementation of an enterprise resource planning system in the U.S. and Canada during 2020 with remaining international rollouts beginning in 2021.

On August 2, 2018, we announced, as part of the Portfolio Rationalization strategy within Business Transformation, that we are pursuing strategic alternatives for non-core CRS, demonstrating our commitment to streamlining our portfolio. The process, which is being conducted with the assistance of financial and legal advisers, is considering a range of strategic alternatives for CRS, including a divestiture, with a focus on pursuing the outcome that will drive the most value for Stericycle shareholders. There can be no assurances as to the form or timing of any transaction or if any transaction will be consummated. Any potential gain or loss will depend on a number of factors, such as our ability to identify an appropriate strategic alternative, reach a mutual agreement with any counterparty and satisfy the closing conditions associated with any proposed transaction.

For the years ended December 31, 2018 and 2017 and since the program's inception, we have recognized the following charges and capital expenditures related to the Business Transformation:

In millions

	Years Ended December 31,		
	2018	2017	Cumulative Since Inception
Included in COR			
Exit costs - employee termination	$-	$0.7	$ 0.7
Other related expenses	0.4	-	0.4
Non-cash charges	7.7	-	7.7
Total included in COR	8.1	0.7	8.8
Included in SG&A			
Exit costs - employee termination	3.7	10.8	14.5
Internal costs	15.6	-	15.6
Consulting and professional fees	44.9	16.4	61.3
Other related expenses	8.9	1.0	9.9
Non-cash charges	1.4	2.4	3.8
Total included in SG&A	74.5	30.6	105.1
Total charges	$82.6	$31.3	$ 113.9
Non-cash impairment charges	$9.1	$2.4	$ 11.5
Cash charges (including stock based compensation)	$73.5	$28.9	$ 102.4
Capital expenditures	$18.0	$10.9	$ 28.9

The Company expects to incur additional aggregate charges over the duration of Business Transformation, principally aligned with the ERP implementation timeline discussed above. The amount, timing and recognition of additional charges over this time period will be affected by the nature of spending and the occurrence of commitments and triggering events as defined under accounting principles generally accepted in the U.S. ("GAAP"), among other factors. The asset impairment charges are non-cash, and the remaining charges are cash costs primarily expensed or capitalized as incurred.

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The Company may incur more charges and cash expenditures than estimated and may not realize the expected improvement or cost savings on its planned time frame or at all.

The non-cash charges incurred in the year ended December 31, 2018 are discussed in Part II, Item 8. Financial Statements and Supplementary Data; Note 5 – Property, Plant And Equipment in the Consolidated Financial Statements We may incur additional non-cash impairment and/or accelerated depreciation charges as we continue to evolve our future information technology strategy in conjunction with our ERP implementation.

Business Transformation charges by reportable segment for the year ended December 31, 2018 were as follows:

In millions	Domestic and Canada RCS	International RCS	All Other	Total
Total	$10.8	$ 0.7	$71.1	$82.6

Business Transformation charges by reportable segment for the year ended December 31, 2017 were as follows:

In millions	Domestic and Canada RCS	International RCS	All Other	Total
Total	$5.5	$ 4.0	$21.8	$31.3

As part of our Business Transformation we are undertaking legal entity organizational restructuring actions to assist with streamlining and simplifying business operations and to help lower general and administrative costs. Such actions could result in additional charges associated with consulting and professional services, and increases in potential exposure to U.S. and foreign taxes and foreign exchange charges.

Intangible Amortization

For the years ended December 31, 2018, 2017, and 2016, the Company recognized $130.3 million, $118.4 million, and $129.3 million, respectively, of intangible amortization expense. The increase is partially due to the adjustment of the estimated useful lives of some of our customer relationship intangibles (see Part II, Item 8. Financial Statements and Supplementary Data; Note 6 – Goodwill and Other Intangible Assets in the Consolidated Financial Statements) during 2018 with the remaining change arising from acquisitions.

Acquisition and Integration

We believe that acquisitions are a steady and efficient way to scale operations, build critical customer density for transportation and treatment operations, and enter new markets or geographies, as well as provide opportunity to introduce our additional services to the acquired customers. We expect to continue our acquisition strategy, remaining focused on small, highly accretive, tuck in acquisitions that broaden our various service capabilities while creating value for our shareholders.

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Details of the acquisitions completed in the years ended December 31, 2018, 2017, and 2016 can be found in Part II, Item 8. Financial Statements and Supplementary Data; Note 3 – Acquisitions in the Consolidated Financial Statements.

Acquisition and integration expenses for the years ended December 31, 2018, 2017, and 2016 were as follows:

In millions

	Years Ended December 31,		
	2018	2017	2016
Acquisition expenses	$7.4	$10.6	$9.6
Integration expenses	2.2	30.5	53.3
Unfavorable (favorable) change in contingent consideration	0.2	(0.4)	(2.0)
Total	$9.8	$40.7	$60.9

Integration expenses incurred in the years ended December 31, 2018, 2017, and 2016 primarily related to acquisitions completed in the U.S. and the fourth quarter 2015 Shred-it® acquisition.

