

United States Securities and Exchange Commission

Washington, D. C. 20549

FORM 10-K

Annual Report Pursuant to Section 13 OR 15(d) of The Securities Exchange Act of 1934

For the fiscal year ended March 31, 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

(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)

SECURITIES REGISTERED PURSUANT TO SECTION 12(B) OF THE ACT:

Title of each class	Name of Exchange on Which Registered
Common Shares, without par value	New York Stock Exchange

SECURITIES REGISTERED PURSUANT TO SECTION 12(G) OF THE ACT:

None

Indicate by check mark if the Registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No

Indicate by check mark if the Registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes No

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file 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 and posted pursuant to Rule 405 of Regulation S-T (§ 229.405 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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of the Registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, 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.

Large Accelerated Filer

Accelerated Filer

Non-Accelerated Filer

Smaller Reporting Company

(Do not check if a 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 aggregate market value of the voting stock held by non-affiliates of the Registrant, computed by reference to the closing price of such stock as of September 30, 2009: \$1,624,956,942

The number of Common Shares outstanding as of May 14, 2010: 59,260,580

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Proxy Statement for the 2010 Annual Meeting – Part III

[Table of Contents](#)

Table of Contents

		Page
	Part I	
Item 1	Business	3
	Introduction	3
	Information Related to Business Segments	4
	Information with Respect to Our Business in General	6
Item 1A	Risk Factors	9
Item 1B	Unresolved Staff Comments	16
Item 2	Properties	17
Item 3	Legal Proceedings	18
Item 4	Executive Officers of the Registrant	20
	Part II	
Item 5	Market for Registrant’s Common Equity, Related Shareholder Matters and Issuer Purchases of Equity Securities	21
Item 6	Selected Financial Data	22
Item 7	Management’s Discussion and Analysis of Financial Condition and Results of Operations	23
	Introduction	23
	Financial Measures	23
	Revenues-Defined	24
	General Company Overview and Outlook	25
	Matters Affecting Comparability	26
	Results of Operations	27
	Liquidity and Capital Resources	44
	Capital Expenditures	48
	Contractual and Commercial Commitments	49
	Critical Accounting Policies, Estimates, and Assumptions	50
	Recently Issued Accounting Standards Impacting the Company	54
	Inflation	54
	Forward-Looking Statements	55
Item 7A	Quantitative and Qualitative Disclosures About Market Risk	56
	Interest Rate Risk	56
	Foreign Currency Risk	56
	Commodity Risk	56
Item 8	Financial Statements and Supplementary Data	57
Item 9	Changes in and Disagreements with Accountants on Accounting and Financial Disclosure	102
Item 9A	Controls and Procedures	102
Item 9B	Other Information	102
	Part III	
Item 10	Directors, Executive Officers and Corporate Governance	102
Item 11	Executive Compensation	103
Item 12	Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters	103
Item 13	Certain Relationships and Related Transactions, and Director Independence	103
Item 14	Principal Accountant Fees and Services	103
	Part IV	
Item 15	Exhibits and Financial Statement Schedule	104
	Signatures	107

PART I

Throughout this Annual Report, STERIS Corporation and its subsidiaries together are called “STERIS,” “the Company,” “we,” “us,” or “our,” unless otherwise noted. References in this Annual Report to a particular “year” or “year-end” mean our fiscal year, which ends on March 31. For example, fiscal year 2010 ended on March 31, 2010.

ITEM 1. BUSINESS

INTRODUCTION

STERIS Corporation is a leading provider of infection prevention and surgical products and services, focused primarily on the critical markets of healthcare, pharmaceutical and research. Our mission is to provide a healthier today and a safer tomorrow through knowledgeable people and innovative infection prevention, decontamination and health science technologies, products and services. We offer our Customers a unique mix of capital products, such as sterilizers and surgical tables; consumable products, such as detergents and skin care products; and services, including equipment installation and maintenance; and the bulk sterilization of single-use medical devices.

We were founded as Innovative Medical Technologies in Ohio in 1985, and renamed STERIS Corporation in 1987. However, some of our businesses that have been acquired and integrated into STERIS, notably American Sterilizer Company, have much longer operating histories. With global headquarters in Mentor, Ohio, we have approximately 5,000 employees worldwide and operate in more than 60 countries. We have a direct sales force of approximately 475 and a service organization of approximately 1,050 who work diligently to ensure that we are meeting the increasingly complex needs of our Customers.

We operate in three reportable business segments: Healthcare, Life Sciences, and STERIS Isomedix Services. “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 from our former Erie, Pennsylvania manufacturing operation.

Healthcare is our largest segment, contributing 71.0% of fiscal 2010 revenues and 74.4% of our fiscal 2010 operating income. In this segment, we serve Customers anywhere surgical procedures take place by providing support directly to the operating room, as well as to the sterile processing department where instruments are reprocessed between surgeries. Our products and services enable Customers to reduce costs and improve outcomes in these critical environments.

Our second largest segment, Life Sciences, contributed 17.3% of fiscal 2010 revenues and 15.2% of our fiscal 2010 operating income. In this segment, we primarily serve pharmaceutical manufacturers and research organizations by providing decontamination and sterilization technologies, products and services that help ensure the safety of the products they produce.

STERIS Isomedix Services (“Isomedix”) performs sterilization services on a contract basis through 20 facilities in North America, where we sterilize single-use medical devices and other products in bulk prior to their delivery to the end user. This segment contributed 11.2% of fiscal 2010 revenues and 15.3% of our fiscal 2010 operating income.

Corporate and other contributed 0.5% of fiscal 2010 revenues and an operating loss of \$9.9 million to our fiscal 2010 operating income.

Many factors are driving an increased awareness of the importance of infection control throughout the world. In the United States, hospitals in more than 25 states are now required to report infection rates, providing patients with information that can help shape their decisions about where to receive care. On a more global basis, emerging threats such as H1N1 virus, Avian Bird Flu, and the rise in drug-resistant strains of bacterial diseases have gained prominence in the news, raising awareness of the need for enhanced safety on a worldwide basis. We are uniquely positioned to help address these concerns in traditional and non-traditional settings with our combination of capital equipment, consumables and services.

INFORMATION RELATED TO BUSINESS SEGMENTS

Our chief operating decision maker is our President and Chief Executive Officer (“CEO”). The CEO is responsible for performance assessment and resource allocation. The CEO regularly receives discrete financial information about each reportable segment. The CEO uses this information to assess performance and allocate resources. The accounting policies of the reportable segments are the same as those described in note 1 to the Consolidated Financial Statements titled, “Nature of Operations and Summary of Significant Accounting Policies,” of this Annual Report. Segment performance information for fiscal years 2010, 2009, and 2008 is presented in note 12 to our Consolidated Financial Statements titled, “Business Segment Information” and in Item 7 titled, “Management’s Discussion and Analysis of Financial Condition and Results of Operations” (“MD&A”), of this Annual Report.

HEALTHCARE SEGMENT

Description of Business. Our Healthcare segment manufactures and sells infrastructure capital equipment, accessory, consumable, and service solutions to healthcare providers, including acute care hospitals and surgery centers. These solutions aid our Customers in improving the safety, quality, productivity, and utility consumption of their surgical, sterile processing, gastrointestinal, and emergency environments.

Products Offered. These capital equipment, accessory and consumable solutions include:

- Sterilizers, including low temperature liquid, vaporized hydrogen peroxide, and Ethylene Oxide (“EO”) technologies, as well as steam sterilization, that allow Customers to meet rigorous sterility assurance standards and regulations and assist in the safe and effective re-use of medical equipment and devices.
- Automated washer/disinfector systems that clean and disinfect a wide range of items from rolling instrument carts and other large healthcare equipment to small surgical instruments.
- General and specialty surgical tables, surgical and examination lights, equipment management systems, operating room storage cabinets, warming cabinets, scrub sinks, and other complementary products and accessories for use in hospitals and other ambulatory surgery sites.
- Cleaning chemistries and sterility assurance products used in instrument cleaning and decontamination systems.
- Cleansing products, including hard surface disinfectants and skin care and hand hygiene solutions, for use by care-givers and patients.
- Connectivity solutions such as operating room (“OR”) integration and instrument management that allow for high quality transfer of information and images throughout the hospital and between hospitals throughout the world. These solutions aid in improving the productivity and quality of Customers’ inpatient and outpatient surgical departments and centralized sterile processing functions.

Significant brand names for these products include SYSTEM 1®, SYSTEM 1E™, Amsco®, Hamo®, Reliance®, Cmax®, Harmony®, Kindest Kare®, Alcare®, Verify®, and Cal Stat®.

Services Offered. Our Healthcare segment provides various preventive maintenance programs and repair services to support the effective operation of capital equipment over its lifetime. We offer these corrective and preventive service solutions to both Customers who have internal clinical/biomedical engineering departments and Customers who rely on us to meet these needs. Field service personnel install, maintain, upgrade, repair, and troubleshoot equipment throughout the world. We also offer comprehensive sterilization management consulting services allowing healthcare facilities to achieve safety, quality, and productivity improvements in the end-to-end perioperative loop that flows between and among surgical suites and the central sterile department. We utilize remote equipment monitoring technology to improve Customers’ equipment uptime. Additionally, our Healthcare segment provides other support services such as construction and facility planning, engineering support, device testing, Customer education, hand hygiene process excellence, asset management/planning, and the sale of replacement parts.

Customer Concentration. Our Healthcare segment manufactures and sells capital equipment, consumables, and services to Customers in the United States and throughout the rest of the world. For the year ended March 31, 2010, the segment generated revenues in the United States and internationally of \$666.7 million and \$225.8 million, respectively. For the year ended March 31, 2010, no Customer represented more than 10% of the Healthcare segment’s total revenues and the loss of any single Customer is not expected to have a material impact on the segment’s results of operations or cash flows.

[Table of Contents](#)

Competition. We compete with a number of large companies that have significant product portfolios and global reach, as well as a number of small companies with very limited product offerings and operations in one or a limited number of countries. On a product basis, competitors include Getinge, Johnson & Johnson, 3M, Belimed, Berchtold, Cantel Medical, Cardinal, Ecolab, Hill-Rom, Kimberly-Clark, Skytron, and Stryker.

LIFE SCIENCES SEGMENT

Description of Business. Our Life Sciences segment manufactures and sells a broad range of capital equipment, formulated cleaning chemistries, and service solutions to pharmaceutical companies, and private and public research facilities around the globe.

Products Offered. These capital equipment and formulated cleaning chemistries include:

- Sterilizers used in the manufacture of pharmaceuticals and biopharmaceuticals as well as sterilizers for equipment and instruments used in research studies, mitigating the risk of contamination.
- Washer/disinfectors that decontaminate various large and small materials and components used in pharmaceutical and industrial manufacturing processes and in research labs, such as glassware, vessels, equipment parts, drums, hoses, and animal cages.
- High-purity water equipment, which generates water for injection and pure steam.
- Vaporized Hydrogen Peroxide (“VHP”®) generators used to decontaminate many high value spaces, from small isolators to large pharmaceutical processing and laboratory animal rooms.
- Consumables and supplies that are used to prevent the spread of infectious diseases and to monitor sterilization and decontamination processes, including products used to clean instruments, decontaminate systems, and disinfect hard surfaces. We also manufacture and sell skin care and hand hygiene solutions for use in high risk and routine applications.

Significant brand names for these products include Amsco®, Reliance®, Finn-Aqua®, Kindest Kare®, Alcare®, Verify®, and Cal Stat®.

Services Offered. Our Life Sciences segment offers various preventive maintenance programs and repair services to support the effective operation of capital equipment over its lifetime. Field service personnel install, maintain, upgrade, repair, and troubleshoot equipment throughout the world. We utilize remote equipment monitoring technology to improve Customers’ equipment uptime. We also offer consulting services and technical support to architecture and engineering firms and laboratory planners. Our services deliver expertise in decontamination and infection control technologies and processes to end users. Our service personnel also provide higher-end validation services in support of our pharmaceutical Customers.

Customer Concentration. Our Life Sciences segment manufactures and sells capital equipment, consumables, and services to Customers in the United States and throughout the rest of the world. For the year ended March 31, 2010, the segment generated revenues in the United States and internationally of \$143.6 million and \$74.6 million, respectively. For the year ended March 31, 2010, no Customer represented more than 10% of the Life Sciences segment’s total revenues and the loss of any single Customer is not expected to have a material impact on the segment’s results of operations or cash flows.

Competition. Our Life Sciences segment operates in highly regulated environments where the most intense competition results from technological innovations, product performance, convenience and ease of use, and overall cost-effectiveness. In recent years, our pharmaceutical Customer base has also undergone consolidation and reduced capital spending, resulting in more intense competition. We compete for pharmaceutical, research and industrial Customers with a number of large companies that have significant product portfolios and global reach, as well as a number of small companies with very limited product offerings and operations in one or a limited number of countries. Competitors include Belimed, Ecolab, Fedegari, Getinge, MECO, Stilmas, and Techniplast.

STERIS ISOMEDIX SERVICES SEGMENT

Description of Business. Our Isomedix segment operates through a network of 20 facilities located in North America. We sell a comprehensive array of contract sterilization services using Gamma Irradiation (“Gamma”) and Ethylene Oxide (“EO”) technologies. We provide sterilization and microbial reduction services to companies that supply products to the healthcare, industrial, and consumer product industries.

[Table of Contents](#)

Services Offered. We use Gamma and EO technologies to sterilize a wide range of products. Gamma, using radioisotope (cobalt-60), is an irradiation process. EO uses a gaseous process to sterilize medical products. Greater than 90 percent of the industrial contract sterilization market uses Gamma or EO. Our locations are in major population centers and core distribution corridors throughout North America, primarily in the Northeast, Midwest, Southwest, and southern California. We adapt to increasing imports and changes in manufacturing points-of-origin by monitoring trends in supply chain management. Demographics partially drive this segment's growth. The aging population and rising life expectancy increase the demand for medical procedures, which increases the consumption of single use medical devices and surgical kits. Our technical services group supports Customers in all phases of the sterilization design process, including product development, materials testing, and sterility validation.

Customer Concentration. Our Isomedix segment operates in North America. For the year ended March 31, 2010, the segment generated revenues in the United States and Canada of \$133.9 million and \$7.0 million, respectively. The segment's services are offered to Customers throughout the footprint of our network. For the year ended March 31, 2010, no Customer represented more than 10% of the segment's revenues. Because of a largely fixed cost structure, the loss of a single Customer could have a material impact on the segment's results of operations or cash flows but would not be expected to have a material impact on STERIS.

Competition. Isomedix operates in a highly regulated industry and competes in North America with Sterigenics International, Inc., other smaller contract sterilization companies and manufacturers that sterilize products in-house.

INFORMATION WITH RESPECT TO OUR BUSINESS IN GENERAL

Recent Events. During the third quarter of fiscal 2009, we announced a joint venture with VTS Medical Systems Inc. designed to bring the latest high-definition video, touch-screen integration, and communication technology into hospital operating rooms. We have invested \$5.7 million in this joint venture.

Sources and Availability of Raw Materials. We purchase raw materials, sub-assemblies, components, and other supplies needed in our operations from numerous suppliers in the United States and internationally. The principal raw materials and supplies used in our operations include stainless steel, organic chemicals, fuel, and plastic components. These raw materials and supplies are available from several suppliers and in sufficient quantities that we do not expect any significant sourcing problems in fiscal 2011. We have longer-term supply contracts for certain materials, such as radioisotope (cobalt-60) used by the Isomedix segment, for which there are few suppliers.

We have recently experienced some volatility in prices for raw materials such as chemicals and various metals, which are important to our operations. While cost and availability are unpredictable, we have not experienced any difficulty, and do not expect significant difficulty in obtaining the raw materials, sub-assemblies, components, or other supplies we need for our operations.

Intellectual Property. We protect our technology and products by, among other means, obtaining United States and foreign patents. There can be no assurance, however, that any patent will provide adequate protection for the technology, system, product, service, or process it covers. In addition, the process of obtaining and protecting patents can be long and expensive. We also rely upon trade secrets, technical know-how, and continuing technological innovation to develop and maintain our competitive position.

As of March 31, 2010, we held 283 United States patents and 578 foreign patents and had 83 United States patents and 348 foreign patents pending. Patents for individual products extend for varying periods according to the date of filing or grant and legal term of patents in various countries where a patent is obtained. The actual protection a patent provides, which can vary from country to country, depends upon the type of patent, the scope of its coverage, and the availability of legal remedies in each country.

Our products are sold around the world under various brand names and trademarks. We consider our brand names and trademarks to be valuable in the marketing of our products. As of March 31, 2010, we had a total of 968 trademark registrations in the United States and in various foreign countries.

Research and Development. Research and development is an important factor in our long-term strategy. For the years ended March 31, 2010, 2009, and 2008, research and development expenses were \$34.0 million, \$32.8 million, and \$36.9 million, respectively. We incurred these expenses primarily for the research and development of commercial products.

New products were a key element of our success in a tough economic environment. In the operating room, the Harmony® LED Lighting and Visualization System brought surgical lighting, high definition images and surgeon comfort to a new level. Our V-PRO™ 1 low temperature sterilizer and the

[Table of Contents](#)

Reliance Vision Single-chamber Washer improve efficiencies in the sterile processing department by increasing the number and volume of instruments that can be reprocessed compared with older units. Another recent introduction is the 5085 SRT Surgical Table, the first sliding, rotating and transporting table to be released in the United States as a single-driver transport device for the operating suite. The table is designed to enhance both patient and staff safety by reducing the transfer risk before and after surgery. Finally, the recent introduction of the SYSTEM 1E™, our next generation liquid chemical sterilant processing system, provides an alternative for existing SYSTEM 1® Customers.

Quality Assurance. We manufacture, assemble, and package products in the United States and throughout the world. Each of our production facilities are dedicated to particular processes and products. Our success depends upon Customer confidence in the quality of our production process and the integrity of the data that supports our product safety and effectiveness. We have implemented quality assurance procedures to support the quality and integrity of scientific information and production processes. All of our manufacturing and contract sterilization facilities throughout the world are ISO9001 or ISO13485 certified.

Government Regulation. Our business is subject to various degrees of governmental regulation in the countries in which we operate. In the United States, the United States Food and Drug Administration (“FDA”), the United States Environmental Protection Agency (“EPA”), the United States Nuclear Regulatory Commission (“NRC”), and other governmental authorities regulate the development, manufacture, sale, and distribution of our products and services. Our international operations also are subject to a significant amount of government regulation, including country-specific rules and regulations and U.S. regulations applicable to our international operations. Government regulations include detailed inspection of, and controls over, research and development, clinical investigations, product approvals and manufacturing, marketing and promotion, sampling, distribution, record-keeping, storage, and disposal practices.

Compliance with applicable regulations is a significant expense for us. Past, current or future regulations, their interpretation, or their application could have a material adverse impact on our operations. Also, additional governmental regulation may be passed that could prevent, delay, revoke, or result in the rejection of regulatory clearance of our products. We cannot predict the effect on our operations resulting from current or future governmental regulation or the interpretation or application of these regulations.

If we fail to comply with any applicable regulatory requirements, sanctions could be imposed on us. For more information about the risks we face regarding regulatory requirements, see Part I, Item 1A of this Annual Report titled, “Risk Factors, We are subject to extensive regulatory requirements”

We have received warning letters, paid civil penalties, conducted product recalls, and been subject to other regulatory sanctions, and most recently agreed with the FDA to the terms of a consent decree approved by the Federal District Court for the Northern District of Ohio concerning our SYSTEM 1® processing system. See Part I, Item 1A of this Annual Report titled, “Risk Factors, We may be adversely affected by product liability claims or other legal actions or regulatory or compliance matters, including the Warning Letter and Consent Decree,” “Risk Factors, Our business may be adversely affected as a result of the U.S. Food and Drug Administration notice to healthcare administrators and device manufacturers, and related matters,” and “Risk Factors, Compliance with the Consent Decree may be more costly and burdensome than anticipated.” and see also Part I, Item 3, “Legal Proceedings”, for further information on SYSTEM 1® and other regulatory issues and their potential impact. We believe that we are currently compliant in all material respects with applicable regulatory requirements. However, we cannot assure you that future or current regulatory, governmental, or private action will not have a material adverse affect on us or on our performance, results, or financial condition.

Environmental Matters. We are subject to various laws and governmental regulations concerning environmental matters and employee safety and health in the United States and in other countries. We have made, and continue to make, significant investments to comply with these laws and regulations. We cannot predict the future capital expenditures or operating costs required to comply with environmental laws and regulations. We believe that we are currently compliant with applicable environmental, health, and safety requirements in all material respects. However, we cannot assure you that future or current regulatory, governmental, or private action will not have a material adverse affect on our performance, results, or financial condition. You should also read Part I, Item 3, “Legal Proceedings” for further information.

In the future, if a loss contingency related to environmental matters, employee safety, health or conditional asset retirement obligations is significantly greater than the current estimated amount, we would record a liability for the obligation and it may result in a material impact on net income for the annual or interim period during which the liability is recorded. The investigation and remediation of environmental obligations generally occur over an extended period of time, and therefore we do not know if these events would have a material adverse affect on our financial condition, liquidity, or cash flow, nor can we assure you that such liabilities would not have a material adverse affect on our performance, results, or financial condition.

[Table of Contents](#)

Competition. The markets in which we operate are highly competitive and generally highly regulated. Competition is intense in all of our business segments and includes many large and small competitors. Brand, design, quality, safety, ease of use, serviceability, price, product features, warranty, delivery, service, and technical support are important competitive factors to us. We expect to face increased competition in the future as new infection prevention, sterile processing, contamination control, and surgical support products and services enter the market. We believe many organizations are working with a variety of technologies and sterilizing agents. Also, a number of companies have developed disposable medical instruments and other devices designed to address the risk of contamination.

We believe that our long-term competitive position depends on our success in discovering, developing, and marketing innovative, cost-effective products and services. We devote significant resources to research and development efforts and we believe STERIS is positioned as a global competitor in the search for technological innovations. In addition to research and development, we invest in quality control, Customer programs, distribution systems, technical services, and other information services.

We cannot assure you that new products or services we provide or develop in the future will be more commercially successful than those provided or developed by our competitors. In addition, some of our existing or potential competitors may have greater resources than us. Therefore, a competitor may succeed in developing and commercializing products more rapidly than we do. Competition, as it relates to our business segments and product categories, is discussed in more detail in the section above titled, "Information Related to Business Segments."

Employees. As of March 31, 2010, we had approximately 5,000 employees throughout the world. We believe we have good relations with our employees.

Methods of Distribution. As of March 31, 2010, we employed approximately 1,150 direct field sales and service representatives within the United States and approximately 375 in international locations. Sales and service activities are supported by a staff of regionally based clinical specialists, system planners, corporate account managers, and in-house Customer service and field support departments. We also contract with distributors in select markets.

Customer training is important to our business. We provide a variety of courses at Customer locations, at our training and education centers throughout the world, and over the internet. Our training programs help Customers understand the science, technology, and operation of our products. Many of our operator training programs are approved by professional certifying organizations and offer continuing education credits to eligible course participants.

Seasonality. Our financial results have been, from time to time, subject to seasonal patterns. We cannot assure you that these patterns will continue.

International Operations. We have a large opportunity to expand internationally, as we currently only serve a small portion of the world that could benefit from our products. Through our subsidiaries, we operate in various international locations within the same business segments as in the United States. For the year ended March 31, 2010, international revenues were \$308.1 million, or 24.5%, of our total revenues and international cost of revenues was 29.9% of our total cost of revenues. Revenues from Europe, Canada, and other international locations were 51.2%, 23.1%, and 25.7%, respectively, of our total international revenues for the year ended March 31, 2010.

Also see note 12 to our Consolidated Financial Statements titled, "Business Segment Information," and Item 7, "MD&A", for a geographic presentation of our revenues for the three years ended March 31, 2010.

We conduct manufacturing in the United States, Canada, Mexico, and various European countries. There are, in varying degrees, a number of inherent risks to our international operations. We describe some of these risks in Part I, Item 1A of this Annual Report titled, "Risk Factors, We conduct manufacturing, sales, and distribution operations on a worldwide basis...."

Fluctuations in the exchange rate of the U.S. dollar relative to the currencies of foreign countries in which we operate can also increase or decrease our reported net assets and results of operations. During fiscal 2010, revenues were favorably impacted by \$0.6 million, or 0.1%, and income before taxes was unfavorably impacted by \$1.8 million, or 0.9%, as a result of foreign currency movements relative to the U.S. dollar. We cannot predict future changes in foreign currency exchange rates or the effect they will have on our operations.

Backlog. We define backlog as the amount of unfilled capital equipment purchase orders at a point in time. At March 31, 2010, we had a backlog of \$169.6 million. Of this amount, \$127.8 million and \$41.8 million related to our Healthcare and Life Sciences segments, respectively. At March 31, 2009,

[Table of Contents](#)

we had backlog orders of \$165.0 million. Of this amount \$119.8 million and \$45.2 million related to our Healthcare and Life Sciences segments, respectively. A significant portion of the backlog orders in both years were expected to ship in the next fiscal year.

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, and Current Reports on Form 8-K, and amendments to these reports, as soon as reasonably practicable after we electronically file such material with, or furnish such material to the Securities and Exchange Commission (“SEC”). You may access these documents on the Investor Relations page of our website at <http://www.steris-ir.com>. 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.

We also make available free of charge on our website our Corporate Governance Guidelines, our Director Code of Ethics, and our Code of Business Conduct, as well as the Charters of the Audit and Financial Policy Committee, the Compensation and Corporate Governance Committee, and the Compliance Committee of the Company’s Board of Directors.

ITEM 1A. RISK FACTORS

This item describes certain risk factors that could affect our business, financial condition and results of operations. You should consider these risk factors when evaluating the forward-looking statements contained in this Annual Report on Form 10-K, because our actual results and financial condition might differ materially from those projected in the forward-looking statements should these risks occur. We face other risks besides those highlighted below. These other risks include additional uncertainties not presently known to us or that we currently believe are immaterial, but may ultimately have a significant impact. Should any of these risks, described below or otherwise, actually occur, our business, financial condition, performance, prospects, value, or results of operations could be negatively affected.

The current economic climate may adversely affect us.

Adverse economic cycles or conditions and Customer, regulatory or government response thereto, could affect our results of operations. There can be no assurance when these cycles or conditions will occur or when they will begin to improve after they occur. There also can be no assurance as to the strength or length of any recovery from a business downturn or recession. United States and worldwide financial and business conditions are uncertain, and the recent severe recession has had a significant adverse effect on U.S. and global economies, which also has negatively impacted access to capital markets and investment activity within key geographic and market segments served.

Credit and liquidity problems may continue to make it difficult for some businesses to access credit markets and obtain financing and may cause some businesses to continue to curtail spending to conserve cash in anticipation of persistent business slowdowns and liquidity needs. If our Customers have difficulty financing their purchases due to tight credit markets or related factors or because of other operational problems they may be experiencing or otherwise decide to curtail their purchases, our business could be adversely affected. Our exposure to bad debt losses could also increase if Customers are unable to pay for products previously ordered and delivered. Also, continuing tightness of credit in financial markets may limit the ability of our lenders to satisfy their obligations to us to provide funding and letters of credit or the ability of our insurers to respond to a claim under an insurance policy.

In addition, economic conditions and market volatility have impacted the investment portfolio of our defined benefit pension plans, including a significant decline in fair value since March 31, 2008. Because the values of these pension plan investments have and will fluctuate in response to changing market conditions, the amount of gains or losses that will be recognized in subsequent periods and the impact on the funded status of the plans and future minimum required contributions, if any, could have a material adverse effect on our liquidity, value, financial conditions or result of operations.

Our businesses are highly competitive, and if we fail to compete successfully, our revenues and results of operations may be hurt.

We operate in a highly competitive global environment. Our businesses compete with other broad line manufacturers, as well as many smaller businesses specializing in particular products or services, primarily on the basis of brand, design, quality, safety, ease of use, serviceability, price, product features, warranty, delivery, service, and technical support. We face increased competition from new infection prevention, sterile processing, contamination control, and surgical support, cleaning consumables, contract sterilization, and other products and services entering the market. Competitors and potential competitors also are attempting to develop alternate technologies and sterilizing agents, as well as disposable medical instruments and other devices

[Table of Contents](#)

designed to address the risk of contamination. If our products, services, support, distribution and/or cost structure do not enable us to compete successfully, our business, performance, prospects, value, financial condition, and results of operations may be adversely affected.

Our success depends, in part, on our ability to design, manufacture, distribute, and achieve market acceptance of new products with higher functionality and lower costs.

Many of our Customers operate businesses characterized by technological change, product innovation and evolving industry standards. Price is a key consideration in their purchasing decisions. To successfully compete, we must continue to design, develop, and improve innovative products. We also must achieve market acceptance of and effectively distribute those products, and reduce production costs. Our business, performance, prospects, value, financial condition, and results of operations might be adversely affected if our competitors' product development capabilities become more effective, if they introduce new or improved products that displace our products or gain market acceptance, or if they begin to produce and sell products at lower prices.

If our cost reduction and restructuring efforts are ineffective, our profitability may be hurt or our business otherwise might be adversely affected.

We have undertaken various cost reduction and restructuring activities, including the restructuring activities announced in January 2006 and, in particular, the transfer of our Erie, Pennsylvania manufacturing operations to Mexico. In the fourth quarter of fiscal 2008, we announced cost reduction activities intended to generate annualized operating expense savings of approximately \$30 million through direct and indirect overhead expense reductions and other savings, and, in the third quarter of fiscal 2009, we announced cost reduction activities primarily related to our international operations, which were intended to generate annualized cost savings of approximately \$20 million to be realized over the next several years. Most recently we announced a restructuring plan primarily related to the consolidation of our European Healthcare manufacturing operations into two central locations within Europe and the transfer of the remaining operations in our Erie, Pennsylvania facility to our U.S. headquarters in Mentor, Ohio and recorded pre-tax expenses totaling \$6.3 million related to these actions in the fourth quarter of fiscal 2010. These efforts may not produce the full efficiencies and cost reduction benefits we expect or efficiencies and benefits might be delayed or not realized. Implementation costs also might exceed expectations and further cost reduction measures might become necessary, resulting in additional future charges. If these cost reduction and restructuring efforts are not properly implemented or are unsuccessful, we might experience business disruptions or our business otherwise might be adversely affected.

Decreased availability or increased costs of raw materials or energy supplies or other supplies might increase our production costs or limit our production capabilities.

We purchase raw materials, fabricated and other components, and energy supplies from a variety of suppliers. Key materials include stainless steel, organic chemicals, fuel, cobalt, and plastic components. The availability and prices of raw materials and energy supplies are subject to volatility and are influenced by worldwide economic conditions, speculative action, world supply and demand balances, inventory levels, availability of substitute materials, currency exchange rates, anticipated or perceived shortages, and other factors. In some situations, we may be able to temporarily limit price increases or support availability through supply agreements. Otherwise, raw material prices and availability are subject to numerous factors outside of our control, including those described above. Increases in prices or decreases in availability of raw materials and oil and gas might impair our procurement of necessary materials or our product production, or might increase production costs. In addition, energy costs impact our transportation and distribution and other supply and sales costs. Also, a number of our key materials and components are single-sourced or have a limited number of suppliers, such as cobalt used in our Isomedix operations. Shortages in supply, regulatory requirements, or increases in the price of raw materials, components and energy supplies may adversely impact our business, performance, prospects, value, financial condition, or results of operations.

Our operations, and those of our suppliers, are subject to a variety of business continuity hazards and risks, any of which could interrupt production or operations or otherwise adversely affect our performance, results, or value.

