

STERICYCLE INC
Form DEF 14A
April 11, 2008
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

SCHEDULE 14A INFORMATION

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

Filed by the Registrant Filed by a Party other than the Registrant

Check the appropriate box:

- Preliminary Proxy Statement
- Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))**
- Definitive Proxy Statement
- Definitive Additional Materials
- Soliciting Material Pursuant to §240.14a-12

STERICYCLE, INC.

(Name of Registrant as Specified In Its Charter)

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

Payment of Filing Fee (Check the appropriate box):

- No fee required.
- Fee computed on table below per Exchange Act Rules 14a-6(i)(4) and 0-11.

(1) Title of each class of securities to which transaction applies:

(2) Aggregate number of securities to which transaction applies:

(3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (set forth the amount on which the filing fee is calculated and state how it was determined):

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(1) Amount Previously Paid:

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

(3) Filing Party:

(4) Date Filed:

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NOTICE OF 2008 ANNUAL MEETING OF STOCKHOLDERS
TO BE HELD ON MAY 29, 2008

Dear Stockholder:

You are cordially invited to attend our 2008 Annual Meeting of Stockholders on Thursday, May 29, 2008, at 11:00 a.m., Chicago time, at the Embassy Suites Hotel O Hare-Rosemont, 5500 North River Road, Rosemont, Illinois 60018.

At the Annual Meeting, you will be asked to consider and vote upon the following matters:

the election of a Board of Directors to hold office until the 2009 Annual Meeting of Stockholders

approval of our 2008 Incentive Stock Plan, under which stock options, stock appreciation rights, shares of restricted stock and restricted stock units may be awarded for up to a total of 3,500,000 shares of our common stock

ratification of the appointment of Ernst & Young LLP as our independent public accountants for the year ending December 31, 2008

any other matters that properly come before the meeting

Only stockholders of record at the close of business on the record date of April 1, 2008 are entitled to vote at the Annual Meeting.

Admission to the Annual Meeting will be by an admissions card. If you plan to attend the meeting in person, please complete and return the Reservations Form on the back cover of this Proxy Statement and an admissions card will be mailed to you. All Reservations Forms must be received by May 22, 2008. An admissions card is not transferable and will admit only the stockholder or stockholders to whom it was issued. If you need directions to the meeting, please call Investor Relations at (800) 643-0240 ext. 2012.

For the convenience of our stockholders who do not plan to attend the Annual Meeting in person and who want to have their shares voted, we have enclosed a proxy card. If you do not plan to attend the Annual Meeting, please complete and return the proxy card in the envelope that we have provided. If you return your proxy card and later decide to attend the Annual Meeting in person, or if for any other reason you want to revoke your proxy, you may do so at any time before your proxy is voted.

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For the Board of Directors

Jack W. Schuler
Chairman of the Board

Mark C. Miller
President and Chief Executive Officer

April 11, 2008

Lake Forest, Illinois

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28161 North Keith Drive

Lake Forest, Illinois 60045

PROXY STATEMENT

2008 Annual Meeting of Stockholders

To Be Held on May 29, 2008

We are furnishing this Proxy Statement in connection with the solicitation of proxies by our Board of Directors for use at our 2008 Annual Meeting of Stockholders on Thursday, May 29, 2008, at 11:00 a.m., Chicago time, at the Embassy Suites Hotel O'Hare-Rosemont, 5500 North River Road, Rosemont, Illinois 60018. We are mailing this Proxy Statement and the accompanying materials to our stockholders beginning on or about April 11, 2008.

In this Proxy Statement, we, us, our or the Company refers to Stericycle, Inc.

GENERAL

Stock

Our authorized capital stock consists of common stock, par value \$0.01 per share (common stock), and preferred stock, par value \$0.01 per share (preferred stock). As of April 1, 2008, the record date for the Annual Meeting, we had 86,140,648 shares of common stock outstanding. We did not have any shares of preferred stock outstanding.

Stockholders Entitled To Vote

Only holders of our common stock who were stockholders of record at the close of business on the record date of April 1, 2008 are entitled to notice of and to vote their shares of record at the Annual Meeting. Each outstanding share of common stock is entitled to one vote.

