

STERICYCLE INC
Form PRE 14A
March 27, 2002

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SCHEDULE 14A

PROXY STATEMENT PURSUANT TO SECTION 14(a) OF THE SECURITIES
EXCHANGE ACT OF 1934 (AMENDMENT NO.)

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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
Section 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)

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NOTICE OF 2002 ANNUAL MEETING OF STOCKHOLDERS

TO BE HELD ON MAY 15, 2002

Dear Stockholder:

You are cordially invited to attend our Annual Meeting of Stockholders on Wednesday, May 15, 2002, at 11:00 a.m. (Chicago time), at the Embassy Suites Hotel, 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 Annual Meeting of Stockholders in 2003

a proposal to amend our certificate of incorporation to increase our authorized number of shares of common stock from 30,000,000 shares to 80,000,000 shares

ratification of the appointment of Ernst & Young LLP as our independent public accountants for the year ending December 31, 2002

any other matters that properly come before the meeting

Only stockholders of record at the close of business on the record date of March 18, 2002 are entitled to vote at the Annual Meeting.

Admission to the Annual Meeting will be by admissions card only. If you plan to attend the meeting in person, please complete and return the Reservations Form on the back cover, and an admissions card will be mailed to you. Because of space limitations, all Reservation Forms must be received by May 8, 2002. An admissions card will admit no more than two people.

For the convenience of our stockholders who do not plan to attend the Annual Meeting in person and who desire 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 provided for that purpose, or, if your shares are registered in your name, vote your shares telephonically by calling (866) 207-3912. If you return your proxy card and later decide to attend the Annual Meeting in person, or for any other reason desire to revoke your proxy, you may do so at any time before your proxy is voted by the proxy holders.

For the Board of Directors

Jack W. Schuler
Chairman of the Board

Mark C. Miller
President and Chief Executive Officer

April 10, 2002

Lake Forest, Illinois

28161 North Keith Drive

Lake Forest, Illinois 60045

PROXY STATEMENT

2002 Annual Meeting of Stockholders

To Be Held on May 15, 2002

We are furnishing this Proxy Statement in connection with the solicitation of proxies by our Board of Directors for use at our Annual Meeting of Stockholders on Wednesday, May 15, 2002, at 11:00 a.m. (Chicago time), at the Embassy Suites Hotel, 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 10, 2002. 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, and Series A Convertible preferred stock, par value \$0.01 per share. As of March 18, 2002, the record date for the Annual Meeting, we had 18,704,580 shares of common stock and 45,405 shares of convertible preferred stock outstanding.

Stockholders Entitled To Vote. Only holders of our common stock or our convertible preferred stock who were stockholders of record at the close of business on the record date of March 18, 2002 are entitled to notice of and to vote their shares of record at the Annual Meeting.

Holders of common stock and holders of convertible preferred stock will vote together as a single class with respect to the election of seven of our nine directors and each other matter to be voted on at the Annual Meeting (other than the election of two directors), and holders of convertible preferred stock will vote as a separate class with respect to the election of two directors.

Each outstanding share of common stock is entitled to one vote. With respect to matters on which holders of common stock and holders of convertible preferred stock will vote together as a single class, each outstanding share of convertible preferred stock is entitled to a number of votes equal to the number of votes possessed by the shares of common stock into which the share of preferred stock was convertible as of the record date for the Annual Meeting. As of the record date, each share of preferred stock was convertible into 61.78 shares of common stock. With respect to the election of the two directors to be elected by holders of convertible preferred stock voting as a separate class, each outstanding share of convertible preferred stock is entitled to one vote.

Quorum. Holders of shares representing a majority of the voting power 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. With respect to the election of Directors (Item 1), directors are elected by a plurality of the votes cast. Accordingly, the seven directors to be elected by holders of common stock and holders of convertible preferred stock voting together as a single class will be elected by a plurality of the votes cast by

those holders, and the two directors to be elected by holders of convertible preferred will be elected by a plurality of the votes cast by those holders.