Business continuity hazards and other risks include:

- explosions, fires, inclement weather, and other disasters;
- utility or other mechanical failures;
- unscheduled downtime;
- labor difficulties;

[Table of Contents](#)

- inability to obtain or maintain any required licenses or permits;
- disruption of communications;
- data security, preservation and redundancy disruptions;
- inability to hire or retain key management or employees; and
- disruption of supply or distribution.

The occurrence of any of these or other events might disrupt or shut down operations, or otherwise adversely impact the production or profitability of a particular facility, or our operations as a whole. Certain casualties also might cause personal injury and loss of life, or severe damage to or destruction of property and equipment, and for casualties occurring at our facilities, result in liability claims against us. Although we maintain property and casualty insurance and liability and similar insurance of the types and in the amounts that we believe are customary for our industries, our insurance coverages have limits and we are not fully insured against all potential hazards and risks incident to our business. Should any of the hazards or risks occur, or should our insurance coverage be inadequate or unavailable, our business, performance, prospects, value, financial condition, and results of operations might be adversely affected, both during and after the event.

We conduct manufacturing, sales and distribution operations on a worldwide basis and are subject to a variety of risks associated with doing business outside the United States.

We maintain significant international operations, including operations in Canada, Europe, Asia and Latin America. As a result, we are subject to a number of risks and complications associated with international manufacturing, sales, services, and other operations. These include:

- risks associated with foreign currency exchange rate fluctuations;
- difficulties in enforcing agreements and collecting receivables through some foreign legal systems;
- foreign Customers with longer payment cycles than Customers in the United States;
- tax rates in certain foreign countries that exceed those in the United States, and foreign earnings subject to withholding requirements;
- tax laws that restrict our ability to use tax credits, offset gains, or repatriate funds;
- tariffs, exchange controls or other trade restrictions including transfer pricing restrictions when products produced in one country are sold to an affiliated entity in another country;
- general economic and political conditions in countries where we operate or where end users of our products are situated;
- difficulties associated with managing a large organization spread throughout various countries;
- difficulties in enforcing intellectual property rights or weaker intellectual property right protections in some countries; and
- difficulties associated with compliance with a variety of laws and regulations governing international trade, including the Foreign Corrupt Practices Act.

Implementation and achievement of international growth objectives also may be impeded by political, social, and economic uncertainties or unrest in countries in which we conduct operations or market or distribute our products. In addition, compliance with multiple, and potentially conflicting, international laws and regulations, import and export limitations, anti-corruption laws, and exchange controls may be difficult, burdensome or expensive.

For example, we are subject to compliance with various laws and regulations, including the Foreign Corrupt Practices Act and similar anti-bribery laws, which generally prohibit companies and their intermediaries from making improper payments to officials for the purpose of obtaining or retaining business. While our employees and agents are required to comply with these laws, we cannot assure you that our internal policies and procedures will always protect us from violations of these laws, despite our commitment to legal compliance and corporate ethics. The occurrence or allegation of these types of risks may adversely affect our business, performance, prospects, value, financial condition, and results of operations.

[Table of Contents](#)

Consolidations among our healthcare and pharmaceutical Customers may result in a loss of Customers or more significant pricing pressures.

A number of our Customers have consolidated. These consolidations are due in part to healthcare cost reduction measures initiated by competitive pressures as well as legislators, regulators and third-party payors. In an effort to attract Customers, some of our competitors have also reduced production costs and lowered prices. This has resulted in greater pricing pressures on us and in some cases loss of Customers. Additional consolidations could result in a loss of Customers or more significant pricing pressures. Additional consolidations and pricing pressures may occur as a result of recent healthcare legislation and economic conditions. A loss of Customers or more significant pricing pressure could have an adverse effect on our business, performance, prospects, value, financial conditions or results of operations.

Changes in healthcare laws or government and other third-party payor reimbursement levels to healthcare providers, or failure to meet healthcare reimbursement or other requirements might negatively impact our business.

We sell many of our products to hospitals and other healthcare providers and pharmaceutical manufacturers. Many of these Customers are subject to or supported by government programs or receive reimbursement for services from third-party payors, such as government programs, including Medicare and Medicaid, private insurance plans, and managed care programs. In the United States, many of these programs set maximum reimbursement levels for these healthcare services and can have complex reimbursement requirements. In addition, the recent healthcare legislation imposes additional taxes on device manufacturers, and the overall impact of the legislation is uncertain. Outside the United States, reimbursement systems vary significantly by country. However, government-managed healthcare systems control reimbursement for healthcare services in many foreign countries. In these countries, as well as in the United States, public budgetary constraints may significantly impact the ability of hospitals, pharmaceutical manufacturers, and other Customers supported by such systems to purchase our products. If government or other third-party payors deny or change coverage, reduce their current levels of reimbursement for healthcare services, or otherwise implement measures to regulate pricing or contain costs or if our costs increase more rapidly than reimbursement level or permissible pricing increases or we do not satisfy the standards or requirements for reimbursement, our revenues or profitability may suffer and our business, performance, value, prospects, financial condition or results of operations may be adversely affected.

In addition, the Patient Protection and Affordable Care Act, as amended by the Health Care and Education Affordability Reconciliation Act, recently enacted in the U.S., contains provisions that could have a material impact on our business. Among other provisions, this legislation imposes an excise tax on medical devices manufactured or offered for sale in the United States beginning in 2013. Various health care reform proposals have also emerged at the state level, and we are unable to predict which, if any, of those proposals will be enacted. However, the ultimate effect of health care reform legislation or any future legislation or regulation could have a material adverse affect on our business, performance, value, prospects, financial condition, or results of operation.

We are subject to extensive regulatory requirements and must receive and maintain regulatory clearance or approval for many products and operations. Failure to receive or maintain, or delays in receiving, clearance or approvals may hurt our revenues, profitability, financial condition, or value.

Our operations are subject to extensive regulation in both the United States and in other countries where we do business. In the U.S, our products and services are regulated by the FDA and other regulatory authorities. In many foreign countries, sales of our products are subject to extensive regulations that may or may not be comparable to those of the FDA. In Europe, our products are regulated primarily by country and community regulations of those countries within the European Economic Area and must conform to the requirements of those authorities.

Government regulation applies to nearly all aspects of testing, manufacturing, safety, labeling, storing, recordkeeping, reporting, promoting, distributing, and importing or exporting of medical devices, products, and services. In general, unless an exemption applies, a sterilization, decontamination or medical device or product or service must receive regulatory approval or clearance before it can be marketed or sold. Modifications to existing products or the marketing of new uses for existing products also may require regulatory approvals, approval supplements or clearances. If we are unable to obtain any required approvals, approval supplements or clearances for any modification to a previously cleared or approved device, we may be required to cease manufacturing and sale, or recall or restrict the use of such modified device, pay fines, or take other action until such time as appropriate clearance or approval is obtained.

Regulatory agencies may refuse to grant approval or clearance, or review and disagree with our interpretation of approvals or clearances, or with our decision that regulatory approval is not required or has been maintained. Regulatory submissions may require the provision of additional data and may be

[Table of Contents](#)

time consuming and costly, and their outcome is uncertain. Regulatory agencies may also change policies, adopt additional regulations, or revise existing regulations, each of which could prevent or delay approval or clearance of devices, or could impact our ability to market a previously cleared, approved, or unregulated device. Our failure to comply with the regulatory requirements of the FDA or other applicable regulatory requirements in the United States or elsewhere might subject us to administratively or judicially imposed sanctions. These sanctions include, among others, warning letters, fines, civil penalties, criminal penalties, injunctions, debarment, product seizure or detention, product recalls and total or partial suspension of production, sale and/or promotion. The failure to receive or maintain, or delays in the receipt of, relevant United States or international qualifications could have a material adverse affect on our business, performance, prospects, value, financial condition or results of operations.

Refer also for further information to the “Risk Factor” below titled, “We may be adversely affected by product liability claims or other legal actions or regulatory or compliance matters, including the Warning Letter and Consent Decree” and the “Risk Factor” below titled “Our business may be adversely affected as a result of the U.S. Food and Drug Administration notices to healthcare administrators, and related matters”, and the “Risk Factor” below titled “Compliance with the Consent Decree may be more costly and burdensome than anticipated.” and to Part I, Item 3, “Legal Proceedings”.

Our products are subject to recalls and restrictions, even after receiving United States or foreign regulatory clearance or approval.

Ongoing medical device reporting regulations require that we report to appropriate governmental authorities in the United States and/or other countries when our products cause or contribute to a death or serious injury or malfunction in a way that would be reasonably likely to contribute to a death or serious injury if the malfunction were to recur. Governmental authorities can require product recalls or impose restrictions for product design, manufacturing, labeling, clearance, or other issues. For the same reasons, we may voluntarily elect to recall or restrict the use of a product. Any recall or restriction could divert managerial and financial resources and might harm our reputation among our Customers and other healthcare professionals who use or recommend the products. Product recalls, restrictions, suspensions, re-labeling, or other change might have a material adverse affect on our business, performance, prospects, value, financial condition, or results of operations.

We may be adversely affected by product liability claims or other legal actions or regulatory or compliance matters, including the Warning Letter and Consent Decree.

We face an inherent business risk of exposure to product liability claims and other legal and regulatory actions. A significant increase in the number, severity, amount, or scope of these claims and actions may result in substantial costs and harm our reputation or otherwise adversely affect product sales and our business. Product liability claims and other legal and regulatory actions may also distract management from other business responsibilities.

We are also subject to a variety of other types of claims, proceedings, investigations, and litigation initiated by government agencies or third parties and other potential risks and liabilities. These include compliance matters, product regulation or safety, taxes, employee benefit plans, employment discrimination, health and safety, environmental, antitrust, customs, import/export, government contract compliance, financial controls or reporting, intellectual property, allegations of misrepresentation, false claims or false statements, commercial claims, claims regarding promotion of our products and services, or other similar or different matters. Any such claims, proceedings, investigations or litigation, regardless of the merits, might result in substantial costs, restrictions on product use or sales, or otherwise injure our business.

Administratively or judicially imposed or agreed sanctions might include warning letters, fines, civil penalties, criminal penalties, loss of tax benefits, injunctions, product seizure, recalls, suspensions or restrictions, re-labeling, detention, and/or debarment. We also might be required to take actions such as payment of substantial amounts, or revision of financial statements, or to take the following types of actions with respect to our products, services, or business:

- redesign, re-label, restrict, or recall products;
- cease manufacturing and selling products;
- seizure of product inventory;
- court injunction restricting or prohibiting further marketing and sale of products or services;
- consent decree, which could result in further regulatory constraints;
- dedication of significant internal and external resources and costs to respond to and comply with legal and regulatory issues and constraints;
- claims, litigation, and other proceedings brought by Customers, users, governmental agencies, and others;

Table of Contents

- disruption of product improvements and product launches;
- discontinuation of certain product lines or services; or
- other restrictions or limitations on product sales, use or operation, or other activities or business practices.

Some product replacements or substitutions may not be possible or may be prohibitively costly or time consuming.

Examples of the types of matters described above are the warning letter we received from the FDA on May 16, 2008 regarding our SYSTEM 1[®] sterile processing system, and the Consent Decree entered on April 20, 2010. In summary, the warning letter outlined the FDA's assertion that significant changes or modifications had been made in the design, components, method of manufacture or intended use of the device, beyond the FDA's 1988 clearance of the device, such that the FDA asserted a new premarket notification submission was required. After extensive discussion, negotiation and interaction between FDA and us, a consent decree was agreed upon and approved by the Federal District Court for the Northern District of Ohio on April 20, 2010 (the "Consent Decree"). As a consequence of these interactions and the Consent Decree there are numerous restrictions on us with respect to SYSTEM 1 and other liquid chemical sterilizing and disinfecting devices, components and accessories. For example, we have discontinued all sales of our SYSTEM 1 processor to U.S. Customers and will discontinue the provision of service, parts, accessories and sterilant for SYSTEM 1 units in the U.S. no later than August 2, 2011. As a result of these current and future restrictions and commitments, our revenues, earnings, business, performance, prospects or value may be negatively impacted. The Consent Decree also prohibits the sale of liquid chemical sterilizing or disinfecting products that do not have FDA clearance, describes various process and compliance issues, and defines penalties for non-compliance. (For more information regarding this warning letter and the Consent Decree, see the "Risk Factor" titled "Compliance with the Consent Decree may be more costly and burdensome than anticipated" and "Legal Proceedings" below.) The Consent Decree, claims by Customers and other parties, and other events or impact associated with these matters could materially affect our business, performance, prospects, value, financial condition, or results of operations.

The ongoing impact of the Consent Decree, or the impact of any legal, regulatory, or compliance claims, proceeding, investigation, or litigation, is difficult to predict. A legal, regulatory or compliance claim or matter regarding any significant product, service, or obligation of ours, could materially and adversely affect our business, performance, prospects, value, financial condition, or results of operations.

We maintain product liability and other insurance with coverages believed to be adequate. However, product liability or other claims may exceed insurance coverage limits, fines, penalties and regulatory sanctions may not be covered by insurance, or insurance may not continue to be available or available on commercially reasonable terms. Additionally, our insurers might deny claim coverage for valid or other reasons or may become insolvent.

Our business may be adversely affected as a result of the U.S. Food and Drug Administration notices to healthcare administrators and device manufacturers, and related matters.

FDA's December 3, 2009 notice advised healthcare administrators that the FDA believed we had significantly modified SYSTEM 1, and therefore, were required to submit a new premarket notification to the FDA. As a result, the agency stated that it had not determined that SYSTEM 1 was safe or effective for sterilizing medical devices. The FDA recommended in the notice that Customers transition to an acceptable alternative as soon as possible if they have one; if not, that they promptly assess their patient care needs and sterilization and disinfection requirements and take steps to obtain legally-marketed SYSTEM 1 substitutes. Subsequently, FDA announced that it was extending the total recommended time period for transitioning from SYSTEM 1 in the U.S., through August 2, 2011. On February 22, 2010, FDA provided a notice to device manufacturers, recommending that manufacturers re-label their devices to identify alternative, legally-marketed, reprocessing methods. As a result of these notices, possible future FDA recommendations, Customer or patient reaction or claims, or other events, Customers may more quickly transition away from or terminate the use of SYSTEM 1, reduce or discontinue the purchase of sterilant and services relating to SYSTEM 1, reduce or discontinue purchases of other STERIS products, including other STERIS products that the FDA considers acceptable alternatives or take other action that could materially adversely affect our business. Customers also may be more disinclined to purchase our new SYSTEM 1E Liquid Chemical Sterilant Processing System. In connection with this transition, we are offering rebates and other considerations to Customers. As a result, revenues lost, transition costs incurred, incentives or other consideration provided, claims and compliance costs, and other expenses incurred and impacts resulting from these circumstances, may have a material adverse effect on our business, performance, prospects, value, financial condition or results of operations. For more information regarding this letter and the SYSTEM 1 situation, see the "Risk Factor" titled "We may be adversely affected by product liability claims or other legal actions or regulatory or compliance matters, including the Warning Letter and Consent Decree" appearing earlier in this Item 1A and "Legal Proceedings" in Item 3 of Part 1.

[Table of Contents](#)

Existing and new Customers may not purchase or use the new liquid chemical sterilant system or related consumables consistent with the purchase and use of the existing SYSTEM 1®.

In January 2009, we submitted a 510(k) premarket notification to the FDA for a new liquid chemical sterilant processing system intended to serve as successor to the SYSTEM 1. We were notified by the FDA on April 6, 2010 that this new system, known as the SYSTEM 1E Liquid Chemical Sterilant Processing System, which is indicated for liquid chemical sterilization of cleaned, immersible, and reusable critical and semi-critical heat sensitive medical devices in healthcare facilities, had been cleared for marketing and sale. However, there can be no assurance as to the extent that such new liquid chemical sterilant processing system will receive market acceptance or that any such acceptance will be consistent with the prior market demand for SYSTEM 1. Moreover, initially margins for SYSTEM 1E units, sterilant and service will be lower than for SYSTEM 1. In connection with this transition, we are offering rebates and other considerations to Customers. If sales or use of the SYSTEM 1E or related parts, accessories, sterilant or service are significantly less than the existing for SYSTEM 1, or if start-up, warranty, guarantee, transition or other costs are greater than anticipated for SYSTEM 1E that could have a material adverse effect on our business, prospects, performance, value, financial condition or results of operations.

We may not be able to produce units of the new liquid chemical sterilant system quickly enough to meet Customer demand.

As noted elsewhere, because we are transitioning away from SYSTEM 1 in the U.S., U.S. Customers currently using SYSTEM 1 will need to position themselves to meet their sterilization and high level disinfecting needs using other products and systems. We believe that the SYSTEM 1E recently cleared by the FDA will meet these needs for a large number of current SYSTEM 1 users. However, to the extent we are unable to produce SYSTEM 1E units in sufficient numbers to meet demand of existing SYSTEM 1 Customers, those Customers who need to replace SYSTEM 1 units and who are unable to obtain SYSTEM 1E and are unwilling to purchase other alternative systems and products sold by us may have to purchase alternative systems and products from competitors, which could have a material adverse effect on our business, prospects, performance, value, financial condition or results of operations.

Compliance with the Consent Decree may be more costly and burdensome than anticipated.

The Consent Decree contains numerous requirements that could create significant costs and compliance risks. The Consent Decree, which is expected to remain in force for a minimum period of five years, includes provisions permitting the government to take corrective actions against us if it determines we have violated the Consent Decree, including the right to issue an order requiring cessation of production or take other corrective action, and in some cases we may be required to implement the order before bringing the matter before a court. Failures to comply with the Consent Decree or FDA regulations respecting liquid chemical sterilizing or disinfecting devices also may result in liquidated damages specified in the Consent Decree of up to ten million dollars per calendar year. If costs associated with compliance with the Consent Decree significantly exceed the amounts anticipated, or if we violate the terms of the Consent Decree, our business, performance, value, financial condition, prospects or results of operations may be adversely affected.

We engage in acquisitions and affiliations, divestitures, and other business arrangements. Our growth may be adversely affected if we are unable to successfully identify, price, and integrate strategic business candidates or otherwise optimize our business portfolio.

Our success depends, in part, on strategic acquisitions and joint ventures, which are intended to complement or expand our businesses, divestiture of non-strategic businesses, and other actions to optimize our portfolio of businesses. This strategy depends upon our ability to identify, appropriately price, and complete these types of business development transactions or arrangements and to obtain any necessary financing. Our success will also depend on our ability to integrate the businesses acquired or to develop satisfactory working arrangements with our strategic partners in joint ventures or other affiliations, or to divest or realign businesses. Competition for strategic business candidates may result in increases in costs and price for acquisition and market valuation issues may reduce the value available for divestiture of non-strategic businesses. These types of transactions are also subject to a number of risks and uncertainties, including:

- delays in realizing the benefits of the transactions;
- diversion of management's time and attention from other business concerns;
- difficulties in retaining key employees, Customers, or suppliers of the acquired or divested businesses;
- difficulties in maintaining uniform standards, controls, procedures and policies, or other integration or divestiture difficulties;
- adverse effects on existing business relationships with suppliers or Customers;

Table of Contents

- other events contributing to difficulties in generating future cash flows;
- risks associated with the assumption of contingent or undisclosed liabilities of acquisition targets or retention of liabilities for divested businesses; and
- difficulties in obtaining or satisfying financing.

If we are unable to realize the anticipated operating efficiencies and synergies or other expected transaction benefits, our business, prospects, performance, value, financial condition or results of operation may be adversely impacted.

Our business and results of operations may be adversely affected if we are unable to recruit and retain qualified management and other personnel, or if the Consent Decree or other compliance matters adversely impact our personnel.

Our continued success depends, in large part, on our ability to hire and retain highly qualified people and if we are unable to do so, our business and operations may be impaired or disrupted. Competition for highly qualified people is intense and there is no assurance that we will be successful in attracting or retaining replacements to fill vacant positions, successors to fill retirements or employees moving to new positions, or other highly qualified personnel. Our CEO and Chief Technology Officer are parties to the Consent Decree, and other officers and directors are also subject to its terms. If the Consent Decree or other legal, regulatory or compliance matters create significant distraction or diversion of significant or unanticipated resources or attention, that could have a material adverse effect on the responsibilities and retention of these persons, and on our business, performance, prospects, value, financial condition or results of operation.

Our business and financial condition could be adversely affected by difficulties in acquiring or maintaining a proprietary intellectual ownership position.

To maintain our competitive position, we need to obtain patent or other proprietary rights for new and improved products and to maintain and enforce our existing patents and other proprietary rights. We typically apply for patents in the United States and in strategic foreign countries. We may also acquire patents through acquisitions. A 2007 United States Supreme Court decision increases the difficulty of obtaining patent protection in the United States. The actual scope and impact of the decision on our existing patent rights or patent applications and those of others will not be known until other court rulings interpret and apply the decision.

We rely on a combination of patents, trade secrets, know-how, and confidentiality agreements to protect the proprietary aspects of our technology. These measures afford only limited protection, and competitors may gain access to our intellectual property and proprietary information. Litigation may be necessary to enforce or defend our intellectual property rights, to protect our trade secrets, and to determine the validity and scope of our proprietary rights. Litigation may also be brought against us claiming that we have violated the intellectual property rights of others. Litigation may be costly and may divert management's attention from other matters. Additionally, in some foreign countries with weaker intellectual property rights, it may be difficult to maintain and enforce patents and other proprietary rights or defend against claims of infringement. If we are unable to obtain necessary patents, our patents and other proprietary rights are successfully challenged, or competitors independently develop substantially equivalent information and technology or otherwise gain access to our proprietary technology, our business, performance, value, financial condition, or results of operations may be adversely affected.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

[Table of Contents](#)

ITEM 2. PROPERTIES

The following table sets forth the principal plants and other materially important properties of the Company and its subsidiaries as of March 31, 2010. The Company believes that its facilities are adequate for operations and are maintained in good condition. The Company is confident that, if needed, it will be able to acquire additional facilities at commercially reasonable rates.

In the table below, “Contract Sterilization” refers to locations of the Isomedix segment. “Manufacturing,” “Warehousing,” “Operations,” or “Sales Offices” refer to locations serving both the Healthcare and Life Sciences segments.

United States (U.S.) Locations (including Puerto Rico) and International Locations (INTL)

<i>Location</i>	<i>U.S./INTL</i>	<i>Use</i>	<i>Owned/Leased</i>
Montgomery, AL	U.S.	Manufacturing	Owned
Nogales, AZ	U.S.	Contract Sterilization	Owned
Ontario, CA	U.S.	Contract Sterilization	Owned
Temecula, CA	U.S.	Contract Sterilization	Owned
Libertyville, IL (2 locations)	U.S.	Contract Sterilization	Owned
Northborough, MA	U.S.	Contract Sterilization	Owned
St. Louis, MO	U.S.	Manufacturing	Owned
South Plainfield, NJ	U.S.	Contract Sterilization	Owned
Whippany, NJ	U.S.	Contract Sterilization	Owned
Chester, NY	U.S.	Contract Sterilization	Owned
Groveport, OH	U.S.	Contract Sterilization	Owned
Mentor, OH (7 locations)	U.S.	Corporate Headquarters	Owned
	U.S.	Sales/Marketing Offices	Owned
	U.S.	Administrative Offices	Owned
	U.S.	Manufacturing/Warehousing	Owned
	U.S.	Manufacturing/Operations	Owned
Vega Alta, PR	U.S.	Contract Sterilization	Owned
Spartanburg, SC	U.S.	Contract Sterilization	Owned
El Paso, TX (2 locations)	U.S.	Contract Sterilization	Owned
Sandy, UT	U.S.	Contract Sterilization	Owned
Quebec City, Canada	INTL	Manufacturing	Owned
Whitby, Canada	INTL	Contract Sterilization	Owned
Leicester, England (2 locations)	INTL	Manufacturing/Warehousing	Owned
Tuusula, Finland	INTL	Manufacturing/Sales Office	Owned
Pieterlen, Switzerland	INTL	Manufacturing/Sales Office	Owned
San Diego, CA	U.S.	Contract Sterilization	Leased
Morton Grove, IL	U.S.	Contract Sterilization	Leased
Minneapolis, MN	U.S.	Contract Sterilization	Leased
St. Louis, MO	U.S.	Warehousing/Distribution	Leased
Reno, NV	U.S.	Warehousing	Leased
Mentor, OH	U.S.	Administrative Offices	Leased
Erie, PA (2 locations)	U.S.	Administrative Offices	Leased
Grand Prairie, TX	U.S.	Contract Sterilization	Leased
Brussels, Belgium	INTL	Sales Office	Leased
Sao Palo, Brazil	INTL	Sales Office	Leased
Mississauga, Canada	INTL	Sales Office/Warehousing	Leased
Shanghai, China	INTL	Sales Office	Leased
Basingstoke, England	INTL	European Corporate Headquarters/Sales Office	Leased
Saran, France (4 locations)	INTL	Manufacturing/Sales Office/ Showroom	Leased
Cologne, Germany	INTL	Sales Office	Leased
Calcutta, India	INTL	Sales Office	Leased
Segrate, Italy	INTL	Sales Office	Leased
Tokyo, Japan (2 locations)	INTL	Sales Office/Warehousing	Leased
Petaling Jaya, Malaysia	INTL	Sales Office	Leased
Guadalupe, Mexico	INTL	Manufacturing	Leased
Moscow, Russia	INTL	Sales Office	Leased
Singapore	INTL	Sales Office	Leased
Madrid, Spain	INTL	Sales Office	Leased

ITEM 3. LEGAL PROCEEDINGS

We are, and will likely continue to be, involved in a number of legal proceedings, government investigations, and claims, which we believe generally arise in the course of our business, given our size, history, complexity, and the nature of our business, products, Customers, regulatory environment, and industries in which we participate. These legal proceedings, investigations and claims generally involve a variety of legal theories and allegations, including, without limitation, personal injury (e.g., slip and falls, burns, vehicle accidents), product liability or regulation (e.g., based on product operation or claimed malfunction, failure to warn, failure to meet specification, or failure to comply with regulatory requirements), product exposure (e.g., claimed exposure to chemicals, asbestos, contaminants, radiation), property damage (e.g., claimed damage due to leaking equipment, fire, vehicles, chemicals), commercial claims (e.g., breach of contract, economic loss, warranty, misrepresentation), financial (e.g., taxes, reporting), employment (e.g., wrongful termination, discrimination, benefits matters), and other claims for damage and relief.

We believe we have adequately reserved for our current litigation and claims that are probable and estimable, and further believe that the ultimate outcome of these pending lawsuits and claims will not have a material adverse affect on our consolidated financial position or results of operations taken as a whole. Due to their inherent uncertainty, however, there can be no assurance of the ultimate outcome or effect of current or future litigation, investigations, claims or other proceedings (including without limitation the FDA-related matters discussed below). For certain types of claims, we presently maintain product liability insurance coverage and other liability coverages in amounts and with deductibles that we believe are prudent, but there can be no assurance that these coverages will be applicable or adequate to cover adverse outcomes of claims or legal proceedings against us.

As previously disclosed, we received a warning letter (the “warning letter”) from the FDA on May 16, 2008 regarding our SYSTEM 1® sterile processor and the STERIS™ 20 sterilant used with the processor (sometimes referred to collectively in the FDA letter and in this Item 3 as the “device”). Among other matters, the warning letter included the FDA’s assertion that significant changes or modifications had been made in the design, components, method of manufacture, or intended use of the device beyond the FDA’s 1988 clearance, such that the FDA believed a new premarket notification submission (known within FDA regulations as a 510(k) submission) should have been made, and the assertion that our failure to make such a submission resulted in violations of applicable law. On July 30, 2008 (with an Addendum on October 9, 2008), we provided a detailed response contending that the assertions in the warning letter were not correct. On November 4, 2008, we received a letter from the FDA (dated November 3, 2008) in which the FDA stated without elaboration that, after reviewing our response, it disagreed with our position and that a new premarket notification submission was required. After discussions with the FDA regarding the November 3rd letter, we received an additional letter on November 6, 2008 from the FDA. The November 6th letter stated that the intent of the November 3rd letter was to inform us of the FDA’s preliminary disagreement with our response to the warning letter and, before finalizing a position, the FDA reiterated that it wanted to meet with us to discuss the Company’s response, issues related to the warning letter and next steps to resolve any differences between the Company and the FDA. We thereafter met with the FDA and, on January 20, 2009, we announced that we had submitted to the FDA a new liquid chemical sterilant system for 510(k) clearance, and we communicated to Customers that we would continue supporting the existing SYSTEM 1 installed base in the U.S. for at least a two year period from that date.

On December 3, 2009, the FDA provided a notice (“notice”) to healthcare facility administrators and infection control practitioners describing FDA’s “concerns about the SYSTEM 1 Processor, components and accessories, and FDA recommendations.” In the notice, among other things, FDA stated its belief that the SYSTEM 1 device had been significantly modified, that FDA had not cleared or approved the modified device, and that FDA had not determined whether the SYSTEM 1® was safe or effective for its labeled claims. The notice further stated that use of a device that does not properly sterilize or disinfect a medical or surgical device poses risks to patients and users, including the transmission of pathogens, exposure to hazardous chemicals and affect on the quality and functionality of reprocessed instruments. The notice stated that FDA was aware of reports of malfunctions of the SYSTEM 1® that had the potential to cause or contribute to serious injuries to patients, such as infections, or injuries to healthcare staff, such as burns. Included in FDA’s December 3, 2009 notice was a recommendation from FDA that if users had acceptable alternatives to meet sterilization and disinfection needs, they should transition to that alternative as soon as possible. After its December 3, 2009 notice, we engaged in extensive discussions with the FDA regarding a comprehensive resolution of this matter. On February 2, 2010, the FDA notified healthcare facility administrators and infection control practitioners that FDA’s total recommended time period for transitioning from SYSTEM 1 in the U.S. was 18 months from that date. During this transition period in the U.S., we have continued to support the existing SYSTEM 1 installed base by providing accessories, sterilant, service and parts for U.S. Customers.

In April 2010 we reached agreement with the FDA on the terms of a consent decree (“Consent Decree”). On April 19, 2010, a Complaint and Consent Decree were filed in the U.S. District Court for the Northern District of Ohio, and on April 20, 2010, the Court approved the Consent Decree. In general, the

[Table of Contents](#)

Consent Decree addresses regulatory matters regarding SYSTEM 1, restricts further sales of SYSTEM 1 processors in the U.S., defines certain documentation and requirements for continued service and support of SYSTEM 1 in the U.S., prohibits the sale of liquid chemical sterilization or disinfection products that do not have FDA clearance, describes various process and compliance matters, and defines penalties in the event of violation of the Consent Decree.

The Consent Decree also provides that we may continue to support our Customers' use of SYSTEM 1 in the U.S., including the sale of consumables, parts and accessories and service for a transition period, not to extend beyond August 2, 2011, subject to compliance with requirements for documentation of the Customer's need for continued support and other conditions and limitations (the "Transition Plan"). Our Transition Plan includes the "SYSTEM 1 Customer Rebate Program" (the "Rebate Program"). In April 2010, we began to offer rebates to qualifying Customers. 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 rebate or a trade-in allowance 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 SYSTEM 1 service contracts. As a result of the Rebate Program, we will record a liability of up to \$100 million during the first quarter of fiscal 2011 that will result in a one-time reduction of revenue and earnings on a pretax basis.

