

STERIS CORP
Form 10-Q/A
June 23, 2011
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D. C. 20549

FORM 10-Q/A
Amendment No. 1

(Mark One)

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 1-14643

STERIS Corporation

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(Exact name of registrant as specified in its charter)

Ohio (State or other jurisdiction of incorporation or organization)	34-1482024 (IRS Employer Identification No.)
5960 Heisley Road, Mentor, Ohio (Address of principal executive offices)	44060-1834 (Zip code)
440-354-2600	
(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 such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted 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 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 definitions of large accelerated filer, accelerated filer, and smaller reporting company in Rule 12b-2 of the Exchange Act.

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Large Accelerated Filer

Accelerated Filer

Non-Accelerated Filer (Do not check if a smaller reporting company)

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

The number of common shares outstanding as of October 29, 2010: 59,146,680

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This Amendment No. 1 on Form 10-Q/A to the Quarterly Report on Form 10-Q for the quarter ended September 30, 2010 of STERIS Corporation (the Company), originally filed with the Securities and Exchange Commission on November 9, 2010, reformats the Matters Affecting Comparability and Results of Operations portions, and adds a new Non-GAAP Financial Measures portion, of Management's Discussion & Analysis contained in Item 2 of the previously filed Form 10-Q to present the reconciliation of GAAP and non-GAAP numbers and the discussion thereof in a different manner, adds related cross references and updates the dates of the certifications contained in Exhibits 31.1 and 31.2 of such Quarterly Report as of the filing date of this Amendment No. 1.

Except for the reformatted presentation of the reconciliations and discussion, cross references, and the referenced certification updates, this Amendment No. 1 to the Company's Quarterly Report on Form 10-Q/A does not change any of the previously filed information or results for the quarter, and does not update any disclosure from, or reflect any event occurring subsequent to November 9, 2010, which is the filing date of the Quarterly Report on Form 10-Q as originally filed.

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STERIS Corporation and Subsidiaries

Form 10-Q/A

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PART 1 - FINANCIAL INFORMATION

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

Introduction

In Management's Discussion and Analysis of Financial Condition and Results of Operations (the MD&A), we explain the general financial condition and the results of operations for STERIS including:

what factors affect our business;

what our earnings and costs were in each period presented;

why those earnings and costs were different from prior periods;

where our earnings came from;

how this affects our overall financial condition;

what our expenditures for capital projects were; and

where cash will come from to fund future debt principal repayments, growth outside of core operations, repurchase common shares, pay cash dividends and fund future working capital needs.

As you read the MD&A, it may be helpful to refer to information in our consolidated financial statements, which present the results of our operations for the first half of fiscal 2011 and fiscal 2010. It may also be helpful to read the MD&A in our Annual Report on Form 10-K for the year ended March 31, 2010, filed with the SEC on May 28, 2010. In the MD&A, we analyze and explain the period-over-period changes in the specific line items in the Consolidated Statements of Income. Our analysis may be important to you in making decisions about your investments in STERIS.

Financial Measures

In the following sections of the MD&A, we may, at times, refer to financial measures that are not required to be presented in the consolidated financial statements under U.S. GAAP. We sometimes use the following financial measures in the context of this report: backlog; debt-to-total capital; net debt-to-total capital; and days sales outstanding. We define these financial measures as follows:

Backlog We define backlog as the amount of unfilled capital equipment purchase orders at a point in time. We use this figure as a measure to assist in the projection of short-term financial results and inventory requirements.

Debt-to-total capital We define debt-to-total capital as total debt divided by the sum of total debt and shareholders' equity. We use this figure as a financial liquidity measure to gauge our ability to borrow and fund growth.

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Net debt-to-total capital We define net debt-to-total capital as total debt less cash (net debt) divided by the sum of net debt and shareholders' equity. We also use this figure as a financial liquidity measure and to measure the risk of our financial structure.

Days sales outstanding (DSO) We define DSO as the average collection period for accounts receivable. It is calculated as net accounts receivable divided by the trailing four quarters' revenues, multiplied by 365 days. We use this figure to help gauge the quality of accounts receivable and expected time to collect.

Revenues Defined

As required by Regulation S-X, we separately present revenues generated as either product revenues or service revenues on our Consolidated Statements of Operations for each period presented. When we discuss revenues, we may, at times, refer to revenues summarized differently than the Regulation S-X requirements. The terminology, definitions, and applications of terms that we use to describe revenues may be different from terms used by other companies. We use the following terms to describe revenues:

Revenues Our revenues are presented net of sales returns and allowances.

Product Revenues We define product revenues as revenues generated from sales of capital equipment, which includes steam sterilizers, low temperature liquid chemical sterilant processing systems, washing systems, VHP[®] technology, water stills, and pure steam generators; integrated OR; surgical lights and tables; and the consumable family of products, which includes SYSTEM 1[®] consumables, sterility assurance products, skin care products, and cleaning consumables.

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Service Revenues We define service revenues as revenues generated from parts and labor associated with the maintenance, repair, and installation of our capital equipment, as well as revenues generated from contract sterilization offered through our Isomedix segment.

Capital Revenues We define capital revenues as revenues generated from sales of capital equipment, which includes steam sterilizers, low temperature liquid chemical sterilant processing systems, washing systems, VHP[®] technology, water stills, and pure steam generators; surgical lights and tables; and integrated OR.

Consumable Revenues We define consumable revenues as revenues generated from sales of the consumable family of products, which includes SYSTEM 1[®] consumables, sterility assurance products, skin care products, and cleaning consumables.

Recurring Revenues We define recurring revenues as revenues generated from sales of consumable products and service revenues.

Acquired Revenues We define acquired revenues as base revenues generated from acquired businesses or assets and additional volumes driven through acquired businesses or assets. We will use such measure for up to a year after acquisition.

General Company Overview and Executive Summary

Our mission is to provide a healthier today and safer tomorrow through knowledgeable people and innovative infection prevention, decontamination and health science technologies, products, and services. Our dedicated employees around the world work together to supply a broad range of solutions by offering a combination of capital equipment, consumables, and services to healthcare, pharmaceutical, industrial, and governmental Customers.

The bulk of our revenues are derived from the healthcare and pharmaceutical industries. Much of the growth in these industries is driven by the aging of the population throughout the world, as an increasing number of individuals are entering their prime healthcare consumption years, and is dependent upon advancement in healthcare delivery, acceptance of new technologies, government policies, and general economic conditions. In addition, each of our core industries is experiencing specific trends that could increase demand. Within healthcare, there is increased concern regarding the level of hospital-acquired infections around the world. The pharmaceutical industry has been impacted by increased FDA scrutiny of cleaning and validation processes, mandating that manufacturers improve their processes. In the contract sterilization industry, the aging population increases the demand for medical procedures, which can increase the consumption of single use medical devices and surgical kits.

Beyond our core markets, infection-control issues are becoming a global concern, and emerging threats are prominent in the news. We are actively pursuing new opportunities to adapt our proven technologies to meet the changing needs of the global marketplace.

During the first half of fiscal 2011, we recorded a pre-tax liability related to the SYSTEM 1 Rebate Program. The Rebate Program reduced Healthcare revenues by \$102.3 million, increased Healthcare cost of revenues by \$7.7 million, decreased gross margin and operating margin by \$110.0 million, decreased net income by \$70.3 million and reduced earnings per diluted share by \$1.17. The accrual of these estimated rebates and costs increased current liabilities by \$110.0 million and did not have a material impact on free cash flow during the period.