Quorum

Holders of a majority of the outstanding shares of common stock entitled to vote at the Annual Meeting who are present in person or represented by proxy will constitute a quorum to conduct business at the meeting. The inspectors of election appointed at the meeting will determine the existence of a quorum and tabulate the votes cast at the meeting.

Voting

The nine directors to be elected at the Annual Meeting (**Item 1**) will be elected by a plurality of the votes cast by stockholders present in person or represented by proxy, entitled to vote and voting. The proposal to approve our 2008 Incentive Stock Plan (**Item 2**) and each other matter to be voted on at the Annual Meeting will require for approval the affirmative vote of a majority of the shares present in person or represented by proxy and entitled to vote.

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A stockholder may withhold authority to vote for one or more nominees for director and may abstain from voting on one or more of the other matters to be voted on at the Annual Meeting. Shares for which authority is withheld or that a stockholder abstains from voting will be counted for purposes of determining whether a quorum is present. Shares for which authority is withheld will have no effect on the voting for the election of directors (which, as noted, requires a plurality of the votes cast). Shares that a stockholder abstains from voting will be included in the total of votes cast and will have the effect of votes against the matter in question.

If a broker or nominee indicates on a proxy card that it does not have discretionary authority to vote on a particular matter, the shares will be taken into account in determining whether a quorum is present (if the shares are voted on any other matter) but will not be included in the total of votes cast and thus will have no effect on the outcome of voting on the matter.

Telephone and Internet Voting

Stockholders whose shares are registered in their names directly with our stock registrar and transfer agent, LaSalle Bank, N.A., may vote their shares telephonically, by calling (866) 540-5760, or via the internet, by going to www.proxyvoting.com/srcl/. Stockholders whose shares are registered in the name of a brokerage firm, bank or other nominee may be able to vote their shares telephonically or via the internet. You should check the information provided by your broker, bank or other nominee to see what options are available to you.

Proxies

If a stockholder properly completes and returns the accompanying proxy card, the shares of stock represented by the proxy will be voted as the stockholder directs. **If no directions are given, the persons appointed as proxy holders will vote the shares in accordance with the recommendations of our Board of Directors, i.e.,** they will vote the shares *for* the election of the nominees for director described in this proxy statement (Item 1), *for* the proposal to approve our 2008 Incentive Stock Plan (Item 2), and **for** ratification of the appointment of Ernst & Young LLP as our independent public accountants for 2008 (Item 3).

A stockholder may revoke a proxy at any time before it is voted by filing a signed notice of revocation with the Secretary of the Company or by returning a properly completed proxy card bearing a later date. In addition, a stockholder may revoke a proxy by attending the Annual Meeting in person and requesting to vote. Attendance at the meeting in person will not, by itself, revoke the proxy.

Table of Contents**STOCK OWNERSHIP****Stock Ownership by Directors and Officers**

The following table provides information about the beneficial ownership of shares of our common stock as of April 1, 2008 by (1) each of our directors, (2) each of our executive officers listed in the Summary Compensation Table on page 14 and (3) all of our directors and executive officers as a group:

	<u>Amount and Nature of Beneficial Ownership(1)</u>	<u>Percent of Class(2)</u>
Directors (and nominees)		
Jack W. Schuler(3)	3,409,378	4.0%
Mark C. Miller(3)(4)	2,488,798	2.9%
Rod F. Dammeyer(3)	123,956	*
William K. Hall	25,412	*
Jonathan T. Lord, M.D.	53,744	*
John Patience	177,662	*
Thomas R. Reusché	48,144	*
Peter Vardy(3)	98,172	*
Thomas D. Brown(5)(6)	4,154	*
Ronald G. Spaeth(5)		*
Officers		
Richard T. Kogler	162,930	*
Frank J.M. ten Brink(3)	373,418	*
Richard L. Foss	219,737	*
Michael J. Collins	37,270	*
All directors and executive officers as a group (13 persons)	7,224,544	8.4%

* Less than 1%.