Operational Optimization

The Company aims to achieve a culture of continuous improvement that will enhance its efficiency, effectiveness and competitiveness to improve its cost base and cash flow. As part of its strategy, the Company has taken a number of actions to reduce operating costs and optimize operations. For example, we believe plant throughput and route density are competitive strengths of Stericycle. We maintain such strengths by making adjustments to our network of transportation and treatment facilities to optimize overall logistics and processing capabilities within a service line while reducing operational costs. As part of these efforts, we seek to reduce network redundancies by consolidating facilities, closing the redundant facility, and restructuring the local organization and operation for efficiency.

Projects that are included within the Operational Optimization category were generally commenced prior to the announcement of our Business Transformation initiative discussed above or have been identified as additional items over and above those related to Business Transformation.

Operational Optimization expenses, which were all recognized in SG&A, for the year ended December 31, 2018, were as follows:

In millions

	Domestic and Canada RCS	International RCS	All Other	Total
Exit costs - employee termination	$-	$ 0.2	$ 1.1	$1.3
Closure and exit costs - other	4.2	5.9	3.7	13.8
Non-cash charges	1.0	11.3	-	12.3
Other expenses	-	2.0	-	2.0
Total	$5.2	$ 19.4	$ 4.8	$29.4

- Domestic and Canada RCS Closure and exit costs - other related to optimizing overall logistics and sales functions and lease exit costs for the consolidation of call centers in Canada Communication and Related Services locations and non-cash charges relate to accelerated depreciation associated with software;

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- International RCS Closure and exit costs - other relate to closure, contract exit and other clean-up costs, primarily in Latin America and Japan. Non-cash impairment charges related to long-lived assets, customer relationships, and operating permits, primarily in Latin America and Japan, and rationalization of a tradename in Europe, and other expenses primarily in Japan; and
- All Other Exit costs - other related to lease exit costs for the consolidation of call centers in Domestic Communication and Related Services locations.

Operational Optimization charges, which, except for $0.4 million recognized in COR, were recognized in SG&A, for the year ended December 31, 2017, were as follows:

In millions	Domestic and Canada RCS	International RCS	All Other	Total
Exit costs - employee termination	$1.1	$ 3.7	$0.5	$5.3
Closure and exit costs - other	16.1	8.8	5.8	30.7
Non-cash charges	3.1	17.0	5.8	25.9
Consulting and professional fees	8.9	-	0.3	9.2
Total	$29.2	$ 29.5	$12.4	$71.1

- Domestic and Canada RCS Closure and exit costs - other related to optimizing overall logistics and sales functions. Non-cash impairment charges related to long lived assets, consulting and professional fees relate to costs to identify opportunities and reduce operational redundancies;
- International RCS Closure and exit costs – employee termination and closure and exit costs - other included amounts incurred in Latin America for rationalizing our operations and in the U.K. for facility rationalization and contract exit costs. Non-cash impairment charges related to long-lived assets, operating permits, and customer relationships in Latin America and Japan; and
- All Other closure and exit costs - other related to consolidating of call centers in Domestic Communication and Related Services locations. Non-cash charges relate to the impairment of a tradename and consulting and professional fees represented fees incurred to eliminate operational redundancies.

Operational Optimization charges, which, except for $9.0 million recognized in COR, were recognized in SG&A, for the year ended December 31, 2016, were as follows:

In millions	Domestic and Canada RCS	International RCS	All Other	Total
Exit costs - employee termination	$1.7	$ 1.1	$1.7	$4.5
Closure and exit costs - other	5.3	26.5	10.8	42.6
Consulting and professional fees	10.4	-	1.6	12.0
Total	$17.4	$ 27.6	$14.1	$59.1

- Domestic and Canada RCS Exit costs-other related to optimizing overall logistics and sales functions and the consolidation of call centers in Canadian Communication and Related Services locations. Consulting and professional fees to identify opportunities and reduce operational redundancies;
- International RCS Exit-costs other related to charges to exit certain of our patient transport services contracts and plant conversion expense in the U.K.; and
- All Other Closure and exit costs - other related to the consolidation of call centers in Domestic Communication and Related Services. Consulting and professional fees were incurred to identify opportunities and reduce operational redundancies.

As the Company continues to consider each continuous improvement activity, the amount, the timing and recognition of charges will be affected by the occurrence of commitments and triggering events as defined under GAAP, among other factors. The Company may incur more charges and cash expenditures than estimated and may not realize the expected improvement or cost savings on its planned time frame or at all.