The Consent Decree has defined the resolution of a number of issues regarding SYSTEM 1, and we believe our actions since January 2009 with respect to SYSTEM 1, including the Transition Plan were and are not recalls, corrections or removals under FDA regulations. However, there is no assurance that other claims will not be brought or that judicial, regulatory, administrative or other legal or enforcement actions, notices or remedies will not be pursued, or that action will not be taken in respect of the Consent Decree, the Transition Plan, SYSTEM 1, or otherwise with respect to regulatory or compliance matters, as described in this Item 3 or in various portions of Item 1A. of Part I contained in this Annual Report on Form 10-K. On February 5, 2010, a complaint was filed by a Customer who claims to have purchased two SYSTEM 1 devices from STERIS, Physicians of Winter Haven LLC d/b/a Day Surgery Center v. Steris Corp., Case No. 1:1-cv-00264-CAB (N.D. Ohio). The complaint alleges statutory violations, breaches of various warranties, negligence, failure to warn, and unjust enrichment. Plaintiff seeks class certification, damages, and other legal and equitable relief including, without limitation, attorneys' fees and an order requiring STERIS to replace, recall or adequately repair the product and/or to take appropriate regulatory action. We are evaluating this matter and expect to defend against these allegations. This proceeding or others involving our SYSTEM 1® sterile processing system and STERIS™ 20 sterilant could possibly result in judgments, settlements or administrative or judicial decrees requiring us, among other actions, to pay damages or fines or effect recalls, or be subject to other governmental, Customer or other third party claims or remedies, which could materially affect our business, performance, prospects, value, financial condition, and results of operations.

For additional information regarding these matters, see the following portions of this Annual Report on Form 10-K for the year ended March 31, 2010: "Business—Information with respect to our Business in General—Recent Events—Government Regulation", and the "Risk Factor" titled: "We may be adversely affected by product liability claims or other legal actions or regulatory or compliance matters, including the Warning Letter and Consent Decree.", the "Risk Factor" titled: "Our business may be adversely affected as a result of the U.S. Food and Drug Administration notices to healthcare administrators and device manufacturers, and related matters," and the "Risk Factor" totaled "Compliance with the Consent Decree may be more costly and burdensome than anticipated."

From time to time, STERIS is also involved in legal proceedings as a plaintiff involving contract, patent protection, and other claims asserted by us. Gains, if any, from these proceedings are recognized when they are realized.

Additional information regarding our commitments and contingencies is included in Item 7, "MD&A," and in note 11 to our consolidated financial statements titled, "Commitments and Contingencies."

ITEM 4. EXECUTIVE OFFICERS OF THE REGISTRANT

The following table presents certain information regarding our executive officers. All executive officers serve at the pleasure of the Board of Directors.

Name	Age	Position
William L. Aamoth	56	Vice President and Corporate Treasurer
Dr. Peter A. Burke	61	Senior Vice President and Chief Technology Officer
Timothy L. Chapman	48	Senior Vice President and Group President, Healthcare
Mark D. McGinley	53	Senior Vice President, General Counsel, and Secretary
Robert E. Moss	65	Senior Vice President and Group President, STERIS Isomedix Services and Life Sciences
Walter M Rosebrough, Jr.	56	President and Chief Executive Officer
Michael J. Tokich	41	Senior Vice President and Chief Financial Officer

The following discussion provides a summary of each executive officer's recent business experience:

William L. Aamoth serves as Vice President and Corporate Treasurer. He assumed this role in July 2002.

Dr. Peter A. Burke serves as Senior Vice President and Chief Technology Officer. He assumed this role in July 2002.

Timothy L. Chapman serves as Senior Vice President and Group President, Healthcare. He assumed this role in February 2008. He joined STERIS in January 2006 and served as Senior Vice President, Business Strategy until February 2008. Prior to joining STERIS, Mr. Chapman was associated with McKinsey & Company, a professional services firm, from June 1985 through January 2006, serving most recently as Director (Senior Partner) in McKinsey's Healthcare and Operations practices.

Mark D. McGinley serves as Senior Vice President, General Counsel, and Secretary. He assumed this role in April 2005. He joined STERIS in March 2002 as Vice President, General Counsel, and Secretary.

Robert E. Moss serves as Senior Vice President and Group President, STERIS Isomedix Services and Life Sciences. He assumed this role in October 2009. He served as Senior Vice President and Group President, STERIS Isomedix Services, from April 2005 until October 2009 and served as Vice President and Group President, STERIS Isomedix Services from March 2003 until April 2005.

Walter M Rosebrough, Jr. serves as President and Chief Executive Officer. He assumed this role when he joined STERIS in October 2007. Mr. Rosebrough also joined our Board of Directors in October 2007. Prior to his employment with STERIS, Mr. Rosebrough served from February 2005 to September 2007 as President and Chief Executive Officer of Coastal Hydraulics, Inc., a company that he purchased in 2005. From January 2003 until February 2005, Mr. Rosebrough was involved in a variety of personal business matters, including the purchase of Coastal Hydraulics. From 2000 to 2003, he was President and CEO of Vasacor, Inc., a start-up focused on the development of medical devices to detect atherosclerosis. Prior to Vasacor, Mr. Rosebrough spent nearly 20 years in the healthcare industry in various roles as a senior executive with Hillenbrand Industries, Inc., a worldwide provider of medical equipment and related services, including President and CEO of Support Systems International, President and CEO of Hill-Rom, and Executive Vice President of Hillenbrand.

Michael J. Tokich serves as Senior Vice President and Chief Financial Officer. He assumed this role in March 2008. He served as Vice President and Corporate Controller from July 2002 until March 2008.

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED SHAREHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

Market Information. Our common shares are traded on the New York Stock Exchange under the symbol "STE." The following table presents, for the quarters indicated, the high and low sales prices for our common shares.

Quarters Ended	March 31	December 31	September 30	June 30
Fiscal 2010				
High	\$ 34.63	\$ 35.42	\$ 30.85	\$ 27.02
Low	25.65	25.65	24.68	22.22
Fiscal 2009				
High	\$ 28.24	\$ 37.61	\$ 38.93	\$ 33.09
Low	19.20	21.75	28.21	25.40

Holders. As of March 31, 2010, there were approximately 1,167 holders of record of our common shares. However, we believe that we have a significantly larger number of beneficial holders of common shares.

Dividend Policy. The Company's Board of Directors decides the timing and amount of any dividends we may pay. During fiscal 2010, we paid cash dividends totaling \$2.44 per outstanding common share (\$2.11 per outstanding common share to common shareholders of record on November 24, 2009 and \$0.11 per outstanding common share to common shareholders of record on each of the following record dates: May 21, 2009, August 20, 2009, and February 23, 2010). During fiscal 2009, we paid cash dividends totaling \$0.30 per outstanding common share (\$0.06 per outstanding common share to common shareholders of record on May 14, 2008 and \$0.08 per outstanding common share to common shareholders of record on each of the following record dates: August 14, 2008, November 11, 2008 and February 11, 2009).

Recent Sales of Unregistered Securities. None.

Purchases of Equity Securities by the Issuer and Affiliated Purchasers. The following table presents information with respect to purchases STERIS made of its shares of common stock during the fourth quarter of the 2010 fiscal year:

	Total Number of Shares Purchased(1)	Average Price Paid Per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs(2)	Maximum Dollar Value of Shares That May Yet Be Purchased Under the Plan at Period End(2)
January 1 - 31	—	\$ —	—	\$ 203,864
February 1 - 28	—	—	—	203,864
March 1 - 31	—	—	—	203,864
Total	—	\$ —	—	\$ 203,864

- (1) Does not include 65 shares purchased during the quarter at an average price of \$30.42 per share by the STERIS Corporation 401(k) Plan on behalf of certain executive officers of the Company who may be deemed to be affiliated purchasers.
- (2) On March 14, 2008 we announced that, the Board of Directors had authorized the repurchase of up to \$300.0 million of our common shares. As of March 31, 2010, \$203.9 million in common shares remained authorized for repurchase under the current share repurchase authorization. This authorization does not have a stated maturity date. We provide information about our full year fiscal 2010 share repurchase activity in note 14 to our consolidated financial statements titled, "Repurchases of Common Shares."

ITEM 6. SELECTED FINANCIAL DATA

(in thousands, except per share data)	Years Ended March 31,				
	2010(1)	2009(1)	2008(1)	2007(1)(3)	2006(1)(2)(3)
Statements of Income Data:					
Revenues	\$1,257,733	\$1,298,525	\$1,265,090	\$1,197,407	\$1,160,285
Gross profit	539,181	526,742	510,603	492,253	484,185
Restructuring expenses	4,848	3,554	15,461	6,584	25,308
Income from continuing operations	203,712	175,445	123,545	137,701	109,698
Income taxes	63,349	55,800	42,693	51,833	45,172
Income from discontinued operations, net of tax	—	—	—	—	1,109
Gain on the sale of discontinued operations, net of tax	—	—	—	1,058	6,234
Net income	128,467	110,685	77,106	82,155	70,289
Basic income per common share:					
Income from continuing operations	\$ 2.18	\$ 1.88	\$ 1.22	\$ 1.24	\$ 0.92
Income from discontinued operations	—	—	—	0.02	0.11
Net income	\$ 2.18	\$ 1.88	\$ 1.22	\$ 1.26	\$ 1.03
Shares used in computing net income per common share – basic	58,826	58,778	63,300	65,174	68,238
Diluted income per common share:					
Income from continuing operations	\$ 2.16	\$ 1.86	\$ 1.20	\$ 1.23	\$ 0.91
Income from discontinued operations	—	—	—	0.02	0.11
Net income	\$ 2.16	\$ 1.86	\$ 1.20	\$ 1.25	\$ 1.02
Shares used in computing net income per common share – diluted	59,423	59,448	64,077	65,731	68,939
Dividends per common share	\$ 2.44	\$ 0.30	\$ 0.23	\$ 0.18	0.16
Balance Sheets Data:					
Working capital	\$ 379,328	\$ 351,104	\$ 283,017	\$ 267,321	\$ 239,002
Total assets	1,238,402	1,216,939	1,239,292	1,209,170	1,188,973
Long-term indebtedness	210,000	210,000	179,280	100,800	114,480
Total liabilities	483,908	498,774	532,817	434,878	458,146
Total shareholders' equity	753,714	717,736	706,152	774,292	730,827

- (1) See "Management's Discussion and Analysis of Financial Condition and Results of Operations."
- (2) Certain balance sheet reclassifications have been made to conform to the fiscal 2007 presentation.
- (3) On October 31, 2005, we completed the sale of our lyophilizer (freeze dryer) product line to GEA Group of Germany for 20.8 million euros (approximately \$25.2 million). As a result of this transaction, we recorded an after-tax gain of approximately \$7.3 million (\$6.2 million in fiscal 2006 and \$1.1 million in fiscal 2007). The freeze dryer product line, based in Cologne, Germany, was part of our Life Sciences segment.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

INTRODUCTION

In Management's Discussion and Analysis ("MD&A"), we explain the general financial condition and the results of operations for STERIS and its subsidiaries including:

- what factors affect our business;
- what our earnings and costs were;
- why those earnings and costs were different from the year before;
- 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 growth outside of core operations, repurchase common shares, and pay cash dividends and fund future working capital needs.

The MD&A also analyzes and explains the annual changes in the specific line items in the Consolidated Statements of Income. As you read the MD&A, it may be helpful to refer to information in Item 1, "Business," Item 6, "Selected Financial Data," and our consolidated financial statements, which present the results of our operations for fiscal 2010, 2009 and 2008, as well as Part I, Item 1A, "Risk Factors" and Part I, Item 3, "Legal Proceedings" for a discussion of some of the matters that can adversely affect our business and results of operations. This information, discussion, and disclosure may be important to you in making decisions about your investments in STERIS.

FINANCIAL MEASURES

When we discuss our financial condition and the results of our operations, we, at times, may refer to financial measures that are not required to be presented in the consolidated financial statements under accounting principles generally accepted in the United States. We sometimes use the following financial measures in the context of this discussion and 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, fund growth, and measure the risk of our financial structure.
- 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.

We, at times, may also refer to financial measures which are considered to be "non-GAAP financial measures" under SEC rules. Non-GAAP financial measures we may use are as follows:

- Free cash flow – We define free cash flow as net cash flows provided by operating activities as presented in the Consolidated Statements of Cash Flows, which are presented in Item 8, "Financial Statements and Supplementary Data," less purchases of property, plant and equipment, plus

Table of Contents

proceeds from the sale of property, plant and equipment, which are also presented in the Consolidated Statements of Cash Flows. We use this measure to gauge our ability to fund future growth outside of core operations, repurchase common shares, and pay cash dividends. The following table summarizes the calculation of our free cash flow for the years ended March 31, 2010 and 2009:

(dollars in millions)	Years Ended March 31,	
	2010	2009
Cash flows provided by operating activities	\$ 225.0	\$ 167.4
Purchases of property, plant and equipment, and intangibles	(44.1)	(40.9)
Proceeds from the sale of property, plant and equipment, and intangibles	3.1	19.3
Free Cash Flow	\$ 184.0	\$ 145.8

We may, at times, 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 years presented. For example, when discussing changes in revenues, we may, at times, exclude the impact of current or prior year business acquisitions.

We have presented these financial measures because we believe that meaningful analysis of our financial performance is enhanced by an understanding of certain additional factors underlying that performance. These financial measures should not be considered an alternative to measures required by accounting principles generally accepted in the United States. Our calculations of these measures may differ from calculations of similar measures used by other companies and you should be careful when comparing these financial measures to those of other companies.

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 Income for each year 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 and low temperature liquid sterilizers, 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.
- 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 and low temperature liquid sterilizers, 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 OUTLOOK

Our Business. 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 increases 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.

Highlights. We entered fiscal 2010 with more uncertainty than we had seen in the last several years, including the economic environment, the potential for health care reform in the United States and the FDA warning letter regarding our SYSTEM 1[®] processing system. However, we also generated the efficiencies we anticipated from actions taken in recent fiscal years. These factors resulted in a decline in revenues of 3.1% but substantially improved operating margins.

In the fourth quarter of fiscal 2010, we adopted a restructuring plan primarily related to the consolidation of our European Healthcare manufacturing operations as well as certain European and North American back office functions. These actions combined with those put in place over the last several years will allow us to continue to improve our efficiencies.

For fiscal 2010, our financial position and cash flows remained strong, affording us financial flexibility. Cash flows from operations were \$225.0 million and free cash flow was \$184.0 million. We continue to maintain low debt levels with debt-to-total capital of 21.8% at March 31, 2010. Our primary use of cash during fiscal 2010 was the funding of dividends, including a special dividend of \$2.00 per share paid during the third quarter.

A detailed discussion of our fiscal 2010 performance is included in the subsection of MD&A titled, "Results of Operations."

Outlook. We anticipate that the core markets we serve will generally improve to more normalized growth levels in fiscal 2011. However, we will continue to face numerous challenges including the uncertainty inherent in the transition from SYSTEM 1[®] to alternative products, the impact of the European economic conditions on our European Customers and the related potential for exchange rate volatility, and lack of clarity around the implications of health reform in the United States. We are responding to these challenges with new products that are designed to improve our Customers' operations. We have received FDA clearance for SYSTEM 1E[™], our next generation liquid chemical sterilant processing system, and we began taking orders for this product in the first quarter of fiscal 2011. Initial challenges for this product will be to obtain market acceptance, and then to increase production to levels sufficient to meet demand. In the meantime, we will continue to experience a decline in revenues associated with SYSTEM 1[®] parts, accessories, sterilant and services, which we will discontinue in the United States no later than August 2, 2011. See Part I, Item 3, "Legal Proceedings."

Our results could be impacted by how quickly and the extent to which we are able to respond to raw material and other cost increases. We anticipate only moderate increases in raw material costs in fiscal 2011, primarily related to metals. The actions we have taken over the last several years have and will continue to benefit us as our cost base has been meaningfully reduced. In addition, fluctuations in foreign currency rates can impact revenues and costs outside of the United States creating uncertainty for our results for fiscal 2011 and beyond.

Although there are many uncertainties, at this time we believe our balance sheet and ability to generate cash is strong and provides us with the flexibility to pursue opportunities for growth.

MATTERS AFFECTING COMPARABILITY

Restructuring. During the fourth quarter of fiscal 2010, we adopted a restructuring plan primarily related to the transfer of the remaining operations in our Erie, Pennsylvania facility to the U.S. headquarters in Mentor, Ohio and the consolidation of our European Healthcare manufacturing operations into two central locations within Europe (the “Fiscal 2010 Restructuring Plan”). In addition, we rationalized certain products and eliminated certain positions.

In fiscal 2010 in connection with the Fiscal 2010 Restructuring Plan, we recorded pre-tax expenses totaling \$6.3 million related to these actions, of which, \$5.3 million was recorded as restructuring expenses and \$0.9 million was recorded in cost of revenues. We also expect to incur an additional \$4.3 million during the next two fiscal years. These actions are intended to enhance profitability and increase efficiencies.

During the third quarter of fiscal 2009, we adopted a restructuring plan primarily focused on our international operations (the “Fiscal 2009 Restructuring Plan”). As part of this plan, we took actions to improve operations at our Pieterlen, Switzerland manufacturing facility, rationalized certain products, recorded impairment charges for certain assets no longer used, and made targeted workforce reductions. We also consolidated our operations in Japan. These actions directly impacted approximately 100 employees worldwide.

In fiscal 2010, we settled certain obligations related to the Fiscal 2009 Restructuring Plan for less than anticipated. In fiscal 2009, we recorded pre-tax expenses totaling \$15.6 million related to these actions, of which \$4.8 million was recorded as restructuring expenses and \$10.8 million was recorded in cost of revenues. We do not expect to incur significant additional expenses related to this plan.

During the fourth quarter of fiscal 2008, we adopted a restructuring plan primarily focused on our North American operations (the “Fiscal 2008 Restructuring Plan”). As part of this plan, we announced the closure of two sales offices, reduced the workforce in certain support functions, and rationalized certain products. These actions were intended to enhance profitability and improve efficiencies by reducing ongoing operating costs. Across all of our reporting segments, approximately 90 employees, primarily located in North America, were directly impacted.

In the third quarter of fiscal 2009, we reversed our decision in connection with the Fiscal 2008 Restructuring Plan, to close one of the sales offices, because a satisfactory exit from our warranty and service obligations could not be achieved. As a result, we have reversed restructuring expenses recorded in the fourth quarter of fiscal 2008 totaling approximately \$1.0 million.

During fiscal 2009, we did not incur any additional significant restructuring expenses related to the Fiscal 2008 Restructuring Plan, and we settled certain termination benefits and other costs for less than originally expected. In fiscal 2008, we recorded pre-tax expenses totaling approximately \$15.8 million related to these actions, including \$11.7 million recorded as restructuring expenses and \$4.1 million recorded as cost of revenues. We do not expect to incur any significant additional restructuring expenses related to this plan.

During the third quarter of fiscal 2007, we adopted a restructuring plan related to certain of our European operations (the “European Restructuring Plan”). As part of this plan, we closed two sales offices. We also took steps to reduce the workforce in certain European support functions. These actions were intended to improve our cost structure in Europe. Approximately 40 employees were directly impacted in various European locations. During the first quarter of fiscal 2009, we settled the remaining obligations associated with this plan.

On January 30, 2006, we announced that the manufacturing portion of our Erie, Pennsylvania operations would be transferred to Mexico to reduce production costs and improve our competitive position. Plans for other restructuring actions, including the closure of a sales office, rationalization of operations in Finland, and the elimination of certain management positions were also approved. These actions were designed to reduce operating costs within the ongoing operations of both the Healthcare and Life Sciences segments, and together we refer to them as the “Fiscal 2006 Restructuring Plan.”

Operating income for fiscal 2009 includes pre-tax restructuring expenses of approximately a negative \$0.2 million primarily for certain severance benefits that were settled for less than originally expected. Operating income for fiscal 2008 includes pre-tax restructuring expenses for the Fiscal 2006 Restructuring Plan of approximately \$3.6 million, primarily for non-cash expenses related to asset write-downs, accelerated recognition of pension and retiree medical benefits, and severance and termination benefits related to the transfer and other restructuring actions.

We completed the transfer of our Erie, Pennsylvania manufacturing operations during fiscal 2008. During the fourth quarter of fiscal 2009, we settled the remaining obligations associated with the Fiscal 2006 Restructuring Plan.

[Table of Contents](#)

We are continuing to evaluate all of our operations for additional opportunities to improve performance, but we have not committed to any additional specific actions.

Further information regarding our restructuring actions is included in note 2 to our consolidated financial statements titled, "Restructuring."

International Operations. Since we conduct operations outside of the United States using various foreign currencies, fluctuations in the exchange rate of the U.S. dollar relative to the currencies of foreign countries in which we operate can also increase or decrease our reported net assets and results of operations. During fiscal 2010, our revenues were favorably impacted by \$0.6 million, or 0.1%, and income before taxes was unfavorably impacted by \$1.8 million, or 0.9%, as a result of foreign currency movements relative to the U.S. dollar.

RESULTS OF OPERATIONS

In the following subsections, we discuss our earnings and the factors affecting them. We begin with a general overview of the results of operations of the Company and then separately discuss earnings for our operating segments.

FISCAL 2010 AS COMPARED TO FISCAL 2009

Revenues. The following table compares our revenues for the year ended March 31, 2010 to the year ended March 31, 2009:

(dollars in thousands)	Years Ended March 31,		Change	Percent Change	Percentage of Total Revenues	
	2010	2009			2010(1)	2009(1)
Capital revenues	\$ 481,527	\$ 536,647	\$ (55,120)	(10.3)%	38.3%	41.3%
Consumable revenues	317,475	294,882	22,593	7.7%	25.2%	22.7%
Product revenues	799,002	831,529	(32,527)	(3.9)%	63.5%	64.0%
Service revenues	458,731	466,996	(8,265)	(1.8)%	36.5%	36.0%
Total Revenues	\$ 1,257,733	\$ 1,298,525	\$ (40,792)	(3.1)%	100.0%	100.0%
Service revenues	\$ 458,731	\$ 466,996	\$ (8,265)	(1.8)%	36.5%	36.0%
Consumable revenues	317,475	294,882	22,593	7.7%	25.2%	22.7%
Recurring revenues	776,206	761,878	14,328	1.9%	61.7%	58.7%
Capital revenues	481,527	536,647	(55,120)	(10.3)%	38.3%	41.3%
Total Revenues	\$ 1,257,733	\$ 1,298,525	\$ (40,792)	(3.1)%	100.0%	100.0%
United States	\$ 949,637	\$ 993,487	\$ (43,850)	(4.4)%	75.5%	76.5%
International	308,096	305,038	3,058	1.0%	24.5%	23.5%
Total Revenues	\$ 1,257,733	\$ 1,298,525	\$ (40,792)	(3.1)%	100.0%	100.0%

(1) Certain percentages may not calculate exactly due to rounding.

Revenues decreased \$40.8 million, or 3.1%, to \$1,257.7 million for the year ended March 31, 2010, as compared to \$1,298.5 million for the year ended March 31, 2009. For fiscal 2010, recurring revenues increased \$14.3 million or 1.9% as compared to fiscal 2009. The recurring revenues increase was generated by a 7.7% increase in consumable revenues, which was partially offset by a 1.8% decrease in service revenues during fiscal 2010 as compared to fiscal 2009. Consumable revenues increased in the Healthcare and Life Sciences segments by 6.7% and 12.6%, respectively. Service revenues decreased \$8.3 million or 1.8% resulting from declines in all three reportable segments during fiscal 2010 as compared to fiscal 2009. Capital revenues decreased \$55.1 million or 10.3% during fiscal 2010 as compared to fiscal 2009. The decrease in capital revenues was driven by an 11.4% decrease within the Healthcare segment and 5.2% decrease within the Life Sciences segment. The Healthcare segment capital equipment revenues were generally affected by the macroeconomic environment in the U.S., which limited capital investments by our Customers. The Life Sciences segment capital equipment revenues were also affected by the economic downturn and consolidations within the industry limiting the order levels from our pharmaceutical Customers.

[Table of Contents](#)

International revenues for fiscal 2010 were \$308.1 million, an increase of \$3.1 million, or 1.0%, as compared to fiscal 2009. The increase in year-over-year international revenues was primarily attributable to increases in consumable revenues within Healthcare and Life Sciences of 4.2% and 13.4% respectively. International consumable revenues growth was led by increases in Canada and Europe of 14.5% and 2.4%, respectively.

United States revenues for fiscal 2010 were \$949.6 million, a decrease of \$43.9 million, or 4.4%, as compared to fiscal 2009. The decrease was primarily driven by a decrease in Healthcare capital equipment revenues of 16.8% offset by an increase in consumable revenues of 8.3%.

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

Gross Profit. The following table compares our gross profit for the year ended March 31, 2010 to the year ended March 31, 2009:

(dollars in thousands)	Years Ended March 31,		Change	Percent Change
	2010	2009		
Gross Profit:				
Product	\$ 344,014	\$ 334,614	\$ 9,400	2.8%
Service	195,167	192,128	3,039	1.6%
Total Gross Profit	\$ 539,181	\$ 526,742	\$ 12,439	2.4%
Gross Profit Percentage:				
Product	43.1%	40.2%		
Service	42.5%	41.1%		
Total Gross Profit Percentage	42.9%	40.6%		

Our gross profit (margin) 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. Our gross margin increased 230 basis points to 42.9% for fiscal 2010 as compared to 40.6% for fiscal 2009. In fiscal 2010, we benefited from price increases, productivity improvements, lower restructuring expenses related to inventory, decreased material costs, and favorable foreign currency exchange rates partially offset by decreased volume.

Operating Expenses. The following table compares our operating expenses for the year ended March 31, 2010 to the year ended March 31, 2009:

(dollars in thousands)	Years Ended March 31,		Change	Percent Change
	2010	2009		
Operating Expenses:				
Selling, general, and administrative	\$ 296,613	\$ 314,983	\$ (18,370)	(5.8)%
Research and development	34,008	32,760	1,248	3.8%
Restructuring expenses	4,848	3,554	1,294	36.4%
Total Operating Expenses	\$ 335,469	\$ 351,297	\$ (15,828)	(4.5)%

Compensation and benefit costs, fees for professional services, travel and entertainment, facilities costs, and other general and administrative expenses are significant components of selling, general, and administrative expenses ("SG&A"). SG&A decreased \$18.4 million, or 70 basis points, to 23.6% of total revenues for fiscal 2010 as compared to fiscal 2009. The decrease in SG&A during fiscal 2010 primarily reflects improved operating efficiencies and the benefit of initiatives implemented during prior years. Included in the fiscal 2009 SG&A is a reduction of \$7.9 million resulting from a third quarter change in our paid time off benefit, which is now earned throughout the calendar year rather than earned in full at the beginning of the year. SG&A expenses for fiscal 2009 also include a \$3.8 million gain on the sale of two Isomedix facilities.

[Table of Contents](#)

Research and development expenses as a percentage of total revenues increased 20 basis points to 2.7% for fiscal 2010 as compared to fiscal 2009. The fiscal 2010 period includes a government subsidy of \$1.1 million received for research and development expenses incurred by one of our international locations. 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 continually emphasize new product development, product improvements, and the development of new technological platform innovations. During fiscal 2010, our investments in research and development focused on, but were not limited to, enhancing capabilities of new chemistries and delivery systems for disinfection and sterilization, sterile processing combination technologies, surgical equipment and accessories, and the area of emerging infectious agents such as Prions and Nanobacteria.

Restructuring Expenses. We recognize restructuring expenses as they are incurred. We also evaluate the inventory and property, plant and equipment associated with our restructuring actions for impairment. Asset impairment and accelerated depreciation expenses primarily relate to inventory write-downs for rationalized products and adjustments in the carrying value of the closed facilities to their estimated fair value. In addition, the remaining useful lives of other property, plant and equipment associated with the related operations were re-evaluated based on the respective plan, resulting in the acceleration of depreciation and amortization of certain assets.

During the fourth quarter of fiscal 2010, we adopted a restructuring plan primarily related to the transfer of the remaining operations in our Erie, Pennsylvania facility to the U.S. headquarters in Mentor, Ohio and the consolidation of our European Healthcare manufacturing operations into two central locations within Europe (the "Fiscal 2010 Restructuring Plan"). In addition, we rationalized certain products and eliminated certain positions.

In fiscal 2010 in connection with the Fiscal 2010 Restructuring Plan, we recorded pre-tax expenses totaling \$6.3 million related to these actions, of which, \$5.3 million was recorded as restructuring expenses and \$0.9 million was recorded in cost of revenues. We also expect to incur an additional \$4.3 million during the next two fiscal years. These actions are intended to enhance profitability and increase operating efficiencies.

During the third quarter of fiscal 2009, we adopted a restructuring plan primarily focused on our international operations (the "Fiscal 2009 Restructuring Plan"). As part of this plan, we took actions to improve operations at our Pieterlen, Switzerland manufacturing facility, rationalized certain products, recorded impairment charges for certain assets no longer used, and made targeted workforce reductions. We also consolidated our operations in Japan. These actions directly impacted approximately 100 employees worldwide.

In fiscal 2010, we settled certain obligations related to the Fiscal 2009 Restructuring Plan for less than anticipated. In fiscal 2009, we recorded pre-tax expenses totaling \$15.6 million related to these actions, of which \$4.8 million was recorded as restructuring expenses and \$10.8 million was recorded in cost of revenues. We do not expect to incur significant additional expenses related to this plan.

During the fourth quarter of fiscal 2008, we adopted a restructuring plan primarily focused on our North American operations (the "Fiscal 2008 Restructuring Plan"). As part of this plan, we announced the closure of two sales offices, reduced the workforce in certain support functions, and rationalized certain products. These actions are intended to enhance profitability and improve efficiency by reducing ongoing operating costs. Across all of our reporting segments, approximately 90 employees, primarily located in North America, were directly impacted.

In the third quarter of fiscal 2009, we reversed our decision in connection with the Fiscal 2008 Restructuring Plan, to close one of the sales offices, because a satisfactory exit from our warranty and service obligations could not be achieved. As a result, we have reversed restructuring expenses recorded in the fourth quarter of fiscal 2008 totaling approximately \$1.0 million.

During fiscal 2009, we did not incur any additional significant restructuring expenses related to the Fiscal 2008 Restructuring Plan, and we settled certain termination benefits and other costs for less than originally expected. In fiscal 2008, we recorded pre-tax expenses totaling approximately \$15.8 million related to these actions, including \$11.7 million recorded as restructuring expenses and \$4.1 million recorded as cost of revenues. We do not expect to incur any significant additional restructuring expenses related to this plan.

During the third quarter of fiscal 2007, we adopted a restructuring plan related to certain of our European operations (the "European Restructuring Plan"). As part of this plan, we closed two sales offices. We also took steps to reduce the workforce in certain European support functions. These actions are intended to improve our cost structure in Europe. Approximately 40 employees were directly impacted in various European locations. During the first quarter of fiscal 2009, we settled the remaining obligations associated with this plan.

[Table of Contents](#)

On January 30, 2006, we announced that the manufacturing portion of our Erie, Pennsylvania operations would be transferred to Mexico to reduce production costs and improve our competitive position. Plans for other restructuring actions, including the closure of a sales office, rationalization of operations in Finland, and the elimination of certain management positions were also approved. These actions were designed to reduce operating costs within the ongoing operations of both the Healthcare and Life Sciences segments, and together we refer to them as the “Fiscal 2006 Restructuring Plan.”

Operating income for fiscal 2009 includes pre-tax restructuring expenses of approximately a negative \$0.2 million primarily for certain severance benefits that were settled for less than originally expected. Operating income for fiscal 2008 includes pre-tax restructuring expenses for the Fiscal 2006 Restructuring Plan of approximately \$3.6 million, primarily for non-cash expenses related to asset write-downs, accelerated recognition of pension and retiree medical benefits, and severance and termination benefits related to the transfer and other restructuring actions.

We completed the transfer of our Erie, Pennsylvania manufacturing operations during fiscal 2008. During the fourth quarter of fiscal 2009, we settled the remaining obligations associated with the Fiscal 2006 Restructuring Plan.

We are continuing to evaluate all of our operations for additional opportunities to improve performance, but we have not committed to any additional specific actions.