With respect to the proposal to amend our certificate of incorporation to increase our authorized shares of common stock from 30,000,000 shares to 80,000,000 shares (Item 2), the affirmative vote of holders of a majority of the shares of common stock and convertible preferred stock outstanding as of the record date, voting together as a single class, will be required for approval.

With respect to each other matter to be voted on at the Annual Meeting, the affirmative vote of holders of a majority of the voting power present in person or represented by proxy and entitled to vote will be required for approval of the matter.

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 which 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 vote for election of directors (Item 1) (which, as noted, requires a plurality of the votes cast), but will have the effect of votes against the proposal to increase our authorized shares of common stock (Item 2) (which, as noted, requires the affirmative vote of holders of a majority of the shares of common stock and convertible preferred stock outstanding as of the record date). Shares which 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 matter) and, if the matter in question is the proposal to increase our authorized shares of common stock (Item 2), the shares will have the effect of votes against the proposal. In the case of any other matter, the shares will not be included in the total of votes cast and thus will have no effect on the outcome of the vote 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) 207-3192. 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 be sure to check the information provided to you by your broker, bank or other holder of record to see which options, if any, 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.**

A stockholder may revoke a proxy at any time before it is voted by the proxy holders 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, constitute revocation of the proxy.

STOCK OWNERSHIP**Stock Ownership of Certain Stockholders**

The following table provides certain information regarding 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 March 18, 2002 of more than 5% of our outstanding common stock:

Name and Address	Shares Beneficially Owned	Percentage(1)
MDP Entities(2),(4) c/o Madison Dearborn Partners, LLC 70 West Madison Street Chicago, Illinois 60602	1,411,804	6.56%
Bain Entities(3),(4) c/o Bain Capital, LLC 111 Huntington Avenue Boston, Massachusetts 02199	1,393,189	6.48%

- (1) The percentages in this column were calculated assuming the conversion as of March 18, 2002 of all 45,405 outstanding shares of our convertible preferred stock into 2,804,993 shares of our common stock, for an assumed total of 21,509,573 shares of common stock outstanding.
- (2) The shares shown represent the 22,853 shares of our convertible preferred stock owned by the following investment funds associated with Madison Dearborn Partners, LLC (the MDP Entities), assuming the conversion as of March 18, 2002 of all of these shares into shares of common stock:

	Shares of Convertible Preferred Stock	Equivalent Shares of Common Stock	Percentage of Outstanding Shares
Madison Dearborn Capital Partners III, L.P.	22,268	1,375,612	6.39%
Madison Dearborn Special Equity III, L.P.	494	30,545	0.14%
Special Advisors Fund I, LLC	91	5,647	0.03%

Amendment No. 2, filed on November 21, 2001, to the Schedule 13D jointly filed by the Bain Entities and the MDP Entities on November 22, 1999, reported that each of the MDP Entities has sole voting and sole dispositive power with respect to its shares, and that Madison Dearborn Partners III, L.P., as the sole general partner or managing member of each of the MDP Entities, and Madison Dearborn Partners, LLC, as the sole general partner of Madison Dearborn Partners III, L.P., may be deemed to share voting and dispositive power with respect to the shares of common stock held by the MDP Entities.

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- (3) The shares shown represent the 22,552 shares of our convertible preferred stock owned by the following investment funds associated with Bain Capital, LLC (the Bain Entities), assuming the conversion as of March 18, 2002 of all of these shares into shares of common stock:

	Shares of Convertible Preferred Stock	Equivalent Shares of Common Stock	Percentage of Outstanding Shares
Bain Capital Fund VI, L.P.	15,437	953,672	4.43%
BCIP Associates II	2,732	168,785	0.78%
BCIP Associates II-B	374	23,139	0.11%
BCIP Associates II-C	802	49,545	0.23%
BCIP Trust Associates	782	48,297	0.22%
BCIP Trust Associates II-B	125	7,708	0.04%
Pep Investments Pty. Limited	51	3,178	0.01%
Brookside Capital Partners Fund, L.P.	1,124	69,432	0.32%
Sankaty High Yield Asset Partners, L.P.	562	34,716	0.16%
Sankaty High Yield Partners II, L.P.	562	34,716	0.16%