Divestitures

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

- outlook for long-term market conditions,
- potential impact to complimentary services or customer relationships,
- ability to leverage infrastructure and customer base for growth,
- potential for margin improvement,
- current divestiture value versus future divestiture value,
- return on invested capital, and
- implications for ERP system implementation.

During the years ended December 31, 2018, 2017, and 2016, we recognized charges totaling $12.8 million, $9.5 million and $27.1 million, respectively, associated with the divestitures of businesses. Details of divestitures undertaken in the years ended December 31, 2018, 2017, and 2016 can be found in Part II, Item 8. Financial Statements and Supplementary Data; Note 4 – Restructuring, Divestitures, and Assets Held for Sale in the Consolidated Financial Statements. In addition to these charges, in 2018 we incurred $7.7 million of consulting and professional fees associated with our Portfolio Rationalization efforts, primarily the review of strategic alternatives for CRS.

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

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Litigation, Settlements and Regulatory Compliance

We operate in highly regulated industries and must address regulatory inquiries or respond to investigations from time to time. We are also involved in a variety of civil litigation from time to time including the items detailed in Part II, Item 8. Financial Statements and Supplementary Data; Note 19 – Legal Proceedings, in the Consolidated Financial Statements.

Our financial results may also include considerations of non-recurring matters including settlements, environmental remediation, and legal related consulting and professional fees.

For the year ended December 31, 2018, we recognized $93.2 million of legal, settlement and regulatory compliance expenses, consulting and professional fees, primarily related to certain litigation matters, including the provision, net of insurance recoveries, for the proposed Securities Class Action Settlement announced on December 19, 2018.

For the year ended December 31, 2017, we recognized $327.7 million of legal, settlement and regulatory compliance expenses, consulting and professional fees, primarily related to certain litigation matters, of which $295.0 million was for the SQ Settlement.

For the year ended December 31, 2016, we recognized $7.2 million in regulatory compliance, consulting and professional fees, primarily related to certain litigation matters.

See also Item 1A. Risk Factor "We are subject to a number of pending lawsuits."

Impairment

Impairment charges comprise the following for the years ended December 31, 2018, 2017, and 2016:

In millions

	Years Ended December 31,		
	2018	2017	2016
Impairments included in COR	$17.6	$-	$-
Impairments included in SG&A	$8.9	$-	$1.4
Goodwill impairments:			
Domestic CRS reporting unit	$286.3	$-	$-
Latin America reporting unit	72.4	65.0	-
Goodwill impairments	$358.7	$65.0	$-

The impairment charges included in COR for the year ended December 31, 2018 are described in Part II, Item 8. Financial Statements and Supplementary Data; Note 5 – Property, Plant And Equipment in the Consolidated Financial Statements.

As a result of our annual goodwill impairment assessment on October 1 and an interim assessment performed in the fourth quarter of 2018, we recognized total non-cash goodwill impairment charges of $358.7 million related to our Domestic CRS and Latin America reporting units. The impairment charges are discussed further below in the Impairment section of Part II, Item 7. Management's Discussion and

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Analysis of Financial Condition and Results of Operations – Goodwill Impairment. (For additional information, see Part II, Item 8. Financial Statements and Supplementary Data; Note 6 – Goodwill and Other Intangible Assets in the Consolidated Financial Statements).

Goodwill impairment charges may be recognized in future periods to the extent changes in factors or circumstances occur, including deterioration in the macro-economic environment or in the equity markets, including the market value of our common shares, deterioration in our performance or our future projections, or changes in the Company's plans for one or more reporting units.

Other

During the years ended December 31, 2018, 2017, and 2016, we recognized $29.1 million, $24.8 million, and $8.8 million, respectively, of consulting and professional fees related to internal control remediation activities as well as the implementation of new accounting standards which are reflected as part of SG&A on the Consolidated Statements of (Loss) Income.

For the year ended December 31, 2018, we recognized a foreign exchange loss of $3.8 million, in Other expense, net on the Consolidated Statements of (Loss) Income, related to the re-measurement of net monetary assets held in Argentina as a result of its designation as a highly inflationary economy.

Capital Allocation

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

Our capital allocation items include the following types of activities:

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

We declared and paid dividends of $25.5 million, $36.3 million, and $39.4 million to the Series A Preferred Stock shareholders during the years ended December 31, 2018, 2017, and 2016, respectively. On September 14, 2018, in accordance with their terms of issuance, all of the Series A Preferred Stock was converted into common stock and all then outstanding shares of preferred stock and the associated depositary shares were cancelled.

During the year ended December 31, 2018, we recognized $2.7 million of debt modification charges related to amending our credit agreements. These charges have been recognized as Interest expense, net in the Consolidated Statements of (Loss) Income.