- (1) This column includes shares of common stock issuable upon the exercise of stock options exercisable as of or within 60 days after April 1, 2008. These shares are held as follows: Mr. Schuler, 101,900 shares; Mr. Miller, 821,716 shares; Mr. Dammeyer, 49,956 shares; Mr. Hall, 21,412 shares; Dr. Lord, 51,744 shares; Mr. Patience, 101,900 shares; Mr. Reusché, 48,144 shares; Mr. Vardy, 18,172 shares; Mr. Brown, 4,154 shares; Mr. Kogler, 150,522 shares; Mr. ten Brink, 283,637 shares; Mr. Foss, 219,737 shares; and Mr. Collins, 37,270 shares.
- (2) Shares of common stock issuable under stock options exercisable as of or within 60 days after April 1, 2008 are considered outstanding for purposes of computing the percentage of the person holding the option or warrant but are not considered outstanding for purposes of computing the percentage of any other person.
- (3) The shares shown as beneficially owned by Mr. Schuler include 41,640 shares owned by his wife, 174,826 shares owned by trusts for the benefit of his children and 300,994 shares owned by a family foundation on which Mr. Schuler serves as a co-trustee, regarding all of which Mr. Schuler disclaims any beneficial ownership. The shares shown as beneficially owned by Mr. Miller include 301,144 shares owned by trusts for the benefit of his sons, regarding which Mr. Miller disclaims any beneficial ownership. The shares shown as beneficially owned by Mr. Dammeyer include 4,000 shares owned by his wife, regarding which Mr. Dammeyer disclaims any beneficial ownership. The shares shown as beneficially owned by Mr. Vardy include 20,000 shares owned by trusts for the benefit of his grandchildren, regarding which Mr. Vardy disclaims any beneficial ownership. The shares shown as beneficially owned by Mr. ten Brink

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include 350 shares owned by his wife, regarding which Mr. ten Brink disclaims any beneficial ownership.

- (4) Mr. Miller is also our President and Chief Executive Officer.
- (5) Mr. Brown and Mr. Spaeth are nominees for election as directors.
- (6) Mr. Brown was granted an option for 5,000 shares in February 2004 for consulting services that he provided to us.

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Stock Ownership of Certain Stockholders

The following table provides information about the beneficial ownership of our common stock by each person (other than a director or executive officer) who was known to us to be the beneficial owner as of the record date (April 1, 2008) of more than 5% of our outstanding common stock:

<u>Name and Address of Beneficial Owner</u>	<u>Amount and Nature of Beneficial Ownership(1)</u>	<u>Percent of Class</u>
Morgan Stanley(1) 1585 Broadway New York, New York 10036	5,508,553	6.4%

(1) The shares shown as beneficially owned are derived from the Schedule 13G (Amendment No. 2) that Morgan Stanley filed on February 14, 2008.

Table of Contents**Item 1****ELECTION OF DIRECTORS**

Our Board of Directors is currently composed of eight directors. The size of our Board will be increased to nine directors as of the Annual Meeting.

With the exception of Mark C. Miller, our President and Chief Executive Officer, all of our directors are outside directors (i.e., directors who are neither officers nor employees of ours). The Board has determined that all of our outside directors are independent under the applicable listing standards of the NASDAQ Stock Market.

Each director elected at the Annual Meeting will hold office until our annual meeting of stockholders in 2009 or until his successor is elected and qualified.

Seven of the nine nominees for election as directors are incumbent directors. Two of the nominees, Thomas D. Brown and Ronald G. Spaeth, have not previously served as directors. If elected, Messrs. Brown and Spaeth would be outside directors and, in the Board's determination, independent under the applicable listing standards of the NASDAQ Stock Market.

Nominees for Director

The following table provides information about the nominees for election as directors.

<u>Nominee</u>	<u>Position with the Company</u>	<u>Age</u>
Jack W. Schuler	Chairman of the Board of Directors	67
Mark C. Miller	President, Chief Executive Officer and a Director	52
Thomas D. Brown	Nominee for election as director	59
Rod F. Dammeyer	Director	67
William K. Hall	Director	64
Jonathan T. Lord, M.D.	Director	53
John Patience	Director	60
Thomas R. Reusché	Director	53
Ronald G. Spaeth	Nominee for election as director	64

Jack W. Schuler has served as our Chairman of the Board of Directors since January 1990. From January 1987 to August 1989, Mr. Schuler served as president and chief operating officer of Abbott Laboratories, a diversified health care company, where he served as a director from April 1985 to August 1989. Mr. Schuler serves as a director of Medtronic, Inc., a medical technology company, and Quidel Corporation, a developer and manufacturer of point-of-care diagnostic tests. He is a co-founder of Crabtree Partners LLC, a private investment firm in Lake

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Forest, Illinois, which was formed in June 1995. Mr. Schuler received a B.S. degree in mechanical engineering from Tufts University and a M.B.A. degree from the Stanford University Graduate School of Business Administration.