Fiscal 2011 second quarter revenues were \$312.4 million representing a decrease of 0.6% compared to the second quarter of fiscal 2010. Our gross margin percentage for the fiscal 2011 second quarter was 43.2%, representing a 100 basis point increase over the prior year period, driven primarily by productivity improvements and favorable product mix. Fiscal 2011 first half revenues were \$501.4 million and gross margin percentage was 30.5%. Adjusted revenues, excluding the \$102.3 million negative impact of the Rebate Program, for the fiscal 2011 first half were \$603.7 million (see subsection of MD&A titled *Non-GAAP Financial Measures* for additional information and related reconciliation of non-GAAP financial measures to the most comparable GAAP measures) compared to \$597.8 million in the first half of fiscal 2010, representing an increase of \$5.9 million, or 1.0%, driven primarily by growth in the Isomedix business segment and capital equipment growth in the United States Healthcare business segment. Adjusted gross margin percentage, excluding the \$110.0 million negative impact of the Rebate Program, for the first half of fiscal 2011 was 43.6% (see subsection of MD&A titled *Non-GAAP Financial Measures* for additional information and related reconciliation of non-GAAP financial measures to the most comparable GAAP measures), an improvement of 50 basis points over the first half of the prior fiscal year, reflecting the impact of productivity improvements, price increases, and favorable product mix, partially offset by unfavorable foreign currency fluctuations.

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Free cash flow was \$29.3 million in the first half of fiscal 2011 compared to \$74.4 million in the prior year first half due to higher capital spending levels and changes in operating assets and liabilities. Our debt-to-total capital ratio was 22.4% at September 30, 2010 and 21.8% at March 31, 2010. During the first half of fiscal 2011, we declared and paid quarterly cash

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dividends of \$0.26 per common share.

Additional information regarding our fiscal 2011 second quarter financial performance is included in the subsection below titled Results of Operations.

Matters Affecting Comparability

SYSTEM 1 Rebate Program. In April 2010, we introduced the SYSTEM 1 Rebate Program to Customers as a component of our Transition Plan for SYSTEM 1. Generally, U.S. Customers that purchased SYSTEM 1 processors directly from us or who are current users of SYSTEM 1 and who return their units will have the option of either a pro-rated cash value or rebate toward the future purchase of new STERIS capital equipment or consumable products. In addition, we will provide credits for SYSTEM 1 consumables in unbroken packaging and within shelf life and for the unused portion of prepaid SYSTEM 1 services contracts.

During the first quarter of fiscal 2011, we recorded a pre-tax liability related to the SYSTEM 1 Rebate Program. Of the \$110.0 million recorded, \$102.3 million is attributable to the Customer Rebate portion of the Program and was recorded as a reduction to revenue, and \$7.7 million is attributable to the disposal liability of the SYSTEM 1 units to be returned and was recorded in cost of revenues.

Restructuring. During the first half of fiscal 2011, we did not incur any significant additional expenses related to previously announced restructuring actions.

Additional information regarding our restructuring actions is included in our Annual Report on Form 10-K for the year ended March 31, 2010, filed with the SEC on May 28, 2010.

International Operations. Since we conduct operations outside of the United States using various foreign currencies, our operating results are impacted by foreign currency movements relative to the U.S. dollar. During the second quarter of fiscal 2011, our revenues were unfavorably impacted by \$1.5 million, or 0.5%, and income before taxes was unfavorably impacted by \$1.7 million, or 3.3%, as a result of foreign currency movements relative to the U.S. dollar. During the first half of fiscal 2011, our revenues were unfavorably impacted by \$0.6 million, or 0.1%, and income before income taxes was favorably impacted by \$0.2 million, or 1.6% as compared to the same prior year period.

Non-GAAP Financial Measures

We, at times, refer to financial measures which are considered to be non-GAAP financial measures under SEC rules. We may refer to our results of operations excluding certain transactions or amounts that are non-recurring or are not indicative of future results, in order to provide meaningful comparisons between the periods presented.

These non-GAAP financial measures are not intended to be, and should not be, considered separately from or as an alternative to the most directly comparable GAAP financial measures.

These non-GAAP financial measures are presented with the intent of providing greater transparency to supplemental financial information used by management and the Board of Directors in their financial analysis and operational decision-making. These amounts are disclosed so that the reader has the same financial data that management uses with the belief that it will assist investors and other readers in making comparisons to our historical operating results and analyzing the underlying performance of our operations for the periods presented.

We believe that the presentation of these non-GAAP financial measures, when considered along with our GAAP financial measures and the reconciliation to the corresponding GAAP financial measures, provide the reader with a more complete understanding of the factors and trends affecting our business than could be obtained absent this disclosure. It is important for the reader to note that the non-GAAP financial measure used may be calculated differently from, and therefore may not be comparable to, a similarly titled measure used by other companies.

We define free cash flow as net cash flows provided by operating activities as presented in the Consolidated Statements of Cash Flows less purchases of property, plant, equipment, and intangibles plus proceeds from the sale of property, plant, equipment, and intangibles, which are also presented in the Consolidated Statements of Cash Flows. We use this as a measure to gauge our ability to fund future debt principal repayments, growth outside of core operations, repurchase common shares, and pay cash dividends. The following table summarizes the calculations of our free cash flow for the six months ended September 30, 2010 and 2009:

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<i>(dollars in thousands)</i>	Six Months Ended September 30,	
	2010	2009
Net cash flows provided by operating activities	\$ 56,357	\$ 92,408
Purchases of property, plant, equipment and intangibles, net	(27,242)	(18,543)
Proceeds from the sale of property, plant, equipment and intangibles	192	509
Free cash flow	\$ 29,307	\$ 74,374

To supplement our financial results presented in accordance with U.S. GAAP, we have sometimes referred to certain measures of revenues, gross profit, and the Healthcare segment results of operations in the section of MD&A titled, Results of Operations excluding the impact of the SYSTEM 1 Rebate Program. We provide adjusted measures to give the reader a more complete understanding of the factors and trends affecting our business than could be obtained absent this disclosure. These measures are used by management and the Board of Directors in making comparisons to our historical operating results and analyzing the underlying performance of our operations. The tables below provide a reconciliation of each of these measures to its most directly comparable GAAP financial measure.

<i>(dollars in thousands)</i>	Six months ended September 30, 2010
Reported revenues	\$ 501,405
Impact of the SYSTEM 1 Rebate Program	102,313
Adjusted revenues	\$ 603,718
Reported capital revenues	\$ 121,247
Impact of the SYSTEM 1 Rebate Program	102,313
Adjusted capital revenues	\$ 223,560
Reported United States revenues	\$ 361,728
Impact of the SYSTEM 1 Rebate Program	102,313
Adjusted United States Revenues	\$ 464,041
Reported Healthcare revenues	\$ 323,880
Impact of the SYSTEM 1 Rebate Program	102,313
Adjusted Healthcare revenues	\$ 426,193
Reported gross profit	\$ 153,121
Impact of the SYSTEM 1 Rebate Program	110,004
Adjusted gross profit	\$ 263,125
Reported gross profit percentage	30.5%
Impact of the SYSTEM 1 Rebate Program	13.1%
Adjusted gross profit percentage	43.6%
Reported Healthcare operating income	\$ (39,849)
Impact of the SYSTEM 1 Rebate Program	110,004
Adjusted Healthcare operating income	\$ 70,155

Results of Operations

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In the following subsections, we discuss our earnings and the factors affecting them for the second quarter and first half of fiscal 2011 compared with the same fiscal 2010 periods. We begin with a general overview of our operating results and then separately discuss earnings for our operating segments.

