STERICYCLE INC
Form 10-Q
November 05, 2010
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended September 30, 2010 or

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

For the transition period from __________ to __________

Commission File Number 0-21229

Stericycle, Inc.

(Exact name of registrant as specified in its charter)

Delaware *(State or other jurisdiction of* *incorporation or organization)*		**36-3640402** *(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)

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 x NO ¨

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). YES x NO ¨

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

Large accelerated filer	x	Accelerated filer	¨
Non-accelerated filer	¨	Smaller reporting company	¨

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

As of November 2, 2010 there were 85,530,675 shares of the registrant s Common Stock outstanding.

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Stericycle, Inc.

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PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

STERICYCLE, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS

In thousands, except share and per share data	September 30, 2010 (Unaudited)	December 31, 2009 (Audited)
ASSETS		
Current Assets:		
Cash and cash equivalents	**$ 20,627**	$ 15,767
Short-term investments	**18,632**	1,131
Accounts receivable, less allowance for doubtful accounts of $11,432 in 2010 and $8,709 in 2009	**216,508**	179,770
Deferred income taxes	**14,935**	14,087
Prepaid expenses	**13,490**	12,421
Other current assets	**28,949**	23,364
Total Current Assets	**313,141**	246,540
Property, Plant and Equipment, net	**262,650**	246,154
Other Assets:		
Goodwill	**1,476,156**	1,394,091
Intangible assets, less accumulated amortization of $25,179 in 2010 and $18,546 in 2009	**349,375**	269,454
Other	**32,964**	26,564
Total Other Assets	**1,858,495**	1,690,109
Total Assets	**$ 2,434,286**	$ 2,182,803
LIABILITIES AND SHAREHOLDERS EQUITY		
Current liabilities:		
Current portion of long-term debt	**$ 96,932**	$ 78,026
Accounts payable	**49,354**	47,608
Accrued liabilities	**106,778**	92,226
Deferred revenues	**16,925**	14,954
Total Current Liabilities	**269,989**	232,814
Long-term debt, net of current portion	**880,452**	910,825
Deferred income taxes	**214,050**	171,744
Other liabilities	**12,811**	10,247
Shareholders Equity:		
Common stock (par value $.01 per share, 120,000,000 shares authorized, 85,467,697 issued and outstanding in 2010, 84,715,005 issued and outstanding in 2009)	**855**	847
Additional paid-in capital	**70,659**	47,522
Accumulated other comprehensive loss	**(14,448)**	(12,292)
Retained earnings	**967,517**	809,618
Total Stericycle, Inc. Shareholders Equity	**1,024,583**	845,695

Noncontrolling interest	**32,401**	11,478
Total Shareholders Equity	**1,056,984**	857,173
Total Liabilities and Shareholders Equity	**$ 2,434,286**	$ 2,182,803

The accompanying notes are an integral part of these financial statements.

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STERICYCLE, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF INCOME

(Unaudited)

In thousands, except share and per share data	Three Months Ended September 30, 2010	Three Months Ended September 30, 2009	Nine Months Ended September 30, 2010	Nine Months Ended September 30, 2009
Revenues	**$ 362,988**	$ 297,836	**$ 1,045,899**	$ 864,194
Costs and Expenses:				
Cost of revenues	**185,515**	150,272	**532,625**	438,484
Selling, general and administrative expenses	**65,033**	54,312	**191,067**	158,090
Depreciation and amortization	**13,504**	9,959	**38,510**	28,463
Acquisition expenses	**1,891**	3,478	**3,247**	5,418
Integration expenses	**790**	282	**3,253**	466
Restructuring costs and plant closure expense	**216**		**2,446**	
Litigation settlement			**937**	
Gain on sale of assets			**(2,955)**	
Total Costs and Expenses	**266,949**	218,303	**769,130**	630,921
Income from Operations	**96,039**	79,533	**276,769**	233,273
Other Income (Expense):				
Interest income	**82**	48	**194**	271
Interest expense	**(8,509)**	(9,262)	**(26,342)**	(25,561)
Other income (expense), net	**333**	(646)	**(1,562)**	(2,264)
Total Other Income (Expense)	**(8,094)**	(9,860)	**(27,710)**	(27,554)
Income Before Income Taxes	**87,945**	69,673	**249,059**	205,719
Income Tax Expense	**30,645**	23,110	**89,359**	74,488
Net Income	**57,300**	46,563	**159,700**	131,231
Less: Net Income Attributable to Noncontrolling Interests	**614**	37	**1,801**	148
Net Income Attributable to Stericycle, Inc.	**$ 56,686**	$ 46,526	**$ 157,899**	$ 131,083
Earnings Per Share Attributable to Stericycle, Inc. Common Shareholders:				
Basic	**$ 0.66**	$ 0.55	**$ 1.86**	$ 1.54
Diluted	**$ 0.65**	$ 0.54	**$ 1.82**	$ 1.51
Weighted Average Number of Common Shares Outstanding:				
Basic	**85,295,740**	84,899,815	**84,986,187**	84,909,316
Diluted	**87,179,057**	86,794,118	**86,830,761**	86,827,626

The accompanying notes are an integral part of these financial statements.