Mark C. Miller has served as our President and Chief Executive Officer and a director since joining us in May 1992. From May 1989 until he joined us, Mr. Miller served as vice president for the Pacific, Asia and Africa in the international division of Abbott Laboratories, a diversified health care company, which he joined in 1976 and where he held a number of management and marketing positions. Mr. Miller received a B.S. degree in computer science from Purdue University, where he graduated Phi Beta Kappa.

Thomas D. Brown is a nominee for election as a director for the first time. From 1974 until his retirement in 2002, Mr. Brown held various sales, marketing and management positions at Abbott Laboratories, a diversified health care company, where he served as a senior vice president and the president of the diagnostics division from 1998 to 2002 and as corporate vice president for worldwide commercial operations from 1993 to 1998. He is a director of Quidel Corporation, a developer and manufacturer of point-of-care diagnostic tests, and Cepheid, a molecular diagnostics company. Mr. Brown received a B.A. degree from the State University of New York at Buffalo.

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Rod F. Dammeyer has served as a director since January 1998. He is the President of CAC, llc, a private company providing capital investment and management advisory services, and is the retired vice chairman of Anixter International, where he served from 1985 until February 2001, and retired managing partner of corporate investments of Equity Group Investments, L.L.C., where he served from 1995 until June 2000. Mr. Dammeyer serves as a director of Quidel Corporation, a developer and manufacturer of point-of-care diagnostic tests. He also serves as a trustee of Van Kampen Investments, Inc. and a director of The Scripps Research Institute. He received a B.S. degree from Kent State University.

William K. Hall has served as a director since August 2006. He is the co-founder and chairman of Procyon Technologies, Inc., a privately-owned holding company focusing on the acquisition and growth of suppliers to the aerospace and defense industries. From 1994 to 2000, Mr. Hall was chairman and chief executive officer of Falcon Building Products, Inc., a manufacturer and distributor of construction products. He currently serves on the boards of Actuant Corporation, a diversified industrial products manufacturer, A. M. Castle & Co., a specialty metals and plastics distributor, Great Plains Energy Incorporated, a diversified energy producer, and W.W. Grainger, a supplier of facilities maintenance products. Mr. Hall received a B.S.E. degree in aeronautical engineering, a M.S. degree in mathematical statistics, and M.B.A. and Ph.D. degrees in business from the University of Michigan.

Jonathan T. Lord, M.D. has served as a director since August 2004. Dr. Lord is chief innovation officer/senior vice president at Humana Inc., a health benefits company, which he joined in April 2000. From October 1999 to April 2000, Dr. Lord served as president of Health Dialog, a health information provider, and from April 1997 to October 1999, he served as chief operating officer of the American Hospital Association, a national organization representing hospitals, health care networks and their patients. Dr. Lord received a B.S. degree in chemistry and a M.D. degree from the University of Miami.

John Patience has served as a director since our incorporation in March 1989. He is a co-founder and partner of Crabtree Partners LLC, a private investment firm in Lake Forest, Illinois, which was formed in June 1995. From January 1988 to March 1995, Mr. Patience was a general partner of a venture capital firm that he co-founded which led our initial capitalization. He received B.A. and LL.B. degrees from the University of Sydney in Sydney, Australia, and a M.B.A. degree from the Wharton School of Business of the University of Pennsylvania.

Thomas R. Reusché has served as a director since November 1999. He served as a managing director of Madison Dearborn Partners, LLC, a private equity and venture capital firm, from 1992 until his retirement in September 2003. Prior to co-founding Madison Dearborn Partners, LLC in 1992, Mr. Reusché was a senior investment manager of First Chicago Venture Capital, which comprised the private equity investment activities of First Chicago Corporation, the holding company parent of First National Bank of Chicago. Mr. Reusché serves as chairman of the board of directors of Hines Horticulture, Inc. and a number of private companies. He received an A.B. degree from Brown University and a M.B.A. degree from the Harvard University Graduate School of Business.