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Tax Reform

The U.S. Tax Cuts and Jobs Act of 2017 (the "Tax Act") was signed into law on December 22, 2017 and introduced changes including, but are not limited to, a corporate income tax rate decrease from 35% to 21% effective for tax years beginning after December 31, 2017, the transition of U.S. international taxation from a worldwide tax system to a territorial system, and a one-time transition tax on the mandatory deemed repatriation of cumulative foreign earnings as of December 31, 2017.

The Company calculated the provisional impact of the Tax Act on its year end 2017 income tax benefit/provision and as a result recognized $129.8 million as an income tax benefit in the fourth quarter of 2017. Consistent with the requirements of Staff Accounting Bulletin No. 118 ("SAB 118"), the impact was finalized during 2018, resulting in a charge of $8.8 million. Adjustments may be necessary in future periods due to potential technical corrections to the Tax Act and/or regulatory guidance that may be issued by the U.S. Internal Revenue Service. For further discussion, see Part II, Item 8. Financial Statements and Supplementary Data; Note 9 – Income Taxes in the Consolidated Financial Statements.

Results of Operations:

In millions, except per share data

	Years Ended December 31,								Change	
	2018		2017		2016		Change 2018 versus 2017		2017 versus 2016	
	$	% of Revenues	$	% of Revenues	$	% of Revenues	$	%	$	%
Revenues	3,485.9	100.0%	3,580.7	100.0%	3,562.3	100.0%	(94.8)	(2.6%)	18.4	0.5%
Cost of revenues	2,109.9	60.5%	2,118.2	59.2%	2,075.4	58.3%	(8.3)	(0.4%)	42.8	2.1%
Gross profit	1,376.0	39.5%	1,462.5	40.8%	1,486.9	41.7%	(86.5)	(5.9%)	(24.4)	(1.6%)
Selling, general and administrative expenses	1,178.4	33.8%	1,405.1	39.2%	1,053.1	29.6%	(226.7)	(16.1%)	352.0	33.4%
Goodwill impairment	358.7	10.3%	65.0	1.8%	-	–	293.7	451.8%	65.0	nm
(Loss) income from operations	(161.1)	(4.6%)	(7.6)	(0.2%)	433.8	12.2%	(153.5)	nm	(441.4)	(101.8%)
Interest expense, net	(106.0)	(3.0%)	(93.7)	(2.6%)	(97.8)	(2.7%)	(12.3)	13.1%	4.1	(4.2%)
Other expense, net	(8.3)	(0.2%)	(6.6)	(0.2%)	(7.9)	(0.2%)	(1.7)	25.8%	1.3	(16.5%)
(Loss) Income before income taxes	(275.4)	(7.9%)	(107.9)	(3.0%)	328.1	9.2%	(167.5)	155.2%	(436.0)	(132.9%)
Income tax benefit (expense)	29.8	0.9%	150.9	4.2%	(120.2)	(3.4%)	(121.1)	(80.3%)	271.1	(225.5%)
	(245.6)	(7.0%)	43.0	1.2%	207.9	5.8%	(288.6)	nm	(164.9)	(79.3%)

Net (loss) income		

nm - percentage change not meaningful

Revenues: In analyzing our Company's performance, it is necessary to understand that our various regulated services share a common infrastructure and customer base. We market our regulated and compliance services by offering various pricing options to meet our customers' preferences, and customers move between these different billing paradigms. For example, our customers may contract with us for Medical Waste Disposal services that are billed based on the weight of waste collected, processed and disposed during a particular period, and in a subsequent period, the same customer could move to our standard service, which packages the same regulated medical waste services with training and education services for a contracted subscription fee. Another example is a customer that purchases our Medical Waste Disposal and Sharps Disposal Management services which provides the customer with the same regulated services under a different pricing and billing arrangement.

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We do not track the movement of customers between the various types of regulated services we offer. Although we can identify directional trends in our services, because the regulated services are similar in nature and there are inherent inaccuracies in disaggregation, we analyze revenues on an aggregated basis. We analyze our revenue growth by identifying changes related to organic growth, acquisitions, divestitures and changes due to currency exchange fluctuations. Organic growth excludes the effect of foreign exchange and acquisitions and divestitures with less than a full year of revenues in the comparative period.

Year over year movements in Revenues by Service and Segment in 2018 compared to 2017, and 2017 compared to 2016 were as follows:

	In millions Years Ended December 31,			Percentage Change %				
	2018	2017	Change	Organic	Acquisitions	Divestitures	Foreign Exchange	Change
Revenues by Service								
Regulated Waste and Compliance Services	$1,932.6	$2,023.6	$(91.0)	(2.8 %)	0.3 %	(1.1 %)	(0.9 %)	(4.5 %)
Secure Information Destruction Services	911.0	823.4	87.6	7.8 %	2.7 %	(0.4 %)	0.5 %	10.6 %
Communication and Related Services	313.1	382.6	(69.5)	(18.2 %)	0.1 %	–	(0.1 %)	(18.2 %)
Manufacturing and Industrial Services	329.2	351.1	(21.9)	2.8 %	0.2 %	(5.4 %)	(3.8 %)	(6.2 %)
Total Revenues	$3,485.9	$3,580.7	$(94.8)	(1.5 %)	0.8 %	(1.3 %)	(0.7 %)	(2.6 %)
Revenues by Segment								
Domestic and Canada RCS	$2,574.1	$2,551.9	$22.2	(0.1 %)	1.1 %	(0.1 %)	–	0.9 %
International RCS	655.1	707.6	(52.5)	1.9 %	0.4 %	(5.9 %)	(3.8 %)	(7.4 %)
All Other	256.7	321.2	(64.5)	(20.1 %)	–	–	–	(20.1 %)
Total Revenues	$3,485.9	$3,580.7	$(94.8)	(1.5 %)	0.8 %	(1.3 %)	(0.7 %)	(2.6 %)

	In millions Years Ended December 31,			Percentage Change %				
	2017	2016	Change	Organic	Acquisitions	Divestitures	Foreign Exchange	Change
Revenues by Service								
Regulated Waste and Compliance Services	$2,023.6	$2,063.0	$(39.4)	(1.0 %)	0.3 %	(0.9 %)	(0.3 %)	(1.9 %)
Secure Information Destruction Services	823.4	747.5	75.9	7.4 %	2.9 %	–	(0.2 %)	10.2 %
Communication and Related Services	382.6	370.4	12.2	2.2 %	1.3 %	–	(0.2 %)	3.3 %
Manufacturing and Industrial services	351.1	381.4	(30.3)	(6.1 %)	–	(0.8 %)	(1.0 %)	(7.9 %)
Total Revenues	$3,580.7	$3,562.3	$18.4	0.6 %	0.9 %	(0.6 %)	(0.3 %)	0.5 %

Revenues by Segment								
Domestic and Canada RCS	$2,551.9	$2,508.8	$43.1	0.8 %	0.8 %	–	0.1 %	1.7 %
International RCS	707.6	751.7	(44.1)	(1.8%)	0.9 %	(2.9 %)	(2.1 %)	(5.9 %)
All Other	321.2	301.8	19.4	4.8 %	1.6 %	–	0.0 %	6.4 %
Total Revenues	$3,580.7	$3,562.3	$18.4	0.6 %	0.9 %	(0.6 %)	(0.3 %)	0.5 %

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2018 compared to 2017

On a consolidated basis revenues decreased $94.8 million, or 2.6%, in 2018 to $3.49 billion from $3.58 billion in 2017. The decrease was largely driven by the expected declines in the SQ medical waste business and CRS, foreign exchange, and divestitures, partially offset by strong organic growth in Secure Information Destruction.

Domestic and Canada RCS revenues increased $22.2 million, or 0.9%, in 2018 to $2.57 billion from $2.55 billion in 2017. Organic revenues declined $1.5 million, or 0.1%, as we saw declines due to the impact of SQ pricing. This was partially offset by increases in Secure Information Destruction revenues as a result of increased pricing and related demand and pricing for recycled paper as well as organic growth from new customers and growth in Regulated Waste and Compliance revenues from retail and our larger customers. Acquisitions contributed $27.0 million, or 1.1%, to revenues. Divestitures, primarily related to the U.S. clean room business, reduced revenues by $3.3 million, or 0.1%.

International RCS revenue decreased $52.5 million, or 7.4%, in 2018 to $655.1 million from $707.6 million in 2017. The increase in International RCS segment organic revenues was $13.3 million, or 1.9%. Secure Information Destruction revenues increased as a result of increased pricing and related demand and pricing for recycled paper as well as organic growth from new customers, and the impact of the new General Data Protection Regulation laws in Europe. We also saw increases in Medical Waste and Compliance Revenues as a result of growth in Europe. These increases were offset by declines due to the exit from our patient transport business in the U.K. and overall economic declines in several Latin America markets. Acquisitions in the International RCS segment contributed $2.7 million, or 0.4%, to revenues. Divestitures related to the hazardous waste business in the U.K. and Secure Information Destruction business in South Africa reduced revenues by $41.7 million, or 5.9%. The effect of foreign exchange rates, primarily in Latin America, unfavorably impacted international revenues in 2018 by $26.8 million, or 3.8%, as foreign currencies, notably those in Latin America, declined against the U.S. dollar.

All Other revenues, related to Domestic Communication and Related Services, decreased $64.5 million, or 20.1%, in 2018 to $256.7 million from $321.2 million in 2017. Revenues were impacted by reductions in CRS volumes due to smaller-sized recall events as compared to multiple large-sized recall events managed during 2017 and lower call volumes.

2017 compared to 2016

On a consolidated basis revenues increased $18.4 million, or 0.5%, in 2017 to $3.58 billion from $3.56 billion in 2016.