Revenues. The following table compares our revenues for the three and six months ended September 30, 2010 to the revenues for the three and six months ended September 30, 2009:

<i>(dollars in thousands)</i>	Three Months Ended September 30,		Change	Percent Change
	2010	2009		
Total Revenues	\$ 312,425	\$ 314,229	\$ (1,804)	(0.6)%
Revenues by type:				
Capital Revenues	120,308	119,147	1,161	1.0%
Consumable Revenues	76,784	79,988	\$ (3,204)	(4.0)%
Service Revenues	115,333	115,094	\$ 239	0.2%
Revenue by geography:				
United States	237,953	238,292	(339)	(0.1)%
International	74,472	75,937	(1,465)	(1.9)%

<i>(dollars in thousands)</i>	Six Months Ended September 30,		Change	Percent Change
	2010	2009		
Total Revenues	\$ 501,405	\$ 597,772	\$ (96,367)	(16.1)%
Revenue by type:				
Capital revenues	121,247	211,850	(90,603)	(42.8)%
Consumable Revenues	153,117	160,785	(7,668)	(4.8)%
Service revenues	227,041	225,137	1,904	0.8%
Revenues by geography:				
United States	361,728	462,098	(100,370)	(21.7)%
International	139,677	135,674	4,003	3.0%

Quarter over Quarter Comparison

Revenues decreased \$1.8 million, or 0.6%, to \$312.4 million for the quarter ended September 30, 2010, as compared to \$314.2 million for the same prior year quarter. Capital revenues increased \$1.2 million in the second quarter of fiscal 2011, driven by higher demand in North America from Healthcare Customers. Service revenues increased \$0.2 million in the second quarter of fiscal 2011 due to an increase in Isomedix, although this increase was largely offset by decreases within the Healthcare and Life Sciences business segments. Consumable revenues decreased \$3.2 million for the quarter ended September 30, 2010, primarily driven by decreases within the Healthcare segment attributable to reductions in SYSTEM 1 consumables and lower H1N1 product sales as compared to the prior year quarter.

International revenues decreased \$1.5 million, or 1.9%, to \$74.5 million for the quarter ended September 30, 2010, as compared to \$75.9 million for the same prior year quarter. International revenues were unfavorably affected by decreases in capital equipment revenues, which decreased 7.9% primarily due to decreases within Europe and Latin America. International recurring revenues increased during the second quarter of fiscal 2011 by 5.3%, reflecting increases within Canada, and the Asia Pacific and Latin American regions partially offset by a decrease in Europe.

United States revenues decreased \$0.3 million, or 0.1%, to \$238.0 million for the quarter ended September 30, 2010, as compared to \$238.3 million for the same prior year quarter. United States recurring revenues decreased 3.0% for the second quarter of fiscal 2011, and reflected decreases of 6.9% and 0.4% in consumable and service revenues, respectively. The decrease in United States consumable revenues was driven by decreases in SYSTEM 1 consumables and consumables

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associated with H1N1. Capital equipment revenues increased 5.8% in the United States.

First Half over First Half Comparison

Revenues decreased \$96.4 million, or 16.1%, to \$501.4 million for the first half of fiscal 2011, as compared to revenues of \$597.8 million during the first half of fiscal 2010. The decline reflects the \$102.3 million negative impact of the Rebate Program. Adjusted revenues, excluding the impact of the Rebate Program, increased \$5.9 million, or 1.0%, to \$603.7 million for the first half of fiscal 2011, as compared to revenues of \$597.8 million during the first half of fiscal 2010 (see subsection of MD&A titled *Non-GAAP Financial Measures* for additional information and related reconciliation of non-GAAP financial measures to the most comparable GAAP measures). Capital equipment revenues decreased \$90.6 million or 42.8%. The decrease in capital equipment revenues reflects the \$102.3 million negative impact of the Rebate Program on Healthcare capital equipment revenues. Adjusted capital equipment revenues, excluding the impact of the Rebate Program (see subsection of MD&A titled *Non-GAAP Financial Measures* for additional information and related reconciliation of non-GAAP financial measures to the most comparable GAAP measures), increased \$11.7 million or 5.5%, driven by improved demand within the North America, Asia Pacific and Latin America regions partially offset by a decline in Europe. Recurring revenues decreased \$5.8 million or 1.5% driven by weaker demand in United States and Europe reflecting decreases in SYSTEM 1 consumables and consumables associated with H1N1.

International revenues for the first half of fiscal 2011 were \$139.7 million, an increase of \$4.0 million, or 3.0%, as compared to the first half of fiscal 2010. Fiscal 2011 year-to-date international revenues were favorably impacted by a 0.9% increase in capital equipment revenue and a 5.0% increase in recurring revenues, reflecting increases in both consumable and service revenues of 3.6% and 6.5%, respectively.

United States revenues for the first half of fiscal 2011 decreased \$100.4 million, or 21.7%, as compared to the first half of fiscal 2010. The fiscal 2011 decrease was primarily driven by the \$102.3 million negative impact of the Rebate Program. Adjusted United States revenues for the first half of fiscal 2011 were \$464.0 million, an increase of \$1.9 million, or 0.4%, as compared to the first half of fiscal 2010 (see subsection of MD&A titled *Non-GAAP Financial Measures* for additional information and related reconciliation of non-GAAP financial measures to the most comparable GAAP measures). The fiscal 2011 year-to-date increase in United States revenues was primarily driven by increases in capital equipment revenues (excluding the impact of the Rebate Program) and service revenues generated by our Isomedix segment. These increases were largely offset by a 7.0% decrease in consumable revenues.

Revenues by segment are further discussed in the section of MD&A titled, *Business Segment Results of Operations*.

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Gross Profit. The following table compares our gross profit for the three and six months ended September 30, 2010 to the three and six months ended September 30, 2009:

<i>(dollars in thousands)</i>	Three Months Ended September 30,		Change	Percent Change
	2010	2009		
Gross Profit:				
Product	\$ 86,356	\$ 83,177	\$ 3,179	3.8%
Service	48,699	49,478	(779)	(1.6)%
Total Gross Profit	\$ 135,055	\$ 132,655	\$ 2,400	1.8%
Gross Profit Percentage:				
Product	43.8%	41.8%		
Service	42.2%	43.0%		
Total Gross Profit Percentage	43.2%	42.2%		
<i>(dollars in thousands)</i>	Six Months Ended September 30,		Change	Percent Change
	2010	2009		
Gross Profit:				
Product	\$ 57,052	\$ 162,400	\$ (105,348)	(64.9)%
Service	96,069	95,091	978	1.0%
Total Gross Profit	\$ 153,121	\$ 257,491	\$ (104,370)	(40.5)%
Gross Profit Percentage:				
Product	20.8%	43.6%		
Service	42.3%	42.2%		
Total Gross Profit Percentage	30.5%	43.1%		

Our gross profit is affected by the volume, pricing, and mix of sales of our products and services, as well as the costs associated with the products and services that are sold. Gross profit percentage for the second quarter of fiscal 2011 amounted to 43.2%, representing an increase of 100 basis points as compared to the same prior year period. For the first half of fiscal 2011, the gross profit percentage amounted to 30.5%. The most significant driver of this decrease is the \$110.0 million negative impact of the Rebate Program. Adjusted gross profit percentage for the first half of fiscal 2011 amounted to 43.6% (see subsection of MD&A titled *Non-GAAP Financial Measures* for additional information and related reconciliation of non-GAAP financial measures to the most comparable GAAP measures). During both fiscal 2011 periods, we benefited from productivity improvements, price increases, and favorable product mix, partially offset by unfavorable foreign currency fluctuations. None of these items were individually significant in the quarter over quarter comparison. In the year to date period, productivity improvements contributed 40 bps and the impact of foreign currency fluctuations was a negative 60 bps.