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STERICYCLE, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

In thousands	Nine Months Ended September 30, 2010	2009
OPERATING ACTIVITIES:		
Net income	**$ 159,700**	$ 131,231
Adjustments to reconcile net income to net cash provided by operating activities:		
Gain on sale of assets	**(2,955)**	
Stock compensation expense	**11,441**	10,861
Excess tax benefit of stock options exercised	**(17,951)**	(357)
Depreciation	**31,858**	24,643
Amortization	**6,652**	3,820
Deferred income taxes	**20,307**	20,718
Changes in operating assets and liabilities, net of effect of acquisitions and divestitures:		
Accounts receivable	**(26,366)**	8,204
Accounts payable	**(3,477)**	(4,502)
Accrued liabilities	**19,214**	20,452
Deferred revenues	**1,942**	252
Other assets	**5,061**	(1,395)
Net cash provided by operating activities	**205,426**	213,927
INVESTING ACTIVITIES:		
Payments for acquisitions and international investments, net of cash acquired	**(95,615)**	(107,079)
Purchases of short-term investments	**(17,172)**	(58)
Proceeds from sale of assets	**8,000**	640
Capital expenditures	**(35,937)**	(29,644)
Net cash used in investing activities	**(140,724)**	(136,141)
FINANCING ACTIVITIES:		
Repayment of long-term debt	**(45,292)**	(10,443)
Net repayments on senior credit facility	**(13,072)**	(213,027)
Proceeds from term loan		215,000
Payments of deferred financing costs	**(5,757)**	(3,620)
Payments on capital lease obligations	**(2,172)**	(255)
Purchase / cancellation of treasury stock	**(43,589)**	(69,986)
Proceeds from other issuance of common stock	**38,224**	11,726
Excess tax benefit of stock options exercised	**17,951**	357
Net cash used in financing activities	**(53,707)**	(70,248)
Effect of exchange rate changes on cash	**(6,135)**	(2,347)
Net increase in cash and cash equivalents	**4,860**	5,191
Cash and cash equivalents at beginning of period	**15,767**	9,095
Cash and cash equivalents at end of period	**$ 20,627**	$ 14,286

NON-CASH ACTIVITIES:		
Net issuance of notes payable for certain acquisitions	**$ 31,641**	$ 32,116

The accompanying notes are an integral part of these financial statements.

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STERICYCLE, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

September 30, 2010 and December 31, 2009

(Unaudited)

	Stericycle, Inc. Equity						
In thousands	**Issued and Outstanding Shares**	**Common Stock**	**Additional Paid-In Capital**	**Retained Earnings**	**Accumulated Other Comprehensive Income (Loss)**	**Noncontrolling Interest**	**Total Equity**
Balance at December 31, 2008	85,253	$ 852	$ 67,776	$ 633,927	$ (32,075)	$ 158	$ 670,638
Issuance of common stock for exercise of options and employee stock purchases	**1,132**	**12**	**15,889**				**15,901**
Purchase/ cancellation of treasury stock	**(1,670)**	**(17)**	**(73,164)**				**(73,181)**
Stock compensation expense			**14,638**				**14,638**
Excess tax benefit of disqualifying dispositions of stock options and exercise of non-qualified stock options			**22,383**				**22,383**
Change in noncontrolling interest						**9,787**	**9,787**
Currency translation adjustment					**17,595**	**835**	**18,430**
Change in fair value of cash flow hedge, net of tax of $454					**2,188**		**2,188**
Net income				**175,691**		**698**	**176,389**
Comprehensive income							**197,007**
Balance at December 31, 2009	**84,715**	**$ 847**	**$ 47,522**	**$ 809,618**	**$ (12,292)**	**$ 11,478**	**$ 857,173**
Issuance of common stock for exercise of options and employee stock purchases	**1,504**	**15**	**37,327**				**37,342**
Purchase/ cancellation of treasury stock	**(751)**	**(7)**	**(43,582)**				**(43,589)**
Stock compensation expense			**11,441**				**11,441**
Excess tax benefit of disqualifying dispositions of stock options and exercise of non-qualified stock options			**17,951**				**17,951**
Change in noncontrolling interest						**16,923**	**16,923**
Currency translation adjustment					**(2,831)**	**2,199**	**(632)**
Change in fair value of cash flow hedge, net of tax of $431					**675**		**675**
Net income				**157,899**		**1,801**	**159,700**
Comprehensive income							**159,743**
Balance at September 30, 2010	**85,468**	**$ 855**	**$ 70,659**	**$ 967,517**	**$ (14,448)**	**$ 32,401**	**$ 1,056,984**

The accompanying notes are an integral part of these financial statements.

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STERICYCLE, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

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

NOTE 1 BASIS OF PRESENTATION

The accompanying condensed consolidated financial statements have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission. Certain information and footnote disclosures normally included in annual consolidated financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted pursuant to such rules and regulations; but the Company believes the disclosures in the accompanying condensed consolidated financial statements are adequate to make the information presented not misleading. In our opinion, all adjustments necessary for a fair presentation for the periods presented have been reflected and are of a normal recurring nature. Current amounts in previously issued financial statements were reclassified to conform to the current period presentation. These condensed consolidated financial statements should be read in conjunction with the Consolidated Financial Statements and notes thereto for the year ended December 31, 2009, as filed with our Annual Report on Form 10-K for the year ended December 31, 2009. The results of operations for the nine months ended September 30, 2010 are not necessarily indicative of the results that may be achieved for the entire year ending December 31, 2010.

NOTE 2 ACQUISITIONS AND DIVESTITURE

During the quarter ended March 31, 2010, we acquired selected assets of two domestic regulated waste businesses, 100% of the stock of two regulated waste businesses in the UK, 70% of the stock of a regulated waste business in Brazil, and 100% of the stock of a regulated waste business in Chile. We also increased our majority share in a previous acquisition in Chile from 60% to 67%.

During the quarter ended June 30, 2010, we completed four acquisitions. Domestically, we acquired all of the stock of two regulated waste businesses. Internationally, we acquired all of the stock of one regulated waste business located in the United Kingdom and selected assets of a regulated waste business located in Mexico.

During the quarter ended September 30, 2010, we completed six acquisitions. Domestically, we acquired selected assets of two regulated waste businesses and all of the stock of a third regulated waste business. Internationally, we acquired three regulated waste businesses: 100% of the stock of a company in Portugal, 100% of the stock of a company in Japan, and 88.2% of the stock of a second company in Japan.