Domestic and Canada RCS revenues increased $43.1 million, or 1.7%, in 2017 to $2.55 billion from $2.51 billion in 2016. Organic revenue growth contributed $19.0 million, or 0.8%, and acquisitions contributed $20.9 million, or 0.8%, to revenues. Our Secure Information Destruction revenues were strong due to higher sales activity for both recurring and one-time purge services combined with higher recycling revenue. The strengthening of the Canadian dollar had a favorable impact on 2017 revenues by $3.2 million, or 0.1%. Revenue related to Manufacturing and Industrial services ("M&I") experienced a decline of $19.7 million from 2016, which reduced overall organic growth by 0.9%. This decline was due to lower activity from on-call services related to softness in the U.S. industrial market. In addition, we have experienced pricing pressure related to our SQ regulated waste and compliance customers resulting from hospital consolidation of physician practices and increased competitive activities in the market.

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International RCS revenue decreased $44.1 million, or 5.9%, in 2017 to $707.6 million from $751.7 million in 2016. 2017 organic revenue decline in the International RCS segment was $13.4 million, or 1.8%, primarily due to exiting certain patient transport service contracts in the U.K. and a decline in M&I revenue in our Latin American business. Acquisitions in the International RCS segment contributed $6.4 million, or 0.9% to revenues. Divestitures related to the sale of certain assets in the U.K. reduced revenues by $21.6 million, or 2.9%. The net effect of acquisitions and divestitures resulted in a 2.0% decrease in revenues in 2017. The effect of foreign exchange rates unfavorably impacted international revenues in 2017 by $15.5 million, or 2.1%, as foreign currencies declined against the U.S. dollar.

All Other revenues, related to Domestic Communication and Related Services, increased $19.4 million, or 6.4%, in 2017 to $321.2 million from $301.8 million in 2016. Organic revenue increased $14.5 million, or 4.8%, primarily due to serving new brands across many industries and several larger non-recurring recall events in 2017. Acquisitions contributed $4.9 million, or 1.6%.

Gross Profit:

In millions

	Years Ended December 31,									
	2018		2017		2016		Change 2018 versus 2017		Change 2017 versus 2016	
	$	% of Revenue	$	% of Revenue	$	% of Revenue	$	%	$	%
Gross profit	1,376.0	39.5 %	1,462.5	40.8 %	1,486.9	41.7 %	(86.5)	(5.9%)	(24.4)	(1.6%)

Consolidated Gross profit decreased $86.5 million, or 5.9%, in 2018 to $1.38 billion from $1.46 billion in 2017. As a percentage of revenues, consolidated Gross profit decreased to 39.5% in 2018 compared to 40.8% in 2017. The decline in gross profit was primarily attributable to the expected impact of SQ mix and pricing, approximately $25.7 million of non-cash impairment charges incurred in the Domestic and Canada RCS and All Other reportable segments and the impact of lower volumes in CRS. Decreases were also due to a prolonged declining market trend and cost pressures in Latin America.

Consolidated Gross profit decreased $24.4 million, or 1.6%, in 2017 to $1.46 billion from $1.49 billion in 2016. As a percentage of revenues, consolidated Gross profit decreased to 40.8% in 2017 compared to 41.7% in 2016. The decline in gross profit was primarily due to lower revenues from our M&I customers, which have a higher fixed cost structure, and approximately $18.0 million of non-cash fixed assets depreciation increases and write-offs. Domestically, pricing pressure on our SQ regulated waste and compliance customers negatively impacted our gross profit as a percentage of revenues.

International gross profit is lower than domestic gross profit because our international operations have fewer small account customers, which tend to generate higher gross profit. Historically, our international operations generate most of their revenues from large account customers, such as hospitals, publically funded healthcare organizations and government bodies. As our international revenues increase, consolidated gross profit percentages experience downward pressure due to this "business mix" shift, which may be offset by additional international small account market penetration, integration savings, and domestic business expansions.

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SG&A:

In millions

	Years Ended December 31,									
	2018		2017		2016		Change 2018 versus 2017		Change 2017 versus 2016	
	$	% of Revenue	$	% of Revenue	$	% of Revenue	$	%	$	%
SG&A	1,178.4	33.8 %	1,405.1	39.2 %	1,053.1	29.6 %	(226.7)	(16.1%)	352.0	33.4%

SG&A expenses decreased $226.7 million, or 16.1%, in 2018 to $1.18 billion from $1.41 billion in 2017. As a percentage of revenues, SG&A decreased to 33.8% in 2018 compared to 39.2% in 2017. The decrease was primarily attributable to lower charges associated with key strategies and significant matters, which were $395.7 million in 2018 compared to $622.4 million in 2017. These matters are discussed above. Additionally, there were also decreases in consulting and professional fees and bad debt expense partially offset by an increase in incentive based compensation as achievement was at higher overall levels during 2018.