Amendment No. 2 to the Schedule 13D jointly filed by the Bain Entities and the MDP entities (see Note 3) reported that each of the Bain Entities has sole voting and sole dispositive power with respect to its shares. The amendment also reported that Bain Capital Partners VI, L.P. (BCP VI), as the sole general partner of Bain Capital Fund VI, L.P. (BCF VI), may be deemed to share voting and dispositive power with respect to the shares of common stock held by BCF VI, and that Bain Capital Investors, LLC, as the sole general partner of BCP VI and the managing partner of BCIP Associates II, BCIP Associates II-B, BCIP Associates II-C, BCIP Trust Associates and BCIP Trust Associates II-P (the BCIP Partnerships), may be deemed to share voting and dispositive power with respect to the shares of common stock held by BCF VI and each of the BCIP Partnerships. In addition, the amendment reported that other entities affiliated with Bain Capital, LLC, in their roles as sole general partner or managing member, may be deemed to share voting and dispositive power with respect to the shares of common stock held by Brookside Capital Partners Fund, L.P., Sankaty High Yield Asset Partners, L.P. and Sankaty High Yield Partners II, L.P.

- (4) The Bain Entities and the MDP Entities have agreed to vote their shares of convertible preferred stock in accordance with the terms of an inter-investor agreement. By reason of this agreement, the Bain Entities and the MDP Entities may be deemed to constitute a group for purposes of the Securities Exchange Act of 1934. Accordingly, by virtue of their beneficial ownership of 45,405 shares of convertible preferred stock, the Bain Entities and the MDP Entities may be deemed to beneficially own 2,804,993 shares of common stock, representing approximately 13.04% of the total number of outstanding shares of common stock.

Stock Ownership of Directors and Executive Officers

The following table provides certain information regarding the beneficial ownership of our common stock as of March 18, 2002 by (1) each of our directors, (2) each of our executive officers listed in the Summary Compensation Table on page 11 and (3) all of our directors and executive officers as a group:

	Shares Beneficially Owned	Options and Warrant Shares Beneficially Owned(1)	Combined Percentage(2)(3)
Jack W. Schuler(4)	859,565	64,592	4.28%
Mark W. Miller(5)	477,262	148,886	2.89%
John P. Connaughton(6)		26,566	*
Rod F. Dammeyer(7)	1,000	9,438	*
Patrick F. Graham		8,188	*
John Patience	176,843	55,809	1.08%
Thomas Reusch(8)		26,566	*
Peter Vardy(9)	86,382	59,201	*
L. John Wilkerson, Ph.D.(10)		53,491	*
Richard T. Kogler	12,000	31,102	*
Frank J.M. ten Brink	9,819	84,789	*
Anthony J. Tomasello	108,546	20,415	*
All directors and executive officers as a group (12 persons)	2,106,498	516,647	10.50%