Further information regarding our restructuring actions is included in note 2 to our consolidated financial statements titled, “Restructuring.”

The following tables summarize our total restructuring charges for fiscal 2010, fiscal 2009 and fiscal 2008:

(dollars in thousands)	Year Ended March 31, 2010		
	Fiscal 2010 Restructuring Plan(1)	Fiscal 2009 Restructuring Plan(2)	Total
Severance, payroll and other related costs	\$ 1,939	\$ (224)	\$ 1,715
Asset impairment and accelerated depreciation	1,804	(2)	1,802
Product rationalization	883	(1,385)	(502)
Lease termination costs	1,243	(428)	815
Other	426	138	564
Total Restructuring Charges	\$ 6,295	\$ (1,901)	\$ 4,394

(1) Includes \$0.9 million in charges recorded in cost of revenues on the Consolidated Statements of Income.

(2) Includes a negative \$1.4 million in charges recorded in cost of revenues on the Consolidated Statements of Income.

(dollars in thousands)	Year Ended March 31, 2009				
	Fiscal 2009 Restructuring Plan(1)	Fiscal 2008 Restructuring Plan(2)	European Restructuring Plan	Fiscal 2006 Restructuring Plan	Total
Severance, payroll and other related costs	\$ 4,280	\$ (365)	\$ —	\$ (178)	\$ 3,737
Asset impairment and accelerated depreciation	1,112	(83)	—	—	1,029
Product rationalization	9,485	(464)	—	—	9,021
Lease termination costs	354	20	99	—	473
Other	349	(609)	—	—	(260)
Total Restructuring Charges	\$ 15,580	\$ (1,501)	\$ 99	\$ (178)	\$ 14,000

(1) Includes \$10.8 million in charges recorded in cost of revenues on the Consolidated Statements of Income.

(2) Includes a negative \$0.4 million in charges recorded in cost of revenues on the Consolidated Statements of Income.

Table of Contents

(dollars in thousands)	Year Ended March 31, 2008			Total
	Fiscal 2008 Restructuring Plan(1)	European Restructuring Plan	Fiscal 2006 Restructuring Plan	
Severance, payroll and other related costs	\$ 5,213	\$ (80)	\$ 203	\$ 5,336
Asset impairment and accelerated depreciation	5,106	—	2,885	7,991
Product rationalization	3,754	—	—	3,754
Lease termination costs	898	165	(13)	1,050
Other	863	—	551	1,414
Total Restructuring Charges	\$ 15,834	\$ 85	\$ 3,626	\$ 19,545

(1) Includes \$4.1 million in charges recorded in cost of revenues on the 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 tables summarize the liabilities related to our restructuring activities:

(dollars in thousands)	Fiscal 2010 Restructuring Plan			March 31, 2010
	March 31, 2009	Provision	Payments/ Impairments	
Severance and termination benefits	\$ —	\$ 1,939	\$ (45)	\$ 1,894
Asset impairment	—	1,804	(1,804)	—
Product rationalization	—	883	(883)	—
Lease termination obligations	—	1,243	(43)	1,200
Other	—	426	83	509
Total	\$ —	\$ 6,295	\$ (2,692)	\$ 3,603

(dollars in thousands)	Fiscal 2009 Restructuring Plan			March 31, 2010
	March 31, 2009	Provision	Payments/ Impairments	
Severance and termination benefits	\$ 1,920	\$ (224)	\$ (1,696)	\$ —
Asset impairment	—	(2)	2	—
Product rationalization	75	(1,385)	1,310	—
Lease termination obligations	337	(428)	91	—
Other	241	138	(379)	—
Total	\$ 2,573	\$ (1,901)	\$ (672)	\$ —

[Table of Contents](#)

(dollars in thousands)	Fiscal 2008 Restructuring Plan			
	Fiscal 2010			March 31, 2010
	March 31, 2009	Provision	Payments/ Impairments	
Severance and termination benefits	\$ 501	\$ —	\$ (399)	\$ 102
Asset impairment	409	—	(120)	289
Product rationalization	—	—	—	—
Lease termination obligations	881	—	(470)	411
Other	—	—	—	—
Total	\$ 1,791	\$ —	\$ (989)	\$ 802

(dollars in thousands)	Fiscal 2009 Restructuring Plan			
	Fiscal 2009			March 31, 2009
	March 31, 2008	Provision	Payments/ Impairments	
Severance and termination benefits	\$ —	\$ 4,280	\$ (2,360)	\$ 1,920
Asset impairment	—	1,112	(1,112)	—
Product rationalization	—	9,485	(9,410)	75
Lease termination obligations	—	354	(17)	337
Other	—	349	(108)	241
Total	\$ —	\$ 15,580	\$ (13,007)	\$ 2,573

(dollars in thousands)	Fiscal 2008 Restructuring Plan			
	Fiscal 2009			March 31, 2009
	March 31, 2008	Provision (1)	Payments/ Impairments	
Severance and termination benefits	\$ 4,244	\$ (365)	\$ (3,378)	\$ 501
Asset impairment	492	(83)	—	409
Product rationalization	—	—	—	—
Lease termination obligations	898	20	(37)	881
Other	609	(609)	—	—
Total	\$ 6,243	\$ (1,037)	\$ (3,415)	\$ 1,791

(1) Does not include a negative \$464 in product rationalization costs that were charged against inventory.

(dollars in thousands)	European Restructuring Plan			
	Fiscal 2009			March 31, 2009
	March 31, 2008	Provision	Payments/ Impairments	
Lease termination obligations	\$ 247	\$ 99	\$ (346)	\$ —
Total	\$ 247	\$ 99	\$ (346)	\$ —

[Table of Contents](#)

(dollars in thousands)	Fiscal 2006 Restructuring Plan			March 31, 2009
	March 31, 2008	Fiscal 2009		
		Provision	Payments	
Severance and termination benefits	\$ 879	\$ (178)	\$ (701)	\$ —
Total	\$ 879	\$ (178)	\$ (701)	\$ —

Non-Operating Expenses, Net. Non-operating expense (income), net consists primarily of interest expense on debt, offset by interest earned on cash, cash equivalents, and short-term investment balances, and other miscellaneous income. The following table compares our non-operating expense (income), net for the year ended March 31, 2010 to the year ended March 31, 2009:

(dollars in thousands)	Years Ended March 31,		
	2010	2009	Change
Non-Operating Expenses:			
Interest expense	\$ 13,171	\$ 10,563	\$ 2,608
Interest and miscellaneous income	(1,275)	(1,603)	328
Non-Operating Expenses, Net	\$ 11,896	\$ 8,960	\$ 2,936

During fiscal 2010, we had higher average outstanding debt levels and higher interest rates as compared to fiscal 2009. As a result, interest expense increased year over year.

Additional information regarding our outstanding debt is included in note 7 to our consolidated financial statements titled, "Debt," and in the subsection of MD&A titled, "Liquidity and Capital Resources."

Income Tax Expense. The following table compares our income tax expense and effective income tax rates for the years ended March 31, 2010 and 2009:

(dollars in thousands)	Years Ended March 31,			Percent Change
	2010	2009	Change	
Income tax expense	\$ 63,349	\$ 55,800	\$ 7,549	13.5%
Effective income tax rate	33.0%	33.5%		

The effective income tax rate for fiscal 2010 was 33.0% as compared to 33.5% for fiscal 2009. The lower effective income tax rate for fiscal 2010 resulted principally from a favorable change in valuation allowances. Additional information regarding our income tax expense is included in note 9 to our consolidated financial statements titled, "Income Taxes."

[Table of Contents](#)

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 from our former Erie, Pennsylvania manufacturing operation. Note 12 to our consolidated financial statements titled, “Business Segment Information,” and Item 1, “Business” provide detailed information regarding each business segment. The following table compares business segment revenues and Corporate and other for the year ended March 31, 2010 to the year ended March 31, 2009:

(dollars in thousands)	Years Ended March 31,		Change	Percent Change
	2010	2009		
Revenues:				
Healthcare	\$ 892,474	\$ 931,263	\$ (38,789)	(4.2)%
Life Sciences	218,209	216,701	1,508	0.7%
Isomedix	140,871	142,645	(1,774)	(1.2)%
Total Reportable Segments	1,251,554	1,290,609	(39,055)	(3.0)%
Corporate and other	6,179	7,916	(1,737)	(21.9)%
Total Revenues	\$ 1,257,733	\$ 1,298,525	\$ (40,792)	(3.1)%

Healthcare segment revenues were 71.0% of total revenues for the year ended March 31, 2010, as compared to 71.7% for the year ended March 31, 2009. Healthcare segment revenues decreased \$38.8 million or 4.2%, to \$892.5 million for the year ended March 31, 2010, as compared to \$931.3 million for the prior fiscal year. Our Healthcare segment’s fiscal 2010 revenues were positively impacted by a 6.7% increase in consumable revenues driven by increases in demand in the United States and Canada of 7.4% and 14.6%, respectively. Healthcare revenues were negatively impacted by an 11.4% decrease in capital equipment revenues driven primarily by decreases in the United States, for both infection prevention and surgical support equipment. Service revenues decreased 1.6% primarily as result of a decline in capital equipment project installations within United States hospitals. At March 31, 2010, our Healthcare segment’s backlog amounted to \$127.8 million, as compared to \$119.8 million at March 31, 2009.

Life Sciences segment revenues represented 17.3% of total revenues for the year ended March 31, 2010, as compared to 16.7% for the year ended March 31, 2009. Life Sciences segment revenues increased \$1.5 million, or 0.7%, to \$218.2 million for the year ended March 31, 2010, as compared to \$216.7 million for the prior fiscal year. Our Life Sciences segment fiscal 2010 revenues were favorably impacted by strong demand for our consumable products in the United States and Europe. The increase in consumable revenues was partially offset by a decline in capital equipment and service revenues of 5.2% and 0.9%, respectively. Life Sciences capital equipment revenues were unfavorably impacted by the economic downturn and consolidations within the industry limiting the order levels from our pharmaceutical Customers. At March 31, 2010, our Life Sciences segment’s backlog amounted to \$41.8 million, as compared to \$45.2 million at March 31, 2009.

Isomedix segment revenues represented 11.2% of total revenues for the year ended March 31, 2010, as compared to 11.0% for the year ended March 31, 2009. Revenues for this segment decreased \$1.8 million, or 1.2%, during fiscal 2010, as compared to fiscal 2009. Revenues during fiscal 2010 were affected by the previously disclosed sale of two facilities during fiscal 2009, which were partially offset by increased demand from our core medical device Customers.

[Table of Contents](#)

The following table compares our business segments and Corporate and other operating results for the year ended March 31, 2010 to the year ended March 31, 2009:

(dollars in thousands)	Years Ended March 31,		Change	Percent Change
	2010	2009		
Operating Income:				
Healthcare	\$ 151,520	\$ 132,601	\$ 18,919	14.3%
Life Sciences	30,952	18,413	12,539	68.1%
Isomedix	31,103	34,763	(3,660)	(10.5)%
Total Reportable Segments	213,575	185,777	27,798	15.0%
Corporate and other	(9,863)	(10,332)	469	NM
Total Operating Income	\$ 203,712	\$ 175,445	\$ 28,267	16.1%

NM – Not meaningful.

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.

In fiscal 2010, restructuring expenses of \$3.8 million and \$0.6 million were included in operating income for Healthcare and Life Sciences, respectively. In fiscal 2009, restructuring expenses of \$11.4 million and \$2.6 million, were included in the operating income for Healthcare and Life Sciences respectively.

Our Healthcare segment's operating income increased \$18.9 million, or 14.3%, to \$151.5 million for the year ended March 31, 2010 from \$132.6 million during the prior fiscal year. Our Healthcare segment's operating margins were 17.0% and 14.2%, respectively, for the years ended March 31, 2010 and March 31, 2009. Lower raw material costs, modest price increases, and operating efficiencies more than offset decreases in volume. The Healthcare segment's fiscal 2010 and fiscal 2009 operating margins include restructuring expenses of \$3.8 million and \$11.4 million, respectively. The fiscal 2010 operating margin includes \$3.2 million in product modification expenses primarily associated with corrections made to certain of our surgical tables in the field. Fiscal 2009 results also include a pre-tax benefit of \$5.9 million resulting from the third quarter change in our benefit policy related to paid time off which is now earned throughout the year rather than earned in full at the beginning of the year.

Our Life Sciences segment's operating income increased \$12.5 million, or 68.1%, to \$31.0 million in fiscal 2010 from \$18.4 million in fiscal 2009. Our Life Sciences segment's operating margins were 14.2% and 8.5%, respectively, for the years ended March 31, 2010 and March 31, 2009. The improvement was primarily driven by product mix and operating efficiencies. In fiscal 2010 and fiscal 2009, Life Sciences segment's operating income includes \$0.6 million and \$2.6 million, respectively, in restructuring expenses. Fiscal 2009 results also include a pre-tax benefit of \$1.2 million resulting from the third quarter change in our benefit policy related to paid time off.

Our Isomedix segment's operating income decreased \$3.7 million, or 10.5%, to \$31.1 million for the year ended March 31, 2010 as compared to \$34.8 million during the prior fiscal year. Isomedix segment's operating margins were 22.1% and 24.4%, respectively, for the years ended March 31, 2010 and March 31, 2009. Restructuring expenses of \$0.4 million associated with the Fiscal 2008 Restructuring Plan are included in this segment's fiscal 2009 operating income. The segment's fiscal 2009 results also include a pre-tax benefit of \$0.8 million resulting from the third quarter change in our benefit policy related to paid time off and a \$3.8 million gain from the sale of two facilities. Operating margins of Isomedix are impacted by volume levels as the facilities operate with relatively high percentages of fixed costs.

[Table of Contents](#)

FISCAL 2009 AS COMPARED TO FISCAL 2008

Revenues. The following table compares our revenues for the year ended March 31, 2009 to the year ended March 31, 2008:

(dollars in thousands)	Years Ended March 31,			Percent Change	Percentage of Total Revenues	
	2009	2008	Change		2009(1)	2008(1)
Capital revenues	\$ 536,647	\$ 528,082	\$ 8,565	1.6%	41.3%	41.7%
Consumable revenues	294,882	283,976	10,906	3.8%	22.7%	22.4%
Product revenues	831,529	812,058	19,471	2.4%	64.0%	64.2%
Service revenues	466,996	453,032	13,964	3.1%	36.0%	35.8%
Total Revenues	\$ 1,298,525	\$ 1,265,090	\$ 33,435	2.6%	100.0%	100.0%
Service revenues	\$ 466,996	\$ 453,032	\$ 13,964	3.1%	36.0%	35.8%
Consumable revenues	294,882	283,976	10,906	3.8%	22.7%	22.4%
Recurring revenues	761,878	737,008	24,870	3.4%	58.7%	58.3%
Capital revenues	536,647	528,082	8,565	1.6%	41.3%	41.7%
Total Revenues	\$ 1,298,525	\$ 1,265,090	\$ 33,435	2.6%	100.0%	100.0%
United States	\$ 993,487	\$ 971,018	\$ 22,469	2.3%	76.5%	76.8%
International	305,038	294,072	10,966	3.7%	23.5%	23.2%
Total Revenues	\$ 1,298,525	\$ 1,265,090	\$ 33,435	2.6%	100.0%	100.0%

(1) Certain percentages may not calculate exactly due to rounding.

Revenues increased \$33.4 million, or 2.6%, to \$1,298.5 million for the year ended March 31, 2009, as compared to \$1,265.1 million for fiscal 2008. For fiscal 2009, recurring revenues increased 3.4% as compared to fiscal 2008. The recurring revenues increase was generated primarily by a 3.1% increase in service revenues as compared to fiscal 2008. Service revenues, which increased in all segments, were driven by an \$11.8 million, or 5.1%, increase in the Healthcare segment. Within our Life Sciences and Isomedix segments, service revenues for fiscal 2009 increased 0.7% and 1.5%, respectively, as compared to fiscal 2008. Consumable revenues also increased \$10.9 million, or 3.8%, for fiscal 2009 when compared to the prior year, primarily driven by growth of 3.5% in the Healthcare segment. Capital revenues increased \$8.6 million, or 1.6%, during fiscal 2009, as compared to fiscal 2008. An increase of 5.7% in the Healthcare segment's capital revenues was partially offset by a decrease of 14.3% in capital revenues in the Life Sciences segment. The decrease in Life Sciences capital revenues was a result of a strategic decision to focus on higher margin capital equipment. Also, in the prior year, the Life Sciences segment experienced a significant increase in capital equipment shipment levels in the fourth quarter, driven by a recovery in the United States research market.

International revenues for fiscal 2009 were \$305.0 million, an increase of \$11.0 million, or 3.7%, as compared to fiscal 2008. The increase in year-over-year international revenues was attributable to increases in capital, consumable, and service revenues of 4.7%, 3.8%, and 1.3%, respectively. International growth was led by increases in the Asia Pacific region in capital equipment and consumable revenues.

United States revenues for fiscal 2009 were \$993.5 million, an increase of \$22.5 million, or 2.3%, as compared to fiscal 2008. United States revenues were positively impacted by a 3.6% increase in recurring revenues, which were driven by increases in service revenues in the Healthcare and Isomedix segments and increases in consumable revenues in both the Healthcare and Life Sciences segment. Year over year, United States capital revenues increased 0.3% driven by increased revenues from healthcare Customers offset by reductions in spending by our pharmaceutical Customers as well as a strategic business decision to improve the profitability of our Life Sciences capital equipment revenues.

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

[Table of Contents](#)

Gross Profit. The following table compares our gross profit for the year ended March 31, 2009 to the year ended March 31, 2008:

(dollars in thousands)	Years Ended March 31,			Percent Change
	2009	2008	Change	
Gross Profit:				
Product	\$ 334,614	\$ 321,934	\$ 12,680	3.9%
Service	192,128	188,669	3,459	1.8%
Total Gross Profit	\$ 526,742	\$ 510,603	\$ 16,139	3.2%
Gross Profit Percentage:				
Product	40.2%	39.6%		
Service	41.1%	41.6%		
Total Gross Profit Percentage	40.6%	40.4%		

Our gross profit (margin) 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. Our gross margin increased 20 basis points to 40.6% for fiscal 2009. In fiscal 2009, we benefited from price increases, productivity improvements, and favorable currency exchange rates offset by increases in raw material costs.

Operating Expenses. The following table compares our operating expenses for the year ended March 31, 2009 to the year ended March 31, 2008:

(dollars in thousands)	Years Ended March 31,			Percent Change
	2009	2008	Change	
Operating Expenses:				
Selling, general, and administrative	\$ 314,983	\$ 334,681	\$ (19,698)	(5.9)%
Research and development	32,760	36,916	(4,156)	(11.3)%
Restructuring expenses	3,554	15,461	(11,907)	(77.0)%
Total Operating Expenses	\$ 351,297	\$ 387,058	\$ (35,761)	(9.2)%

Compensation and benefit costs, fees for professional services, travel and entertainment, facilities costs, and other general and administrative expenses are significant components of selling, general, and administrative expenses ("SG&A"). SG&A decreased \$19.7 million, or 220 basis points, to 24.3% of total revenues for fiscal 2009 as compared to fiscal 2008. The decrease in SG&A during fiscal 2009 primarily reflects improved operating expense leverage and the benefit of cost reduction initiatives implemented. Included in the fiscal 2009 SG&A is a reduction of \$7.9 million resulting from a third quarter change in our paid time off benefit, which is now earned throughout the calendar year rather than earned in full at the beginning of the year. SG&A expenses for fiscal 2009 also include a \$3.8 million gain on the sale of two Isomedix facilities. Of this gain, \$2.1 million relates to the second quarter sale of a facility located in the Chicago, Illinois area to a privately held Customer and \$1.7 million relates to the fourth quarter sale of a facility located in Rhode Island to a Customer.

Research and development expenses as a percentage of total revenues decreased 40 basis points to 2.5% for fiscal 2009 as compared to fiscal 2008. 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. In fiscal 2009, we shifted certain engineering resources to focus on quality initiatives which are classified as cost of revenues. Our research and development initiatives continually emphasize new product development, product improvements, and the development of new technological platform innovations. During fiscal 2009, our investments in research and development focused on, but were not limited to, enhancing capabilities of sterile processing combination technologies, surgical tables and accessories, and the area of emerging infectious agents such as Prions and Nanobacteria.

Restructuring Expenses. We recognize restructuring expenses as they are incurred. We also evaluate the inventory and property, plant and equipment associated with our restructuring actions for impairment. Asset impairment and accelerated depreciation expenses primarily relate to inventory write-downs for rationalized products and adjustments in the carrying value of the closed facilities to their estimated fair value. In addition, the remaining useful lives of

[Table of Contents](#)

other property, plant and equipment associated with the related operations were re-evaluated based on the respective plan, resulting in the acceleration of depreciation and amortization of certain assets.

During the third quarter of fiscal 2009, we adopted the Fiscal 2009 Restructuring Plan, which was intended to enhance our profitability and improve efficiency primarily by reducing ongoing international operating costs. As part of this plan, we took actions to improve operations at our Pieterlen, Switzerland manufacturing facility, rationalized certain products, recorded impairment charges for certain assets no longer used, and made targeted workforce reductions. We also consolidated our operations in Japan. These actions are expected to directly impact approximately 100 employees worldwide. Information regarding the impact of the restructuring actions on our employee benefit plans is included in note 10 to our consolidated financial statements titled, "Benefit Plans."

In fiscal 2009 in connection with the 2009 Restructuring Plan, we recorded pre-tax expenses totaling \$15.6 million related to these actions, of which \$4.8 million was recorded as restructuring expenses and \$10.8 million was recorded in cost of revenues, with restructuring expenses of \$12.8 million and \$2.8 million related to the Healthcare and Life Sciences reporting segments, respectively. We do not expect to incur significant additional expenses related to this plan in fiscal 2010.

During the fourth quarter of fiscal 2008, we adopted the Fiscal 2008 Restructuring Plan, which primarily focused on our North American operations. As part of this plan, we announced the closure of two sales offices and rationalized certain products. We also reduced the workforce in certain support functions. Across all of our reporting segments approximately 90 employees, primarily located in North America, were directly impacted. These restructuring actions are designed to enhance profitability and improve efficiency by reducing ongoing operating costs.

In fiscal 2009, we did not incur any significant additional restructuring expenses related to the Fiscal 2008 Restructuring Plan and we settled certain termination benefits and other costs for less than originally expected. In the third quarter of fiscal 2009, we reversed our decision to close one of the sales offices, because a satisfactory exit from our warranty and service obligations could not be achieved. As a result, we reversed restructuring expenses recorded in fiscal 2008 totaling approximately \$1.0 million. In fiscal 2008, we recorded pre-tax expenses totaling \$15.8 million related to these actions, of which \$11.7 million was recorded as restructuring expenses and \$4.1 million was recorded in cost of revenues.

Since the inception of the Fiscal 2008 Restructuring Plan, we have recorded pre-tax expenses totaling \$14.3 million, of which \$9.9 million was recorded as restructuring expenses and \$4.4 million was recorded in cost of revenues. Pre-tax expenses of \$11.9 million, \$1.3 million, \$0.4 million, and \$0.8 million related to the Healthcare, Life Sciences, and Isomedix reporting segments, and Corporate and other, respectively. We do not expect to incur any significant additional restructuring expenses related to the Fiscal 2008 Restructuring Plan.

During the third quarter of fiscal 2007, we adopted our European Restructuring Plan. As part of this plan, we closed two sales offices and took steps to reduce the workforce in certain of our European support functions. These actions are intended to improve our cost structure in Europe. Approximately 40 employees were directly impacted in various European locations.

In fiscal 2009, fiscal 2008, and fiscal 2007, we recorded \$0.1 million, \$0.1 million, and \$1.7 million in pre-tax restructuring expenses, respectively, related to the European Restructuring Plan actions. The restructuring expenses were predominately for severance and related benefits, with restructuring expenses of \$1.4 million and \$0.5 million related to the Healthcare and Life Sciences business segments, respectively. During the first quarter of fiscal 2009, we settled the remaining liabilities associated with this plan by incurring \$0.1 million in pre-tax restructuring expenses to terminate a lease obligation.

On January 30, 2006, we announced our Fiscal 2006 Restructuring Plan. In fiscal 2009 in connection with this plan, we did not incur any additional restructuring expenses and settled certain severance and related benefit obligations for less than originally expected. In fiscal 2008 and fiscal 2007, we recorded \$3.6 million and \$4.9 million in pre-tax restructuring expenses, respectively, primarily related to the transfer of the Erie, Pennsylvania manufacturing operations. All such actions are intended to improve our cost structure.

Since the inception of the Fiscal 2006 Restructuring Plan, we have recorded restructuring expenses of \$33.6 million, with restructuring expenses of \$33.2 million and \$0.4 million related to the Healthcare and Life Sciences business segments, respectively. These actions directly impacted more than 450 employees beginning in the fourth quarter of fiscal 2006 and continuing through fiscal 2008.

[Table of Contents](#)

We completed the transfer of the Erie, Pennsylvania manufacturing operations during fiscal 2008. During the fourth quarter of fiscal 2009, we settled the remaining liabilities related to the Fiscal 2006 Restructuring Plan.

While we continue to evaluate all of our operations for additional opportunities to improve performance, we have not committed to any additional specific actions.

The following tables summarize our total restructuring charges for fiscal 2009 and fiscal 2008:

(dollars in thousands)	Year Ended March 31, 2009				Total
	Fiscal 2009 Restructuring Plan(1)	Fiscal 2008 Restructuring Plan(2)	European Restructuring Plan	Fiscal 2006 Restructuring Plan	
Severance, payroll and other related costs	\$ 4,280	\$ (365)	\$ —	\$ (178)	\$ 3,737
Asset impairment and accelerated depreciation	1,112	(83)	—	—	1,029
Product rationalization	9,485	(464)	—	—	9,021
Lease termination costs	354	20	99	—	473
Other	349	(609)	—	—	(260)
Total Restructuring Charges	\$ 15,580	\$ (1,501)	\$ 99	\$ (178)	\$ 14,000

(1) Includes \$10.8 million in charges recorded in cost of revenues on the Consolidated Statements of Income.

(2) Includes a negative \$0.4 million in charges recorded in cost of revenues on the Consolidated Statements of Income.

(dollars in thousands)	Year Ended March 31, 2008				Total
	Fiscal 2009 Restructuring Plan	Fiscal 2008 Restructuring Plan(1)	European Restructuring Plan	Fiscal 2006 Restructuring Plan	
Severance, payroll and other related costs	\$ —	\$ 5,213	\$ (80)	\$ 203	\$ 5,336
Asset impairment and accelerated depreciation	—	5,106	—	2,885	7,991
Product rationalization	—	3,754	—	—	3,754
Lease termination costs	—	898	165	(13)	1,050
Other	—	863	—	551	1,414
Total Restructuring Charges	\$ —	\$ 15,834	\$ 85	\$ 3,626	\$ 19,545

(1) Includes \$4.1 million in charges recorded in cost of revenues on the Consolidated Statements of Income.

Table of Contents

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 tables summarize our liabilities related to restructuring activities:

(dollars in thousands)	Fiscal 2009 Restructuring Plan			
	March 31, 2008	Fiscal 2009		March 31, 2009
		Provision	Payments/ Impairments	
Severance and termination benefits	\$ —	\$ 4,280	\$ (2,360)	\$ 1,920
Asset impairment	—	1,112	(1,112)	—
Product rationalization	—	9,485	(9,410)	75
Lease termination obligations	—	354	(17)	337
Other	—	349	(108)	241
Total	\$ —	\$ 15,580	\$ (13,007)	\$ 2,573

(dollars in thousands)	Fiscal 2008 Restructuring Plan			
	March 31, 2008	Fiscal 2009		March 31, 2009
		Provision ⁽¹⁾	Payments/ Impairments	
Severance and termination benefits	\$ 4,244	\$ (365)	\$ (3,378)	\$ 501
Asset impairment	492	(83)	—	409
Lease termination obligations	898	20	(37)	881
Other	609	(609)	—	—
Total	\$ 6,243	\$ (1,037)	\$ (3,415)	\$ 1,791

(1) Does not include a negative \$0.4 million in product rationalization costs that were charged against inventory.

(dollars in thousands)	European Restructuring Plan			
	March 31, 2008	Fiscal 2009		March 31, 2009
		Provision	Payments/ Impairments	
Lease termination obligations	\$ 247	\$ 99	\$ (346)	—
Total	\$ 247	\$ 99	\$ (346)	\$ —

(dollars in thousands)	Fiscal 2006 Restructuring Plan			
	March 31, 2008	Fiscal 2009		March 31, 2009
		Provision	Payments	
Severance and termination benefits	\$ 879	\$ (178)	\$ (701)	\$ —
Total	\$ 879	\$ (178)	\$ (701)	\$ —

[Table of Contents](#)

Non-Operating Expenses, Net. Non-operating expense (income), net consists of interest expense on debt, offset by interest earned on cash, cash equivalents, and short-term investment balances, and other miscellaneous income. The following table compares our non-operating expense (income), net for the year ended March 31, 2009 to the year ended March 31, 2008:

(dollars in thousands)	Years Ended March 31,		Change
	2009	2008	
Non-Operating Expenses:			
Interest expense	\$ 10,563	\$ 5,979	\$ 4,584
Interest and miscellaneous income	(1,603)	(2,233)	630
Non-Operating Expenses, Net	\$ 8,960	\$ 3,746	\$ 5,214

During fiscal 2009, we had higher average outstanding debt levels as compared to fiscal 2008. As a result, interest expense increased year over year. We used and will use borrowings from our August 2008 Private Placement to repay outstanding debt, repurchase our stock, pay dividends, and fund working capital needs.

Additional information regarding our outstanding debt is included in note 7 to our consolidated financial statements titled, "Debt," and in the subsection of MD&A titled, "Liquidity and Capital Resources."

Income Tax Expense. The following table compares our income tax expense and effective tax rates for the years ended March 31, 2009 and 2008:

(dollars in thousands)	Years Ended March 31,		Change	Percent Change
	2009	2008		
Income tax expense	\$ 55,800	\$ 42,693	\$ 13,107	30.7%
Effective income tax rate	33.5%	35.6%		

The effective income tax rate for fiscal 2009 was 33.5% as compared to 35.6% for fiscal 2008. The lower effective income tax rate for fiscal 2009 resulted principally from discrete item adjustments due to the settlement of certain tax years under examination in the United States and lapses in statutes of limitation, partially offset by an unfavorable change in valuation allowances. Additional information regarding our income tax expense is included in note 9 to our consolidated financial statements titled, "Income Taxes."

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 from our former Erie, Pennsylvania manufacturing operation. Note 12 to our consolidated financial statements titled, "Business Segment Information," and Item 1, "Business" provide detailed information regarding each business segment. The following table compares reporting business segment revenues and Corporate and other for the year ended March 31, 2009 to the year ended March 31, 2008:

(dollars in thousands)	Years Ended March 31,		Change	Percent Change
	2009	2008		
Revenues:				
Healthcare	\$ 931,263	\$ 887,073	\$ 44,190	5.0%
Life Sciences	216,701	228,350	(11,649)	(5.1)%
Isomedix	142,645	140,558	2,087	1.5%
Total Reportable Segments	1,290,609	1,255,981	34,628	2.8%
Corporate and other	7,916	9,109	(1,193)	(13.1)%
Total Revenues	\$ 1,298,525	\$ 1,265,090	\$ 33,435	2.6%

[Table of Contents](#)

Healthcare segment revenues were 71.7% of total revenues for the year ended March 31, 2009, as compared to 70.1% for the year ended March 31, 2008. Healthcare segment revenues increased \$44.2 million, or 5.0%, to \$931.3 million for the year ended March 31, 2009, as compared to \$887.1 million for the prior fiscal year. Our Healthcare segment's fiscal 2009 revenues were also positively impacted by a 5.7% increase in capital revenues driven by strong sales of surgical support products. The increase in Healthcare revenues was also driven by a 4.3% increase in recurring revenues. We generated increases in service and consumable revenues of 5.1% and 3.5%, respectively, as a result of strong service revenues within the United States hospital market and increased demand for our consumable products around the world. At March 31, 2009, our Healthcare segment's backlog amounted to \$119.8 million, as compared to \$98.0 million at March 31, 2008.