Ronald G. Spaeth is a nominee for election as a director for the first time. Mr. Spaeth served as president of Evanston Northwestern Healthcare Foundation from 2002 to 2007 and as the president and chief executive officer of Highland Park (Illinois) Hospital from 1983 to 2002. He is a director of Cole Taylor Bank and also serves as a director of several private companies. Mr. Spaeth is a member of the board of commissioners of the Joint Commission on the Accreditation of Healthcare Organizations and was formerly a member of the board of trustees of the American Hospital Association and chairman of the board of trustees of the Illinois Hospital Association. He received a B.S. degree from Case Western Reserve University and a M.B.A. degree from the University of Chicago Graduate School of Business.

Committees of the Board

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Our Board of Directors has standing Compensation, Audit and Nominating and Governance Committees. All of the members of each committee are outside directors who are independent under the applicable listing standards of the NASDAQ Stock Market.

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Compensation Committee

The Compensation Committee makes recommendations to the full Board of Directors concerning the base salaries and cash bonuses of our executive officers and reviews our employee compensation policies generally. The Committee also administers our stock option plans as they apply to our executive officers.

Audit Committee

The Audit Committee assists the Board of Directors in fulfilling its oversight responsibilities relating to the integrity of our financial statements, the qualifications and experience of our independent accountants, the performance of our internal audit function and our independent accountants, and our compliance with legal and regulatory requirements.

Nominating and Governance Committee

The Nominating and Governance Committee identifies and evaluates possible nominees for election to the Board of Directors and recommends to the full Board a slate of nominees for election at the annual meeting of stockholders. The Committee also recommends to the full Board director assignments to the Board's committees. In addition, the Committee develops, recommends to the full Board and oversees the implementation of our corporate governance policies and practices.

The Committee considers a variety of factors in evaluating any candidate for selection as a nominee for election as a director. These factors include the candidate's personal qualities, including, in particular, the candidate's probity, independence of judgment and analytical skills, and the candidate's professional experience, educational background, knowledge of our business and health care services generally, and experience serving on the boards of other public companies. The Committee has not established any minimum qualifications that a candidate must possess. In determining whether to recommend an incumbent director for re-election, the Committee also considers the director's preparation for and participation in meetings of the Board of Directors and the committee or committees of the Board on which he serves.

In identifying potential candidates for selection in the future as nominees for election as directors, the Committee will rely on suggestions and recommendations from the full Board, management, stockholders and others and, when appropriate, may retain a search firm for assistance. The Committee will consider candidates proposed by stockholders and will evaluate any candidate proposed by a stockholder on the same basis that it evaluates any other candidate. Any stockholder who wants to propose a candidate should submit a written recommendation to the Committee indicating the candidate's qualifications and other relevant biographical information and providing preliminary confirmation that the candidate would be willing to serve as a director. See Communications with the Board.

Committee Charters

The charters of the Compensation, Audit and Nominating and Governance Committees are available on our website, www.stericycle.com, under About Us/Corporate Governance.

Committee Members and Meetings

The following table provides information about the membership of the committees of the Board of Directors during 2007:

<u>Director</u>	<u>Compensation Committee</u>	<u>Audit Committee</u>	<u>Nominating and Governance Committee</u>
Jack W. Schuler		x	x*
Rod F. Dammeyer(1)		x*	x
William K. Hall	x		
Jonathan T. Lord, M.D.	x*		x
John Patience		x	x
Thomas R. Reusché(2)	x	x	
Peter Vardy	x		

* Chair of committee

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- (1) The Board of Directors has determined that Mr. Dammeyer, the Chair of the Audit Committee, is an audit committee financial expert as described in the applicable rules of the Securities and Exchange Commission.
- (2) Mr. Reusché resigned from the Compensation Committee in April 2007 so that meetings of the Audit and Compensation Committees could be held at the same time without requiring him to miss one or the other of the meetings.

Our Board of Directors held four meetings during 2007 and acted without a formal meeting on a number of occasions by the unanimous written consent of the directors. The Audit Committee held eight meetings during the year. The Compensation Committee held four meetings during the year and acted without a formal meeting on several occasions by the unanimous written consent of its members. The Nominating and Governance Committee did not meet separately from the full Board during 2007.

All of our directors attended in person or participated by teleconference in all of the meetings of the Board of Directors during 2007 with the exception that one director who was unable to participate in one meeting. All of the members of the Audit and Compensation Committees attended in person or participated by teleconference in all of the meetings of those committees during the year.