Operating Expenses. The following table compares our operating expenses for the three and six months ended September 30, 2010 to the three and six months ended September 30, 2009:

<i>(dollars in thousands)</i>	Three Months Ended September 30,		Change	Percent Change
	2010	2009		
Operating Expenses:				
Selling, General, and Administrative	\$ 71,999	\$ 74,516	\$ (2,517)	(3.4)%

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Research and Development	8,043	8,189	(146)	(1.8)%
Restructuring Expenses	105	(115)	220	NM
Total Operating Expenses	\$ 80,147	\$ 82,590	\$ (2,443)	(3.0)%

NM - Not meaningful.

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<i>(dollars in thousands)</i>	Six Months Ended		Change	Percent Change
	2010	September 30, 2009		
Operating Expenses:				
Selling, General, and Administrative	\$ 144,116	\$ 149,121	\$ (5,005)	(3.4)%
Research and Development	16,652	15,769	883	5.6%
Restructuring Expenses	446	(327)	773	NM
Total Operating Expenses	\$ 161,214	\$ 164,563	\$ (3,349)	(2.0)%

NM - Not meaningful.

Significant components of total selling, general, and administrative expenses (SG&A) are compensation and benefit costs, fees for professional services, travel and entertainment, facilities costs, and other general and administrative expenses. The decrease in SG&A expense reflects the benefit of cost reduction actions previously implemented as well as improved operating efficiencies.

For the three month period ended September 30, 2010, research and development expenses decreased 1.8% to \$8.0 million as compared to \$8.2 million during the same prior year period. The second quarter of fiscal 2010 includes a government subsidy of \$0.8 million received for research and development expenses incurred by one of our international locations. For the first half of fiscal 2011, research and development expenses increased 5.6% to \$16.7 million, as compared to \$15.8 million, during the same prior year period. Research and development expenses are influenced by the number and timing of in-process projects and labor hours and other costs associated with these projects. Our research and development initiatives continue to emphasize new product development, product improvements, and the development of new technological platform innovations. During the second quarter of fiscal 2011, our investments in research and development continued to be focused on, but were not limited to, enhancing capabilities of sterile processing combination technologies, surgical tables and accessories, and the areas of emerging infectious agents such as Prions and Nanobacteria.

In the second quarters of fiscal 2011 and 2010, we did not incur any significant additional expenses related to our previously announced restructuring plans, and we settled certain obligations for less than originally expected. The following tables summarize our total pre-tax restructuring expenses for the second quarter and first half of fiscal 2011 and fiscal 2010:

Three Months Ended September 30, 2010	Fiscal 2010 Restructuring Plan (1)
Severance, payroll, and other related costs	\$ 23
Other	77
Total restructuring charges	\$ 100

(1) Includes \$(5) in charges recorded in cost of revenues on Consolidated Statements of Operations.

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	Fiscal 2009 Restructuring Plan (1)
Three Months Ended September 30, 2009	
Severance, payroll, and other related costs	\$ 33
Asset impairment	(14)
Lease termination obligations and other	(321)
Total restructuring charges	\$ (302)

(1) Includes \$(187) in charges recorded in cost of revenues on Consolidated Statements of Operations.

	Fiscal 2010 Restructuring Plan
Six Months Ended September 30, 2010	
Severance, payroll, and other related costs	\$ 6
Asset impairment and accelerated depreciation	356
Other	84
Total restructuring charges	\$ 446

	Fiscal 2009 Restructuring Plan (2)
Six Months Ended September 30, 2009	
Severance, payroll, and other related costs	\$ (13)
Product rationalization	(234)
Lease termination obligations and other	(308)
Asset impairment	(14)
Total restructuring charges	\$ (569)

(2) Includes \$(242) in charges recorded in cost of revenues on Consolidated Statements of Income.

Liabilities related to restructuring activities are recorded as current liabilities on the accompanying Consolidated Balance Sheets within Accrued payroll and other related liabilities and Accrued expenses and other. The following table summarizes our liabilities related to these restructuring activities:

<i>(dollars in thousands)</i>	Fiscal 2010 Restructuring Plan Fiscal 2011			
	March 31, 2010	Provision	Payments/ Impairments	September 30, 2010
Severance and termination benefits	\$ 1,894	\$ 6	\$ (225)	\$ 1,675
Asset impairments		356	(356)	
Lease termination obligations	1,200			1,200
Other	509	84	(121)	472
Total	\$ 3,603	\$ 446	\$ (702)	\$ 3,347

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<i>(dollars in thousands)</i>	Fiscal 2008 Restructuring Plan Fiscal 2011			
	March 31, 2010	Provision	Payments/ Impairments	September 30, 2010
Severance and termination benefits	\$ 102	\$	\$ (102)	\$
Asset impairments	289			289
Lease termination obligations	411		(152)	259
Total	\$ 802	\$	\$ (254)	\$ 548

Non-Operating Expenses, Net. Non-operating expense (income), net consists of interest expense on debt, offset by interest earned on cash, cash equivalents, short-term investment balances, and other miscellaneous income. The following table compares our net non-operating expense for the three and six months ended September 30, 2010 and 2009:

<i>(dollars in thousands)</i>	Three Months Ended September 30,		
	2010	2009	Change
Non-Operating Expenses, Net:			
Interest Expense	\$ 2,996	\$ 3,130	\$ (134)
Interest and Miscellaneous Income	(188)	(278)	90
Non-Operating Expenses, Net	\$ 2,808	\$ 2,852	\$ (44)

<i>(dollars in thousands)</i>	Six Months Ended September 30,		
	2010	2009	Change
Non-Operating Expenses, Net:			
Interest Expense	\$ 6,003	\$ 6,213	\$ (210)
Interest and Miscellaneous Income	(350)	(495)	145
Non-Operating Expenses, Net	\$ 5,653	\$ 5,718	\$ (65)

Interest expense decreased \$0.1 million and \$0.2 million during the second quarter and first half of fiscal 2011, respectively, as compared to the same prior year period as a result of higher capitalized interest. Interest and miscellaneous income decreased \$0.1 million for both the second quarter and first half of fiscal 2011, respectively, as compared with the same prior year period.