Life Sciences segment revenues represented 16.7% of total revenues for the year ended March 31, 2009, as compared to 18.1% for the year ended March 31, 2008. Life Sciences segment revenues decreased \$11.7 million, or 5.1%, to \$216.7 million for the year ended March 31, 2009, as compared to \$228.4 million for the prior fiscal year. Life Sciences revenues were unfavorably impacted by a continued slowdown in spending from our pharmaceutical Customers, as well as a strategic business decision to improve the profitability of our capital equipment revenues. As a result, Life Sciences capital revenues declined 14.3%. In fiscal 2008, Life Sciences revenues were positively impacted by increased shipments of capital equipment to the United States research market in the fourth quarter of the fiscal year. Recurring revenues grew 2.6%, with increases of 5.3% and 0.7% in consumable revenues and service revenues, respectively. At March 31, 2009, our Life Sciences segment's backlog amounted to \$45.2 million, as compared to \$44.2 million at March 31, 2008.

Isomedix segment revenues represented 11.0% of total revenues for the year ended March 31, 2009, as compared to 11.1% for the year ended March 31, 2008. This segment experienced revenue growth of \$2.1 million, or 1.5%, during fiscal 2009, as compared to fiscal 2008. The growth in fiscal 2009 revenues was primarily driven by an increase in demand from our core medical device Customers and routine price increases, partially offset by the impact of the sale of the facility in the Chicago, Illinois area in the second quarter. Fiscal 2008 includes revenues associated with the sold facility.

The following table compares our reporting business segments and Corporate and other operating results for the year ended March 31, 2009 to the year ended March 31, 2008:

(dollars in thousands)	Years Ended March 31,		Change	Percent Change
	2009	2008		
Operating Income:				
Healthcare	\$ 132,601	\$ 103,447	\$ 29,154	28.2%
Life Sciences	18,413	11,535	6,878	59.6%
Isomedix	34,763	28,964	5,799	20.0%
Total Reportable Segments	185,777	143,946	41,831	29.1%
Corporate and other	(10,332)	(20,401)	10,069	NM
Total Operating Income	\$ 175,445	\$ 123,545	\$ 51,900	42.0%

NM – Not meaningful.

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. The Corporate and other segment 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. 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.

In fiscal 2009, restructuring expenses of \$11.4 million and \$2.6 million were included in operating income for Healthcare and Life Sciences, respectively. In fiscal 2008, restructuring expenses of \$16.8 million, \$1.5 million, \$0.4 million, and \$0.8 million were included in the operating income for Healthcare, Life Sciences, Isomedix, and Corporate and other, respectively.

[Table of Contents](#)

Our Healthcare segment's operating income increased \$29.2 million, or 28.2%, to \$132.6 million for the year ended March 31, 2009 from \$103.4 million during the prior fiscal year. Our Healthcare segment's operating margins were 14.2% and 11.7%, respectively, for the years ended March 31, 2009 and March 31, 2008. Improved pricing and productivity improvements, including labor savings gained from the transfer of manufacturing operations from Erie, Pennsylvania to Monterrey, Mexico more than offset increases in raw materials and transportation costs. In fiscal 2008, the benefits we experienced from labor savings in Mexico and improved pricing were offset by increases in raw materials and transportation costs. The Healthcare segment's fiscal 2009 operating margin includes restructuring expenses of \$11.4 million. Of these restructuring expenses, \$12.8 million was associated with the Fiscal 2009 Restructuring Plan, \$0.1 million was associated with the European Restructuring Plan, a negative \$1.3 million was associated with the Fiscal 2008 Restructuring Plan, and a negative \$0.2 million was associated with the Fiscal 2006 Restructuring Plan. Fiscal 2009 also includes a pre-tax benefit of \$5.9 million resulting from the third quarter change in our benefit policy related to paid time off which is now earned throughout the year rather than earned in full at the beginning of the year. The Healthcare segment's fiscal 2008 operating margin includes restructuring expenses of \$16.8 million. Of these restructuring expenses, \$13.1 million was associated with the Fiscal 2008 Restructuring Plan, \$3.6 million was associated with the transfer of manufacturing operations from Erie, Pennsylvania to Monterrey, Mexico (part of the Fiscal 2006 Restructuring Plan), and \$0.1 million was associated with the European Restructuring Plan.

Our Life Sciences segment's operating income increased \$6.9 million, or 59.6%, to \$18.4 million in fiscal 2009 from \$11.5 million in fiscal 2008. Our Life Sciences segment's operating margins were 8.5% and 5.1%, respectively, for the years ended March 31, 2009 and March 31, 2008. The improvement in operating performance was primarily driven by greater operating expense leverage as compared to the prior fiscal year as well as our strategic business decision to improve the profitability of capital equipment revenues. In fiscal 2009, our Life Sciences segment's operating income includes \$2.6 million in restructuring expenses primarily associated with the Fiscal 2009 Restructuring Plan. Fiscal 2009 results also include a pre-tax benefit of \$1.2 million resulting from the third quarter change in our benefit policy related to paid time off. In fiscal 2008, our Life Sciences segment's operating income includes \$1.5 million in restructuring expenses primarily associated with the Fiscal 2008 Restructuring Plan.

Our Isomedix segment's operating income increased \$5.8 million, or 20.0%, to \$34.8 million for the year ended March 31, 2009 as compared to \$29.0 million during the prior fiscal year. This segment's operating margins were 24.4% and 20.6%, respectively, for the years ended March 31, 2009 and March 31, 2008. Restructuring expenses of \$0.4 million associated with the Fiscal 2008 Restructuring Plan are included in this segment's fiscal 2008 operating income. Fiscal 2008 operating margins improved as a result of increased volumes and contracted price increases. Operating margins of Isomedix are greatly impacted by volume levels as the facilities operate with relatively high percentages of fixed costs. The segment's fiscal 2009 results also include a pre-tax benefit of \$0.8 million resulting from the third quarter change in our benefit policy related to paid time off and \$3.8 million gain from the sale of two facilities. Of this gain, \$2.1 million is related to a facility in the Chicago, Illinois area that was sold to a Customer in the second quarter and \$1.7 million is related to a facility located in Rhode Island that was sold to a Customer in the fourth quarter.

[Table of Contents](#)

LIQUIDITY AND CAPITAL RESOURCES

The following table summarizes significant components of our cash flows for the years ended March 31, 2010, 2009 and 2008:

(dollars in thousands)	Years Ended March 31,		
	2010	2009	2008
Operating Activities:			
Net income	\$ 128,467	\$ 110,685	\$ 77,106
Non-cash items	69,414	58,422	67,540
Changes in operating assets and liabilities	27,073	(1,723)	(1,245)
Net Cash Provided by Operating Activities	\$ 224,954	\$ 167,384	\$ 143,401
Investing Activities:			
Purchases of property, plant, equipment, and intangibles, net	\$ (44,087)	\$ (40,889)	\$ (56,974)
Proceeds from the sale of property, plant and equipment, and intangibles	3,105	19,341	5,154
Equity investments in joint ventures	(1,500)	(4,150)	—
Net Cash Used in Investing Activities	\$ (42,482)	\$ (25,698)	\$ (51,820)
Financing Activities:			
Proceeds from the issuance of long-term obligations	\$ —	\$ 150,000	\$ —
Payments on long-term obligations, net	—	(40,800)	(700)
(Payments) proceeds under credit facility, net	—	(79,180)	79,180
Deferred financing fees and debt issuance costs	—	(476)	(443)
Repurchases of common shares	(310)	(80,466)	(177,171)
Cash dividends paid to common shareholders	(144,017)	(17,657)	(14,609)
Stock option and other equity transactions, net	14,047	33,621	14,619
Tax benefit from stock options exercised	2,467	6,982	3,194
Net Cash Used in Financing Activities	\$ (127,813)	\$ (27,976)	\$ (95,930)
Debt-to-capital ratio	21.8%	22.6%	20.3%
Free cash flow	\$ 183,972	\$ 145,836	\$ 91,581

Net Cash Provided by Operating Activities. The net cash provided by our operating activities was \$225.0 million for the year ended March 31, 2010 compared to \$167.4 million for the year ended March 31, 2009 and \$143.4 million for the year ended March 31, 2008. The following discussion summarizes the significant changes in our operating cash flows:

- **Non-cash items** – Our non-cash items include depreciation, depletion, and amortization, (gains) losses on the disposal of property, plant, equipment and intangibles, share-based compensation expense, changes in deferred income taxes, and other items. Non-cash items were \$69.4 million, \$58.4 million and \$67.5 million for fiscal 2010, fiscal 2009 and fiscal 2008, respectively.
 - **Depreciation, depletion, and amortization** – Depreciation, depletion, and amortization expense is the most significant component of non-cash items. This expense totaled \$56.2 million, \$58.8 million and \$62.8 for fiscal 2010, fiscal 2009 and fiscal 2008, respectively. The \$4.0 million decrease from fiscal 2008 to fiscal 2009 was primarily driven from the sale of the Erie, Pennsylvania manufacturing facility in the third quarter of fiscal 2008, decreased capital purchases for our Isomedix segment and the sale of an Isomedix facility.

Table of Contents

- Deferred income taxes – Our fiscal 2010 deferred income tax expense of \$2.2 million resulted primarily from post retirement benefit obligation and depreciation and amortization of fixed assets and intangibles. Our fiscal 2009 deferred income tax expense of \$6.8 million resulted primarily from changes related to our post-retirement benefit obligation. Our fiscal 2008 deferred income tax benefit of \$10.2 million resulted primarily from share-based compensation expense and depreciation and amortization of fixed assets and intangibles.
 - Share-based compensation expense – We recorded non-cash share-based compensation expense of \$7.4 million for both fiscal 2010 and fiscal 2009, and \$8.6 million for fiscal 2008. The \$1.2 million decrease from fiscal 2008 to fiscal 2009 reflects a reduction in the number of stock options and restricted shares subject to amortization over the respective fiscal years.
 - (Gain) loss on the disposal of property, plant, equipment, and intangibles, net – We recorded a net loss of \$2.1 million in fiscal 2010 comprised of a gain of \$1.6 million, primarily from the sale of property, plant, equipment and intangibles associated with Hausted product line and the impairment of certain assets related to the Nogales, Arizona facility and intangible assets associated with products rationalized in the Fiscal 2010 Restructuring Plan. During fiscal 2009 and fiscal 2008, we recorded a gain of \$2.8 million and a loss of \$5.8 million, respectively. In fiscal 2009, we recorded gains of \$3.8 million for the sale of Isomedix facilities in Illinois and Rhode Island. The loss in fiscal 2008, primarily related to the impairment or disposal of certain assets related to the Fiscal 2008 Restructuring Plan and the Fiscal 2006 Restructuring Plan.
 - Other items – Other items amounted to \$1.6 million for fiscal 2010 as compared to a negative \$11.8 million for fiscal 2009 and \$0.5 million for fiscal 2008. Fiscal 2009 was primarily driven by a \$7.9 million non-cash adjustment as a result of a change in our benefit policy with respect to paid time off and an estimated curtailment gain of approximately \$0.4 million related to our Switzerland defined benefit pension plan as a result of restructuring actions taken in the third quarter of fiscal 2009.
- Changes in operating assets and liabilities – Changes to our operating assets and liabilities provided cash of \$27.1 million in the year ended March 31, 2010 and used cash of \$1.7 million and \$1.2 million in the years ended March 31, 2009 and 2008, respectively. Significant changes from fiscal 2010, fiscal 2009 and fiscal 2008 are summarized below:
- Accounts receivable, net – Changes in our net accounts receivable balances provided cash of \$27.8 million, \$0.5 million and \$9.2 million in fiscal 2010, fiscal 2009 and fiscal 2008, respectively. Our accounts receivable balances may change from period to period due to the timing of revenues and Customer payments.
 - Inventories, net – A decrease in our net inventory balances provided cash of \$15.3 million, and \$0.7 million during fiscal 2010 and 2009, respectively. Inventory balances in fiscal 2010 reflect inventory management and lower raw material costs. These favorable changes were partially offset by reduced order levels and new product launches. During fiscal 2009, inventory decreased in comparison to fiscal 2008 as a result of operational changes implemented and pre-tax product rationalization expenses recorded as part of the Fiscal 2009 Restructuring Plan which were offset by higher raw material costs and new product inventory. An increase in our net inventory balances used cash of \$4.9 million during fiscal 2008. Inventory balances in fiscal 2008 increased as a result of the impact of increased raw material costs, new products, and higher order levels.
 - 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 \$5.4 million, \$10.8 million and \$0.5 million during fiscal 2010, fiscal 2009 and fiscal 2008, respectively. Balances often fluctuate from period to period due to the timing of accruals and payments. Cash is driven by changes in accrued income taxes, prepaid insurance and leases, and other deposits.
 - Accounts payable – Decreases in our net accounts payable balances drove uses of cash of \$4.5 million, \$2.7 million, and \$3.1 million during fiscal 2010, fiscal 2009 and fiscal 2008, 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.
 - Accruals and other, net – Changes in our net accruals and other liabilities balances drove our use of cash higher with \$16.8 million, \$11.0 million and \$2.9 million during fiscal 2010, fiscal 2009 and fiscal 2008, respectively. The use of cash during fiscal 2010 was primarily driven by increased contributions of \$9.2 million to our United States defined benefit pension plans and payments related to compensation and benefit

[Table of Contents](#)

related liabilities. The use of cash during fiscal 2009 was driven by increased income tax payments and contributions of \$4.0 million to our United States defined benefit pension plans. During fiscal 2008, the use of cash was primarily a result of payments for compensation and benefit-related liabilities and contributions of \$2.4 million to our United States defined benefit pension plans.

Net Cash Used in Investing Activities. The net cash we used in investing activities totaled \$42.5 million during fiscal 2010 compared to \$25.7 million during fiscal 2009 and \$51.8 million during fiscal 2008. The following discussion summarizes the significant changes in our investing cash flows for the years ended March 31, 2010, 2009 and 2008:

- **Purchases of property, plant, equipment, and intangibles, net** – Capital expenditures totaled \$44.1 million during fiscal 2010, \$40.9 million during fiscal 2009 and \$57.0 million during fiscal 2008. Higher capital expenditures during fiscal 2010 are a result of an increased investment in Customer dispensing systems. The decrease in capital spending from fiscal 2008 to fiscal 2009 was the result of the completion of a planned expansion at one of our Isomedix facilities as well as decreases in corporate related spending.
- **Proceeds from the sale of property, plant, equipment, and intangibles** – During fiscal 2010, these proceeds include \$2.2 million we received from the sale of assets associated with the Hausted product line within the Healthcare segment. The proceeds received during fiscal 2009 include \$9.5 million we received from the sale of an Isomedix facility located in Illinois, \$1.5 million we received from the settlement of an insurance claim, and \$8.0 million we received from the sale of an Isomedix facility located in Rhode Island. In fiscal 2008, these proceeds include \$4.7 million we received from the sale of our manufacturing facility located in Pennsylvania.
- **Equity investments in joint ventures** – During fiscal 2010, we invested \$1.5 million in a joint venture with VTS Medical Systems Inc. designed to bring the latest high-definition video, touch-screen integration, and communication technology into hospital operating rooms. We invested \$4.2 million in the same joint venture during fiscal 2009.

Net Cash Used in Financing Activities. The net cash we used in financing activities totaled \$127.8 million in fiscal 2010, \$28.0 million in fiscal 2009, and \$95.9 million in fiscal 2008. The following discussion summarizes the significant changes in our financing cash flows for the years ended March 31, 2010, 2009 and 2008:

- **Proceeds from the issuance of long-term obligations** – We issued no new debt during fiscal 2010. During the second quarter of fiscal 2009, we issued \$150.0 million of senior notes in an offering that was exempt from the registration requirements of the Securities Act of 1933. These senior notes are discussed further in note 7 to our consolidated financial statements titled, “Debt,” and in this section of the MD&A titled, “Liquidity and Capital Resources” in the subsection titled, “Sources of Credit.”
- **Payments on long-term obligations and capital leases** – In fiscal 2009, the amounts we repaid include \$40.0 million for the notes issued in December 2003, which matured, and we repaid \$0.8 million outstanding on industrial development revenue bonds. In fiscal 2008, we repaid \$0.7 million related to industrial development revenue bonds. We provide additional information about our debt structure in note 7 to our consolidated financial statements titled, “Debt,” and in this section of the MD&A titled, “Liquidity and Capital Resources” in the subsection titled, “Sources of Credit.”
- **(Payments) proceeds under credit facility, net** – During fiscal 2010, we borrowed and repaid \$100.0 million of debt under our revolving credit facility. For the year ended March 31, 2009, we repaid the \$79.2 million that was borrowed in fiscal 2008 under our revolving credit facility. Proceeds from the August 2008 Private Placement were used, in part, to repay amounts outstanding under our revolving credit facility. The proceeds were also used to fund share repurchases, working capital changes and for other corporate purposes. We provide additional information about our debt structure in note 7 to our consolidated financial statements titled, “Debt,” and in the section of the MD&A titled, “Liquidity and Capital Resources” in the subsection titled, “Sources of Credit.”
- **Repurchases of common shares** – During fiscal 2010, we obtained common shares in connection with our stock-based compensation award programs in the amount of \$0.3 million. We did not repurchase any shares under the authorization provided by our Board of Directors. During fiscal 2009, we paid for the repurchase of 2,646,177 common shares at an average purchase price of \$30.41 per common share. During fiscal 2008, we paid for the repurchase of 6,600,550 common shares at an average purchase price of \$26.84 per common share. We provide additional information about our common share repurchases in note 14 to our consolidated financial statements titled, “Repurchases of Common Shares.”

Table of Contents

- Cash dividends paid to common shareholders – During fiscal 2010, we paid cash dividends totaling \$144.0 million, or \$2.44 per outstanding common share, including a special dividend of \$2.00 per outstanding common share. During fiscal year 2009, we paid cash dividends of \$17.7 million, or \$0.30 per outstanding common share. We paid cash dividends of \$14.6 million, or \$0.23 per outstanding common share during fiscal year 2008.
- Deferred financing fees and debt issuance costs – In fiscal 2009, we paid fees of \$0.5 million related to the issuance of the new senior notes in connection with the August 2008 Private Placement and amendment of the senior notes issued in December 2003. In fiscal 2008, we paid fees of \$0.4 million related to the amendment and restatement of our revolving credit facility. These amounts are being amortized over the respective terms of the underlying agreements.
- Tax benefit from stock options exercised – For the year ended March 31, 2010, 2009, and 2008, our income taxes were reduced by \$2.5 million, \$7.0 million, and \$3.2 million, respectively, as a result of deductions allowed for stock options exercised.
- Stock option and other equity transactions, net – We receive cash for issuing common shares under our various employee stock option programs. During fiscal 2010, fiscal 2009, and fiscal 2008, we received cash proceeds totaling \$14.0 million, \$33.6 million, and \$14.6 million, respectively, under these programs.

Cash Flow Measures. Free cash flow was \$184.0 million and \$145.8 million in fiscal 2010, and fiscal 2009, respectively, reflecting an increase in cash earnings during fiscal 2010 and working capital management. Our debt-to-capital ratio was 21.8% at March 31, 2010 and 22.6% at March 31, 2009.

Cash Requirements. Currently, we intend to use our existing cash and cash equivalent balances, cash generated by operations, and our existing credit facility for short 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. If our existing sources of cash are not sufficient to continue our future activities, we may need to raise additional funds through additional borrowing 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.

Sources of Credit. Our sources of credit as of March 31, 2010 are summarized in the following table:

(dollars in thousands)	Maximum Amounts Available	Reductions in Available Credit Facility for Other Financial Instruments	March 31, 2010 Amounts Outstanding	March 31, 2010 Amounts Available
Sources of Credit				
Private placement	\$ 210,000	\$ —	\$ 210,000	\$ —
Credit facility(1)	400,000	24,955	—	375,045
Total Sources of Credit	\$ 610,000	\$ 24,955	\$ 210,000	\$ 375,045

(1) Our revolving credit facility contains a sub-limit that reduces the maximum amount available to us for borrowings by letters of credit outstanding.

Our sources of funding from credit are summarized below:

- In December 2003, we issued \$100.0 million in senior notes to certain institutional investors in a private placement that was not required to be registered with the SEC. The agreements related to these notes require us to maintain certain financial covenants, including limitations on debt and a minimum consolidated net worth requirement. Of the \$100.0 million in outstanding notes, \$40.0 million had a maturity of five years at an annual interest rate of 4.20%, another \$40.0 million has a maturity of 10 years at an annual interest rate of 5.25%, and the remaining \$20.0 million has a maturity of 12 years at an annual interest rate of 5.38%. Therefore, payment of the first \$40.0 million of notes became due and was made in December 2008.
- On August 15, 2008, we issued \$150.0 million in senior notes to certain institutional investors in a private placement that was not required to be registered with the SEC. We have used and will use the proceeds for general corporate purposes, including repayment of debt, capital expenditures,

[Table of Contents](#)

acquisitions, dividends, and share repurchases. The agreements related to these notes require us to maintain certain financial covenants, including limitations on debt and a minimum consolidated net worth requirement. Of the \$150.0 million in outstanding notes, \$30.0 million has a maturity of five years at an annual interest rate of 5.63%, another \$85.0 million has a maturity of 10 years at an annual interest rate of 6.33%, and the remaining \$35.0 million has a maturity of 12 years at an annual interest rate of 6.43%.

- On September 13, 2007, we signed the Second Amended and Restated Credit Agreement (the “Credit Agreement”) with KeyBank National Association, as administrative agent for the lending institutions that are parties to the Credit Agreement (the “Agent”), and the lenders party to the Credit Agreement. This Credit Agreement amended, restated, and replaced our Amended and Restated Credit Agreement dated March 29, 2004, as amended, which was to mature in June 2010. The Credit Agreement matures on September 13, 2012 and provides \$400.0 million of credit, which may be increased by up to an additional \$100.0 million in specified circumstances, for borrowings and letters of credit. The Credit Agreement provides a multi-currency borrowing option and may be used for general corporate purposes. At our option, loans can be borrowed on a floating or fixed rate basis. Floating rate loans bear interest at the greater of (1) the Prime Rate established by the Agent, or (2) the Federal Funds effective rate plus 0.50%, plus in each case a margin based on our leverage ratio. Fixed rate loans bear interest at the Eurodollar Rate or other defined currency rate, plus, in each case, a margin based on our leverage ratio. Interest is payable quarterly or at the end of the interest period, if shorter. The Credit Agreement also requires the payment of a facility fee on the total facility commitment amount, which is determined based on our leverage ratio. We may prepay floating rate loans without paying a penalty, but we may be required to pay a penalty for prepaying fixed rate loans. The Credit Agreement also allows us to make short-term swing loan borrowings not to exceed \$35.0 million, with an interest rate equal to the Agent’s cost of funds plus a margin based on our leverage ratio. The Credit Agreement requires us to maintain compliance with certain financial covenants, including a maximum leverage ratio and a minimum interest coverage ratio. Our obligations under the Credit Agreement are unsecured but guaranteed by our material domestic subsidiaries.

At March 31, 2010, we had \$375.0 million of funding available from our \$400.0 million Credit Agreement. The Credit Agreement includes a sub-limit that reduces the maximum amount available to us by letters of credit outstanding. At March 31, 2010, there were letters of credit outstanding of \$25.0 million.

At March 31, 2010, we were in compliance with all financial covenants associated with our indebtedness. We provide additional information regarding our debt structure and payment obligations in the section of the MD&A titled, “Liquidity and Capital Resources” in the subsection titled, “Contractual and Commercial Commitments” and in note 7 to our consolidated financial statements titled, “Debt.”

CAPITAL EXPENDITURES

Our capital expenditure program is a component of our long-term strategy. This program includes, among other things, investments in new and existing facilities, business expansion projects, radioisotope (cobalt-60) and information technology enhancements. During fiscal 2010, our capital expenditures amounted to \$44.1 million. We use cash provided by operating activities and our cash and cash equivalent balances to fund capital expenditures. Although higher than the prior year, capital expenditures continued to be below historical levels as a result of business and economic conditions. We expect future capital expenditures to return to prior historical trends but we cannot assure you that future capital expenditures will rebound, as future events can occur which could cause anticipated capital expenditure levels to change.

[Table of Contents](#)

CONTRACTUAL AND COMMERCIAL COMMITMENTS

At March 31, 2010, we had commitments under non-cancelable operating leases totaling \$57.2 million.

Our contractual obligations and commercial commitments as of March 31, 2010 are presented in the following tables. Commercial commitments include standby letters of credit, letters of credit required as security under our self-insured risk retention policies, and other potential cash outflows resulting from an event that requires us to fulfill a commitment.

(in thousands)	Payments due by March 31,					Total
	2011	2012	2013	2014	2015 and thereafter	
Contractual Obligations:						
Debt	\$ —	\$ —	\$ —	\$ 70,000	\$ 140,000	\$ 210,000
Operating leases	14,758	12,615	10,285	6,859	12,635	57,152
Purchase obligations	13,726	3,940	—	—	—	17,666
Contributions to defined benefit pension plans	500	—	—	—	—	500
Benefit payments under defined benefit plans	4,768	4,771	4,617	4,548	26,790	45,494
Trust assets available for benefit payments under defined benefit plans	(4,768)	(4,771)	(4,617)	(4,548)	(26,790)	(45,494)
Benefit payments under other post-retirement welfare benefit plans	3,340	3,228	3,074	2,894	11,938	24,474
Unrecognized tax benefits	—	—	—	—	—	11,788
Other obligations	262	262	199	137	274	1,134
Total Contractual Obligations	\$ 32,586	\$ 20,045	\$ 13,558	\$ 79,890	\$ 164,847	\$ 322,714

The table above includes only the principal amounts of our contractual obligations. We provide information about the interest component of our long-term debt in the subsection of MD&A titled, "Liquidity and Capital Resources," and in note 7 to our consolidated financial statements titled, "Debt."

Purchase obligations shown in the table above relate to minimum purchase commitments with suppliers for materials purchases.

The table above excludes contributions we make to our defined contribution plan. Our future contributions to this plan depend on uncertain factors, such as the amount and timing of employee contributions and discretionary employer contributions. We provide additional information about our defined benefit pension plans, defined contribution plan, and other post-retirement medical benefit plan in note 10 to our consolidated financial statements titled, "Benefit Plans."

The table above includes total unrecognized tax benefits of \$11.8 million. Due to the high degree of uncertainty regarding the timing of future cash outflows associated with these tax positions, we are unable to estimate when cash settlements may occur.

(in thousands)	Amount of Commitment Expiring March 31,					Totals
	2011	2012	2013	2014	2015 & Beyond	
Commercial Commitments:						
Performance and surety bonds	\$ 22,129	\$ 4,049	\$ 14	\$ 20	\$ 2,153	\$ 28,365
Letters of credit as security for self-insured risk retention policies	7,661	680	—	—	—	8,341
Total Commercial Commitments	\$ 29,790	\$ 4,729	\$ 14	\$ 20	\$ 2,153	\$ 36,706

CRITICAL ACCOUNTING POLICIES, ESTIMATES, AND ASSUMPTIONS

The following subsections describe our most critical accounting policies, estimates, and assumptions. Our accounting policies are more fully described in note 1 to our consolidated financial statements titled, "Nature of Operations and Summary of Significant Accounting Policies."

Estimates and Assumptions. Our discussion and analysis of financial condition and results of operations is based on our consolidated financial statements that were prepared in accordance with United States generally accepted accounting principles. We make certain estimates and assumptions that we believe to be reasonable when preparing these financial statements. These estimates and assumptions involve judgments with respect to numerous factors that are difficult to predict and are beyond management's control. As a result, actual amounts could be materially different from these estimates. We periodically review these critical accounting policies, estimates, assumptions, and the related disclosures with the Audit and Financial Policy Committee of the Company's Board of Directors.

Revenue Recognition. We recognize revenue for products when ownership passes to the Customer, which is based on contract or shipping terms and for services when the service is provided to the Customer. Our Customers include end users as well as dealers and distributors who market and sell our products. Our revenue is not contingent upon resale by the dealer or distributor. We have no further obligations related to bringing about resale, and our standard return and restocking fee policies are applied.

We also have individual Customer contracts that offer extended payment terms and/or discounted pricing. Dealers and distributors may be offered sales incentives in the form of rebates. We reduce revenue for discounts and estimated returns, rebates, and other similar allowances in the same period the related revenues are recorded. Returns, rebates, and similar allowances are estimated based on historical experience and trend analysis.

In transactions that contain multiple elements, such as when products, maintenance services, and other services are combined, we recognize revenue as each product is delivered or service is provided to the Customer. We allocate the total arrangement consideration to each element based on its relative fair value, based on the price for the product or service when it is sold separately.

We offer preventative maintenance agreements to our Customers with contract terms that range from one to five years, which require us to maintain and repair our products during this time. Amounts received under these Customer contracts are initially recorded as deferred service revenues and then recognized as service revenues ratably over the contract term.

We classify shipping and handling amounts billed to Customers in sales transactions as revenues.

Allowance for Doubtful Accounts Receivable. We maintain an allowance for uncollectible accounts receivable for estimated losses in the collection of amounts owed by Customers. We estimate the allowance based on analyzing a number of factors, including amounts written off historically, Customer payment practices, and general economic conditions. We also analyze significant Customer accounts on a regular basis and record a specific allowance when we become aware of a specific Customer's inability to pay. As a result, the related accounts receivable are reduced to an amount that we reasonably believe is collectible. These analyses require a considerable amount of judgment. If the financial condition of our Customers worsens, or economic conditions change, we may be required to make changes to our allowance for doubtful accounts receivable.

Allowance for Sales Returns. We maintain an allowance for sales returns based upon known returns and estimated returns for both capital equipment and consumables. We estimate returns of capital equipment and consumables based upon historical experience less the estimated inventory value of the returned goods.

Inventories and Reserves. Inventories are stated at the lower of their cost or market value. We determine cost based upon a combination of the last-in, first-out ("LIFO") and first-in, first-out ("FIFO") cost methods. We determine the LIFO inventory value at the end of the year based on inventory levels and costs at that time. For inventories valued using the LIFO method, we believe that the use of the LIFO method results in a matching of current costs and revenues. Inventories valued using the LIFO method represented approximately 41.8% and 42.2% of total inventories at March 31, 2010 and 2009, respectively. Inventory costs include material, labor, and overhead. If we had used only the FIFO method of inventory costing, inventories would have been \$16.0 million and \$16.4 million higher than those reported at March 31, 2010 and 2009, respectively.

We review the net realizable value of inventory on an ongoing basis, considering factors such as deterioration, obsolescence, and other items. We record an allowance for estimated losses when the facts and circumstances indicate that particular inventories will not be usable. If future market

[Table of Contents](#)

conditions vary from those projected, and our estimates prove to be inaccurate, we may be required to write-down inventory values and record an adjustment to cost of revenues.

Asset Impairment Losses. Property, plant, equipment, and identifiable intangible assets (except for goodwill and intangible assets with indefinite lives) are reviewed for impairment when events and circumstances indicate that the carrying value of such assets may not be recoverable. Impaired assets are recorded at the lower of carrying value or estimated fair value. We conduct this review on an ongoing basis and, if impairment exists, we record the loss in the Consolidated Statements of Income during that period.