* Less than 1%

- (1) This column shows shares of common stock issuable upon the exercise of stock options or warrants exercisable as of or within 60 days after March 18, 2002.
- (2) The percentages in this column were calculated assuming the conversion as of March 18, 2002 of all 45,405 outstanding shares of our convertible preferred stock into 2,804,992 shares of our common stock, for an assumed total of 21,509,573 shares of common stock outstanding.
- (3) Shares of common stock issuable under stock options or warrants exercisable as of or within 60 days after March 18, 2002 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.
- (4) The shares shown as beneficially owned by Mr. Schuler include 11,410 shares owned by his wife and 23,808 shares owned by trusts for the benefit of his children, with respect to all of which Mr. Schuler disclaims any beneficial ownership.
- (5) The shares shown as beneficially owned by Mr. Miller include 76,346 shares owned by trusts for the benefit of his sons, with respect to which Mr. Miller disclaims beneficial ownership.
- (6) Mr. Connaughton is a managing director of Bain Capital, LLC. See [Stock Ownership](#) [Stock Ownership of Certain Beneficial Owners](#). Mr. Connaughton has assigned to Bain Capital, LLC all of the stock options granted to him under our Directors Stock Option Plan. As a managing director of Bain Capital, LLC, Mr. Connaughton may be deemed to share voting and dispositive power with respect to the shares of stock owned by the Bain Entities. Mr. Connaughton disclaims any beneficial interest in these stock options or shares except to the extent of any pecuniary interest arising from his managing directorship of Bain Capital, LLC.
- (7) The shares shown as beneficially owned by Mr. Dammeyer include 1,000 shares owned by his wife, with respect to which Mr. Dammeyer disclaims beneficial ownership.
- (8) Mr. Reusché is a managing director of Madison Dearborn Partners, LLC. See [Stock Ownership](#) [Stock Ownership of Certain Beneficial Owners](#). Mr. Reusché has assigned to Madison Dearborn

Partners, LLC all of the stock options granted to him under our Directors Stock Option Plan. As a managing director of Madison Dearborn Partners, LLC, Mr. Reusché may be deemed to share voting and dispositive power with respect to the shares of stock owned by the MDP Entities. Mr. Reusché disclaims any beneficial interest in these stock options or shares except to the extent of any pecuniary interest arising from his managing directorship of Madison Dearborn Partners, LLC.

- (9) The shares shown as beneficially owned by Mr. Vardy include 20,000 shares owned by trusts for the benefit of his children, with respect to which Mr. Vardy disclaims beneficial ownership.
- (10) Dr. Wilkerson has assigned to Galen Advisors, LLC all of the stock options granted to him under our Directors Stock Option Plan. Dr. Wilkerson disclaims any beneficial interest in these stock options except to the extent of any pecuniary interest arising from his membership interest in Galen Advisors, LLC.

Item 1

ELECTION OF DIRECTORS

Our Board of Directors is currently comprised of nine directors. All nine directors will be elected at the Annual Meeting. Seven directors will be elected by holders of our common stock and convertible preferred stock voting together as a single class, and two directors will be elected by holders of our convertible preferred stock voting as a separate class. Each director elected will hold office until our Annual Meeting of Stockholders in 2003 or until his successor is elected and qualified.

Nominees for Director

The following table provides certain information regarding the nominees for election as directors. All nine nominees are currently serving as our directors.

Nominees for Election by Holders of Common Stock and Convertible Preferred Stock Voting Together as a Single Class

Name	Position with Company	Age
Jack W. Schuler	Chairman of the Board of Directors	61
Mark C. Miller	President, Chief Executive Officer and a Director	46
Rod F. Dammeyer	Director	61
Patrick F. Graham	Director	62
John Patience	Director	54
Peter Vardy	Director	71
L. John Wilkerson, Ph.D.	Director	58

Nominees for Election by Holders of Convertible Preferred Stock Voting as a Separate Class

Name	Position with Company	Age
John P. Connaughton	Director	36
Thomas R. Reusché	Director	46

Jack W. Schuler has served as our Chairman of the Board of Directors since January 1990. From January 1987 to August 1989, Mr. Schuler served as president and chief operating officer of Abbott Laboratories, where he served as a director from April 1985 to August 1989. Mr. Schuler serves as a director of Chiron Corporation, Medtronic, Inc. and Ventana Medical Systems, Inc. He is a co-founder of Crabtree Partners LLC, a private investment firm in Lake Forest, Illinois, which was formed in June 1995. 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, which he joined in 1976 and where he held a number of management and marketing positions. He is a director of Ventana Medical Systems, Inc. and Lake Forest Hospital. Mr. Miller received a B.S. degree in computer science from Purdue University, where he graduated Phi Beta Kappa.