Income Tax Expense. The following table compares our income tax expense and effective income tax rates for operations for the three and six months ended September 30, 2010 to the three and six months ended September 30, 2009:

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<i>(dollars in thousands)</i>	Three Months Ended September 30,		Change	Percent Change
	2010	2009		
Income Tax Expense	\$ 16,389	\$ 15,129	\$ 1,260	8.3%
Effective Income Tax Rate	31.5%	32.0%		

<i>(dollars in thousands)</i>	Six Months Ended September 30,		Change	Percent Change
	2010	2009		
Income Tax (Benefit) Expense	\$ (4,247)	\$ 29,584	\$ (33,831)	(114.4)%
Effective Income Tax Rate	(4.4)%	33.9%		

Income tax expense includes United States federal, state and local, and foreign income taxes, and is based on reported pre-tax income. The effective income tax rates for continuing operations for the three and six month periods ended September 30, 2010 were 31.5% and 4.4%, respectively, compared with 32.0% and 33.9%, respectively, for the same prior year periods. Fiscal 2011 income taxes reflect the reduction in income taxes that results from the \$110.0 million negative impact of the Rebate Program on pre-tax income. We benefited from the settlement with tax authorities outside the United States during the three and six month periods ended September 30, 2009.

We record income tax expense during interim periods based on our estimate of the annual effective income tax rate, adjusted each quarter for discrete items. We analyze various factors to determine the estimated annual effective income tax rate, including projections of our annual earnings and taxing jurisdictions in which the earnings will be generated, the impact of state and local income taxes, our ability to use tax credits and net operating loss carryforwards, and available tax planning alternatives.

Business Segment Results of Operations. We operate in three reportable business segments: Healthcare, Life Sciences, and Isomedix. Corporate and other, which is presented separately, contains the Defense and Industrial business unit plus costs that are associated with being a publicly traded company and certain other corporate costs. These costs include executive office costs, Board of Directors compensation, shareholder services and investor relations, external audit fees, and legacy pension and post-retirement benefit costs. Our Annual Report on Form 10-K for the year ended March 31, 2010, filed with the SEC on May 28, 2010, provides additional information regarding each business segment. The following table compares business segment revenues for the three and six months ended September 30, 2010 to the three and six months ended September 30, 2009:

<i>(dollars in thousands)</i>	Three Months Ended September 30,		Change	Percent Change
	2010	2009		
Revenues:				
Healthcare	\$ 220,114	\$ 223,006	\$ (2,892)	(1.3%)
Life Sciences	53,513	54,401	(888)	(1.6%)
Isomedix	37,964	34,735	3,229	9.3%
Total reportable segments	311,591	312,142	(551)	(0.2%)
Corporate and other	834	2,087	(1,253)	(60.0%)
Total Revenues	\$ 312,425	\$ 314,229	\$ (1,804)	(0.6)%

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<i>(dollars in thousands)</i>	Six Months Ended		Change	Percent Change
	2010	September 30, 2009		
Revenues:				
Healthcare	\$ 323,880	\$ 423,610	\$ (99,730)	(23.5%)
Life Sciences	100,127	100,517	(390)	(0.4%)
Isomedix	75,640	70,142	5,498	7.8%
Total reportable segments	499,647	594,269	(94,622)	(15.9%)
Corporate and other	1,758	3,503	(1,745)	(49.8%)
Total Revenues	\$ 501,405	\$ 597,772	\$ (96,367)	(16.1)%

Healthcare segment revenues were 70.5% of total revenues for the second quarter of fiscal 2011 compared with 71.0% for the same prior year period. Healthcare revenues decreased \$2.9 million, or 1.3%, to \$220.1 million for the quarter ended September 30, 2010, as compared to \$223.0 million for the same prior year quarter. Capital equipment revenues grew 1.8% because of higher demand for our products in the United States. This increase was more than offset by declines in revenues from consumables and services of 5.6% and 1.9%, respectively. The decline in consumable revenues was driven by lower demand in the United States for SYSTEM 1 consumables and reductions in consumables associated with H1N1. At September 30, 2010, the Healthcare segment's backlog amounted to \$154.3 million, increasing \$24.4 million, or 18.7%, compared to the backlog of \$129.9 million at September 30, 2009 and increasing \$20.1 million, or 15.0%, compared to the backlog of \$134.2 million at June 30, 2010. The increase is driven by new products, particularly SYSTEM 1E.

Healthcare revenues decreased \$99.7 million, or 23.5%, to \$323.9 million for the first half of fiscal 2011. The primary driver of the decline is the \$102.3 million negative impact of the Rebate Program. Adjusted Healthcare revenues increased \$2.6 million, or 0.6%, to \$426.2 million for the six months ended September 30, 2010 (see subsection of MD&A titled Non-GAAP Financial Measures for additional information and related reconciliation of non-GAAP financial measures to the most comparable GAAP measures), as compared to \$423.6 million for the same prior year period. This increase is primarily attributable to higher capital equipment revenues within the United States (excluding the impact of the Rebate Program). Consumable revenues decreased 7.5%, driven primarily from decreases within the United States. Service revenues also decreased 1.6% with decreases in all geographies.

Life Sciences segment revenues were 17.1% of total revenues for the second quarter of fiscal 2011 as compared to 17.3% for the same prior year quarter. Life Sciences revenues decreased \$0.9 million, or 1.6%, to \$53.5 million for the quarter ended September 30, 2010, as compared to \$54.4 million for the same prior year quarter. The decrease in Life Sciences revenues was driven by decreases of 3.3% in both capital equipment and service revenues, partially offset by a 2.4% increase in consumable revenues. The declines in capital equipment and service revenues primarily occurred within the United States and Europe as consolidations within the industry continue to limit order levels from our pharmaceutical Customers. At September 30, 2010, the Life Sciences segment's backlog amounted to \$38.0 million, decreasing \$8.5 million, or 18.4% compared to the backlog of \$46.5 million at September 30, 2009 and decreasing \$0.1 million, or 0.1%, compared to the backlog of \$37.9 million at June 30, 2010.

Life Sciences revenues decreased \$0.4 million, or 0.4%, to \$100.1 million for the first half of fiscal 2011, as compared to \$100.5 million for the same prior year period. The decrease in Life Sciences revenues was primarily driven by a 7.4% decrease in capital equipment revenues reflecting declines in United States, Europe and Latin America. Capital equipment revenues continue to be impacted by consolidations within the industry limiting order levels from our pharmaceutical Customers. Recurring revenues grew \$2.2 million or 3.4% reflecting consumable revenue growth of 7.2% and service revenue growth of 0.1%.

Isomedix segment revenues were 12.2% of total revenues for the second quarter of fiscal 2011 as compared to 11.1% for the same prior year quarter. The segment's revenues increased \$3.2 million, or 9.3%, to \$38.0 million for the quarter ended September 30, 2010, as compared to \$34.7 million for the same prior year quarter. Revenues were favorably impacted by increased demand from our medical device Customers, as well as modest market share gains.

The Isomedix segment experienced increased revenue of \$5.5 million, or 7.8%, to \$75.6 million during the first half of fiscal 2011 as compared to \$70.1 million for the same prior year period. Revenues were favorably impacted by increased demand from our medical device Customers, as well as modest market share gains.