When we evaluate assets for impairment, we make certain judgments and estimates, including interpreting current economic indicators and market valuations, evaluating our strategic plans with regards to operations, historical and anticipated performance of operations, and other factors. If we incorrectly anticipate these factors, or unexpected events occur, our operating results could be materially affected.

Restructuring-Related Expenses and Accruals. We have recorded specific accruals in connection with plans for restructuring elements of our business. These accruals include estimates principally related to employee separation costs, the closure and/or consolidation of facilities, contractual obligations, and the valuation of certain assets including property, plant, and equipment. Actual amounts could differ from the original estimates.

We review our restructuring-related accruals on a quarterly basis and changes to plans are appropriately recognized in the Consolidated Statements of Income in the period the change is identified. Note 2 to our consolidated financial statements titled, "Restructuring," summarizes our restructuring plans.

Purchase Accounting and Goodwill. We account for business acquisitions using the purchase method of accounting. This method requires us to record the assets and liabilities of the business acquired at their estimated fair values as of the acquisition date. Any excess of the cost of the acquisition over the fair value of the net tangible and intangible assets acquired is recorded as goodwill. We use valuation specialists with expertise in performing appraisals to assist us in determining the fair values of assets acquired and liabilities assumed. These valuations require us to make estimates and assumptions, especially with respect to intangible assets. We generally amortize our intangible assets over their useful lives. We do not amortize goodwill, but we evaluate it annually for impairment. Therefore, the allocation of acquisition costs to intangible assets and goodwill has a significant impact on future operating results.

We evaluate the recoverability of recorded goodwill amounts annually, or when evidence of potential impairment exists. This evaluation requires a valuation of the underlying business. The valuation can be significantly affected by estimates of future performance and discount rates over a relatively long period of time, market price valuation multiples, allocation of assets, and other factors. Using different assumptions in our valuation could result in significantly different estimates of the fair value of the reporting units, which could result in the impairment of goodwill.

We performed our annual goodwill impairment evaluation as of October 31, 2009. As a result of this evaluation, we determined that there was no impairment of the recorded goodwill amounts.

Income Taxes. Our provision for income taxes is based on our current period income, changes in deferred income tax assets and liabilities, income tax rates, changes in uncertain tax benefits, and tax planning opportunities available to us in the various jurisdictions in which we operate. Tax laws are complex and subject to different interpretations by the taxpayer and the respective governmental taxing authorities. We use significant judgment in determining our annual effective income tax rate and evaluating our tax positions. We prepare and file tax returns based on our interpretation of tax laws and regulations, and we record estimates based on these judgments and interpretations. We cannot be sure that the tax authorities will agree with all of the tax positions taken by us. The actual income tax liability for each jurisdiction in any year can, in some instances, be ultimately determined several years after the tax return is filed and the financial statements are published.

We evaluate our tax positions using the recognition threshold and measurement attribute in accordance with current accounting guidance. We determine whether it is more-likely-than-not that a tax position will be sustained upon examination, including resolution of related appeals or litigation processes, based on the technical merits of the position. In evaluating whether a tax position has met the more-likely-than-not recognition threshold, we presume that the position will be examined by the appropriate taxing authority and that the taxing authority will have full knowledge of all relevant information. A tax position that meets the more-likely-than-not recognition threshold is measured at the largest amount of benefit that is greater than 50 percent likely of being realized upon ultimate settlement. The appropriate unit of account for determining what constitutes an individual tax position, and whether the more-likely-than-not recognition threshold is met for a tax position, is a matter of judgment based on the individual facts and circumstances of that position evaluated in light of all available evidence. We review and adjust our tax estimates periodically because of ongoing examinations by and settlements with the various taxing authorities, as well as changes in tax laws, regulations and precedent.

[Table of Contents](#)

We recognize deferred tax assets and liabilities based on the differences between the financial statement carrying amounts and the tax basis of assets and liabilities. We regularly review our deferred tax assets for recoverability and establish a valuation allowance based on historical taxable income, projected future taxable income, the expected timing of the reversals of existing temporary differences, and the implementation of tax planning strategies. If we are unable to generate sufficient future taxable income in certain tax jurisdictions, or if there is a material change in the effective income tax rates or time period within which the underlying temporary differences become taxable or deductible, we could be required to increase our valuation allowance, which would increase our effective income tax rate and could result in an adverse impact on our consolidated financial position, results of operations, or cash flows.

We believe that adequate accruals have been made for income taxes. Differences between the estimated and actual amounts determined upon ultimate resolution, individually or in the aggregate, are not expected to have a material adverse effect on our consolidated financial position, but could possibly be material to our consolidated results of operations or cash flow for any one period.

Additional information regarding income taxes is included in note 9 to our consolidated financial statements titled, "Income Taxes."

Self-Insurance Liabilities. We record a liability for self-insured risks that we retain for general and product liabilities, workers' compensation, and automobile liabilities based on actuarial calculations. We use our historical loss experience and actuarial methods to calculate the estimated liability. This liability includes estimated amounts for both losses and incurred but not reported claims. We review the assumptions used to calculate the estimated liability at least annually to evaluate the adequacy of the amount recorded. We maintain insurance policies to cover losses greater than our estimated liability, which are subject to the terms and conditions of those policies. Our accrual for self-insured risk retention as of March 31, 2010 and 2009 was \$13.1 million and \$15.3 million, respectively.

We are also self-insured for employee medical claims. We estimate a liability for incurred but not reported claims based upon recent claims experience.

Our self-insured liabilities contain uncertainties because management must make assumptions and apply judgments to estimate the ultimate cost to settle reported claims and claims incurred but not reported as of the balance sheet date. If actual results are not consistent with these assumptions and judgments, we could be exposed to additional costs in subsequent periods.

Warranty Reserves. We generally offer a limited one-year parts and labor warranty on our capital equipment. The specific terms and conditions of warranties vary depending on the product sold and the country where we conduct business. We record a liability for the estimated cost of product warranties in the period revenues are recognized. We estimate warranty expenses based primarily on historical warranty claim experience. While we have extensive quality programs and processes and actively monitor and evaluate the quality of suppliers, actual warranty experience could be different from our estimates. If actual product failure rates, material usage, or service costs are different from our estimates, we may have to record an adjustment to the estimated warranty liability. As of March 31, 2010 and 2009, we had accrued \$6.1 million and \$7.6 million, respectively, for warranty exposures.

Contingencies. We are, and are likely to continue to be involved in a number of legal proceedings, government investigations, and claims, which we believe generally arise in the course of our business, given our size, history, complexity, the nature of our business, Customers, regulatory environment, and industries in which we participate. These legal proceedings, government investigations, and claims generally involve a variety of legal theories and allegations, including, without limitation, personal injury (e.g., slips and falls, burns, vehicle accidents), product liability or regulation (e.g., based on product operation or claimed malfunction, failure to warn, failure to meet specification, or failure to comply with regulatory requirements), product exposure (e.g., claimed exposure to chemical, asbestos, contaminants, radiation, property damage, claimed damage due to leaking equipment, fire, vehicles, chemicals), commercial claims (e.g., breach of contract, economic loss, warranty, misrepresentation), financial (e.g., taxes, reporting), employment (e.g., wrongful termination, discrimination, benefits matters), and other claims for damage and relief.

We record a liability for such contingencies to the extent 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 claims is not anticipated to have a material adverse affect on our consolidated financial position, results of operations, or cash flows. However, the ultimate outcome of proceedings, government investigations, and claims is unpredictable and actual results could be materially different from our estimates. We record expected recoveries under applicable insurance contracts when we are assured of recovery. Refer to Part I, Item 3, "Legal Proceedings" for additional information.

[Table of Contents](#)

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 11 to our consolidated financial statements titled, "Commitments and Contingencies."

Benefit Plans. We provide defined benefit pension plans for certain current and former manufacturing and plant administrative personnel throughout the world as determined by collective bargaining agreements or employee benefit standards set at the time of acquisition of certain businesses. As of March 31, 2010, we sponsored defined benefit pension plans for eligible participants in the United States and Switzerland. In addition, as of March 31, 2010, we sponsored an unfunded post-retirement welfare benefits plan for two groups of United States employees, including the same employees who receive pension benefits under the United States defined benefit pension plans. Benefits under this plan include retiree life insurance and retiree medical insurance, including prescription drug coverage.

Employee pension and post-retirement welfare benefits plans are a significant cost of conducting business and represent obligations that will be settled far in the future and therefore, require us to use estimates and make certain assumptions to calculate the expense and liabilities related to the plans. Changes to these estimates and assumptions can result in different expense and liability amounts. Future actual experience may be significantly different from our current expectations. We believe that the most critical assumptions used to determine net periodic benefit costs and projected benefit obligations are the expected long-term rate of return on plan assets and the discount rate. A summary of significant assumptions used to determine the March 31, 2010 projected benefit obligations and the fiscal 2010 net periodic benefit costs is as follows:

Funding Status	Defined Benefit Pension Plans		Other Post-Retirement Plan
	U.S. Qualified	International	
	Funded	Funded	Unfunded
Assumptions used to determine March 31, 2010 benefit obligations:			
Discount rate	5.75%	3.00%	5.00%
Expected return on plan assets	8.00%	4.00%	NA
Assumptions used to determine fiscal 2010 net periodic benefit costs:			
Discount rate	7.50%	3.25%	7.00%
Expected return on plan assets	8.00%	4.50%	NA

NA – Not applicable.

We develop our expected long-term rate of return on plan assets assumptions by evaluating input from third-party professional advisors, taking into consideration the asset allocation of the portfolios, and the long-term asset class return expectations. Generally, net periodic benefit costs and projected benefit obligations both increase as the expected long-term rate of return on plan assets assumption decreases. Holding all other assumptions constant, lowering the expected long-term rate of return on plan assets assumption for our funded defined benefit pension plans by 50 basis points would have increased the fiscal 2010 benefit costs by \$0.2 million. The projected benefit obligations at March 31, 2010 would remain approximately the same.

[Table of Contents](#)

We develop our discount rate assumptions by evaluating input from third-party professional advisors, taking into consideration the current yield on country specific investment grade long-term bonds which provide for similar cash flow streams as our projected benefit obligations. Generally, the projected benefit obligations and the net periodic benefit costs both increase as the discount rate assumption decreases. Holding all other assumptions constant, lowering the discount rate assumption for our defined benefit pension plans and for the other post-retirement plan by 50 basis points would have increased the fiscal 2010 net periodic benefit costs by approximately \$0.1 million and would have increased the projected benefit obligations by approximately \$4.1 million at March 31, 2010.

We have made assumptions regarding healthcare costs in computing our other post-retirement benefit obligation. The assumed rates of increase generally decline ratably over a five year-period from the assumed current year healthcare cost trend rate to the assumed long-term healthcare cost trend rate. A 100 basis point change in the assumed healthcare cost trend rate (including medical, prescription drug, and long-term rates) would have had the following effect at March 31, 2010:

(dollars in thousands)	100 Basis Point	
	Increase	Decrease
Effect on total service and interest cost components	\$ 20	\$ (19)
Effect on postretirement benefit obligation	262	(252)

We recognize an asset for the overfunded status or a liability for the underfunded status of defined benefit pension and post-retirement benefit plans in our balance sheets. This amount is measured as the difference between the fair value of plan assets and the benefit obligation (the projected benefit obligation for pension plans and the accumulated post-retirement benefit obligation for other post-retirement benefit plans). Changes in the funded status of the plans are recorded in other comprehensive income in the year they occur. We measure plan assets and obligations as of the balance sheet date. Note 10 to our consolidated financial statements titled, "Benefit Plans," contains additional information about our pension and other post-retirement welfare benefits plans.

We concluded that the prescription drug benefit provided in our post-retirement welfare benefits plan is considered to be actuarially equivalent to the benefit provided under the Medicare Prescription Drug, Improvement, and Modernization Act of 2003 (the "Act") and thus qualifies for the subsidy under the Act. The expected future subsidies reduced our accumulated post-retirement benefit obligation and our net periodic benefit cost as of and for the fiscal year ended March 31, 2010 by approximately \$3.5 million and \$0.7 million, respectively. We collected subsidies totaling approximately \$0.1 million and \$0.5 million during fiscal 2010 and fiscal 2009, respectively, which reduced our net post-retirement medical payments.

Share-Based Compensation. We measure the estimated fair value for all share-based compensation awards, including grants of employee stock options at the grant date and recognize the related compensation expense over the period in which the share-based compensation vests. We selected the Black-Scholes-Merton option pricing model as the most appropriate method for determining the estimated fair value of our share-based compensation awards. This model involves assumptions that are judgmental and affect share-based compensation expense.

Share-based compensation expense was \$7.4 million in both fiscal 2010 and fiscal 2009, and \$8.6 million in fiscal 2008. Note 15 to our consolidated financial statements titled, "Share-Based Compensation," contains additional information about our various share-based compensation plans.

RECENTLY ISSUED ACCOUNTING STANDARDS IMPACTING THE COMPANY

Recently issued accounting standards that are relevant to us are presented in note 1 to our consolidated financial statements titled, "Nature of Operations and Summary of Significant Accounting Policies."

INFLATION

Our business has not been significantly impacted by the overall effects of inflation. We monitor the prices we charge for our products and services on an ongoing basis and plan to adjust those prices to take into account future changes in the rate of inflation. However, we may not be able to completely offset the impact of inflation.

FORWARD-LOOKING STATEMENTS

This Annual Report on Form 10-K 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,” “potential,” “confidence,” “improve,” “optimistic,” “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 in this Form 10-K and other securities filings. Many of these important factors are outside of our control. No assurances can be provided as to any outcome from litigation, regulatory action, administrative proceedings, governmental investigations, warning letters, cost reductions, business strategies, earnings and revenue trends, expense reduction, or other future financial results. Reference in this Form 10-K to the Consent Decree, Transition Plan, or other program, or products are summaries only and do not alter or modify the specific terms of the Consent Decree Transition Plan, program or product terms, clearance or literature. Consult product labeling for specific product information and indications for use. Unless legally required, we do 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 our 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, the previously disclosed FDA warning letters, government investigations, the December 3, 2009 or February 22, 2010 FDA notices, the Consent Decree, Transition Plan or Rebate Program or other requirements or standards may delay, limit or prevent new product introductions, affect the production and marketing of existing products, or otherwise affect our 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 our products and services, (f) the possibility that anticipated growth, cost savings, 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 limitations, the Consent Decree, the transition to the new liquid chemical sterilant processing system, or those matters described in this Form 10-K may adversely impact Company performance, results, prospects, or value, and (g) the effect of the contraction of 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 this Annual Report on Form 10-K for the year ended March 31, 2010.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

In the ordinary course of business, we are exposed to various risks, including, but not limited to, interest rate, foreign currency, and commodity risks. These risks are described in the sections that follow.

INTEREST RATE RISK

As of March 31, 2010, we had \$210.0 million in fixed rate senior notes outstanding. We had no outstanding borrowings under our revolving credit facility. If we utilize the revolving credit facility, we would be exposed to changes in interest rates in the case of floating rate revolving credit facility borrowings. We monitor our interest rate risk, but do not engage in any hedging activities using derivative financial instruments. For additional information regarding our debt structure, refer to note 7 to our Consolidated Financial Statements titled, "Debt."

FOREIGN CURRENCY RISK

We are exposed to the impact of foreign currency exchange fluctuations. This foreign currency exchange risk arises when we conduct business in a currency other than the U.S. dollar. For most international operations, local currencies have been determined to be the functional currencies. The financial statements of international subsidiaries are translated to their U.S. dollar equivalents at end-of-period exchange rates for assets and liabilities and at average currency exchange rates for revenues and expenses. Translation adjustments for international subsidiaries whose local currency is their functional currency are recorded as a component of accumulated other comprehensive income (loss) within shareholders' equity. Note 3 to our consolidated financial statements titled, "Accumulated Other Comprehensive Income (Loss)," contains additional information about the impact of translation on accumulated other comprehensive income (loss) and shareholders' equity. Transaction gains and losses arising from fluctuations in currency exchange rates on transactions denominated in currencies other than the functional currency are recognized in the Consolidated Statements of Income. Since we operate internationally and approximately 24.5% of our fiscal 2010 revenues and 29.9% of our fiscal 2010 cost of revenues were generated outside the United States, foreign currency exchange rate fluctuations can significantly impact our financial position, results of operations, and competitive position.

We enter into foreign currency forward contracts to hedge assets and liabilities denominated in foreign currencies, including inter-company transactions. We do not use derivative financial instruments for speculative purposes. At March 31, 2010, we held foreign currency forward contracts to buy 43.0 million Mexican pesos.

COMMODITY RISK

We are dependent on basic raw materials, sub-assemblies, components, and other supplies used in our operations. Our financial results could be affected by the availability and changes in prices of these materials. Some of these materials are sourced from a limited number of suppliers. These materials are also key source materials for our competitors. Therefore, if demand for these materials rises, we may experience increased costs and/or limited supplies. As a result, we may not be able to acquire key production materials on a timely basis, which could impact our ability to produce products and satisfy incoming sales orders on a timely basis. In addition, the costs of these materials can rise suddenly and result in significantly higher costs of production. We believe that we have adequate primary and secondary sources of supply in each of our key materials and energy sources. Where appropriate, we enter into long-term supply contracts as a basis to guarantee a reliable supply. We also enter into commodity swap contracts to hedge price changes in certain commodities that impact raw materials included in our cost of revenues. At March 31, 2010, we held commodity swap contracts to buy 228,500 pounds of nickel.

[Table of Contents](#)

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

INDEX TO FINANCIAL STATEMENTS AND FINANCIAL STATEMENT SCHEDULE

	Page
Report of Management	58
Reports of Independent Registered Public Accounting Firm	59
Consolidated Financial Statements:	
Consolidated Balance Sheets	61
Consolidated Statements of Income	62
Consolidated Statements of Cash Flows	63
Consolidated Statements of Shareholders' Equity	64
Notes to Consolidated Financial Statements	65
Financial Statement Schedule:	
Schedule II – Valuation and Qualifying Accounts	101

REPORT OF MANAGEMENT

Board of Directors and Shareholders
STERIS Corporation

Management of STERIS Corporation (the “Company”) is responsible for the preparation of the consolidated financial statements and disclosures included in this Annual Report. Management believes that the consolidated financial statements and disclosures have been prepared in accordance with accounting principles generally accepted in the United States and that any amounts included herein which are based on estimates of the expected effects of events and transactions have been made with sound judgment and approved by qualified personnel. The opinion of Ernst & Young LLP, an independent registered public accounting firm, on the financial statements is included herein.

Management of the Company is responsible for establishing and maintaining adequate internal control over financial reporting as defined in Exchange Act Rule 13a-15(f).

Management has used the criteria established in *Internal Control-Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (the “COSO criteria”) to evaluate the effectiveness of internal control over financial reporting as of March 31, 2010.

Based on this evaluation under the COSO criteria, management has concluded that the Company’s internal control over financial reporting was effective as of March 31, 2010. There were no material weaknesses in internal control over financial reporting identified by management.

The Audit and Financial Policy Committee of the Board of Directors of the Company is composed of directors who are not officers of the Company. It meets regularly with members of management, internal auditors, and the representatives of the independent registered public accounting firm to discuss the adequacy of the Company’s internal control over financial reporting, financial statements, and the nature, extent, and results of the audit effort. Management reviews with the Audit and Financial Policy Committee all of the Company’s significant accounting policies and assumptions affecting the results of operations. Both the independent registered public accounting firm and the internal auditors have direct access to the Audit and Financial Policy Committee without the presence of management.

/s/ WALTER M ROSEBROUGH, JR.

Walter M Rosebrough, Jr.
President and Chief Executive Officer

/s/ MICHAEL J. TOKICH

Michael J. Tokich
Senior Vice President and Chief Financial Officer

May 28, 2010

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Board of Directors and Shareholders
STERIS Corporation

We have audited STERIS Corporation and subsidiaries' internal control over financial reporting as of March 31, 2010, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (the "COSO criteria"). STERIS Corporation and subsidiaries' management is responsible for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management's Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on STERIS Corporation and subsidiaries' internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, STERIS Corporation and subsidiaries maintained, in all material respects, effective internal control over financial reporting as of March 31, 2010, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of STERIS Corporation and subsidiaries as of March 31, 2010 and 2009, and the related consolidated statements of income, shareholders' equity, and cash flows for each of the three years in the period ended March 31, 2010, and our report dated May 28, 2010 expressed an unqualified opinion thereon.

/s/ ERNST & YOUNG LLP

Cleveland, Ohio
May 28, 2010

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Board of Directors and Shareholders
STERIS Corporation

We have audited the accompanying consolidated balance sheets of STERIS Corporation and subsidiaries as of March 31, 2010 and 2009, and the related consolidated statements of income, shareholders' equity, and cash flows for each of the three years in the period ended March 31, 2010. Our audits also included the financial statement schedule listed in the Index at Item 8 Schedule II. These financial statements and schedule are the responsibility of STERIS Corporation and subsidiaries' management. Our responsibility is to express an opinion on these financial statements and schedule based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of STERIS Corporation and subsidiaries at March 31, 2010 and 2009, and the consolidated results of their operations and their cash flows for each of the three years in the period ended March 31, 2010, in conformity with U.S. generally accepted accounting principles. Also, in our opinion, the related financial statement schedule, when considered in relation to the basic financial statements taken as a whole, presents fairly in all material respects the information set forth therein.

As discussed in Note 9 to the consolidated financial statements, effective April 1, 2007 STERIS Corporation and subsidiaries changed its method of accounting for uncertain tax positions.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the effectiveness of STERIS Corporation and subsidiaries' internal control over financial reporting as of March 31, 2010, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission, and our report dated May 28, 2010 expressed an unqualified opinion thereon.

/s/ ERNST & YOUNG LLP

Cleveland, Ohio
May 28, 2010

STERIS CORPORATION AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(in thousands)

March 31,	2010	2009
Assets		
Current Assets:		
Cash and cash equivalents	\$ 214,971	\$ 154,180
Accounts receivable (net of allowances of \$9,238 and \$10,728, respectively)	214,940	238,438
Inventories, net	121,135	130,218
Deferred income taxes	6,976	7,195
Prepaid expenses and other current assets	18,435	23,099
Total Current Assets	576,457	553,130
Property, plant, and equipment, net	346,858	350,996
Goodwill and intangibles, net	305,311	305,189
Other assets	9,776	7,624
Total Assets	\$1,238,402	\$1,216,939
Liabilities and Shareholders' Equity		
Current Liabilities:		
Accounts payable	\$ 66,035	\$ 68,573
Accrued payroll and other related liabilities	58,986	59,702
Accrued expenses and other	72,108	73,751
Total Current Liabilities	197,129	202,026
Long-term indebtedness	210,000	210,000
Deferred income taxes, net	20,749	18,109
Other liabilities	56,030	68,639
Total Liabilities	\$ 483,908	\$ 498,774
Commitments and Contingencies (see note 11)		
Serial preferred shares, without par value, 3,000 shares authorized; no shares issued or outstanding	—	—
Common shares, without par value, 300,000 shares authorized; 70,040 shares issued; 59,227 and 58,452 shares outstanding, respectively	237,165	232,282
Common shares held in treasury, 10,813 and 11,588 shares, respectively	(295,251)	(313,105)
Retained earnings	798,809	814,359
Accumulated other comprehensive income (loss)	12,991	(15,800)
Total shareholders' equity	753,714	717,736
Noncontrolling interest	780	429
Total equity	754,494	718,165
Total liabilities and equity	\$1,238,402	\$1,216,939

See notes to consolidated financial statements.

STERIS CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME
(in thousands, except per share amounts)

Years Ended March 31,	2010	2009	2008
Revenues:			
Product	\$ 799,002	\$ 831,529	\$ 812,058
Service	458,731	466,996	453,032
Total Revenues	1,257,733	1,298,525	1,265,090
Cost of Revenues:			
Product	454,988	496,915	490,124
Service	263,564	274,868	264,363
Total Cost of Revenues	718,552	771,783	754,487
Gross Profit	539,181	526,742	510,603
Operating Expenses:			
Selling, general, and administrative	296,613	314,983	334,681
Research and development	34,008	32,760	36,916
Restructuring expenses	4,848	3,554	15,461
Total Operating Expenses	335,469	351,297	387,058
Income From Operations	203,712	175,445	123,545
Non-operating Expenses:			
Interest expense	13,171	10,563	5,979
Interest and miscellaneous income	(1,275)	(1,603)	(2,233)
Total Non-operating Expenses, Net	11,896	8,960	3,746
Income Before Income Tax Expense	191,816	166,485	119,799
Income tax expense	63,349	55,800	42,693
Net Income	\$ 128,467	\$ 110,685	\$ 77,106
Earnings Per Common Share:			
Earnings per share – basic	\$ 2.18	\$ 1.88	\$ 1.22
Earnings per share – diluted	\$ 2.16	\$ 1.86	\$ 1.20
Cash Dividends Declared Per Common Share Outstanding	\$ 2.44	\$ 0.30	\$ 0.23

See notes to consolidated financial statements.

STERIS CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(in thousands)

Years Ended March 31,	2010	2009	2008
Operating Activities:			
Net income	\$ 128,467	\$ 110,685	\$ 77,106
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation, depletion, and amortization	56,218	58,773	62,778
Deferred income taxes	2,178	6,817	(10,160)
Share-based compensation expense	7,370	7,370	8,617
Loss (gain) on the disposal of property, plant, equipment, and intangibles, net	2,085	(2,755)	5,793
Other items	1,563	(11,783)	512
Changes in operating assets and liabilities			
Accounts receivable, net	27,764	454	9,173
Inventories, net	15,271	675	(4,903)
Other current assets	5,351	10,840	539
Accounts payable	(4,522)	(2,741)	(3,120)
Accruals and other, net	(16,791)	(10,951)	(2,934)
Net Cash Provided by Operating Activities	224,954	167,384	143,401
Investing Activities:			
Purchases of property, plant, equipment, and intangibles, net	(44,087)	(40,889)	(56,974)
Proceeds from the sale of property, plant, equipment, and intangibles	3,105	19,341	5,154
Equity investments in joint ventures	(1,500)	(4,150)	—
Net Cash Used in Investing Activities	(42,482)	(25,698)	(51,820)
Financing activities:			
Proceeds from the issuance of long-term obligations	—	150,000	—
Payments on long-term obligations and capital leases	—	(40,800)	(700)
(Payments) proceeds under credit facility, net	—	(79,180)	79,180
Deferred financing fees and debt issuance costs	—	(476)	(443)
Repurchases of common shares	(310)	(80,466)	(177,171)
Cash dividends paid to common shareholders	(144,017)	(17,657)	(14,609)
Stock option and other equity transactions, net	14,047	33,621	14,619
Tax benefit from stock options exercised	2,467	6,982	3,194
Net Cash Used in Financing Activities	(127,813)	(27,976)	(95,930)
Effect of exchange rate changes on cash and cash equivalents	6,132	(11,398)	3,921
Increase (decrease) in cash and cash equivalents	60,791	102,312	(428)
Cash and cash equivalents at beginning of year	154,180	51,868	52,296
Cash and cash equivalents at end of year	\$ 214,971	\$ 154,180	\$ 51,868

See notes to consolidated financial statements.

STERIS CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY
(in thousands)

	Common Shares		Treasury Shares		Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Noncontrolling Interest	Total Equity
	Number	Amount	Number	Amount				
Balance at March 31, 2007	64,982	\$224,974	5,058	\$ (122,508)	\$ 667,267	\$ 4,559	\$ —	\$ 774,292
Adjustment recognized upon adoption of change in accounting for uncertain tax positions	—	—	—	—	(8,433)	—	—	(8,433)
Comprehensive income:								
Net income	—	—	—	—	77,106	—	—	77,106
Pension and postretirement liability adjustment, (net of income tax of \$2,169)	—	—	—	—	—	(3,601)	—	(3,601)
Unrealized loss on investments	—	—	—	—	—	(189)	—	(189)
Foreign currency translation adjustment	—	—	—	—	—	32,327	—	32,327
Total comprehensive income	—	—	—	—	—	—	—	105,643
Repurchases of common shares	(6,600)	—	6,600	(177,171)	—	—	—	(177,171)
Equity compensation programs	881	3,398	(881)	19,838	—	—	—	23,236
Tax benefit of stock options exercised	—	3,194	—	—	—	—	—	3,194
Cash dividends – \$0.23 per common share	—	—	—	—	(14,609)	—	—	(14,609)
Change in noncontrolling interest	—	—	—	—	—	—	323	323
Balance at March 31, 2008	59,263	231,566	10,777	(279,841)	721,331	33,096	323	706,475
Comprehensive income:								
Net income	—	—	—	—	110,685	—	—	110,685
Pension and postretirement liability adjustment, (net of income tax of \$18,602)	—	—	—	—	—	20,933	—	20,933
Unrealized loss on investments	—	—	—	—	—	(318)	—	(318)
Foreign currency translation adjustment	—	—	—	—	—	(69,511)	—	(69,511)
Total comprehensive income	—	—	—	—	—	—	—	61,789
Repurchases of common shares	(2,646)	—	2,646	(80,466)	—	—	—	(80,466)
Equity compensation programs	1,835	(6,266)	(1,835)	47,202	—	—	—	40,936
Tax benefit of stock options exercised	—	6,982	—	—	—	—	—	6,982
Cash dividends – \$0.30 per common share	—	—	—	—	(17,657)	—	—	(17,657)
Change in noncontrolling interest	—	—	—	—	—	—	106	106
Balance at March 31, 2009	58,452	232,282	11,588	(313,105)	814,359	(15,800)	429	718,165
Comprehensive income:								
Net income	—	—	—	—	128,467	—	—	128,467
Pension and postretirement liability adjustment, (net of income tax of \$790)	—	—	—	—	—	554	—	554
Unrealized gain on investments	—	—	—	—	—	423	—	423
Foreign currency translation adjustment	—	—	—	—	—	27,814	—	27,814
Total comprehensive income	—	—	—	—	—	—	—	157,258
Repurchases of common shares	(24)	—	24	(310)	—	—	—	(310)
Equity compensation programs	799	2,416	(799)	18,164	—	—	—	20,580
Tax benefit of stock options exercised	—	2,467	—	—	—	—	—	2,467
Cash dividends – \$2.44 per common share	—	—	—	—	(144,017)	—	—	(144,017)
Change in noncontrolling interest	—	—	—	—	—	—	351	351
Balance at March 31, 2010	59,227	\$237,165	10,813	\$(295,251)	\$ 798,809	\$12,991	\$780	\$ 754,494

See notes to consolidated financial statements.

STERIS CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(dollars in thousands, except per share amounts)

1. NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations. STERIS Corporation, an Ohio corporation, together with its subsidiaries, develops, manufactures, and markets infection prevention, contamination control, microbial reduction, and surgical support products and services for healthcare, pharmaceutical, scientific, research, industrial, and governmental Customers throughout the world. As used in this Annual Report, STERIS Corporation and its subsidiaries together are called "STERIS," the "Company," "we," "us," or "our," unless otherwise noted.

We operate in three reportable business segments: Healthcare, Life Sciences, and STERIS Isomedix Services ("Isomedix"). We describe our operating segments in note 12. Our fiscal year ends on March 31. References in this Annual Report to a particular "year" or "year-end" mean our fiscal year. The significant accounting policies applied in preparing the accompanying consolidated financial statements of the Company are summarized below:

Principles of Consolidation. We use the consolidation method to report our investment in our subsidiaries. Consolidation means that we combine the accounts of our wholly-owned subsidiaries with our accounts. Therefore, the accompanying consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries. We eliminate inter-company accounts and transactions when we consolidate these accounts.

Use of Estimates. The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and related notes to financial statements. Actual results could differ from those estimates. On an ongoing basis, we revise the estimates and assumptions as new information becomes available.