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STERICYCLE, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

The aggregate purchase price of our acquisitions during the nine months ended September 30, 2010 was approximately $134.6 million, of which approximately $95.6 million was paid in cash, $31.6 million was paid by the issuance of promissory notes, and $7.4 million was recorded as contingent consideration. For financial reporting purposes, we recognized $98.2 million in goodwill, of which $14.3 million is tax deductible. We recognized $66.2 million in intangible assets of which $48.2 million have amortizable lives of 15-40 years, $0.9 million have amortizable lives of 3-5 years, and $17.1 million are indefinite lived. The allocation of acquisition price is preliminary pending completion of certain intangible asset valuations and completion accounts.

In thousands	Preliminary Allocation of 2010 Acquisitions	Adjustments During Allocation Period	Total Allocations
Fixed assets	$ 14,236	$ (1,232)	$ 13,004
Intangibles	66,216	16,843	83,059
Goodwill	98,166	(14,600)	83,566
Net other assets	7,606	694	8,300
Debt	(16,412)		(16,412)
Net deferred tax liabilities	(18,466)	(1,556)	(20,022)
Noncontrolling interests	(16,923)		(16,923)
	$ 134,423	**$ 149**	**$ 134,572**

The results of operations of these acquired businesses have been included in the consolidated statements of income from the dates of acquisition. These acquisitions resulted in recognition of goodwill in our financial statements reflecting the complementary strategic fit that the acquired businesses brought to our company. During the nine month period ended September 30, 2010 and 2009, the Company incurred $3.2 million and $5.4 million, respectively, of acquisition related expenses. These expenses are identified on our Condensed Consolidated Statements of Income as Acquisition expenses.

Our acquisition of MedServe in December of 2009 required us to divest certain acquired assets. These assets were sold for $8.0 million resulting in a second quarter pre-tax gain of $3.0 million. The following table describes the assets:

In thousands	Asset Group Sold
Fixed assets	$ (1,565)
Intangibles	(1,127)
Goodwill	(2,345)
Net other assets	(8)
	$ (5,045)

On September 24, 2010, we entered into a merger agreement for the acquisition of Healthcare Waste Solutions, Inc., a Delaware corporation (HWS). HWS provides a resource management assessment and consulting program for all waste streams to healthcare providers and is also engaged in the collection, transportation, treatment and disposal of medical waste, universal waste and other regulated wastes, sharps management services, safety and compliance training, and other related businesses.

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STERICYCLE, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

The total merger consideration is $245 million in cash, subject to various adjustments, including a reduction for HWS s indebtedness as of the closing date. The merger is subject to customary closing conditions and regulatory reviews, including clearance under the Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended.

NOTE 3 NEW ACCOUNTING STANDARDS

Accounting Standards Recently Adopted

Consolidation

On January 1, 2010, Stericycle adopted changes issued by the FASB related to amendments to previous guidance on the consolidation of variable interest entities (VIE). This standard clarifies the characteristics that identify a VIE and changes how a reporting entity identifies a primary beneficiary that would consolidate the VIE from a quantitative risk and rewards calculation to a qualitative approach based on which a variable interest holder has controlling financial interest and the ability to direct the most significant activities that impact the VIE s economic performance. This statement requires the primary beneficiary assessment to be performed on a continuous basis. It also requires additional disclosures about an entity s involvement with a VIE, restrictions on the VIE s assets and liabilities that are included in the reporting entity s consolidated balance sheet, significant risk exposures due to the entity s involvement with the VIE, and how its involvement with a VIE impacts the reporting entity s consolidated financial statements. Our adoption of the standard did not have any impact to our financial statements.

Accounting Standards not yet adopted

Revenue Recognition

In October 2009, the FASB issued an update to existing guidance on revenue recognition for arrangements with multiple deliverables. This update will allow companies to allocate consideration received for qualified separate deliverables using estimated selling price for both delivered and undelivered items when vendor-specific objective evidence or third-party evidence is unavailable. Additional disclosures discussing the nature of multiple element arrangements, the types of deliverables under the arrangements, the general timing of their delivery, and the significant factors and estimates used to determine estimated selling prices are required. We will adopt this update for new revenue arrangements entered into or materially modified beginning January 1, 2011. We do not generally have arrangements with multiple deliverables and therefore do not expect any material impact to our financial statements upon adoption.

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STERICYCLE, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

NOTE 4 FAIR VALUE MEASUREMENTS

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value hierarchy distinguishes between (1) market participant assumptions developed based on market data obtained from independent sources (observable inputs) and (2) an entity s own assumptions about market participant assumptions developed based on the best information available in the circumstances (unobservable inputs). The fair value hierarchy consists of three broad levels, which gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). The three levels of the fair value hierarchy are described below:

Level 1 Valuations based on quoted prices in active markets for identical assets or liabilities that the entity has the ability to access.

Level 2 Valuations based on quoted prices for similar assets or liabilities, quoted prices in markets that are not active, or other inputs that are observable or can be corroborated by observable data for substantially the full term of the assets or liabilities.

Level 3 Valuations based on inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

Financial assets and liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurement. Our assessment of the significance of a particular input to the fair value measurement requires judgment, and may affect the valuation of assets and liabilities and their placement within the fair value hierarchy levels. The impact of our creditworthiness has been considered in the fair value measurements noted below. In addition, the fair value measurement of a liability must reflect the nonperformance risk of an entity.