The following table compares our business segment operating results for the three and six months ended September 30, 2010 to the three and six months ended September 30, 2009:

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<i>(dollars in thousands)</i>	Three Months Ended			Percent Change
	September 30, 2010	September 30, 2009	Change	
Operating Income (Loss):				
Healthcare	\$ 38,063	\$ 36,366	\$ 1,697	4.7%
Life Sciences	9,435	8,540	895	10.5%
Isomedix	10,024	7,401	2,623	35.4%
Total reportable segments	57,522	52,307	5,215	10.0%
Corporate and other	(2,614)	(2,242)	(372)	(16.6)%
Total Operating Income	\$ 54,908	\$ 50,065	\$ 4,843	9.7%

<i>(dollars in thousands)</i>	Six Months Ended			Percent Change
	September 30, 2010	September 30, 2009	Change	
Operating Income (Loss):				
Healthcare	\$ (39,849)	\$ 68,469	\$ (108,318)	(158.2)%
Life Sciences	15,730	13,319	2,411	18.1%
Isomedix	20,608	15,740	4,868	30.9%
Total reportable segments	(3,511)	97,528	(101,039)	(103.6)%
Corporate and other	(4,582)	(4,600)	18	0.4%
Total Operating Income	\$ (8,093)	\$ 92,928	\$ (101,021)	(108.7)%

Segment operating income is calculated as the segment's gross profit less direct expenses and indirect cost allocations, which results in the full allocation of all distribution and research and development expenses, and the partial allocation of corporate costs. Corporate cost allocations are based on each segment's percentage of revenues, headcount, or other variables in relation to those of the total Company. In addition, the Healthcare segment is responsible for the management of all but one manufacturing facility and uses standard cost to sell products to the Life Sciences segment. Corporate and other includes the gross profit and direct expenses of the Defense and Industrial business unit, as well as certain unallocated corporate costs related to being a publicly traded company and legacy pension and post-retirement benefits, as previously discussed.

The Healthcare segment's operating income increased \$1.7 million for the second quarter and declined \$108.3 million in the first half of fiscal 2011 as compared to the same prior year periods. The segment's operating income for the first half of fiscal 2011 includes the \$110.0 million negative impact of the Rebate Program. Adjusted Healthcare operating income for the first half of fiscal 2011 was \$70.2 million (see subsection of MD&A titled "Non-GAAP Financial Measures" for additional information and related reconciliation of non-GAAP financial measures to the most comparable GAAP measures) representing an increase of \$1.7 million over the prior year period. The improvement in operating income was driven by operating efficiencies.

The Life Sciences segment's operating income increased \$0.9 million and \$2.4 million for the second quarter and first six months of fiscal 2011, respectively, as compared to the same prior year periods. The segment's operating margins were 17.6% and 15.7% for the second quarter and first half of fiscal 2011, respectively, representing increases of 190 basis points and 240 basis points, respectively, over the comparable prior year periods. The improvement was driven by product mix and operating efficiencies.

The Isomedix segment's operating income increased \$2.6 million and \$4.9 million for the second quarter and first six months of fiscal 2011, respectively, as compared to the same prior year periods. The segment's operating margins were 26.4% and 27.2% for the second quarter and first half of fiscal 2011, representing increases of 510 basis points and 480 basis points, respectively, over the comparable prior year periods. The increases in operating income were due to increased revenues.

Liquidity and Capital Resources

The following table summarizes significant components of our cash flows for the six months ended September 30, 2010 and 2009:

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<i>(dollars in thousands)</i>	Six Months Ended	
	September 30,	
	2010	2009
Operating activities:		
Net (loss) income	\$ (9,499)	\$ 57,626
Non-cash items	(7,628)	32,945
Change in Accrued SYSTEM 1 Rebate Program	109,956	
Changes in operating assets and liabilities	(36,472)	1,837
Net cash provided by operating activities	\$ 56,357	\$ 92,408
Investing activities:		
Purchases of property, plant, equipment, and intangibles, net	\$ (27,242)	\$ (18,543)
Proceeds from the sale of property, plant, equipment, and intangibles	192	509
Net cash used in investing activities	\$ (27,050)	\$ (18,034)
Financing activities:		
Repurchases of common shares	(16,627)	(289)
Cash dividends paid to common shareholders	\$ (15,459)	\$ (12,894)
Stock option and other equity transactions, net	3,290	2,102
Tax benefit from stock options exercised	786	463
Net cash used in financing activities	\$ (28,010)	\$ (10,618)
Debt-to-total capital ratio	22.4%	20.8%
Free cash flow	\$ 29,307	\$ 74,374

Net Cash Provided by Operating Activities. The net cash provided by our operating activities was \$56.4 million for the first six months of fiscal 2011 as compared with \$92.4 million for the first six months of fiscal 2010. The following discussion summarizes the significant changes in our operating cash flows:

Non-cash items - Our non-cash items include depreciation, depletion and amortization, share-based compensation expense, changes in deferred income taxes, and other items. Changes in our non-cash items were negative \$7.6 million for the first six months of fiscal 2011 and positive \$32.9 million for the first six months of fiscal 2010. Significant changes in these items for the first half of fiscal 2011 as compared to the same prior year period are summarized below:

Depreciation, depletion, and amortization - Depreciation, depletion, and amortization are a significant component of non-cash items. This expense totaled \$26.3 million and \$27.8 million for the first six months of fiscal 2011 and fiscal 2010, respectively.

Deferred income taxes - Our deferred income tax benefit was \$44.8 million for the first six months of fiscal 2011, compared with a deferred income tax benefit of \$2.1 million for the first six months of fiscal 2010. The increase is attributable to the recognition of a deferred tax asset in connection with the recording of the SYSTEM 1 Rebate Program accrual.

Share-based compensation expense - We recorded share-based compensation expense of \$6.4 million and \$4.0 million for the first six months of fiscal 2011 and fiscal 2010, respectively.

Changes in operating assets and liabilities - Changes to our operating assets and liabilities, including the change in Accrued System 1 Rebate Program, provided cash of \$73.5 million and \$1.8 million during the first half of fiscal 2011 and fiscal 2010, respectively.

Accounts receivable, net - Changes in our net accounts receivable balances provided cash of \$13.6 million and \$31.0 million during the first six months of fiscal 2011 and fiscal 2010, respectively. Our accounts receivable balances may change from period to period due to the timing of revenues and Customer payments.

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Inventories, net - An increase in our net inventory balances drove use of cash of \$22.6 million in the first half of fiscal 2011 and a decrease in net inventory balances in the first half fiscal 2010 provided cash of \$9.1 million. The increase in inventory levels in fiscal 2011 is due to \$16.9 million of SYSTEM 1E inventory.

Other current assets - Our other current assets primarily consist of prepaid expenses for insurance, taxes, and other general corporate items. Changes in other current asset balances provided cash of \$2.8 million and \$1.2 million during the first six months of fiscal 2011 and 2010, respectively.

Accounts payable - Decreases in our accounts payable balances drove uses of cash of \$0.6 million and \$13.6 million during the first six months of fiscal 2011 and fiscal 2010, respectively. Cash flows related to accounts payable may change from period to period due to varying payment due dates and other terms of our accounts payable obligations.

Accrued SYSTEM 1 Rebate Program - The increase results from the establishment of the accrual in the amount of \$110.0 million for liabilities resulting from the SYSTEM 1 Rebate Program during the first six months of fiscal 2011, offset by the rebate settlements to date.