SG&A expenses increased $352.0 million, or 33.4%, in 2017 to $1.41 billion from $1.05 billion in 2016. As a percentage of revenues, SG&A increased to 39.2% of revenues in 2017 compared to 29.6% in 2016. The increase was primarily attributable to the impact of the SQ settlement and charges associated with key strategies and significant matters discussed above, which, in aggregate, contributed $337.6 million of the increase. In addition, there were increases in consulting and professional fees, partially offset by lower compensation and bad debt expense.

Goodwill Impairment:

Goodwill impairment was $358.7 million in 2018, compared with $65.0 million in 2017.

In our Form 10-Q for the quarter ended September 30, 2018, we disclosed that we were in the process of completing the October 1 annual goodwill impairment assessment and that certain of our reporting units, including Domestic CRS and Latin America, were potentially at risk for impairment based on our preliminary review of our long range plan ("LRP") which was in the process of being finalized. We were also evaluating recent declines in our stock price and the impact on our reconciliation of the aggregate fair values of our reporting units to our market capitalization.

We performed our annual goodwill assessment as of October 1, 2018, and we continued to update our assumptions to reflect certain business and strategic developments during the fourth quarter, which negatively impacted the estimated cash flows of certain of our reporting units and resulted in our decision to also complete an interim assessment as of December 31, 2018. The Company determined that the Domestic CRS and Latin America reporting units' carrying values were in excess of their estimated fair values.

Factors that contributed to the estimated fair value of the reporting units being below their carrying value include:

- For Domestic CRS we experienced a progressive decrease in revenues and operating margins in 2018 due to (i) continued declines in large recall events leading to a higher level of the uncertainty of these occurring in future periods. (ii) recall events that have a smaller number of units and significantly lower revenue per event than we had experienced in recent years, and (iii) continued decline in inbound/outbound call volumes for our live voice services. We also gathered insights from our process of evaluating strategic alternatives that we initiated in 2018;

- For Latin America we continue to experience prolonged challenges and volatility in certain of our markets due to declining market trends and cost pressures. Revenue increases in our Manufacturing and Industrial ("M&I") business due to inflationary price increases in Argentina have been offset by the impact of currency devaluation and the continuing declines in several local economies.

These challenges were factored into updates to our forecasted cash-flow assumptions during the fourth quarter to reflect our current outlook and we made certain adjustments to the discount rates used to present value these forecasted cash-flows. As a result of these impairment assessments, we recognized $286.3 million of non-cash goodwill impairment charges to fully impair the goodwill of our Domestic CRS reporting unit. In addition, we recognized $72.4 million of non-cash goodwill impairment charges related to our Latin America reporting unit. Following the impairment, the remaining Latin America reporting unit's goodwill is $20 million.

During 2017, as a result of our annual impairment assessment of goodwill we recognized a non-cash goodwill impairment charge for our Latin America reporting unit of $65 million.

Segment Profitability: We use Adjusted EBITDA as the primary measure of profitability for each of our Reportable Segments – see Part II, Item 8. Financial Statements and Supplementary Data; Note 17 – Segment Reporting in the Consolidated Financial Statements for an explanation of this measure. Segment profitability and a reconciliation of the total for segment profitability to (loss) income from operations for each of the years ended December 31, 2018, 2017, and 2016 respectively was as follows:

PART II

In millions

	Years Ended December 31,											
	2018			2017			2016			Change 2018 versus 2017		Change 2017 versus 2016	
	$	% of Segment Revenues		$	% of Segment Revenues		$	% of Segment Revenues		$	%	$	%
Adjusted EBITDA													
Domestic and Canada RCS	782.4	30.4	%	809.5	31.7	%	824.9	32.9	%	(27.1)	(3.3 %)	(15.4)	(1.9 %)
International RCS	95.6	14.6	%	93.7	13.2	%	93.1	12.4	%	1.9	2.0 %	0.6	0.6 %
All Other	(133.4)	(52.0	%)	(91.2)	(28.4	%)	(67.2)	(22.3	%)	(42.2)	46.3 %	(24.0)	35.7 %
Total	744.6	21.4	%	812.0	22.7	%	850.8	23.9	%	(67.4)	(8.3 %)	(38.8)	(4.6 %)

Reconciliation to (Loss) income from operations:			
Total Adjusted EBITDA above	744.6	812.0	850.8
Depreciation	(125.6)	(131.1)	(123.2)
Business Transformation	(82.6)	(31.3)	-
Intangible Amortization	(130.3)	(118.4)	(129.3)
Acquisition and Integration	(9.8)	(40.7)	(60.9)
Operational Optimization	(29.4)	(71.1)	(59.1)
Divestitures	(20.5)	(9.5)	(27.1)
Litigation, Settlements and Regulatory Compliance	(93.2)	(327.7)	(7.2)
Impairment	(385.2)	(65.0)	(1.4)
Other	(29.1)	(24.8)	(8.8)
(Loss) income from operations	(161.1)	(7.6)	433.8