In thousands	Total as of September 30, 2010	Fair Value Measurements Using Level 1 Inputs	Level 2 Inputs	Level 3 Inputs
Assets:				
Cash and cash equivalents	$ 20,627	$ 20,627	$	$
Short-term investments	18,632	18,632		
Total assets	**$ 39,259**	**$ 39,259**	**$**	**$**
Liabilities:				
Interest rate hedge (accrued liabilities)	60		60	
Total liabilities	$ 60	$	$ 60	$

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STERICYCLE, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

In thousands	Total as of December 31, 2009	Fair Value Measurements Using Level 1 Inputs	Level 2 Inputs	Level 3 Inputs
Assets:				
Cash and cash equivalents	$ 15,767	$ 15,767	$	$
Short-term investments	1,131	1,131		
Total assets	**$ 16,898**	**$ 16,898**	**$**	**$**
Liabilities:				
Interest rate hedges (accrued liabilities)	$ 1,165	$	$ 1,165	$
Total liabilities	$ 1,165	$	$ 1,165	$

Level 1: At September 30, 2010, we have $20.6 million in cash and cash equivalents, and $15.8 million in Certificates of Deposit, and $2.8 million in money market accounts, that we carry on our books at fair value using Level 1 inputs. We financed a portion of our Japan acquisition through local borrowings of ¥1.2 billion which required us to deposit the equivalent USD amount of $15.8 million in one year Certificates of Deposit into an affiliated bank located in the United States. At December 31, 2009, we had $15.8 million in cash and cash equivalents and $1.1 million of short-term investments on our books at fair value using market price inputs.

Level 2: At September 30, 2010, we have an interest rate swap contract covering $25 million of our variable interest debt. The objective of the swap is to reduce the risk of volatile interest expense by fixing the rate. The interest rate hedge is designated as a cash flow hedge; the notional amount and all other significant terms of the hedge agreement are matched to the provisions and terms of the debt hedged. We apply hedge accounting to this instrument with changes in the fair value of the hedge agreement recorded as a component of accumulated other comprehensive income. The fair value was determined using market data inputs to calculate expected future interest rates. The cash streams attributable to the difference between expected future rates and the fixed rate payable are discounted to arrive at the fair value of the hedge. At September 30, 2010 and December 31, 2009 the fair value of the interest rate hedges was recorded as a current liability of $60 thousand and $1.2 million, respectively.

Level 3: We had no assets or liabilities measured at fair value using Level 3 inputs at September 30, 2010 or December 31, 2009.

Fair Value of Debt: At September 30, 2010, the fair value of the Company s debt obligations was estimated at $960.1 million, compared to a carrying amount of $977.4 million. At December 31, 2009, the fair value of the Company s debt obligations was estimated at $985.0 million, compared to a carrying amount of $988.9 million. This fair value was estimated using market interest rates for comparable instruments.

There were no movements of items between fair value hierarchies.

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STERICYCLE, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

NOTE 5 DERIVATIVE INSTRUMENTS

As of September 30, 2010, we have one interest rate swap contract, which expired in October 2010, covering $25 million of our borrowings outstanding under our senior credit facility. The objective of the hedge was to reduce the risk of volatile interest expense by fixing the rate.

The fair market of the hedge is recorded as a current liability of $60 thousand at September 30, 2010.

During the quarter ending September 30, 2010, we settled our Treasury Lock hedge related to our private debt placement. The settlement resulted in a cash payment of $4.6 million and is reflected on our Statement of Cash Flows within Financing Activities. This settlement amount will be amortized over the life of the related debt.

NOTE 6 INCOME TAXES

We and our subsidiaries file U.S. federal income tax returns and income tax returns in various states and foreign jurisdictions. With a few exceptions, we are no longer subject to U.S. federal, state, local, or non-U.S. income tax examinations by tax authorities for years before 2004. We have tax years open to examination in the US from 2007 and our subsidiaries in foreign countries have tax years open ranging from 2004 through 2009.

The Company has recorded accruals to cover certain unresolved tax issues. Such uncertain tax positions relate to additional taxes and interest the Company may be required to pay in various tax jurisdictions. During the course of examinations by various taxing authorities, proposed adjustments may be asserted. The Company evaluates such items on a case-by-case basis and adjusts the accrual for uncertain tax positions as deemed necessary.

The total amount of unrecognized tax benefits as of September 30, 2010 and December 31, 2009 was $7.7 million and $7.6 million, respectively, which included immaterial amounts of interest and penalties reflected as a liability on the balance sheet. The amount of unrecognized tax benefits that, if recognized, would affect the effective tax rate is approximately $7.7 million. We recognize interest and penalties accrued related to income tax reserves in income tax expense. This method of accounting is consistent with prior years.

The following table summarizes the changes in unrecognized tax positions during the nine months ended September 30, 2010:

In thousands	
Unrecognized tax positions, January 1, 2010	$ 7,622
Net decreases- tax positions in prior period	(77)
Expiring by lapse of the Statute of Limitations	(1,123)
Net increases- tax positions in current period	1,276
Unrecognized tax positions, September 30, 2010	$ 7,698

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STERICYCLE, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

NOTE 7 STOCK BASED COMPENSATION

At September 30, 2010 we had stock options outstanding under the following plans:

(i) The 2008 Incentive Stock Plan, which our stockholders approved in May 2008;

(ii) the 2005 Incentive Stock Plan, which our stockholders approved in April 2005;

(iii) the 2000 Nonstatutory Stock Option Plan, which our Board of Directors adopted in February 2000;

(iv) the 1997 Stock Option Plan, which expired in January 2007;

(v) the Directors Stock Option Plan, which expired in May 2006;

(vi) the 1995 Incentive Compensation Plan, which expired in July 2005;

(vii) our Employee Stock Purchase Plan, which our stockholders approved in May 2001.

The following table sets forth the expense related to stock compensation:

	Three Months Ended September 30,		Nine Months Ended September 30,	
In thousands	**2010**	**2009**	**2010**	**2009**
Stock options	**$ 3,483**	$ 3,604	**$ 10,807**	$ 10,362
Employee Stock Purchase Plan	**217**	166	**634**	499
Total pre-tax expense	**$ 3,700**	$ 3,770	**$ 11,441**	$ 10,861

The following table sets forth the tax benefits related to stock compensation:

In thousands	Three Months Ended September 30, 2010	Three Months Ended September 30, 2009	Nine Months Ended September 30, 2010	Nine Months Ended September 30, 2009
Tax benefit recognized in income statement	**$ 1,486**	$ 1,453	**$ 4,547**	$ 4,207
Excess tax benefit realized	**4,521**	(194)	**17,951**	357

The Black-Scholes option-pricing model is used in determining the fair value of each option grant using the assumptions noted in the table below. The expected term of the options granted is based on historical experience and represents the period of time that awards granted are expected to be outstanding. Expected volatility is based upon historical volatility of our stock. The expected dividend yield is zero. The risk-free interest rate is based upon the U.S. Treasury yield rates of a comparable period.