Accruals and other, net - Changes in our net accruals and other liabilities balances used cash of \$36.5 million during the first half of fiscal 2011 while changes in the first half of fiscal 2010 provided cash of \$1.8 million. Cash flows related to our accruals and other liabilities balances may change from period to period primarily due to the timing of accruals and payments under our incentive compensation programs. Accruals under our various incentive compensation programs rise during the course of the fiscal year and decline significantly in the first fiscal quarter as payments are made under these programs. Changes in accruals for deferred revenues also contribute to the increase or decrease in these balances.

Net Cash Used In Investing Activities - The net cash we used in investing activities totaled \$27.1 million for the first six months of fiscal 2011 compared with \$18.0 million for the first six months of fiscal 2010. The following discussion summarizes the significant changes in our investing cash flows for the first six months of fiscal 2011 and fiscal 2010:

Purchases of property, plant, equipment, and intangibles, net - Capital expenditures were \$27.2 million for the first six months of fiscal 2011 as compared to \$18.5 million during the same prior year period. Radioisotope purchases were higher during the first six months of fiscal 2011 in comparison to fiscal 2010.

Proceeds from the sale of property, plant, equipment, and intangibles - During the first six months of fiscal 2011, we recorded proceeds of \$0.2 million.

Net Cash Used In Financing Activities - The net cash used in financing activities amounted to \$28.0 million for the first six months of fiscal 2011 compared with net cash used in financing activities of \$10.6 million for the first six months of fiscal 2010. The following discussion summarizes the significant changes in our financing cash flows for the first six months of fiscal 2011 and fiscal 2010:

Repurchases of common shares - The Company's Board of Directors has provided authorization to repurchase the Company's common shares. During the first six months of fiscal 2011, we paid for the repurchase of 533,200 of our common shares under this authorization at an average purchase price of \$30.32 per common share. We also obtained 12,377 of our common shares during the first six months of fiscal 2011 in connection with stock-based compensation award programs.

Cash dividends paid to common shareholders - During the first six months of fiscal 2011, we paid total cash dividends of \$15.5 million, or \$0.26 per outstanding common share. During the first six months of fiscal 2010, we paid total cash dividends of \$12.9 million, or \$0.22 per outstanding common share.

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Stock option and other equity transactions, net - We receive cash for issuing common shares under our various employee stock compensation programs. During the first six months of fiscal 2011 and fiscal 2010, we received cash proceeds totaling \$3.3 million and \$2.1 million, respectively, under these programs.

Tax benefit from stock options exercised - During the first six months of fiscal 2011, our income taxes were reduced by \$0.8 million as a result of deductions allowed for stock options exercised. The reduction in the fiscal 2010 comparable period was \$0.5 million.

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Cash Flow Measures. Free cash flow was \$29.3 million in the first half of fiscal 2011 compared to \$74.4 million in the prior year first half due to higher capital spending levels and changes in operating assets and liabilities. Our debt-to-total capital ratio was 22.4% at September 30, 2010 and 21.8% at March 31, 2010.

Sources of Credit and Contractual and Commercial Commitments. Information related to our sources of credit and contractual and commercial commitments is included in our Annual Report on Form 10-K for the year ended March 31, 2010, filed with the SEC on May 28, 2010. Our commercial commitments were approximately \$37.6 million at September 30, 2010 reflecting a net increase of \$0.9 million in surety bonds and other commercial commitments from March 31, 2010. In conjunction with facility consolidation projects, we have entered into commitments aggregating approximately \$13.4 million with general contractors as of September 30, 2010. These obligations are comprised principally of construction contracts and are generally due within 24 months. The related construction costs are incurred and financed through operating cash flow. The maximum aggregate borrowing limits under our revolving credit facility (Facility) have not changed since March 31, 2010. At September 30, 2010, there was \$374.8 million available under the Facility for borrowing. The maximum aggregate borrowing limit of \$400.0 million under the Facility is reduced by outstanding borrowings and letters of credit issued under a sub-limit within the Facility (\$25.2 million at September 30, 2010).

Cash Requirements. Currently, we intend to use our existing cash and cash equivalent balances, cash generated from operations, and our existing credit facilities for short-term and long-term capital expenditures and our other liquidity needs. We believe that these amounts will be sufficient to meet working capital needs, capital requirements, and commitments for at least the next twelve months. However, our capital requirements will depend on many uncertain factors, including our rate of sales growth, our Customers' acceptance of our products and services, the costs of obtaining adequate manufacturing capacities, the timing and extent of our research and development projects, and changes in our operating expenses. To the extent that our existing sources of cash are not sufficient to fund our future activities, we may need to raise additional funds through additional borrowings or selling equity securities. We cannot assure you that we will be able to obtain additional funds on terms favorable to us, or at all.

Critical Accounting Policies, Estimates, and Assumptions

Information related to our critical accounting policies, estimates, and assumptions is included in our Annual Report on Form 10-K for the year ended March 31, 2010, filed with the SEC on May 28, 2010. Our critical accounting policies, estimates, and assumptions have not changed materially from March 31, 2010.

SYSTEM 1 Rebate Program

In April 2010, we introduced the Rebate Program to Customers as a component of our transition plan for SYSTEM 1. Generally, U.S. Customers that purchased SYSTEM 1 processors directly from us or who are current users of SYSTEM 1 and who return their units have the option of either a pro-rated cash value or rebate toward the future purchase of new STERIS capital equipment or consumable products. In addition, we will provide credits for SYSTEM 1 consumables in unbroken packaging and within shelf life and for the unused portion of prepaid SYSTEM 1 service contracts.

Recording the obligations associated with the Rebate Program requires the use of estimates and assumptions. The use of estimates and assumptions involves judgments with respect to factors that may impact the ultimate outcome and may be beyond management's control. The amount recognized during the first half of fiscal 2011 is based upon the quantity of SYSTEM 1 processors eligible for rebates and the estimated value of rebates to be provided upon their return. Rebates of \$102.3 million are recognized as contra-revenue consistent with other returns and allowances offered to Customers. The estimated cost of \$7.7 million to facilitate the disposal of the processors has been recognized as cost of revenues. Both components are recorded as current liabilities. Minor rebate obligations were settled during the six months ended September 30, 2010. The key assumptions involved in the estimates associated with the Rebate Program include: the number and age of SYSTEM 1 processors eligible for rebates under the program, the number of Customers that will elect to participate in the Rebate Program, the proportion of Customers that will choose each rebate option, and the estimated per unit costs of disposal.

The number and age of SYSTEM 1 processors has been estimated based on our historical sales and service records and we have assumed that 100% of these Customers will elect to participate in the Rebate Program. In order to estimate the portion of Customers that will choose each available rebate option, we first assessed recent trends in sales of the proprietary consumable products utilized in the SYSTEM 1 processor. We have noted a decline of approximately 19% in shipments which indicates that a portion of our Customers have already transitioned away from the SYSTEM 1 technology. The remaining 81%, provides the best available indication of the portion of Customers likely to elect the rebate for the SYSTEM 1E processor. Order and quote data from fiscal 2011 year to date provides indications of the proportion of Customers that are expected to choose each of the other rebate options. The per unit costs associated with disposal were estimated based on the service hours involved and quotes from our vendors which are based on current freight and disposal contracts.

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Our assumptions regarding the response of our Customers to the Rebate Program could be wrong and actual results could be different from these estimates. For example, if all Customers elected the maximum incentive rebate associated with the SYSTEM 1E processor rebate, the total estimated rebate liability of \$102.3 million would increase to approximately \$111.0 million. Conversely, if all Customers elected the cash rebate option, the total estimated rebate liability would decrease to approximately \$52.0 million.