Cash Equivalents and Supplemental Cash Flow Information. Cash equivalents are all highly liquid investments with a maturity of three months or less when purchased.

Information supplementing our Consolidated Statements of Cash Flows is as follows:

Years Ended March 31,	2010	2009	2008
Cash paid during the year for:			
Interest	\$ 13,360	\$ 10,748	\$ 6,020
Income taxes	61,988	48,489	54,164
Cash received during the year for income tax refunds	4,864	1,870	967

Revenue Recognition. We recognize revenue for products when ownership passes to the Customer, which is based on contract or shipping terms and for services when the service is provided to the Customer. Our Customers include end users as well as dealers and distributors who market and sell our products. Our revenue is not contingent upon resale by the dealer or distributor. We have no further obligations related to bringing about resale and our standard return and restocking fee policies are applied.

We also have individual Customer contracts that offer discounted pricing. Dealers and distributors may be offered sales incentives in the form of rebates. We reduce revenue for discounts and estimated returns, rebates, and other similar allowances in the same period the related revenues are recorded. Returns, rebates, and similar allowances are estimated based on historical experience and trend analysis.

In transactions that contain multiple elements, such as when products, maintenance services, and other services are combined, we recognize revenue as each product is delivered or service is provided to the Customer. We allocate the total arrangement consideration to each element based on its relative fair value, based on the price for the product or service when it is sold separately.

We offer preventative maintenance agreements to our Customers with contract terms of one to five years which require us to maintain and repair our products during this time. Amounts received under these Customer contracts are initially recorded as deferred service revenues and then recognized as service revenues ratably over the contract term.

STERIS CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(dollars in thousands, except per share amounts)

Accounts Receivable. Accounts receivable are presented at their face amount, less allowances for sales returns and uncollectible accounts. Accounts receivable consist of amounts billed and currently due from Customers and amounts earned but unbilled. We generally do not require collateral on sales.

We maintain an allowance for uncollectible accounts receivable for estimated losses in the collection of amounts owed by Customers. We estimate the allowance based on analyzing a number of factors, including amounts written off historically, Customer payment practices, and general economic conditions. We also analyze significant Customer accounts on a regular basis and record a specific allowance when we become aware of a specific Customer's inability to pay. As a result, the related accounts receivable are reduced to an amount that we reasonably believe is collectible.

We maintain an allowance for sales returns based upon known returns and estimated returns for both capital equipment and consumables. We estimate returns of capital equipment and consumables based upon recent historical experience less the estimated inventory value of the returned goods.

Inventories, net. Inventories are stated at the lower of their cost or market value. We determine cost based upon a combination of the last-in, first-out ("LIFO") and first-in, first-out ("FIFO") cost methods. For inventories valued using the LIFO method, we believe that the use of the LIFO method results in a matching of current costs and revenues. Inventories valued using the LIFO method represented approximately 41.8% and 42.2% of total inventories at March 31, 2010 and 2009, respectively. Inventory costs include material, labor, and overhead. If we had used only the FIFO method of inventory costing, inventories would have been \$15,961 and \$16,380 higher than those reported at March 31, 2010 and 2009, respectively.

We review the net realizable value of inventory on an ongoing basis, considering factors such as deterioration, obsolescence, and other items. We record an allowance for estimated losses when the facts and circumstances indicate that particular inventories will not be usable. If future market conditions vary from those projected, and our estimates prove to be inaccurate, we may be required to write-down inventory values and record an adjustment to cost of revenues.

Property, Plant, and Equipment. Our property, plant, and equipment consists of land and land improvements, buildings and leasehold improvements, machinery and equipment, information systems, radioisotope (cobalt-60), and construction in progress. Property, plant, and equipment are presented at cost less accumulated depreciation and depletion. We capitalize additions and improvements. Repairs and maintenance are charged to expense as they are incurred.

Land is not depreciated and construction in progress is not depreciated until placed in service. Depreciation of most assets is computed on the cost less the estimated salvage value by using the straight-line method over the estimated remaining useful lives. Depletion of radioisotope is computed using the annual decay factor of the material, which is similar to the sum-of-the-years-digits method.

We generally depreciate or deplete property, plant, and equipment over the useful lives presented in the following table:

Asset Type	Useful Life (years)
Land improvements	3-40
Buildings and leasehold improvements	2-50
Machinery and equipment	3-35
Information Systems	2-17
Radioisotope (cobalt-60)	20

When we sell, retire, or dispose of property, plant, and equipment, we remove the asset's cost and accumulated depreciation from our Consolidated Balance Sheets. We recognize the net gain or loss on the sale or disposition in the Consolidated Statements of Income in the period when the transaction occurs.

Interest. We capitalize interest costs incurred during the construction of long-lived assets. We capitalized interest costs of \$358 and \$920 for the years ended March 31, 2010 and 2009, respectively.

STERIS CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(dollars in thousands, except per share amounts)

Total interest expense for the years ended March 31, 2010, 2009, and 2008 was \$13,171, \$10,563, and \$5,979, respectively.

Identifiable Intangible Assets. Our identifiable intangible assets include product technology rights, trademarks, licenses, and Customer relationships. We record these assets at cost, or when acquired as part of a business acquisition, at estimated fair value. We generally amortize identifiable intangible assets over periods ranging from 5 to 20 years using the straight-line method.

Investments. Investments in marketable securities are stated at fair value. Fair value is determined using quoted market prices at the end of the reporting period. Unrealized gains and losses on marketable securities classified as available-for-sale are recorded in Accumulated Other Comprehensive Income (Loss).

Asset Impairment Losses. Property, plant, equipment, and identifiable intangible assets (except for goodwill and intangible assets with indefinite lives) are reviewed for impairment when events and circumstances indicate that the carrying value of such assets may not be recoverable. Impaired assets are recorded at the lower of carrying value or estimated fair value. We conduct this review on an ongoing basis and, if an impairment exists, we record the loss in the Consolidated Statements of Income during that period.

Business Acquisitions. We account for business acquisitions using the purchase method of accounting. This method requires us to record the assets and liabilities of the business acquired at their estimated fair values as of the acquisition date. Any excess of the cost of the acquisition over the fair value of the net tangible and intangible assets acquired is recorded as goodwill. We include certain transaction costs in determining the total cost of an acquisition. Operating results of the acquired businesses are included in the Consolidated Statements of Income from the acquisition date.

Goodwill. The goodwill presented in our Consolidated Balance Sheets represents the excess of the purchase price and related costs of businesses or assets we acquired over the fair value assigned to the identifiable net assets acquired. We review goodwill and indefinite-lived intangible assets at least annually for impairment. We use a two-step process to test goodwill for impairment. First, we compare the fair value of a reporting unit with its carrying amount, including goodwill. If the fair value of a reporting unit exceeds its carrying amount, we do not consider goodwill to be impaired. If the carrying amount of the reporting unit exceeds its fair value, the second step of the test is performed to measure the amount of any impairment loss. We compare the implied fair value of the reporting unit's goodwill to the carrying amount of the goodwill. If the carrying amount of the reporting unit's goodwill exceeds the fair value of that goodwill, we record an impairment loss in the Consolidated Statements of Income for an amount equal to that excess, but not more than the carrying amount of the goodwill.

Self-Insurance Liabilities. We record a liability for self-insured risks that we retain for general and product liabilities, workers' compensation, and automobile liabilities based on actuarial calculations. We use our historical loss experience and actuarial methods to calculate the liability. This liability includes estimates for both losses and incurred but not reported claims. We review the assumptions used to calculate the estimated liability at least annually to evaluate the adequacy of the amount recorded. We maintain insurance policies to cover losses greater than our estimated liability, which are subject to the terms and conditions of those policies.

We are also self-insured for employee medical claims. We estimate a liability for incurred but not reported claims based upon recent claims experience.

Benefit Plans. We sponsor defined benefit pension and other post-retirement welfare benefit plans for certain current and former employees. We determine our costs and obligations related to these plans by evaluating input from third-party professional advisors. These costs and obligations are affected by assumptions including the discount rate, expected long-term rate of return on plan assets, the annual rate of change in compensation for eligible employees, estimated changes in costs of healthcare benefits, and other factors. We review the assumptions used on an annual basis.

We recognize an asset for the overfunded status or a liability for the underfunded status of defined benefit pension and post-retirement benefit plans in our balance sheets. This amount is measured as the difference between the fair value of plan assets and the benefit obligation (the projected benefit

STERIS CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(dollars in thousands, except per share amounts)

obligation for pension plans and the accumulated post-retirement benefit obligation for other post-retirement benefit plans). Changes in the funded status of the plans are recorded in other comprehensive income in the year they occur. We measure plan assets and obligations as of the balance sheet date.

We provide additional information about our pension and other post-retirement welfare benefits plans in note 10 to our consolidated financial statements titled, "Benefit Plans."

Litigation and Contingencies. When we determine that it is probable that we have incurred a liability, and the amount of the liability can be reasonably estimated, we record a charge to earnings. We consider the facts and circumstances, including any settlement offers, associated with litigation and contingencies in making the determination.

Fair Value of Financial Instruments. Except for long-term debt, our financial instruments are highly liquid or have short-term maturities. Therefore, the recorded value is approximately equal to the fair value. We estimate the fair value of our long-term debt using discounted cash flow analyses, based on our current incremental borrowing rates for similar types of borrowing arrangements. We determined that the estimated fair value of our long-term debt is \$232,238 at March 31, 2010. The financial instruments we hold could potentially expose us to a concentration of credit risk. We invest our excess cash in money market funds and high-quality securities placed with major banks and financial institutions. We have established guidelines related to diversification and maturities to maintain safety and liquidity.

We provide additional information about the fair value of our financial instruments in note 18 titled, "Fair Value Measurements."

Foreign Currency Translation. Most of our international operations use their local currency as their functional currency. Financial statements of international subsidiaries are translated into U.S. dollars using the exchange rate at each balance sheet date for assets and liabilities and a weighted average exchange rate for each period for revenues, expenses, gains and losses. Translation adjustments for international subsidiaries whose local currency is their functional currency are recorded as a component of accumulated other comprehensive income (loss) within shareholders' equity. Transaction gains and losses resulting from fluctuations in currency exchange rates on transactions denominated in currencies other than the functional currency are recognized as incurred in the accompanying Consolidated Statements of Income, except for certain inter-company balances designated as long-term investments.

Foreign Currency Forward Contracts. We enter into foreign currency forward contracts to hedge assets and liabilities denominated in foreign currencies, including inter-company transactions. We do not use derivative financial instruments for speculative purposes. These contracts are marked to market, with gains and losses recognized within "Selling, general, and administrative expenses" in the accompanying Consolidated Statements of Income. At March 31, 2010, we held foreign currency forward contracts to buy 43.0 million Mexican pesos. At March 31, 2009, we held foreign currency forward contracts to buy 28.0 million Mexican pesos.

Warranty. Warranties are provided on the sale of certain of our products and services and an accrual for estimated future claims is recorded at the time revenue is recognized. We estimate warranty expense based primarily on historical warranty claim experience.

Shipping and Handling. We record shipping and handling costs in costs of revenues. Shipping and handling costs charged to Customers are recorded as revenues in the period the product revenues are recognized.

Advertising Expenses. Costs incurred for communicating, advertising and promoting our products are generally expensed when incurred as a component of Selling, General and Administrative Expense. We incurred \$6,468, \$7,198, and \$10,558 of advertising costs during the years ended March 31, 2010, 2009, and 2008, respectively.

Research and Development. We incur research and development costs associated with commercial products. We expense these costs in the Consolidated Statements of Income as incurred. If a Customer reimburses us for research and development costs, the costs are charged to the related contracts as costs of revenues.

STERIS CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(dollars in thousands, except per share amounts)

Income Taxes. Our income tax expense includes United States federal, state, and local, and foreign income taxes, and is based on reported pre-tax income. We defer income taxes for all temporary differences between pre-tax financial and taxable income and between the book and tax basis of assets and liabilities. We record valuation allowances to reduce net deferred tax assets to an amount that we expect will more-likely-than-not be realized. In making such a determination, we consider all available information, including scheduled reversals of deferred tax liabilities, projected future taxable income, tax planning strategies, and recent financial operations. In the event we were to determine that we would be able to realize our deferred income tax assets in the future in excess of their net recorded amount, we would make an adjustment to the valuation allowance which would reduce the provision for income taxes and the effective tax rate.

We evaluate uncertain tax positions in accordance with a two-step process. The first step is recognition: The determination of whether or not it is more-likely-than-not that a tax position will be sustained upon examination, including resolution of any related appeals or litigation processes, based on the technical merits of the position. In evaluating whether a tax position has met the more-likely-than-not recognition threshold, we presume that the position will be examined by the appropriate tax authority and that the tax authority will have full knowledge of all relevant information. The second step is measurement: A tax position that meets the more-likely-than-not threshold is measured to determine the amount of benefit to recognize in the financial statements. The measurement process requires the determination of the range of possible settlement amounts and the probability of achieving each of the possible settlements. The tax position is measured at the largest amount of benefit that is greater than fifty percent likely of being realized upon ultimate settlement. No tax benefits are recognized for positions that do not meet the more-likely-than-not threshold. Tax positions that previously failed to meet the more-likely-than-not threshold should be recognized in the first subsequent financial reporting period in which that threshold is met. Previously recognized tax positions that no longer meet the more-likely-than-not recognition threshold should be derecognized in the first subsequent financial reporting period in which the threshold is no longer met.

We describe income taxes further in note 9 to our consolidated financial statements titled, "Income Taxes."

Share-Based Compensation. We describe share-based compensation in note 15 to our consolidated financial statements titled, "Share-Based Compensation." We measure the cost of employee services received in exchange for an award of equity instruments based on the grant-date fair value of the award. We record liability awards at fair value each reporting period and the change in fair value is reflected as stock compensation expense in our Consolidated Statements of Income. These costs are recognized in the Consolidated Statement of Income over the period during which an employee is required to provide service in exchange for the award. Excess tax benefits realized from the exercise of stock options are reported as a financing cash inflow.

Restructuring. We have recognized restructuring expenses as incurred. In addition, the property, plant, and equipment associated with the related facilities were assessed for impairment as performed on an annual basis. Asset impairment and accelerated depreciation expenses primarily relate to inventory write-downs for rationalized products and adjustments in the carrying value of the closed facilities to their estimated fair value. In addition, the remaining useful lives of other property, plant, and equipment associated with the related operations were reevaluated based on the respective restructuring plan, resulting in the acceleration of depreciation and amortization of certain assets.

Recently Issued Accounting Standards Impacting the Company. In 2009, the FASB issued a revised standard for accounting and disclosure related to the consolidation of variable interest entities. The standard will require enterprises involved with these types of entities to provide more information about these entities in their financial statements. The standard is effective for us in fiscal 2011. We are currently evaluating the impact of the new standard but do not expect it to have a material impact on our financial position, results of operations or cash flows.

In 2009, the FASB issued a revised standard for accounting and disclosures of revenues related to arrangements with customers to provide multiple products and services at different points in time or over different time periods. This standard is effective for us in fiscal 2011. We are currently evaluating the impact of the new standard but do not expect it to have a material impact on our financial position, results of operations or cash flows.

STERIS CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(dollars in thousands, except per share amounts)

2. RESTRUCTURING

Fiscal 2010 Restructuring Plan. During the fourth quarter of fiscal 2010 in connection with the Fiscal 2010 Restructuring Plan, we adopted a restructuring plan primarily related to the transfer of the remaining operations in our Erie, Pennsylvania facility to the U.S. headquarters in Mentor, Ohio and the consolidation of our European Healthcare manufacturing operations into two central locations within Europe (the "Fiscal 2010 Restructuring Plan"). In addition, we rationalized certain products and eliminated certain positions.

In fiscal 2010, we recorded pre-tax expenses totaling \$6,295 related to these actions, of which, \$5,348 was recorded as restructuring expenses and \$947 was recorded in cost of revenues. We also expect to incur an additional \$4,300 during the next two fiscal years. These actions are intended to enhance profitability and improve efficiencies.

Fiscal 2009 Restructuring Plan. During the third quarter of fiscal 2009, we adopted a restructuring plan primarily focused on our international operations (the "Fiscal 2009 Restructuring Plan"). As part of this plan, we took actions to improve operations at our Pieterlen, Switzerland manufacturing facility, rationalized certain products, recorded impairment charges for certain assets no longer used, and made targeted workforce reductions. We also consolidated our operations in Japan. These actions are expected to directly impact approximately 100 employees worldwide. These restructuring actions are intended to enhance our profitability and increase operating efficiencies.

Since the inception of the Fiscal 2009 Restructuring Plan, we have incurred pre-tax expenses totaling \$13,679 related to these actions of which \$4,266 was recorded as restructuring expenses and \$9,413 was recorded in cost of revenues. We do not expect to incur significant additional expenses related to this plan.

Fiscal 2008 Restructuring Plan. During the fourth quarter of fiscal 2008, we adopted a restructuring plan primarily focused on our North American operations (the "Fiscal 2008 Restructuring Plan"). As part of this plan, we announced the closure of two sales offices and the rationalization of certain products. We also reduced the workforce in certain support functions. Across all of our reporting segments approximately 90 employees, primarily located in North America, were directly impacted. These restructuring actions were designed to enhance profitability and improve efficiency by reducing ongoing operating costs.

In fiscal 2009, we reversed our decision to close one of the sales offices, because we could not achieve a satisfactory exit from our warranty and service obligations. As a result, we reversed restructuring expenses recorded in fiscal 2008 totaling approximately \$1,000.

Since the inception of the Fiscal 2008 Restructuring Plan, we have recorded pre-tax expenses totaling \$14,333, of which \$9,883 was recorded as restructuring expenses and \$4,450 was recorded in cost of revenues. We do not expect to incur any significant additional restructuring expenses related to the Fiscal 2008 Restructuring Plan.

European Restructuring Plan. During the third quarter of fiscal 2007, we adopted a restructuring plan related to certain of our European operations (the "European Restructuring Plan"). As part of this plan, we closed two sales offices. We also reduced the workforce in certain of our European support functions. These actions were intended to improve our cost structure in Europe. Approximately 40 employees were directly impacted in various European locations. Since the inception of the plan, we recorded pre-tax expenses of \$1,887.

Fiscal 2006 Restructuring Plan. During the fourth quarter of fiscal 2006, we announced the transfer of the Erie, Pennsylvania manufacturing operations to Monterrey, Mexico and other restructuring actions, including the closure of a sales office, rationalization of operations in Finland, and the elimination of certain management positions (the "Fiscal 2006 Restructuring Plan"). All such actions were intended to improve our cost structure. Since the inception of the plan, we recorded restructuring expenses of \$33,637.

These actions directly impacted more than 450 employees beginning in the fourth quarter of fiscal 2006 and continuing through fiscal 2008. We completed the transfer of manufacturing operations to Monterrey, Mexico during fiscal 2008. We settled the remaining obligations associated with the Fiscal 2006 Restructuring Plan.

STERIS CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(dollars in thousands, except per share amounts)

The following tables summarize our total restructuring charges for fiscal 2010, fiscal 2009 and fiscal 2008:

Year Ended March 31, 2010	Fiscal 2010 Restructuring Plan(1)	Fiscal 2009 Restructuring Plan(2)	Total
Severance, payroll and other related costs	\$ 1,939	\$ (224)	\$ 1,715
Asset impairment and accelerated depreciation	1,804	(2)	1,802
Product rationalization	883	(1,385)	(502)
Lease termination costs	1,243	(428)	815
Other	426	138	564
Total Restructuring Charges	\$ 6,295	\$ (1,901)	\$ 4,394

- (1) Includes \$947 in charges recorded in cost of revenues on the Consolidated Statements of Income.
(2) Includes a negative \$1,401 in charges recorded in cost of revenues on the Consolidated Statements of Income.

Year Ended March 31, 2009	Fiscal 2009 Restructuring Plan(1)	Fiscal 2008 Restructuring Plan(2)	European Restructuring Plan	Fiscal 2006 Restructuring Plan	Total
Severance, payroll and other related costs	\$ 4,280	\$ (365)	\$ —	\$ (178)	\$ 3,737
Asset impairment and accelerated depreciation	1,112	(83)	—	—	1,029
Product rationalization	9,485	(464)	—	—	9,021
Lease termination costs	354	20	99	—	473
Other	349	(609)	—	—	(260)
Total Restructuring Charges	\$ 15,580	\$ (1,501)	\$ 99	\$ (178)	\$ 14,000

- (1) Includes \$10,813 in charges recorded in cost of revenues on the Consolidated Statements of Income.
(2) Includes a negative \$366 in charges recorded in cost of revenues on the Consolidated Statements of Income.

Year Ended March 31, 2008	Fiscal 2008 Restructuring Plan(1)	European Restructuring Plan	Fiscal 2006 Restructuring Plan	Total
Severance, payroll and other related costs	\$ 5,213	\$ (80)	\$ 203	\$ 5,336
Asset impairment and accelerated depreciation	5,106	—	2,885	7,991
Product rationalization	3,754	—	—	3,754
Lease termination costs	898	165	(13)	1,050
Other	863	—	551	1,414
Total Restructuring Charges	\$ 15,834	\$ 85	\$ 3,626	\$ 19,545

- (1) Includes \$4,084 in charges recorded in cost of revenues on the Consolidated Statements of Income.

STERIS CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(dollars in thousands, except per share amounts)

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 tables summarize the liabilities related to our restructuring activities:

	Fiscal 2010 Restructuring Plan			
	March 31, 2009	Provision	Payments/ Impairments	March 31, 2010
Severance and termination benefits	\$ —	\$ 1,939	\$ (45)	\$ 1,894
Asset impairment	—	1,804	(1,804)	—
Product rationalization	—	883	(883)	—
Lease termination obligations	—	1,243	(43)	1,200
Other	—	426	83	509
Total	\$ —	\$ 6,295	\$ (2,692)	\$ 3,603

	Fiscal 2009 Restructuring Plan			
	March 31, 2009	Provision	Payments/ Impairments	March 31, 2010
Severance and termination benefits	\$ 1,920	\$ (224)	\$ (1,696)	\$ —
Asset impairment	—	(2)	2	—
Product rationalization	75	(1,385)	1,310	—
Lease termination obligations	337	(428)	91	—
Other	241	138	(379)	—
Total	\$ 2,573	\$ (1,901)	\$ (672)	\$ —

	Fiscal 2008 Restructuring Plan			
	March 31, 2009	Provision	Payments/ Impairments	March 31, 2010
Severance and termination benefits	\$ 501	\$ —	\$ (399)	\$ 102
Asset impairment	409	—	(120)	289
Product rationalization	—	—	—	—
Lease termination obligations	881	—	(470)	411
Other	—	—	—	—
Total	\$ 1,791	\$ —	\$ (989)	\$ 802

STERIS CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(dollars in thousands, except per share amounts)

	Fiscal 2009 Restructuring Plan			
	March 31, 2008	Fiscal 2009		March 31, 2009
		Provision	Payments/ Impairments	
Severance and termination benefits	\$ —	\$ 4,280	\$ (2,360)	\$ 1,920
Asset impairment	—	1,112	(1,112)	—
Product rationalization	—	9,485	(9,410)	75
Lease termination obligations	—	354	(17)	337
Other	—	349	(108)	241
Total	\$ —	\$ 15,580	\$ (13,007)	\$ 2,573

	Fiscal 2008 Restructuring Plan			
	March 31, 2008	Fiscal 2009		March 31, 2009
		Provision (1)	Payments/ Impairments	
Severance and termination benefits	\$ 4,244	\$ (365)	\$ (3,378)	\$ 501
Asset impairment	492	(83)	—	409
Product rationalization	—	—	—	—
Lease termination obligations	898	20	(37)	881
Other	609	(609)	—	—
Total	\$ 6,243	\$ (1,037)	\$ (3,415)	\$ 1,791

(1) Does not include a negative \$464 in product rationalization costs that were charged against inventory.

	European Restructuring Plan			
	March 31, 2008	Fiscal 2009		March 31, 2009
		Provision	Payments/ Impairments	
Lease termination obligations	\$ 247	\$ 99	\$ (346)	\$ —
Total	\$ 247	\$ 99	\$ (346)	\$ —

	Fiscal 2006 Restructuring Plan			
	March 31, 2008	Fiscal 2009		March 31, 2009
		Provision	Payments	
Severance and termination benefits	\$ 879	\$ (178)	\$ (701)	\$ —
Total	\$ 879	\$ (178)	\$ (701)	\$ —

STERIS CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(dollars in thousands, except per share amounts)

3. ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)

Accumulated other comprehensive income (loss) shown in our Consolidated Statements of Shareholders' Equity consists of the following:

	Years Ended March 31,		
	2010	2009	2008
Unrecognized pension and post-retirement benefits costs, net of tax	\$ 7,201	\$ 6,647	\$ (14,286)
Unrealized loss on investments	(88)	(511)	(193)
Cumulative foreign currency translation adjustment	5,878	(21,936)	47,575
Total	\$ 12,991	\$ (15,800)	\$ 33,096

4. GOODWILL AND INTANGIBLE ASSETS

Goodwill and indefinite life intangible assets are tested annually for impairment. Further, goodwill and indefinite life intangible assets are reviewed for impairment whenever events or changes in circumstances indicate there may be a possible permanent loss of value. We performed our annual impairment tests for goodwill and indefinite life intangible assets during the third quarter of fiscal 2010. These tests confirmed that the fair value of STERIS's reporting units and indefinite life intangible assets exceed their respective carrying values and that no impairment loss was required to be recognized in fiscal 2010 or for any prior periods. Future impairment tests will be performed annually in the fiscal third quarter, or sooner if a triggering event occurs.

Changes to the carrying amount of goodwill for the years ended March 31, 2010 and 2009 were as follows:

	Healthcare Segment	Life Sciences Segment	STERIS Isomedix Services Segment	Total
Balance at March 31, 2008	\$ 177,334	\$ 31,943	\$ 81,659	\$ 290,936
Goodwill write-off associated with facility sold	—	—	(1,763)	(1,763)
Foreign currency translation adjustments	(13,897)	(3,250)	—	(17,147)
Balance at March 31, 2009	163,437	28,693	79,896	272,026
Foreign currency translation adjustments	3,243	1,589	—	4,832
Balance at March 31, 2010	\$ 166,680	\$ 30,282	\$ 79,896	\$ 276,858

Goodwill of \$1,763 associated with the Isomedix facility located in Illinois was written off in connection with the sale of this operation in fiscal 2009. Further information regarding the sale of this facility is presented in note 12, "Business Segment Information."

STERIS CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(dollars in thousands, except per share amounts)

Information regarding our intangible assets is as follows:

	March 31, 2010		March 31, 2009	
	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
Customer relationships	\$ 20,035	\$ 13,495	\$ 17,342	\$ 9,264
Non-compete agreements	3,083	3,083	3,067	2,860
Patents and technology	40,821	24,961	39,883	22,263
Trademarks and tradenames	16,078	10,026	17,321	10,066
Other	12	12	14	11
Total	\$ 80,029	\$ 51,577	\$ 77,627	\$ 44,464

We did not hold any indefinite-lived intangible assets in fiscal 2010 or fiscal 2009. Total amortization expense for finite-lived intangible assets was \$6,941, \$7,513, and \$7,613 for the years ended March 31, 2010, 2009, and 2008, respectively. Based upon the current amount of intangible assets subject to amortization, the amortization expense for each of the five succeeding fiscal years is estimated to be as follows:

	2011	2012	2013	2014	2015
Estimated amortization expense	\$ 5,821	\$ 4,919	\$ 4,103	\$ 3,051	\$ 1,821

The estimated annual amortization expense presented in the preceding table has been calculated based upon March 31, 2010 foreign currency exchange rates.

5. INVENTORIES, NET

Inventories, net consisted of the following:

March 31,	2010	2009
Raw materials	\$ 36,170	\$ 37,270
Work in process	20,668	24,314
Finished goods	64,297	68,634
Total Inventories, Net	\$ 121,135	\$ 130,218

STERIS CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(dollars in thousands, except per share amounts)

6. PROPERTY, PLANT, AND EQUIPMENT

Information related to the major categories of our depreciable assets is as follows:

March 31,	2010	2009
Land and land improvements(1)	\$ 26,234	\$ 25,795
Buildings and leasehold improvements	192,722	188,136
Machinery and equipment	276,714	271,122
Information systems	103,056	92,966
Radioisotope	172,489	161,415
Construction in progress(1)	29,614	17,667
Total Property, Plant, and Equipment	800,829	757,101
Less: accumulated depreciation and depletion	(453,971)	(406,105)
Property, Plant, and Equipment, Net	\$ 346,858	\$ 350,996

(1) Land is not depreciated. Construction in progress is not depreciated until placed in service.

Depreciation and depletion expense was \$49,277, \$51,260, and \$55,165, for the years ended March 31, 2010, 2009, and 2008, respectively.

Rental expense for leases was \$17,583, \$17,982, and \$18,205, for the years ended March 31, 2010, 2009, and 2008, respectively. Operating leases relate to manufacturing, warehouse and office space, service facilities, vehicles, equipment, and communication systems. Certain lease agreements grant us varying renewal and purchase options.

Future minimum annual rentals payable under noncancelable operating lease agreements at March 31, 2010 were as follows:

	Operating Leases
2011	\$ 14,758
2012	12,615
2013	10,285
2014	6,859
2015 and thereafter	12,635
Total Minimum Lease Payments	\$ 57,152

In the preceding table, the future minimum annual rentals payable under noncancelable leases denominated in foreign currencies have been calculated based upon March 31, 2010 foreign currency exchange rates.

STERIS CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(dollars in thousands, except per share amounts)

7. DEBT

Indebtedness was as follows:

March 31,	2010	2009
Private Placement	\$ 210,000	\$ 210,000
Credit facility	—	—
Total long-term debt	\$ 210,000	\$ 210,000

On August 15, 2008, we issued \$150,000 of senior notes in a private placement (the “August 2008 Private Placement”) to certain institutional investors in an offering that was exempt from the registration requirements of the Securities Act of 1933. We have used and will use the proceeds for general corporate purposes, including repayment of debt, capital expenditures, acquisitions, dividends, and share repurchases. Of the \$150,000 notes, \$30,000 have a maturity of five years at an annual interest rate of 5.63%, another \$85,000 have a maturity of 10 years at an annual interest rate of 6.33%, and the remaining \$35,000 have a maturity of 12 years at an annual interest rate of 6.43%. The agreements governing the senior notes issued in the August 2008 Private Placement contain financial covenants, including limitations on debt and a minimum consolidated net worth requirement.

In December 2003, we issued \$100,000 of senior notes in a private placement (the “December 2003 Private Placement”) to certain institutional investors in an offering that was exempt from the registration requirements of the Securities Act of 1933. We used the proceeds of the December 2003 Private Placement to pay down the outstanding balance of our revolving credit facility and have used the other proceeds for general corporate purposes. Of the \$100,000 of notes, \$40,000 had a maturity of five years at an annual interest rate of 4.20%, an additional \$40,000 has a maturity of 10 years at an annual interest rate of 5.25%, and the remaining \$20,000 has a maturity of 12 years at an annual interest rate of 5.38%. Therefore, in December 2008, the first series of the December 2003 Private Placement notes in an aggregate principal amount of \$40,000 matured and was repaid. The agreements governing the senior notes issued in the December 2003 Private Placement contain financial covenants, including limitations on debt and a minimum consolidated net worth requirement.

On August 15, 2008, we signed an amendment to the December 2003 Private Placement note purchase agreements. This amendment, which was signed by the requisite majority in aggregate principal amount of the holders of the December 2003 Private Placement notes, modified the respective note purchase agreements primarily as they pertained to liens, electronic delivery of financial information and notices, and certain provisions regarding an intercreditor agreement.