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STERICYCLE, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

The assumptions that we used in the Black-Scholes model are as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2010	2009	2010	2009
Expected term (in years)	**5.75**	5.5	**5.75**	5.5
Expected volatility	**27.62%**	28.21%	**28.39%**	28.28%
Expected dividend yield	**0.00%**	0.00%	**0.00%**	0.00%
Risk free interest rate	**1.71%**	2.69%	**2.38%**	2.12%

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2010	2009	2010	2009
Weighted average grant date fair value of the stock options granted	**$ 15.36**	$ 12.31	**$ 13.43**	$ 11.89

Stock option activity for the nine months ended September 30, 2010, was as follows:

	Number of Options	Weighted Average Exercise Price per Share	Weighted Average Remaining Contractual Life (in years)	Aggregate Intrinsic Value
Outstanding at December 31, 2009	7,387,753	$ 35.43		
Granted	1,304,681	52.56		
Exercised	(1,627,108)	26.69		
Cancelled or expired	(125,577)	47.87		
Outstanding at September 30, 2010	**6,939,749**	**$ 40.43**	**6.70**	**$ 202,391,523**
Exercisable at September 30, 2010	**3,512,385**	**$ 33.51**	**5.46**	**$ 126,326,580**
Vested and expected to vest in the future at September 30, 2010	**6,393,121**	**$ 39.69**	**6.57**	**$ 190,428,356**

The restricted stock units (RSUs), included above, account for 20,000 shares granted and $1.4 million of intrinsic value which have a weighted average contractual life of 2.4 years.

In thousands	Three Months Ended September 30, 2010	Three Months Ended September 30, 2009	Nine Months Ended September 30, 2010	Nine Months Ended September 30, 2009
Total intrinsic value of options exercised	**$ 14,485**	**$ 3,166**	**$ 56,318**	**$ 12,073**

Intrinsic value is measured using the fair market value at the date of the exercise (for options exercised) or at September 30, 2010 (for outstanding options), less the applicable exercise price.

As of September 30, 2010, there was $24.4 million of total unrecognized compensation expense, related to non-vested stock options, which is expected to be recognized over a weighted average period of 1.69 years.

NOTE 8 COMMON STOCK

During the quarters ended March 31, 2010 and 2009, we repurchased on the open market, and subsequently cancelled, 207,114 and 536,346 shares of common stock, respectively. The weighted average repurchase price was $54.36 and $47.59 per share, respectively.

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STERICYCLE, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

During the quarters ended June 30, 2010 and 2009, we repurchased on the open market, and subsequently cancelled, 235,436 and 40,162 shares of common stock, respectively. The weighted average repurchase price was $55.22 and $48.51 per share, respectively.

During the quarters ended September 30, 2010 and 2009, we repurchased on the open market, and subsequently cancelled 308,588 and 848,169 shares of common stock, respectively. The weighted average repurchase price was $62.64 and $48.61 per share, respectively.

NOTE 9 NET INCOME PER COMMON SHARE

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

In thousands, except share and per share data	Three Months Ended September 30, 2010	Three Months Ended September 30, 2009	Nine Months Ended September 30, 2010	Nine Months Ended September 30, 2009
Numerator:				
Numerator for basic earnings per share				
Net income attributable to Stericycle, Inc.	**$ 56,686**	$ 46,526	**$ 157,899**	$ 131,083
Denominator:				
Denominator for basic earnings per share weighted average shares	**85,295,740**	84,899,815	**84,986,187**	84,909,316
Effect of diluted securities:				
Employee stock options	**1,883,317**	1,894,303	**1,844,574**	1,918,310
Dilutive potential share	**1,883,317**	1,894,303	**1,844,574**	1,918,310
Denominator for diluted earnings per share-adjusted weighted average shares and after assumed conversions	**87,179,057**	86,794,118	**86,830,761**	86,827,626
Earnings per share Basic	**$ 0.66**	$ 0.55	**$ 1.86**	$ 1.54
Earnings per share Diluted	**$ 0.65**	$ 0.54	**$ 1.82**	$ 1.51

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STERICYCLE, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

NOTE 10 COMPREHENSIVE INCOME

The components of total comprehensive income are net income, the change in cumulative currency translation adjustments, and gains and losses on derivative instruments qualifying as cash flow hedges. The following table sets forth the components of total comprehensive income for the three and nine months ended September 30, 2010 and 2009:

In thousands	Three Months Ended September 30, 2010	Three Months Ended September 30, 2009	Nine Months Ended September 30, 2010	Nine Months Ended September 30, 2009
Net income	**$ 57,300**	$ 46,563	**$ 159,700**	$ 131,231
Other comprehensive income:				
Currency translation adjustments	**17,253**	(3,498)	**(632)**	16,955
Change in fair value of cash flow hedge, net of tax	**2,312**	669	**675**	1,676
Other comprehensive income/ (loss)	**19,565**	(2,829)	**43**	18,631
Comprehensive income	**$ 76,865**	$ 43,734	**$ 159,743**	$ 149,862
Less: net income attributable to noncontrolling interests	**614**	37	**1,801**	148
Comprehensive income attributable to Stericycle, Inc.	**$ 76,251**	$ 43,697	**$ 157,942**	$ 149,714

NOTE 11 GOODWILL

We have two geographical reporting segments, United States and Foreign Countries, both of which have goodwill. The changes in the carrying amount of goodwill, for the nine months ended September 30, 2010 were as follows:

In thousands	United States	Foreign Countries	Total
Balance as of January 1, 2010	$ 1,153,149	$ 240,942	$ 1,394,091
Changes due to currency fluctuation		**844**	**844**
Sale of assets	**(2,345)**		**(2,345)**
Changes in goodwill on 2009 acquisitions	**(1,973)**	**(12,627)**	**(14,600)**
Goodwill on 2010 acquisitions	**41,992**	**56,174**	**98,166**
Balance as of September 30, 2010	**$ 1,190,823**	**$ 285,333**	**$ 1,476,156**

The changes in goodwill for 2009 acquisitions are primarily due to the finalization of intangible valuations and allocation of goodwill to the asset group held for sale.