Rod F. Dammeyer has served as a director since January 1998. He is the President of CAC, llc, a private company providing capital investment and management advisory services, and is the retired vice chairman of Anixter International, where he served from 1985 until February 2001, and the retired managing partner of Equity Group Corporate Investments, where he served from 1995 until June 2000. Mr. Dammeyer serves as a director of Arris Group, Inc., GATX Corporation, Peregrine Systems, Inc. and TeleTech Holdings, Inc., and

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as a trustee of The University of Chicago Hospitals and Health System and of Van Kampen Investments, Inc. closed-end funds. He received a B.S. degree from Kent State University.

Patrick F. Graham has served as a director since May 1991. Mr. Graham is a vice president, business development and strategic projects, at The Gillette Company and is and a director of Intelidata Technologies, Inc. He was a co-founder of Bain & Company, Inc., where he served in a number of positions from 1973 to 1997. He received a B.A. degree in economics from Knox College and a M.B.A. degree from the Stanford University Graduate School of Business Administration.

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

Peter Vardy has served as a director since July 1990. From June 1990 to December 2001, he served as the managing director of Peter Vardy & Associates, an international environmental consulting firm in Chicago, Illinois, which he founded. From April 1973 to May 1990, Mr. Vardy served at Waste Management, Inc., where he was vice president, environmental management. He received a B.S. degree in geological engineering from the University of Nevada.

L. John Wilkerson, Ph.D., has served as a director since July 1992. Dr. Wilkerson is a general partner of Galen Partners, L.P. and Galen Partners International, L.P., affiliated health care venture capital funds, and serves as a director of Vetro Corp. and several privately held health care companies. Dr. Wilkerson received a B.S. degree in biological sciences from Utah State University and a Ph.D. degree in managerial economics and marketing research from Cornell University.

John P. Connaughton has served as a director since November 1999. He has been a managing director of Bain Capital, LLC since 1997 and a member of the firm since 1989. Prior to joining Bain Capital, LLC, Mr. Connaughton was a consultant at Bain & Company, Inc., where he worked in consumer products and health care strategy consulting. Mr. Connaughton serves as a director of Dade Behring, Inc., Datek Online Holdings, Inc., DealTime.com Ltd., Epoch Senior Living, The Island ECN, Inc. and Vivra, Inc. Mr. Connaughton received a B.S. degree in commerce from the University of Virginia and a M.B.A. degree from the Harvard University Graduate School of Business, where he was a Baker Scholar.

Thomas R. Reusché has served as a director since November 1999. He is a managing director and co-founder of Madison Dearborn Partners, LLC. Prior to founding Madison Dearborn Partners, LLC in 1992, Mr. 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 a director of Hines Horticulture, Inc. and a number of private companies. He has received an A.B. degree from Brown University and a M.B.A. degree from the Harvard University Graduate School of Business.

Committees of the Board

Our Board of Directors has standing Compensation and Audit Committees. It does not have a standing nominating committee.

The Compensation Committee, whose members currently are Dr. Wilkerson (Chairman) and Messrs. Connaughton, Graham and Vardy, 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 Compensation Committee also administers our stock option plans as they apply to executive officers.

The Audit Committee, whose members currently are Messrs. Dammeyer (Chairman), Patience, Reusché and Schuler, makes recommendations to the full Board of Directors regarding the selection of independent public accountants, reviews the results and scope of the audit and other services provided by our independent public accountants, and reviews and evaluates the Company's financial reporting process and internal accounting controls. In accordance with the charter for the Audit Committee adopted by the Board of Directors, the four members of the committee are outside directors and independent as defined in the listing standards of the National Association of Securities Dealers, Inc.