We encourage our directors to attend the annual meeting of stockholders. All but one of our directors attended the 2007 Annual Meeting of Stockholders, and we anticipate that all of our directors will attend this year's Annual Meeting.

Communications with the Board

Stockholders who would like to communicate with the Board may do so by writing to the Board of Directors, Stericycle, Inc., 28161 North Keith Drive, Lake Forest, Illinois 60045. Our Investor Relations department will process all communications received. Communications relating to matters within the scope of the Board's responsibilities will be forwarded to the Chairman of the Board and at his direction to the other directors; communications relating to ordinary day-to-day business matters that are not within the scope of the Board's responsibilities will be forwarded to the appropriate officer or executive. Communications addressed to a particular committee of the Board will be forwarded to the chair of that committee and at his direction to the other members of the committee.

Policy on Related Party Transactions

The Board of Directors has a written policy requiring certain transactions with related parties to be approved in advance by the Audit Committee. For purposes of this policy, a related party includes any director or executive officer or an immediate family member of any director or executive officer. The transactions subject to review include any transaction, arrangement or relationship (or any series of similar transactions, arrangements and relationships) in which (i) we or one of our subsidiaries will be a participant, (ii) the aggregate amount involved exceeds \$100,000 and (iii) a related party will have a direct or indirect interest. In reviewing proposed transactions with related parties, the Audit Committee will consider the benefits to us of the proposed transaction, the potential effect of the proposed transaction on the director's independence (if the related party is a director or an immediate family member of a director), the terms of the proposed transaction, and whether those terms are comparable to the terms available to an unrelated third party or to employees generally.

There were no transactions during 2007 that required the Audit Committee's approval.

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AUDIT COMMITTEE REPORT

Under the Audit Committee's charter, the Audit Committee of the Board of Directors assists the Board in fulfilling its oversight responsibilities relating to the integrity of the Company's financial statements, the qualifications and experience of Company's independent accountants, the performance of the Company's internal audit function and independent accountants, and the Company's compliance with applicable legal and regulatory requirements. The Committee's charter is available on the Company's website, www.stericycle.com, under About Us/Corporate Governance. The current members of the Committee, who served during 2007, are Messrs. Dammeyer (Chair), Patience, Reusché and Schuler.

In regard to our role, we note that it is the responsibility of the Company's management to prepare financial statements in accordance with accounting principles generally accepted in the United States, and that it is the responsibility of the Company's independent public accountants to audit those financial statements. The Committee's responsibility is one of oversight, and we do not provide expert or other special assurance regarding the Company's financial statements or the quality of the audits performed by the Company's independent public accountants.

In carrying out our oversight responsibility, we review and discuss with both management and the Company's independent public accountants all quarterly and annual financial statements prior to their issuance. We reviewed and discussed with both management and Ernst & Young LLP the quarterly and annual financial statements for the fiscal year ended December 31, 2007. Our reviews and discussions with Ernst & Young LLP included executive sessions without the presence of the Company's management. They also included discussions of the matters required to be discussed pursuant to Statement on Auditing Standards No. 61, *Communication with Audit Committees*, as amended, of the Auditing Standards Board of the American Institute of Certified Public Accountants, including the quality of the Company's accounting principles, the reasonableness of significant judgments and the clarity of disclosures in the Company's financial statements. We also discussed with Ernst & Young LLP matters relating to their independence, including a review of their audit and non-audit fees and the letter and written disclosures that the Committee received from Ernst & Young LLP pursuant to Independence Standard No. 1, *Independence Discussions with Audit Committees*, as amended, of the Independence Standards Board.

In addition, we continued to monitor the scope and adequacy of the Company's internal controls, including staffing levels and requirements, and we reviewed programs and initiatives to strengthen the effectiveness of the Company's internal controls and steps taken to implement recommended improvements.

On the basis of these reviews and discussions, we recommended to the Board of Directors that the Board approve the inclusion of the Company's audited financial statements in the Company's annual report on Form 10-K for the year ended December 31, 2007 for filing with the U.S. Securities and Exchange Commission.