During the quarter ended June 30, 2010 we performed our annual goodwill impairment evaluation for our three reporting units, Domestic Regulated Waste, Domestic Regulated Returns Management, and Foreign Countries. We performed two impairment tests, one using a market approach and the other using an income approach. Both the market and income approaches indicated no impairment to goodwill to any of our three reporting units.

Market Approach: Our market approach begins by calculating the market capitalization of the Company using the average stock price for the prior 30 days and the outstanding share count at June 30, 2010. We then look at the Company s Earnings Before Interest, Tax, Depreciation, and Amortization (EBITDA), adjusted for stock compensation expense and non-core operational expenses, such as a gain on sale of divested assets, for the prior twelve months. The calculated market capitalization is divided by the modified EBITDA to arrive at a valuation multiple. The fair value of each reporting unit is then calculated by taking the product of the valuation multiple and the

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STERICYCLE, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

trailing twelve month modified EBITDA of that reporting unit. The fair value was then compared to the reporting units book value and determined to be in excess of the book value. We believe that starting with the fair value of the company as a whole is a reasonable measure as that fair value is then allocated to each reporting unit based on that reporting unit s individual earnings. A sustained drop in our stock price would have a negative impact to our fair value calculations. A temporary drop in earnings of a reporting unit would have a negative impact to our fair value calculations.

The results of our goodwill impairment test using the market approach indicated the fair value of our Domestic Regulated Waste and Foreign Countries reporting units exceeded book value by a substantial amount, in excess of 100% of book value. Our Regulated Returns Management reporting unit fair value exceeded book value in excess of 30%. We currently have $119.9 million of goodwill assigned to our Regulated Returns Management reporting unit.

Income Approach: The income approach uses expected future cash flows of each reporting unit and discounts those cash flows to a present value. Expected future cash flows are calculated using management assumptions of internal growth, capital expenditures, and cost efficiencies. Future acquisitions are not included in the expected future cash flows. We use a discount rate based on our Company calculated Weighted Average Cost of Capital which is adjusted for each of our reporting units based on risk size premium and foreign country premium. Significant assumptions used in the income approach include realization of future cash flows and the discount rate used to present value those cash flows.

The results of our goodwill impairment test using the income approach indicated the fair value all of our reporting units exceeded book value by a substantial amount; in excess of 100%.

We complete our annual impairment analysis of our indefinite lived intangibles (facility permits) during the quarter ended December 31 of each year.

NOTE 12 GEOGRAPHIC INFORMATION

Management has determined that we have two reportable segments, United States (including Puerto Rico) and Foreign. Revenues are attributed to countries based on the location of customers. Inter-company revenues, which are immaterial, are eliminated prior to reporting United States revenues. The same accounting principles and critical accounting policies are used in the preparation of the financial statements for both reporting segments.

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STERICYCLE, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

Detailed information for our United States reporting segment is as follows:

In thousands	Three Months Ended September 30, 2010	Three Months Ended September 30, 2009	Nine Months Ended September 30, 2010	Nine Months Ended September 30, 2009
Regulated waste management services	**$ 241,724**	$ 212,509	**$ 707,389**	$ 622,136
Regulated returns management services	**31,895**	15,986	**83,598**	53,984
Total revenue	**273,619**	228,495	**790,987**	676,120
Net interest expense	**7,033**	7,841	**22,053**	21,145
Income before income taxes	**73,229**	56,609	**207,590**	174,690
Income taxes	**26,494**	20,145	**76,243**	65,994
Net income attributable to Stericycle, Inc.	**$ 46,735**	$ 36,464	**$ 131,347**	$ 108,696
Depreciation and amortization	**$ 9,009**	$ 7,520	**$ 26,395**	$ 21,421

Detailed information for our Foreign Countries reporting segment is as follows:

In thousands	Three Months Ended September 30, 2010	Three Months Ended September 30, 2009	Nine Months Ended September 30, 2010	Nine Months Ended September 30, 2009
Regulated waste management services	**$ 89,369**	$ 69,341	**$ 254,912**	$ 188,074
Net interest expense	**1,394**	1,373	**4,095**	4,145
Income before income taxes	**14,716**	13,064	**41,469**	31,029
Income taxes	**4,151**	2,965	**13,116**	8,494
Net income	**10,565**	10,099	**28,353**	22,535
Less: net income attributable to noncontrolling interests	**614**	37	**1,801**	148
Net income attributable to Stericycle, Inc.	**$ 9,951**	$ 10,062	**$ 26,552**	$ 22,387
Depreciation and amortization	**$ 4,495**	$ 2,439	**$ 12,115**	$ 7,042

NOTE 13 LEGAL PROCEEDINGS

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

On November 30, 2009, we entered into an agreement with the United States Department of Justice (DOJ) and the States of Missouri and Nebraska providing clearance under the Hart-Scott-Rodino Antitrust Improvements Act of 1976 that allowed us to complete the acquisition of MedServe, Inc., which we closed on December 4, 2009. Our agreement with the DOJ and the States of Missouri and Nebraska agreement required us to divest certain assets that we acquired from MedServe consisting of an autoclave treatment facility in Newton, Kansas, four transfer stations in Kansas, Oklahoma, Nebraska and Missouri and certain large customer accounts and associated assets related to these facilities. We completed this required divestiture in May 2010 (see Note 2 Acquisitions and Divestiture). In addition, our agreement requires us for a period of ten years to notify the DOJ and the States of Missouri and Nebraska before acquiring any business that is engaged in both the collection and treatment of infectious waste in Kansas, Missouri, Nebraska or Oklahoma.