Meetings

Our Board of Directors held eight meetings during 2001 and acted without a formal meeting on a number of occasions by unanimous written consent. The Compensation Committee held two meetings and acted without a formal meeting on several occasions during the year, and the Audit Committee held four meetings during the year.

All nine of our directors attended in person or participated by teleconference in all of the meetings of the Board of Directors during 2001, with the exception of three directors (Messrs. Connaughton, Graham and Vardy), each of whom missed one meeting. All of the members of the Compensation and Audit Committees attended the respective meetings of those committees.

Compensation of Directors

Prior to the 2001 Annual Meeting in May 2001, our directors did not receive fees or other cash compensation for their services as directors. Beginning with the election of directors at the 2001 Annual Meeting, however, each of our outside directors (i.e., directors who are neither officers nor employees of ours) is entitled to annual fees of \$50,000, payable in quarterly installments, unless the director elects to convert all or a portion of his fees into stock options under the conversion program described below. Each of our outside directors reelected at the 2001 Annual Meeting chose to convert all of his annual fees into stock options pursuant to the conversion program.

Our Directors Stock Option Plan, which was originally adopted by the Board of Directors and approved by our stockholders in 1996, was amended and restated by the Board in February 2001 and, as amended and restated, was approved by our stockholders at the 2001 Annual Meeting. The amendment and restatement added 300,000 shares to the total authorized, and the plan now authorizes nonstatutory stock options for 585,000 shares of common stock to be granted to our outside directors. As of December 31, 2001, 258,841 shares were available for future option grants under the plan.

The Directors Stock Option Plan authorizes the Board of Directors to adopt a conversion program to allow each outside director irrevocably to elect, prior to becoming entitled to any annual fees for his services as a director, to convert into options under the plan all or any portion of the annual fees that he otherwise would have received. Prior to the 2001 Annual Meeting, the Board adopted a conversion program which allows each outside director nominated for reelection at an Annual Meeting irrevocably to elect, prior to the Annual Meeting, to convert all or any portion of the annual fees that he would otherwise receive if reelected as a director into an option under the plan for a formula-determined number of shares. That number is equal to (i) the product of four times the amount of the annual fees that the outside director elects to convert divided by (ii) the average closing price of a share of our common stock during the 12-month period ending on the last trading day prior to the Annual Meeting. The exercise price of each option is the closing price on the day of the Annual Meeting.

All of our outside directors were reelected as directors at the 2001 Annual and, prior to the meeting, elected to convert all of their annual fees into options under the Directors Stock Option Plan. In accordance with the conversion program's formula, each of our eight outside directors was granted an option in May 2001 for 5,938 shares at an exercise price of \$45.01 per share.

Under the terms of the Directors Stock Option Plan, the Board of Directors is authorized to grant stock options to outside directors at the times and in the amounts that the Board determines, taking into account any

guidelines that the Board may adopt from time to time for this purpose. The Board has not yet adopted any guidelines for annual option grants, and with the exception of options for 2,969 shares at an exercise price of \$45.01, which were granted to Messrs. Schuler and Patience in May 2001 in recognition of their contributions to our business development and growth strategies, the Board did not grant any options to our outside directors during 2001 other than options granted pursuant to the conversion program. The Board does not currently contemplate granting any options to our outside directors during 2002 other than options granted pursuant to the conversion program.

The exercise price of each option granted under the Directors Stock Option Plan is the closing price on the date of the option grant. The term of each option granted prior to January 2000 is six years from the grant date, and the term of each option granted after December 1999 is 10 years from the grant date. Each option vests in 12 equal monthly installments and may be exercised only when it is vested. Each vested option granted prior to an amendment of the plan in February 2000 may be exercised only while the holder of the option remains a director or during the 90-day period following the date that he or she ceases to serve as a director. Each vested option granted after the amendment of the plan in February 2000 remains exercisable for the term of the option, notwithstanding that the holder has ceased to serve as a director, unless (i) the Board of Directors considers an earlier expiration date appropriate, taking into account the circumstances in which the holder ceased to serve as a director, or (ii) the director was removed from office, in which case the option remains exercisable only for 30 days after his or her removal. The term of the Directors Stock Option Plan continues until May 31, 2006, and no option may be granted under the plan after its expiration.