2018 compared to 2017

Adjusted EBITDA for our Domestic and Canada RCS reportable segment decreased $27.1 million, or 3.3%, in 2018 to $782.4 million from $809.5 million in 2017. As a percentage of Domestic and Canada RCS revenues, Adjusted EBITDA was 30.4% and 31.7%, for 2018 and 2017, respectively. This decrease was primarily a result of the impact of lower margins caused by the expected impact of pricing on our SQ medical waste customers as well as the pricing pressures we have experienced from our SQ regulated waste and compliance customers resulting from hospital consolidation of physician practices and increased competitive activities, partially offset by the impact of Business Transformation cost savings and efficiencies. Additionally, the overall decrease was partially offset by the benefits of increased volume and pricing on recycled paper.

Adjusted EBITDA for our International RCS reportable segment increased $1.9 million, or 2.0%, in 2018 to $95.6 million from $93.7 million in 2017. As a percentage of International RCS revenues, Adjusted EBITDA was 14.6% and 13.2% for 2018 and 2017, respectively. We experienced improvements in overall margins in Europe as a result of our exit from some lower margin businesses. These improvements were partially offset by lower margins in Latin America due to a prolonged declining market trend and costs pressures.

Adjusted EBITDA for All Other decreased $42.2 million in 2018 to $(133.4) million from $(91.2) million in 2017. The decrease is a result of the lower revenues in our Domestic Communication and Related Services business combined with disproportionally lower gross profits due to the higher fixed costs nature for this business.

2017 compared to 2016

Adjusted EBITDA for our Domestic and Canada RCS reportable segment decreased $15.4 million, or 1.9%, in 2017 to $809.5 million from $824.9 million in 2016. As a percentage of Domestic and Canada RCS revenues, Adjusted EBITDA was 31.7% and 32.9% for 2017 and 2016, respectively. The decrease was a result of lower gross profit percentage as a result of the impacts associated with M&I customers, which have a higher fixed costs structure, and SQ regulated waste and compliance pricing pressures as well as higher costs related to wages and fuel.

Adjusted EBITDA for our International RCS reportable segment increased $0.6 million, or 0.6%, in 2017 to $93.7 million from $93.1 million in 2016. As a percentage of International RCS revenues, Adjusted EBITDA was 13.2% and 12.4% for 2017 and 2016, respectively. The increase was a result of the impacts on gross margin and SG&A resulting from the divestiture of the lower margin patient transport business in the U.K.

Adjusted EBITDA for All Other decreased $24.0 million, or 35.7%, in 2017 to $(91.2) million from $(67.2) million in 2016.

Interest Expense, Net: Interest expense, net increased in 2018 to $106.0 million from $93.7 million in 2017 due to an increase in the overall interest rates on our borrowings caused by an increase in the LIBOR rate and interest rate adjustments related to both our private placement notes and senior credit facility combined with an overall increase in our average outstanding debt balance primarily due to funding the SQ settlement payment of $295.0 million using amounts available on our senior credit facility.

In connection with the underlying terms, we saw an increase of 0.25% in the interest rate charged on our senior credit facility and term loan and total increases of 0.75% on the interest rates charged on our private placement notes. We expect that the annual impact of these late 2018 interest rate increases on our Interest expense, net will be approximately $11.8 million.

Interest expense, net decreased in 2017 to $93.7 million from $97.8 million in 2016 due to a reduction of our average outstanding debt balance, partially offset by an increase in interest rates in the U.S.

Other Expense, Net: Other expense, net increased in 2018 to $8.3 million from $6.6 million in 2017, primarily due to a $3.8 million foreign exchange loss resulting from the re-measurement of our Argentinian Peso denominated net monetary assets as a result of the designation, as of July 1, 2018, of Argentina as a highly inflationary economy.

Other expense, net decreased in 2017 to $6.6 million from $7.9 million in 2016.

Income Tax Benefit (Expense): Income tax benefit was $29.8 million in 2018 compared to $150.9 million in 2017. The effective tax rates for the years 2018 and 2017 were 10.8% and 139.9%, respectively. During 2017, as a result of the introduction of the Tax Act, the Company recognized an income tax benefit of $129.8 million arising from the revaluing our U.S. net deferred tax liabilities from 35% to the newly enacted U.S. corporate income tax rate of 21%, partially offset by a one-time transition tax on our

unremitted foreign earnings and profits which we have elected to pay over an eight-year period, and expected foreign withholding taxes. During 2018, in accordance with SAB 118, we recognized a charge of $8.8 million as we completed our analysis associated with the impact of the Tax Act. In addition, in 2018 and 2017 our effective rate was also impacted by the non