During the quarter ended June 30, 2010, we entered into a settlement of litigation related to an acquisition agreement for $0.9 million.

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STERICYCLE, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

NOTE 14 GUARANTEE

We have guaranteed a loan to JPMorganChase Bank N.A. on behalf of Shiraishi-Sogyo Co. Ltd (Shiraishi). Shiraishi is a customer in Japan that is expanding their medical waste management business and has a one year loan with a current balance of $5.8 million with JPMorganChase Bank N.A. that expires in May 2011. We also have extended notes receivable to Shiraishi for approximately $15.2 million in support of their medical waste business. These amounts are collateralized with the assets of Shiraishi and related companies.

NOTE 15 RESTRUCTURING CHARGES

In December of 2009, we announced the consolidation of operations within our Returns Management Services business. This consolidation will result in the closure of our facilities in Boynton Beach, Florida and Conyers, Georgia. The operations of those facilities will be moved to our Indianapolis, Indiana location. We have recognized expense of $1.6 million during the fourth quarter of 2009, $0.7 million during the first quarter of 2010, $1.1 million during the second quarter of 2010, and $0.2 million during the third quarter of 2010 related to this restructuring. We have an accrual balance of $0.4 million related to the restructuring at September 30, 2010. We estimate immaterial additional expense during the remainder of 2010. We believe this restructuring will allow us to maximize the efficiency of our Returns Management Services business at a single location and management infrastructure. In addition to the Returns Management Services restructuring charges, we recognized $0.5 million in expenses during the second quarter of 2010 related to the consolidation of some redundant plant operations.

NOTE 16 SUBSEQUENT EVENT

The Company evaluated subsequent events through the date of filing this Quarterly Report on Form 10-Q.

On August 18, 2010, we entered into a note purchase agreement with 39 institutional purchasers pursuant to which we agreed to issue and sell to the purchasers $175.0 million of our new 3.89% Series A seven-year unsecured senior notes and $225.0 million of our new 4.47% Series B 10-year unsecured senior notes. Closing of the note purchase agreement occurred on October 15, 2010.

The Series A notes bear interest at the fixed rate of 3.89% per annum, and the Series B notes bear interest at the fixed rate of 4.47% per annum. Interest is payable in arrears semi-annually on April 15 and October 15 beginning on April 15, 2011. The principal of the Series A notes is payable at the maturity of the notes on October 15, 2017, and the principal of the Series B notes is payable at the maturity of the notes on October 15, 2020. The notes are unsecured obligations.

We applied $100.0 million of the proceeds from the sale of the notes to repay a portion of our term loans and applied $300.0 million of the proceeds to reduce our borrowings under our revolving credit facility.

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ITEM 2. MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

We were incorporated in 1989 and presently serve a very diverse customer base of approximately 476,000 customers throughout the United States, Argentina, Brazil, Canada, Chile, Ireland, Japan, Mexico, Portugal, Puerto Rico, Romania, and the United Kingdom. We have fully integrated networks including processing centers, and transfer and collection sites. We use these networks to provide a broad range of services to our customers including regulated waste management services, and regulated return management services. Regulated waste management services include regulated waste removal services, sharps management services, products and services for infection control, and safety and compliance programs. Regulated return management services are physical services provided to companies and individual businesses that assist with the handling of products that are being removed from the supply chain due to recalls and expiration. These services also include advanced notification technology that is used to communicate specific instructions to the users of the product. Our waste treatment technologies include autoclaving, incineration, chemical treatment, and our proprietary electro-thermal-deactivation system. In addition, we have technology licensing agreements with companies located in Brazil and Japan.

There were no material changes in the Company s critical accounting policies since the filing of its 2009 Form 10-K. As discussed in the 2009 Form 10-K, the preparation of the consolidated financial statements in conformity with accounting principles generally accepted in the United States requires management to make certain estimates and assumptions that affect the amount of reported assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and revenues and expenses during the periods reported. Actual results may differ from those estimates.

Highlights of the three months ended September 30, 2010:

- revenues grew to $363.0 million, a 21.9% increase over $297.8 million for the third quarter 2009;
- third quarter gross margins decreased to 46.3% in 2010 from 47.3% in 2009;
- operating income was $96.0 million, a 20.8% increase from $79.5 million for 2009;
- we incurred a net $2.1 million in non-core operational pre-tax expenses, and;
- cash flow from operations was $76.1 million.

Highlights of the nine months ended September 30, 2010:

- revenues grew to $1.05 billion, a 21.0% increase over $864.2 million for 2009;
- gross margins decreased to 46.4% from 46.9% in 2009;

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operating income was $276.8 million, a 18.7% increase from $233.3 million for 2009;

we incurred a net $3.6 million in non-core operational pre-tax expenses, and;

cash flow from operations was $205.4 million.