Each option granted under the Directors Stock Option Plan is transferable to (i) a member of the outside director's immediate family, (ii) a trust for the primary benefit of the outside director or one or more members of his or her immediate family, or (iii) a corporation, partnership or other entity which, together with its affiliates, owns at the time of transfer at least 2% of our outstanding common stock or 10% of our outstanding convertible preferred stock and to which the outside director has a contractual obligation to assign his outside remuneration.

Nominees of Holders of Convertible Preferred Stock

Messrs. Connaughton and Reusché serve as two of our directors as the respective designees of the Bain Entities and the MDP Entities. Pursuant to the terms on which we sold 75,000 shares of our convertible preferred stock to the Bain Entities and the MDP Entities, as long as they and their respective affiliates own 50% or more of the underlying common stock (i.e., the shares of common stock issuable, or previously issued, upon conversion of the convertible preferred stock), they have the right, voting as a separate class, to elect two directors to our Board of Directors. If they and their respective affiliates cease to hold 50% but still hold 25% or more of the underlying common stock, they have the right, voting as a separate class, to elect one director; and if they cease to hold 25% of the underlying common stock, their right to elect directors as a separate class terminates.

At the closing in November 1999 of our sale of convertible preferred stock to the Bain Entities and the MDP Entities, we also entered into a corporate governance agreement. This agreement contains, among other provisions, provisions intended to implement the right of the Bain Entities and the MDP Entities to elect directors to our Board. The agreement requires us to nominate their two designees for election to our Board of Directors, and if our stockholders fail to elect a nominated designee, to appoint the nominated designee as a director (increasing the number of our directors to permit the appointment, if necessary).

Pursuant to the terms on which we sold convertible preferred stock to the Bain Entities and the MDP Entities, as long as there are 18,750 shares of convertible preferred stock outstanding, holders of convertible preferred stock have the right to elect a majority of our directors upon the occurrence of certain bankruptcy events (e.g., if we make an assignment for the benefit of creditors or admit in writing our inability to pay our debts generally as they become due).

EXECUTIVE COMPENSATION

The following table provides certain information regarding the compensation paid to or earned by our President and Chief Executive Officer and our three other executive officers (the named executive officers) for services rendered in 2001, 2000 and 1999:

Summary Compensation Table

	Fiscal Year	Annual Compensation		Long-Term Compensation Awards	All Other Compensation(3)
		Salary	Bonus(1)	Number of Securities Underlying Options(2)	
Mark C. Miller	2001	\$ 280,000	\$ 33,311	46,162	\$9,928
President and Chief Executive Officer	2000	235,000		50,000	4,701
	1999	235,000	141,000	83,148	3,323
Richard T. Kogler(4)	2001	210,000	33,750	30,000	1,500
Executive Vice President and Chief Operating Officer	2000	175,000	18,750	33,000	1,500
	1999	168,269	125,000	132,500	300
Frank J.M. ten Brink	2001	210,000	20,672	31,156	1,500
Executive Vice President	2000	175,000		33,000	1,500
Chief Financial Officer	1999	168,269	93,000	69,781	300
Anthony J. Tomasello	2001	175,000		24,442	1,500
Executive Vice President and Chief Technical Officer	2000	175,000	100,000	20,000	1,500
	1999	168,269		39,130	300

- (1) Under our cash bonus program for executive officers, an executive officer may elect, in advance of any award, to forego some portion or all of any bonus otherwise payable under the program and receive instead an immediately vested nonstatutory stock option at an exercise price per share equal to the closing price of a share of our common stock on the bonus award date. Under the terms of the program in effect for bonuses payable in 2001 in respect of performance during 2000, the number of shares for which an option was granted was determined by dividing the product of four times the amount of the cash bonus that the participating executive officer elected to forego by the average closing price of our common stock during 2000. Under the terms of the program in effect for bonuses payable in 1999 in respect of performance during 1998, the number of shares for which an option was granted was determined by dividing the product of four times the amount of the cash bonus that the participating executive officer elected to forego by the closing price of our common stock on the bonus award date. The cash bonus program was not offered in 2000.