As of the date of this filing, we have not shipped SYSTEM 1E units as part of the Rebate Program or otherwise. We are currently awaiting FDA's response to our request for clearance or approval of certain accessories for SYSTEM 1E, although those accessories are not required by regulation to sell or operate the device.

Contingencies

We are involved in various patent, product liability, consumer, commercial, environmental, tax proceedings and claims, governmental investigations, and other legal and regulatory proceedings that arise from time to time in the course of our business. We record a liability for such contingencies to the extent that we conclude that their occurrence is both probable and estimable. We consider many factors in making these assessments, including the professional judgment of experienced members of management and our legal counsel. We have made estimates as to the likelihood of unfavorable outcomes and the amounts of such potential losses. In our opinion, the ultimate outcome of these proceedings and of claims that are probable and estimable is not anticipated to have a material adverse effect on our consolidated financial position, results of operations, or cash flows. However, the ultimate outcome of claims, litigation, and other proceedings is unpredictable and actual results could be materially different from our estimates. We record anticipated recoveries under applicable insurance contracts when assured of recovery. Refer to Part II, Item 1, Legal Proceedings for additional information.

We are subject to taxation from United States federal, state, and local, and foreign jurisdictions. Tax positions are settled primarily through the completion of audits within each individual tax jurisdiction or the closing of a statute of limitation. Changes in applicable tax law or other events may also require us to revise past estimates. The IRS routinely conducts audits of our federal income tax returns. In the first quarter of fiscal 2009, we reached a settlement with the IRS on all material tax matters for fiscal 2002 through fiscal 2005. In the second quarter of fiscal 2010, we reached a settlement with the IRS on all material tax matters for fiscal 2006 through fiscal 2007. The IRS also began its audit of fiscal 2008 and fiscal 2009 in fiscal 2010. We remain subject to tax authority audits in various other jurisdictions in which we operate. If we prevail in matters for which accruals have been recorded, or are required to pay amounts in excess of recorded accruals, our effective income tax rate in a given financial statement period could be materially impacted.

Additional information regarding our commitments and contingencies is included in note 10 to our consolidated financial statements titled, Contingencies.

International Operations

Since we conduct operations outside the United States using various foreign currencies, our operating results are impacted by foreign currency movements relative to the U.S. dollar. During the second quarter of fiscal 2011, our revenues were unfavorably impacted by \$1.5 million, or 0.5%, and income before taxes was unfavorably impacted by \$1.7 million, or 3.3%, as a result of foreign currency movements relative to the U.S. dollar. During the first half of fiscal 2011, our revenues were unfavorably impacted by \$0.6 million, or 0.1%, and income before income taxes was favorably impacted by \$0.2 million, or 1.6% as compared to the same prior year period. We cannot predict future changes in foreign currency exchange rates or the effect they will have on our operations.

Forward-Looking Statements

This Quarterly Report on Form 10-Q may contain statements concerning certain trends, expectations, forecasts, estimates, or other forward-looking information affecting or relating to the Company or its industry or products that are intended to qualify for the protections afforded forward-looking statements under the Private Securities Litigation Reform Act of 1995 and other laws and regulations. Forward-looking statements speak only as to the date of this report, and may be identified by the use of forward-looking terms such as may, will, expects, believes, anticipates, plans, estimates, projects, targets, forecasts, outlook, impact, potential, confidence, imp, comfortable, trend, and seeks, or the negative of such terms or other variations on such terms or comparable terminology. Many important factors could cause actual results to differ materially from those in the forward-looking statements including, without limitation, disruption of production or supplies, changes in market conditions, political events, pending or future claims or litigation, competitive factors, technology advances, actions of regulatory agencies, and changes in laws, government regulations, labeling or product approvals or the application or interpretation thereof. Other risk factors are described herein and in the Company's Form 10-K and other securities filings. Many of these important factors are outside STERIS's control. No assurances can be provided as to any outcome from any litigation, regulatory action, administrative proceedings, government investigations, warning letters, consent decree, rebate program, transition, cost

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reductions, business strategies, earnings and revenue trends, expense reduction or other future financial results. References to the consent decree, transition, rebate program, or products are summaries only and do not alter or modify the specific terms of the decree, program or product clearance or literature. Unless legally required, the Company does not undertake to update or revise any forward-looking statements even if events make clear that any projected results, express or implied, will not be realized. Other potential risks and uncertainties that could cause actual results to differ materially from those in the forward-looking statements include, without limitation, (a) the potential for increased pressure on pricing that leads to erosion of profit margins, (b) the possibility that market demand will not develop for new technologies, products or applications or the Company's rebate program, transition plan or other business initiatives will take longer, cost more or produce lower benefits than anticipated, (c) the possibility that application of or compliance with laws, court rulings, certifications, regulations, regulatory actions, including without limitation those relating to previously disclosed FDA warning letters, government investigations, the December 3, 2009 or February 22, 2010 FDA notices, the April 20, 2010 consent decree and related transition plan and rebate program, the SYSTEM 1E device, the Reliance EPS System or other requirements or standards may delay, limit or prevent new product introductions, affect the production and marketing of existing products or services or otherwise affect Company performance, results, prospects or value, (d) the potential of international unrest or effects of fluctuations in currencies, tax assessments or rates, raw material costs, benefit or retirement plan costs, or other regulatory compliance costs, (e) the possibility of reduced demand, or reductions in the rate of growth in demand, for the Company's products and services, (f) the possibility that anticipated growth, cost savings, rebate assumptions, new product acceptance or approvals, including without limitation SYSTEM 1E and accessories thereto, or other results may not be achieved, or that transition, labor, competition, timing, execution, regulatory, governmental, or other issues or risks associated with our business, industry or initiatives including, without limitation, the consent decree, the transition from the SYSTEM 1 processing system, or those matters described in our Form 10-K for the year ended March 31, 2010 and this Form 10-Q may adversely impact company performance, results, prospects or value, (g) the effect of the contraction in credit availability, as well as the ability of our Customers and suppliers to adequately access the credit markets when needed, and (h) those risks described in our Annual Report on Form 10-K for the year ended March 31, 2010 and this Form 10-Q for the quarter ended September 30, 2010.

Availability of Securities and Exchange Commission Filings

We make available free of charge on or through our website our Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K, and amendments to these reports as soon as reasonably practicable after we file such material with, or furnish such material to, the SEC. You may access these documents on the Investor Relations page of our website at <http://www.steris-ir.com>. The information on our website is not incorporated by reference into this report. You may also obtain copies of these documents by visiting the SEC's Public Reference Room at 100 F Street, NE, Washington, D.C. 20549, or by accessing the SEC's website at <http://www.sec.gov>. You may obtain information on the Public Reference Room by calling the SEC at 1-800-SEC-0330.

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ITEM 6. EXHIBITS

Exhibits required by Item 601 of Regulation S-K

Exhibit	
Number	Exhibit Description
31.1	Certification of the Principal Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of the Principal Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

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SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

STERIS Corporation

/s/ MICHAEL J. TOKICH
Michael J. Tokich
Senior Vice President and Chief Financial Officer
June 23, 2011

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EXHIBIT INDEX

Exhibit

Number

Exhibit Description

31.1	Certification of the Principal Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of the Principal Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.