THREE MONTHS ENDED SEPTEMBER 30, 2010 COMPARED TO THREE MONTHS ENDED SEPTEMBER 30, 2009

The following summarizes the Company s operations:

In thousands, except per share data	Three Months Ended September 30, 2010 $	2010 %	2009 $	2009 %
Revenues	**$ 362,988**	**100.0**	$ 297,836	100.0
Cost of revenues	**185,515**	**51.1**	150,272	50.5
Restructuring costs	**185**	**0.1**		
Depreciation	**9,190**	**2.5**	6,647	2.2
Total cost of revenues	**194,890**	**53.7**	156,919	52.7
Gross profit	**168,098**	**46.3**	140,917	47.3
Selling, general and administrative expenses	**65,033**	**17.9**	54,312	18.2
Depreciation	**1,796**	**0.5**	1,878	0.6
Amortization	**2,518**	**0.7**	1,434	0.5
Total selling, general and administrative expenses	**69,347**	**19.1**	57,624	19.3
Acquisition expenses	**1,891**	**0.5**	3,478	1.2
Integration expenses	**790**	**0.2**	282	0.1
Restructuring costs and plant closure expense	**31**	**0.0**		
Income from operations	**96,039**	**26.5**	79,533	26.7
Net interest expense	**8,427**	**2.3**	9,214	3.1
Income tax expense	**30,645**	**8.4**	23,110	7.8
Net income	**57,300**	**15.8**	46,563	15.6
Less: net income attributable to noncontrolling interests	**614**	**0.2**	37	0.0
Net income attributable to Stericycle, Inc.	**$ 56,686**	**15.6**	$ 46,526	15.6
Earnings per share- diluted	**$ 0.65**		$ 0.54	

Revenues: Our revenues increased $65.1 million, or 21.9%, to $363.0 million in 2010 from $297.8 million in 2009. Domestic revenues increased $45.1 million, or 19.7%, to $273.6 million from $228.5 million in 2009 as internal revenue growth for domestic small account customers increased by $13.1 million, or approximately 10%, and internal revenue growth for large quantity customers increased by $4.7 million, or approximately 6%. Internal revenues for returns management increased by $15.9 million. Internal revenues excludes acquisitions less than one year old. Total regulated waste and returns management domestic acquisitions less than one year old contributed approximately $11.4 million to the increase in domestic revenues.

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International revenues increased $20.0 million, or 28.9%, to $89.4 million from $69.3 million in 2009. Internal growth in the international segment contributed $3.9 million, or approximately 6% in increased revenues. Internal growth excludes the effect of foreign exchange and acquisitions less than one year old. The effect of exchange rate fluctuations negatively impacted international revenues approximately $1.6 million while acquisitions less than one year old contributed an additional $17.7 million in international revenues.

Cost of Revenues: Our cost of revenues increased $38.0 million, or 24.2%, to $194.9 million during 2010 from $156.9 million during 2009. Our domestic cost of revenues increased $23.2 million, or 20.2%, to $137.8 million from $114.6 million in 2009 as a result of costs related to a proportional increase in revenues from acquisitions and internal growth. Our international cost of revenues increased $14.8 million, or 35.0%, to $57.1 million from $42.3 million in 2009 primarily driven by the impact of exchange rates and impact from integration of acquisitions. Our company wide gross margin percentage decreased to 46.3% during 2010 from 47.3% during 2009 primarily due to slightly higher fuel and energy costs as well as integration of lower margin newly acquired revenues and higher Regulated Returns Management revenues, offset by improvements in the base business margins.

Selling, General and Administrative Expenses: Selling, general and administrative (SG&A) expenses increased approximately $11.7 million, or 20.4%, to $69.4 million, for the quarter ended September 30, 2010 from $57.6 million for the comparable quarter in 2009 primarily as investment spending supported the increase in revenues and acquisition related SG&A spending. As a percentage of revenue, these costs decreased by 0.2% for the quarter ended September 30, 2010 compared to the same period in 2009.

Domestically, third quarter SG&A expenses increased $8.2 million, or 18.1%, to $53.6 million from $45.4 million in the same period in 2009. As percentage of revenues, SG&A was lower at 19.6% in the third quarter of 2010 compared to 19.9% in 2009. As a percentage of revenues, amortization expense of acquired intangible assets increased by 0.2% while other expenses decreased by 0.55%. There was no single factor that was a major contributor to the decrease in SG&A.

Internationally, third quarter SG&A expenses increased $3.6 million or 29.5% to $15.8 million from $12.2 million in the same period last year. As a percentage of revenues, SG&A was 17.7% in 2010 compared to 17.6% in 2009. The increase in SG&A was partially due to our acquisitions in Japan and Portugal, which have slightly higher SG&A expenses. Higher amortization expense related to recognized intangible assets from acquisitions and investment for our Clinical Services program also contributed to the increase in SG&A.

Income from Operations: Income from operations increased to $96.0 million for the quarter ended September 30, 2010 from $79.5 million for the comparable quarter in 2009, an increase of 20.8%. During the quarter ended September 2010, we recognized $1.9 million in expenses related to acquisitions and $0.2 million of restructuring costs of our regulated returns management service business. During the quarter ended September 30, 2009 we recognized $3.5 million in expenses related to acquisitions.

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Net Interest Expense: Net interest expense decreased to $8.4 million during the quarter ended September 30, 2010 from $9.2 million during the comparable quarter in 2009. Our interest expense was higher in 2009 due to incremental expenses related to three interest rate swap contracts, two of which expired prior to the third quarter of 2010.

Income Tax Expense: Income tax expense increased to $30.6 million for the quarter ended September 30, 2010 from $23.1 million for the comparable quarter in 2009. In September 2010 and 2009, we recognized $1.2 million and $1.8 million, respectively; of tax benefits related to prior years unrecognized tax positions, which positively impacted our diluted earnings per share by $0.01 and $0.02, respectively. The effective tax rates for the quarters ended September 30, 2010 and 2009 were 34.8% and 33.2%, respectively.

NINE MONTHS ENDED SEPTEMBER 30, 2010 COMPARED TO NINE MONTHS ENDED SEPTEMBER 30, 2009

The following summarizes the Company s operations:

	Nine Months Ended September 30,			
	2010		2009	
	$	%	$	%
In thousands, except per share data				
Revenues	**$ 1,045,899**	**100.0**	$ 864,194	100.0
Cost of revenues	**532,625**	**50.9**	438,484	50.7
Restructuring costs	**1,339**	**0.1**		
Depreciation	**26,983**	**2.6**	20,456	2.4
Total cost of revenues	**560,947**	**53.6**	458,940	53.1
Gross profit	**484,952**	**46.4**	405,254	46.9
Selling, general and administrative expenses	**191,067**			