In 2001, Messrs. Miller, ten Brink and Tomasello elected to forego \$11,108, \$6,891 and \$38,413, respectively, of their respective cash bonuses of \$44,415, \$27,563 and \$38,413 for their performance in 2000, receiving instead stock options for 1,862, 1,156 and 6,442 shares, respectively. In 1999, Messrs. ten Brink and Tomasello elected to forego \$5,000 and \$10,000, respectively, of their respective cash bonuses of \$10,000 each for their performance in 1998, receiving instead stock options for 1,850 and 3,699 shares, respectively.

- (2) The stock options granted in 2001 to Messrs. Miller, ten Brink and Tomasello include options for 1,862, 1,156 and 6,442 shares, respectively, and the stock options granted in 1999 to Messrs. ten Brink and Tomasello include options for 1,850 and 3,699 shares, respectively, granted in lieu of all or portions of the cash bonuses otherwise payable under our cash bonus program for executive officers. See Note 1.
- (3) These amounts represent our matching contributions under our 401(k) plan. For 2001 and 2000, the matching contribution was 50% of the first 5% of compensation contributed by a participant, up to a maximum matching contribution of \$1,500. For 1999, the matching contribution was 30% of the first \$1,000 contributed by each participant. The amounts shown for Mr. Miller in 2001, 2000 and 1999 also include \$7,428, \$3,201 and \$3,023, respectively, in life insurance premiums (and, in 2001, disability insurance premiums) that we reimbursed to him.

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- (4) Mr. Kogler joined us in December 1998. The amounts shown for Mr. Kogler's bonuses in 2001, 2000 and 1999 include \$6,250, \$18,750 and \$25,000, respectively, paid to him in installments as a signing bonus for joining us.

2001 Stock Option Grants

The following table provides certain information regarding stock options granted to the named executive officers in 2001. In accordance with the rules of the Securities and Exchange Commission, the following table also provides the potential realizable value over the term of the options (i.e., the period from the date of grant to the date of expiration) based upon assumed rates of stock appreciation of 5% and 10%, compounded annually. These amounts do *not* represent forecasts of the future appreciation of the price of our common stock. We did not grant stock appreciation rights to any named executive officer in 2001.

Option Grants in Last Fiscal Year

	Individual Grants		Exercise Price Per Share(3)	Expiration Date	Potential Realizable Value at Assumed Annual Rates of Stock Price Appreciation for Option Term(4)	
	Number of Securities Underlying Options(1)	% of Total Options Granted to Employees in Fiscal Year(2)			5%	10%
Mark C. Miller	44,300	8.49%	\$ 30.41	2/6/11	\$ 847,112	\$ 2,146,748
	1,862	0.36%	44.76	5/14/11	52,414	132,827
Richard T. Kogler	30,000	5.75%	30.41	2/6/11	573,665	1,453,780
Frank J.M. ten Brink	30,000	5.75%	30.41	2/6/11	573,665	1,453,780
	1,156	0.22%	44.76	5/14/11	32,541	82,464
Anthony J. Tomasello	18,000	3.45%	30.41	2/6/11	344,199	872,268
	6,442	1.23%	44.76	5/14/11	181,338	459,546

- (1) All of the stock options granted to the named executive officers were granted under our 1995 Incentive Compensation Plan or our 1997 Stock Option Plan. With the exception of the options granted pursuant to our cash bonus program for executive officers, which vest immediately, each option granted vests over a five-year period: one-fifth of