Audit Committee

Rod F. Dammeyer, *Chair*

John Patience

Thomas Reusché

Jack W. Schuler

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COMPENSATION DISCUSSION AND ANALYSIS

Our executive compensation policies have three objectives:

to attract, motivate and retain highly qualified executive officers

to make a substantial portion of their compensation dependent on the Company's attainment of a measurable performance target

to structure a substantial portion of their compensation so that they benefit only if all of our stockholders benefit

Our compensation program for executive officers consists of cash compensation and long-term incentive compensation. Cash compensation is paid in the form of a base salary and a performance incentive bonus (PIB), and long-term incentive compensation is paid in the form of stock options.

We favor cash PIBs and stock options as the principal components of our executive officers' compensation because they provide incentives to improve our operating performance and thereby create value for all of our stockholders.

Compensation Decisions

Decisions relating to the compensation of our executive officers are made by the Compensation Committee of our Board of Directors. Decisions of the Committee relating to executive officers' base salaries and PIBs are subject to the review and approval of the full Board; decisions of the Committee relating to executive officers' stock options are reviewed by the full Board but are not subject to the Board's approval.

Compensation decisions are made with a view to reaching an overall result that, in the Compensation Committee's subjective judgment, is appropriate and fair to the particular executive officer, both in terms of his own compensation and relative to that of the other executive officers, and fair as well to us and to our stockholders. The Committee does not reach this result in a mechanical fashion but, rather, considers each executive officer's role and contribution to our performance, his compensation history and the compensation practices at other companies with which members of the Committee are familiar.

In this regard, at the Committee's regular meeting in February 2008, the Committee reviewed, among other material, (i) each executive officer's cash compensation for 2003-2007, (ii) an analysis of the total rewards for 2007 of our president and chief executive officer, chief operating officer and chief financial officer and (iii) a comparison of these total rewards with the total rewards of similar officers at roughly comparable companies on the basis of an informal survey prepared by our human resources department. The Committee did not use this survey to adjust executive officers' compensation to any particular percentile for base salaries, cash bonuses or long-term compensation but simply as background to see where the compensation of our executive officers fell.

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We do not have a fixed allocation among the three components of our executive officers' compensation. The relative amounts of our executive officers' salaries, PIBs and stock options vary to some extent from year to year. Base salaries and PIBs are considered together in order to assure that the cash component of our executive officers' compensation falls within an acceptable range, and the cash component is taken into account in determining stock option grants in order to assure that the total potential rewards to our executive officers also fall within an acceptable range.

Compensation decisions are made annually at the regular meeting of the Compensation Committee during the first quarter of year, most commonly in February, when the results of our prior year's performance are available internally and can be taken into account by the Committee in determining the executive officers' PIBs for the prior year and their base salaries and bonus percentages for the current year. The Committee believes that

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incentives are likely to have a greater effect on performance the sooner they are communicated and accordingly determines bonus percentages and annual option grants as early in the year as practicable. The Committee's decisions are made without regard to our anticipated earnings or other announcements.

Our President and Chief Executive Officer makes recommendations to the Committee regarding the compensation of the other executive officers, but management does not otherwise participate in the Committee's decisions.

Base Salaries

Base salaries are intended to provide a regular source of income to our executive officers. The Compensation Committee reviews officers' base salaries each year, and in February 2008, the Committee increased the base salaries of our executive officers by 3%. Prior to this increase, the Committee had not changed the base salaries of Messrs. Miller, Kogler and ten Brink since April 2003 or those of Messrs. Foss and Collins since they joined us in February 2003 and June 2006, respectively.

Performance Incentive Bonuses

We maintain a performance incentive bonus program for our executive officers that is intended to provide them with a short-term cash incentive and reward for improvements in our operating performance as measured by our adjusted earnings.

Under our PIB program, our executive officers are eligible each year for a cash bonus equal to a specified percentage of their base salaries. For 2007, the percentages for our named executive officers were 125% for Mr. Miller, 75% for Mr. Kogler, 75% for Mr. ten Brink, 70% for Mr. Foss and 70% for Mr. Collins. These percentages are unchanged for 2008.

PIBs are payable to our executive officers if we attain our target EBITDA for payment of PIBs at the 100% level. For purposes of our PIB program, EBITDA (earnings before interest, taxes depreciation and amortization) is measured by the sum of income from operations plus depreciation and amortization. Based on the EBITDA sho