In September 2007, we signed the Second Amended and Restated Credit Agreement (the “Credit Agreement”) with KeyBank National Association, as administrative agent for the lending institutions that are parties to the Credit Agreement (the “Agent”), and the lenders party to the Credit Agreement. This Credit Agreement amended, restated, and replaced our Amended and Restated Credit Agreement dated March 29, 2004, as amended, which was to mature in June 2010. The Credit Agreement matures on September 13, 2012 and provides \$400,000 of credit, which may be increased by up to an additional \$100,000 in specified circumstances, for borrowings and letters of credit. The Credit Agreement provides a multi-currency borrowing option and may be used for general corporate purposes. At our option, loans can be borrowed on a floating or fixed interest rate at the greater of (1) the Prime Rate established by the Agent, or (2) the Federal Funds effective rate plus 0.50%, plus in each case a margin based on our leverage ratio. Fixed rate loans bear interest at the Eurodollar Rate or other defined currency rate plus, in each case, a margin based on our leverage ratio. Interest is payable quarterly or at the end of the interest period, if shorter. The Credit Agreement also requires the payment of a facility fee on the total facility commitment amount, which is determined based on our leverage ratio. We may prepay floating rate loans without paying a penalty, but we may be required to pay a penalty for prepaying fixed rate loans. The Credit Agreement also allows us to make short-term swing loan borrowings not to exceed \$35,000, with an interest rate equal to the Agent’s cost of funds plus a margin based on our leverage ratio. The Credit Agreement requires us to maintain compliance with certain financial covenants,

STERIS CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(dollars in thousands, except per share amounts)

including a maximum leverage ratio and a minimum interest coverage ratio. Our obligations under the Credit Agreement are unsecured but guaranteed by our material domestic subsidiaries.

At March 31, 2010, we were in compliance with all financial covenants associated with our indebtedness.

The combined annual aggregate amount of maturities of our outstanding debt by fiscal year is as follows:

2011	\$ —
2012	—
2013	—
2014	70,000
2015 and thereafter	140,000
Total	<u>\$ 210,000</u>

8. ADDITIONAL BALANCE SHEET INFORMATION

Additional information related to our Consolidated Balance Sheets is as follows:

March 31,	2010	2009
Accrued Payroll and Other Related Liabilities:		
Compensation and related items	\$ 15,314	\$ 17,395
Accrued vacation	5,734	5,916
Accrued bonuses	23,457	22,973
Accrued employee commissions	10,565	9,100
Other post-retirement benefit obligation- current portion	3,340	3,777
Other employee benefit plans' obligations- current portion	576	541
Total Accrued Payroll and Other Related Liabilities	<u>\$ 58,986</u>	<u>\$ 59,702</u>
Accrued Expenses and Other:		
Deferred revenues	\$ 27,908	\$ 25,491
Self-insured risk reserves- current portion	4,956	6,083
Accrued dealer commissions	6,972	6,389
Accrued warranty	6,070	7,573
Other	26,202	28,215
Total Accrued Expenses and Other	<u>\$ 72,108</u>	<u>\$ 73,751</u>
Other Liabilities:		
Self-insured risk reserves- long-term portion	\$ 9,986	\$ 11,041
Other post-retirement benefit obligation- long-term portion	21,839	26,105
Defined benefit pension plans' obligations- long-term portion	10,179	18,266
Other employee benefit plans' obligations- long-term portion	2,336	1,330
Accrued long-term income taxes	11,690	11,897
Total Other Liabilities	<u>\$ 56,030</u>	<u>\$ 68,639</u>

STERIS CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(dollars in thousands, except per share amounts)

9. INCOME TAXES

Income from continuing operations before income taxes was as follows:

Years Ended March 31,	2010	2009	2008
United States operations	\$ 153,165	\$ 148,839	\$ 86,758
Non-United States operations	38,651	17,646	33,041
	\$ 191,816	\$ 166,485	\$ 119,799

The components of the provision for income taxes related to income from continuing operations consisted of the following:

Years Ended March 31,	2010	2009	2008
Current:			
United States federal	\$ 45,092	\$ 29,355	\$ 35,273
United States state and local	6,954	8,211	4,164
Non-United States	9,501	11,417	13,416
	61,547	48,983	52,853
Deferred:			
United States federal	2,591	6,010	(7,243)
United States state and local	265	923	(517)
Non-United States	(1,054)	(116)	(2,400)
	1,802	6,817	(10,160)
Total Provision for Income Taxes	\$ 63,349	\$ 55,800	\$ 42,693

The total provision for income taxes can be reconciled to the tax computed at the United States federal statutory tax rate as follows:

Years Ended March 31,	2010	2009	2008
United States federal statutory tax rate	35.0%	35.0%	35.0%
Increase (decrease) in income tax accruals	0.6%	-4.6%	-1.4%
Net (decrease) increase in valuation allowances	-0.2%	2.1%	0.6%
State and local taxes, net of federal income tax benefit	2.5%	2.7%	1.6%
Foreign income tax credit	-0.1%	-0.8%	-1.2%
Difference in non-United States tax rates	-1.8%	-0.7%	0.1%
U.S. manufacturing deduction	-0.7%	-0.7%	-1.4%
All other, net	-2.3%	0.5%	2.3%
Total Provision for Income Taxes	33.0%	33.5%	35.6%

Unrecognized Tax Benefits. As of April 1, 2007, we changed our accounting for unrecognized tax benefits. Our unrecognized tax benefits upon adoption were \$15,207 and the cumulative effect of adoption of the change was recorded as a decrease of \$8,433 to retained earnings.

STERIS CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(dollars in thousands, except per share amounts)

We classify uncertain tax positions and related interest and penalties as long-term liabilities within "Other liabilities" in our accompanying Consolidated Balance Sheets, unless they are expected to be paid within 12 months, in which case, the uncertain tax positions would be classified as current liabilities within "Accrued income taxes." We recognize interest and penalties related to unrecognized tax benefits within "Income tax expense" in our accompanying Consolidated Statements of Income.

A reconciliation of the beginning and ending balances of the total amounts of unrecognized tax benefits is as follows:

	2010	2009
Unrecognized Tax Benefits Balance at April 1	\$ 10,926	\$ 10,455
Increases for tax provisions of prior years	2,275	2,050
Decreases for tax provisions of prior years	(206)	(2,571)
Increases for tax provisions of current year	881	5,461
Decreases for tax provisions of current year	—	(1)
Settlements	(2,088)	(435)
Lapse of statute of limitations	—	(4,033)
Unrecognized Tax Benefits Balance at March 31	\$ 11,788	\$ 10,926

The total amount of unrecognized tax benefits that, if recognized, would affect the effective income tax rate is \$2,740 at March 31, 2010 and \$2,223 at March 31, 2009. In addition, we believe that it is reasonably possible that unrecognized tax benefits may decrease by up to \$663 within 12 months of March 31, 2010, primarily as a result of audit settlements and the lapse of statute of limitations.

For the years ended March 31, 2010 and 2009, current income tax expense includes expense of \$359 and \$1,184 for interest, and expense of \$67 and \$1,868 for penalties, respectively. In total, as of March 31, 2010 and March 31, 2009, we have recognized a liability for interest of \$1,150 and \$1,000 and penalties of \$141 and \$208, respectively.

We operate in numerous taxing jurisdictions and are subject to regular examinations by various United States federal, state, and local, as well as foreign, jurisdictions. We are no longer subject to United States federal examinations for years before fiscal 2008 and, with limited exceptions, we are no longer subject to United States state and local, or non-United States, income tax examinations by tax authorities for years before fiscal 2006. We remain subject to tax authority audits in various jurisdictions wherever we do business. We do not expect the results of these examinations to have a material adverse affect on our consolidated financial statements.

STERIS CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(dollars in thousands, except per share amounts)

Deferred Taxes. The significant components of the deferred tax assets and liabilities recorded in our accompanying balance sheets at March 31, 2010 and 2009 were as follows:

March 31,	2010	2009
Deferred Tax Assets:		
Post-retirement benefit accrual	\$ 10,100	\$ 12,890
Compensation	19,292	17,790
Net operating loss carryforwards	11,696	10,306
Accrued expenses	7,602	8,333
Insurance	4,732	5,552
Deferred income	1,607	1,113
Bad debt	2,336	2,473
Pension	3,166	3,816
Other	1,416	1,174
Deferred Tax Assets	61,947	63,447
Less: Valuation allowance	9,881	9,957
Total Deferred Tax Assets	52,066	53,490
Deferred Tax Liabilities:		
Depreciation and depletion	38,759	38,880
Intangibles	21,388	19,899
Inventory	2,255	2,667
Other	3,439	2,958
Total Deferred Tax Liabilities	65,841	64,404
Net Deferred Tax (Liabilities)	\$ (13,775)	\$ (10,914)

At March 31, 2010, we had federal operating loss carryforwards of \$550, which can be utilized subject to certain limitations, and foreign operating loss carryforwards of \$46,442. Substantially all of the carryforwards are available for at least three years or have an indefinite carryforward period. In addition, we have recorded tax benefits of \$252 related to state operating loss carryforwards. At March 31, 2010, we had \$1,028 of tax credit carryforwards. These credit carryforwards expire between fiscal 2016 and fiscal 2021.

We periodically review the need for a valuation allowance against our deferred tax assets. A valuation allowance of \$9,881 has been applied to a portion of the net deferred tax assets because we do not believe it is more-likely-than-not that we will receive future benefit. The valuation allowance increased during fiscal 2010 by \$76.

At March 31, 2010, cumulative undistributed earnings of international operations amounted to approximately \$138,927. These earnings are indefinitely reinvested in international operations. Accordingly, no provision has been made for deferred taxes related to the future repatriation of such earnings, nor is it practicable to determine the amount of this liability.

At March 31, 2010, we had a current prepaid income tax position. This was mainly due to the timing of U.S. Federal income tax estimated payments and the resolution of an IRS audit.

STERIS CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(dollars in thousands, except per share amounts)

10. BENEFIT PLANS

We provide defined benefit pension plans for certain current and former manufacturing and plant administrative personnel throughout the world as determined by collective bargaining agreements or employee benefit standards set at the time of acquisition of certain businesses. In addition to providing pension benefits to certain employees, we sponsor an unfunded post-retirement welfare benefits plan for two groups of United States employees; including the same employees who receive pension benefits under the United States defined benefit pension plans. Benefits under this plan include retiree life insurance and retiree medical insurance, including prescription drug coverage.

During the second quarter of fiscal 2009, we amended our United States post-retirement welfare benefits plan, reducing the benefits to be provided to retirees under the plan and increasing their share of the costs. The amendments resulted in a decrease of \$46,001 in the accumulated post-retirement benefit obligation. The impact of this change was recognized in our Consolidated Balance Sheets in fiscal 2009 and is being amortized as a component of the annual net periodic benefit cost over a period of approximately thirteen years.

A defined benefit pension plan is also provided to the employees of our Pieterlen, Switzerland manufacturing facility. During the third quarter of fiscal 2009, we adopted profitability improvement actions related to the Pieterlen, Switzerland manufacturing facility. These actions were part of the Fiscal 2009 Restructuring Plan and included a workforce reduction that impacted approximately 24 employees at the facility. These restructuring actions resulted in a curtailment and a partial settlement of the plan as the vested benefits of certain affected employees were settled.

We recognize the funded status of our defined benefit pension and post-retirement benefit plans in our Consolidated Balance Sheets, with a corresponding adjustment to accumulated other comprehensive income, net of tax. The funded status is measured as of March 31 each year and is calculated as the difference between the fair value of plan assets and the benefit obligation (which is the projected benefit obligation for pension plans and the accumulated post-retirement benefit obligation for post-retirement benefit plans). Accumulated comprehensive income (loss) represents the net unrecognized actuarial losses and unrecognized prior service cost. These amounts will be recognized in net periodic benefit cost as they are amortized. We will recognize future changes to the funded status of these plans in the year the change occurs, through other comprehensive income.

STERIS CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(dollars in thousands, except per share amounts)

Obligations and Funded Status. The following table reconciles the funded status of the defined benefit pension plans and the other post-retirement medical benefit plan to the amounts recorded on our Consolidated Balance Sheets at March 31, 2010 and 2009, respectively. Benefit obligation balances presented in the following table reflect the projected benefit obligations for our defined benefit pension plans and the accumulated other post-retirement benefit obligation for our other post-retirement medical benefit plan. The measurement date of our defined benefit pension plans and the other post-retirement medical benefit plan is March 31 for both periods presented.

	Pension Plans				Other	
	U.S. Qualified		International		Post-retirement Plan	
	2010	2009	2010	2009	2010	2009
Change in Benefit Obligations:						
Benefit Obligations at Beginning of Year	\$ 42,732	\$ 47,864	\$ 10,244	\$ 14,703	\$ 29,882	\$ 82,713
Service cost	185	210	554	381	—	—
Interest cost	3,046	2,741	368	468	1,947	2,703
Actuarial (gain) loss	6,554	(3,550)	821	(1,649)	(2,930)	(4,184)
Benefits and expenses	(4,879)	(4,533)	(1,530)	(1,957)	(3,720)	(5,350)
Employee contributions	—	—	498	615	—	—
Curtailments/settlements	—	—	(1,405)	(1,316)	—	—
Termination benefits	—	—	—	807	—	—
Amendments	—	—	—	—	—	(46,000)
Impact of foreign currency exchange rate changes	—	—	2,353	(1,808)	—	—
Benefit Obligations at End of Year	47,638	42,732	11,903	10,244	25,179	29,882
Change in Plan Assets:						
Fair Value of Plan Assets at Beginning of Year	26,244	35,784	8,466	12,725	—	—
Actual (loss) return on plan assets	9,604	(9,032)	724	(1,814)	—	—
Employer contributions	9,184	4,000	498	615	3,720	5,350
Employee contributions	—	—	498	615	—	—
Benefits and expenses paid	(4,890)	(4,508)	(1,530)	(1,957)	(3,720)	(5,350)
Curtailments/settlements	—	—	(1,405)	(992)	—	—
Termination benefits	—	—	—	807	—	—
Impact of foreign currency exchange rate changes	—	—	1,969	(1,533)	—	—
Fair Value of Plan Assets at End of Year	40,142	26,244	9,220	8,466	—	—
Funded Status of the Plans	\$ (7,496)	\$ (16,488)	\$ (2,683)	\$ (1,778)	\$ (25,179)	\$ (29,882)

STERIS CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(dollars in thousands, except per share amounts)

Amounts recognized in the consolidated balance sheets consist of the following:

	Pension Benefits					
	U.S. Qualified		International		Other Post-retirement Plan	
	2010	2009	2010	2009	2010	2009
Current liabilities	\$ —	\$ —	\$ —	\$ —	\$ (3,340)	\$ (3,777)
Noncurrent liabilities	(7,496)	(16,488)	(2,683)	(1,778)	(21,839)	(26,105)
	\$ (7,496)	\$ (16,488)	\$ (2,683)	\$ (1,778)	\$ (25,179)	\$ (29,882)

The pre-tax amount of unrecognized actuarial net loss and unamortized prior service cost included in accumulated other comprehensive income (loss) at March 31, 2010 was \$(17,516) and \$(39,420), respectively. During fiscal 2011, we will amortize the following pre-tax amounts from accumulated other comprehensive income:

	Pension Plans		Other Post-retirement Benefit Plan
	U.S. Qualified Plans	International Plan	
Actuarial loss	\$ 1,068	\$ —	\$ 388
Prior Service Cost	\$ —	\$ —	\$ (3,263)

Defined benefit plans with an accumulated benefit obligation exceeding the fair value of plan assets had the following plan assets and obligations at March 31, 2010 and 2009:

	U.S. Qualified		International		Total	
	2010	2009	2010	2009	2010	2009
Aggregate fair value of plan assets	\$ 40,142	\$ 26,244	\$ 9,220	\$ 8,466	\$ 49,362	\$ 34,710
Aggregate accumulated benefit obligations	47,638	42,732	10,844	9,737	58,482	52,469

Defined benefit plans with a projected benefit obligation exceeding the fair value of plan assets had the following plan assets and obligations at March 31, 2010 and 2009:

	U.S. Qualified		International		Total	
	2010	2009	2010	2009	2010	2009
Aggregate fair value of plan assets	\$ 40,142	\$ 26,244	\$ 9,220	\$ 8,466	\$ 49,362	\$ 34,710
Aggregate projected benefit obligations	47,638	42,732	11,903	10,244	59,541	52,976

STERIS CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(dollars in thousands, except per share amounts)

Components of Net Periodic Benefit Cost and Other Amounts Recognized in Other Comprehensive Income. Components of the annual net periodic benefit cost of our defined benefit pension plans and our other post-retirement medical benefit plan were as follows:

	Pension Plans								
	U.S. Qualified			International			Other Post-retirement Plan		
	2010	2009	2008	2010	2009	2008	2010	2009	2008
Service cost	\$ 185	\$ 210	\$ 105	\$ 554	\$ 381	\$ 513	\$ —	\$ —	\$ —
Interest cost	3,046	2,741	2,796	368	468	337	1,948	2,703	4,643
Expected return on plan assets	(2,483)	(2,867)	(3,127)	(416)	(522)	(487)	—	—	—
Prior service cost recognition	—	—	—	—	—	—	(3,263)	(3,884)	—
Net amortization and deferral	1,061	526	301	—	(3)	—	626	1,366	988
Net periodic benefit cost	1,809	610	75	506	324	363	(689)	185	5,631
Curtailments/settlements	—	—	—	(63)	(358)	—	—	—	—
Termination benefits	—	—	—	—	807	—	—	—	—
Total benefit cost	\$ 1,809	\$ 610	\$ 75	\$ 443	\$ 773	\$ 363	\$ (689)	\$ 185	\$ 5,631
Recognized in other comprehensive (income) loss before tax:									
Amendment of prior service cost (credit)	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$(46,001)	\$ —
Net (gain) loss occurring during year	(554)	8,323	5,252	502	864	(174)	(2,930)	(4,750)	1,981
Amortization of prior service (cost) credit	—	—	—	—	—	—	3,263	3,884	—
Amortization of net (loss) gain	(1,132)	(636)	(411)	63	37	—	(626)	(1,366)	(988)
Amortization of transition (obligation) asset	70	110	110	—	—	—	—	—	—
Total recognized in other comprehensive (income) loss	(1,616)	7,797	4,951	565	901	(174)	(293)	(48,233)	993
Total recognized in total benefits cost and other comprehensive (income) loss	\$ 193	\$ 8,407	\$ 5,026	\$ 1,008	\$ 1,674	\$ 189	\$ (982)	\$ (48,048)	\$ 6,624

STERIS CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(dollars in thousands, except per share amounts)

Assumptions Used in Calculating Benefit Obligations and Net Periodic Benefit Cost. The following table presents significant assumptions used to determine the projected benefit obligations at March 31:

	2010	2009
Discount Rate:		
U.S. qualified pension plans	5.75%	7.50%
Switzerland pension plan	3.00%	3.25%
Other post-retirement plan	5.00%	7.00%
Expected Return on Plan Assets:		
U.S. qualified pension plans	8.00%	8.00%
Switzerland pension plan	4.00%	4.50%
Rate of Compensation Increase:		
Switzerland pension plan	2.50%	2.50%

The following table presents significant assumptions used to determine the net periodic benefit costs for the years ended March 31:

	2010	2009	2008
Discount Rate:			
U.S. qualified pension plans	7.50%	6.00%	6.00%
Switzerland pension plan	3.25%	3.75%	3.00%
Other post-retirement plan	7.00%	6.00%	6.00%
Expected Return on Plan Assets:			
U.S. qualified pension plans	8.00%	8.00%	8.00%
Switzerland pension plan	4.50%	4.50%	5.00%
Rate of Compensation Increase:			
Switzerland pension plan	2.50%	2.50%	2.50%

The net periodic benefit cost and the actuarial present value of projected benefit obligations are based upon assumptions that we review on an annual basis. These assumptions may be revised annually based upon an evaluation of long-term trends, as well as market conditions that may have an impact on the cost of providing benefits.

We develop our expected long-term rate of return on plan assets assumptions by evaluating input from third-party professional advisors, taking into consideration the asset allocation of the portfolios and the long-term asset class return expectations.

We develop our discount rate assumptions by evaluating input from third-party professional advisors, taking into consideration the current yield on country specific investment grade long-term bonds which provide for similar cash flow streams as our projected obligations.

We have made assumptions regarding healthcare costs in computing our other post-retirement benefit obligation. The assumed rates of increase generally decline ratably over a five-year period from the assumed current year healthcare cost trend rate to the assumed long-term healthcare cost trend rate noted below.

	2010	2009	2008
Healthcare cost trend rate – medical	11.0%	9.0%	10.0%
Healthcare cost trend rate – prescription drug	11.0%	9.0%	10.0%
Long-term healthcare cost trend rate	5.0%	5.0%	5.0%

STERIS CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(dollars in thousands, except per share amounts)

To determine the healthcare cost trend rates, we evaluate a combination of information, including ongoing claims cost monitoring, annual statistical analyses of claims data, reconciliation of forecasted claims against actual claims, review of trend assumptions of other plan sponsors and national health trends, and adjustments for plan design changes, workforce changes, and changes in plan participant behavior.

A one-percentage-point change in assumed healthcare cost trend rates (including medical, prescription drug, and long-term rates) would have had the following effect at March 31, 2010:

	One-Percentage Point	
	Increase	Decrease
Effect on total service and interest cost components	\$ 20	\$ (19)
Effect on other post-retirement benefit obligation	262	(252)

Plan Assets. Our United States and Switzerland defined benefit pension plans are funded. The following table presents the targeted asset allocation of plan assets at March 31, 2010 and the actual allocation of plan assets at March 31, 2010 and 2009 for these plans:

	Long-Term Target Allocation Percentage	Percentage of Plan Assets March 31	
		2010	2009
U.S. Qualified Plans:			
Equity securities	60%	59.6%	58.2%
Debt securities	40%	40.4%	39.1%
Cash	0%	0.0%	2.7%
Total	100%	100.0%	100.0%
Switzerland Plan:			
Equity securities	15%-45%	38.7%	42.4%
Debt securities	45%-75%	9.4%	13.0%
Cash	0%-20%	22.9%	21.1%
Insurance contracts	0%-25%	29.0%	23.5%
Total	100%	100.0%	100.0%

STERIS CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(dollars in thousands, except per share amounts)

The long-term target allocations in the preceding table reflect our asset class return expectations and tolerance for investment risk within the context of the pension plans' long-term benefit obligations. Investment policies, strategies, and long-term target allocations are developed on a plan specific and country specific basis. We continually challenge the long-term target asset allocations and support the allocations by an analysis that incorporates historical and expected returns by asset class as well as volatilities across asset classes and our liability profile. Due to market conditions and other factors, actual asset allocations may vary from the long-term target allocations presented in the preceding table. Plan assets are managed by outside investment managers. If asset allocations move outside of the target ranges, the portfolios are rebalanced. For the purpose of the above analysis, debt and equity securities include fixed income and equity security mutual funds, respectively. At March 31, 2010 and 2009, the plans' assets did not include investments in STERIS common shares.

Fair Value Measurements at March 31, 2010

(In millions)	U.S. Qualified Pension Plans				International Plan			
	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Other Unobservable Inputs (Level 3)	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Other Unobservable Inputs (Level 3)
Cash and Short Term Securities	\$ 361	\$ 361	\$ —	\$ —	\$ 2,109	\$ 2,109	\$ —	\$ —
Equity Securities								
Mutual Funds	23,714	23,714	—	—	3,560	3,560	—	—
Debt Securities								
Government Bonds	—	—	—	—	192	192	—	—
Mutual Funds	16,067	16,067	—	—	673	673	—	—
Other Investments	\$ —	—	—	—	\$ 2,686	—	2,686	—
Total Plan Assets	\$ 40,142	\$ 40,142	\$ —	\$ —	\$ 9,220	\$ 6,534	\$ 2,686	\$ —

Cash Flows. We contribute amounts to our defined benefit pension plans at least equal to the minimum amounts required by applicable employee benefit laws and local tax laws. We have recorded liabilities for amounts greater than the required funding levels on our accompanying Consolidated Balance Sheets. As of March 31, 2010, we do not expect to make any contributions to the U.S. qualified defined benefit pension plans in fiscal 2011.

Based upon the actuarial assumptions utilized to develop our benefit obligations at March 31, 2010, the following benefit payments are expected to be made to plan participants:

	Defined Benefit Pension Plans			Other Post-Retirement Benefit Plan		
	U.S. Qualified	International	Total	Gross Benefit Payments	Medicare Reimbursement	Total
2011	\$ 4,247	\$ 521	\$ 4,768	\$ 3,591	\$ (251)	\$ 3,340
2012	4,143	628	4,771	3,493	(265)	3,228
2013	4,037	580	4,617	3,352	(278)	3,074
2014	3,924	624	4,548	3,183	(289)	2,894
2015	3,843	623	4,466	2,975	(298)	2,677
2016-2020	18,440	3,884	22,324	10,655	(1,394)	9,261

STERIS CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(dollars in thousands, except per share amounts)

In the preceding table, projected benefit payments denominated in foreign currencies have been calculated based upon March 31, 2010 foreign currency exchange rates.

The Medicare Prescription Drug, Improvement and Modernization Act of 2003 (the "Act") provides a prescription drug benefit for Medicare beneficiaries, a benefit we provide to Medicare eligible retirees covered by our post-retirement benefits plan. We have concluded that the prescription drug benefit provided in our post-retirement benefit plan is considered to be actuarially equivalent to the benefit provided under the Act and thus qualifies for the subsidy under the Act. As a result, all the measures of our accumulated post-retirement benefit obligation and net periodic benefit cost in the accompanying consolidated financial statements and notes reflect the effects of the Act on the plan for the entire fiscal year. This expected future subsidy reduced our accumulated post-retirement benefit obligation and our net periodic benefit cost as of and for the fiscal year ended March 31, 2010 by \$3,522 and \$748, respectively. We collected subsidies totaling approximately \$79 and \$490, during fiscal 2010 and fiscal 2009, which reduced our net post-retirement medical payments.

Defined Contribution Plans. We maintain a 401(k) defined contribution plan for eligible employees. We provide a match on a specified portion of an employee's contribution as approved by the Company's Board of Directors. The plan assets are held in trust and invested as directed by the plan participants. The aggregate fair value of plan assets was \$272,411 at March 31, 2010. At March 31, 2010, the plan held 899,093 STERIS common shares with a fair value of \$30,263. We paid dividends of \$2,253, \$262, and \$204 to the plan on STERIS common stock for the years ended March 31, 2010, 2009, and 2008, respectively. We contributed \$6,226, \$5,965, and \$5,803, to the defined contribution plan for the years ended March 31, 2010, 2009, and 2008, respectively.

We also maintain a domestic non-qualified deferred compensation plan covering certain employees, which allows for the deferral of compensation for an employee-specified term or until retirement or termination. Employee contributions to this plan were \$594, \$567, and \$719 in fiscal 2010, fiscal 2009, and fiscal 2008, respectively. We hold investments in mutual funds to satisfy future obligations of the plan. We account for these assets as available-for-sale securities and they are included in "Other assets" on our accompanying Consolidated Balance Sheets, with a corresponding liability for the plan's obligation recorded in "Accrued expenses and other." The aggregate value of the assets was \$1,778 and \$866 at March 31, 2010 and March 31, 2009, respectively. Realized gains and losses on these investments are recorded in "Interest and miscellaneous income" within "Non-operating expenses" on our accompanying Consolidated Statements of Income. Changes in the fair value of the assets are recorded in other comprehensive income on our accompanying balance sheets.

11. COMMITMENTS AND CONTINGENCIES

We are, and will likely continue to be, involved in a number of legal proceedings, government investigations, and claims, which we believe generally arise in the course of our business, given our size, history, complexity, and the nature of our business, products, Customers, regulatory environment, and industries in which we participate. These legal proceedings, investigations and claims generally involve a variety of legal theories and allegations, including, without limitation, personal injury (e.g., slip and falls, burns, vehicle accidents), product liability or regulation (e.g., based on product operation or claimed malfunction, failure to warn, failure to meet specification, or failure to comply with regulatory requirements), product exposure (e.g., claimed exposure to chemicals, asbestos, contaminants, radiation), property damage (e.g., claimed damage due to leaking equipment, fire, vehicles, chemicals), commercial claims (e.g., breach of contract, economic loss, warranty, misrepresentation), financial (e.g., taxes, reporting), employment (e.g., wrongful termination, discrimination, benefits matters), and other claims for damage and relief.

We believe we have adequately reserved for our current litigation and claims that are probable and estimable, and further believe that the ultimate outcome of these pending lawsuits and claims will not have a material adverse affect on our consolidated financial position or results of operations taken as a whole. Due to their inherent uncertainty, however, there can be no assurance of the ultimate outcome or effect of current or future litigation, investigations, claims or other proceedings (including without limitation the FDA-related matters discussed below). For certain types of claims, we presently

STERIS CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(dollars in thousands, except per share amounts)

maintain product liability insurance coverage and other liability coverages in amounts and with deductibles that we believe are prudent, but there can be no assurance that these coverages will be applicable or adequate to cover adverse outcomes of claims or legal proceedings against us.

As previously disclosed, we received a warning letter (the “warning letter”) from the FDA on May 16, 2008 regarding our SYSTEM 1[®] sterile processor and the STERIS[™] 20 sterilant used with the processor (sometimes referred to collectively in the FDA letter and in this note 11 as the “device”). Among other matters, the warning letter included the FDA’s assertion that significant changes or modifications had been made in the design, components, method of manufacture, or intended use of the device beyond the FDA’s 1988 clearance, such that the FDA believed a new premarket notification submission (known within FDA regulations as a 510(k) submission) should have been made, and the assertion that our failure to make such a submission resulted in violations of applicable law. On July 30, 2008 (with an Addendum on October 9, 2008), we provided a detailed response contending that the assertions in the warning letter were not correct. On November 4, 2008, we received a letter from the FDA (dated November 3, 2008) in which the FDA stated without elaboration that, after reviewing our response, it disagreed with our position and that a new premarket notification submission was required. After discussions with the FDA regarding the November 3rd letter, we received an additional letter on November 6, 2008 from the FDA. The November 6th letter stated that the intent of the November 3rd letter was to inform us of the FDA’s preliminary disagreement with our response to the warning letter and, before finalizing a position, the FDA reiterated that it wanted to meet with us to discuss the Company’s response, issues related to the warning letter and next steps to resolve any differences between the Company and the FDA. We thereafter met with the FDA and, on January 20, 2009, we announced that we had submitted to the FDA a new liquid chemical sterilant system for 510(k) clearance, and we communicated to Customers that we would continue supporting the existing SYSTEM 1 installed base in the U.S. for at least a two year period from that date.

On December 3, 2009, the FDA provided a notice (“notice”) to healthcare facility administrators and infection control practitioners describing FDA’s “concerns about the SYSTEM 1 Processor, components and accessories, and FDA recommendations.” In the notice, among other things, FDA stated its belief that the SYSTEM 1 device had been significantly modified, that FDA had not cleared or approved the modified device, and that FDA had not determined whether the SYSTEM 1 was safe or effective for its labeled claims. The notice further stated that use of a device that does not properly sterilize or disinfect a medical or surgical device poses risks to patients and users, including the transmission of pathogens, exposure to hazardous chemicals and affect on the quality and functionality of reprocessed instruments. The notice stated that FDA was aware of reports of malfunctions of the SYSTEM 1 that had the potential to cause or contribute to serious injuries to patients, such as infections, or injuries to healthcare staff, such as burns. Included in FDA’s December 3, 2009 notice was a recommendation from FDA that if users had acceptable alternatives to meet sterilization and disinfection needs, they should transition to that alternative as soon as possible. After its December 3, 2009 notice, we engaged in extensive discussions with the FDA regarding a comprehensive resolution of this matter. On February 2, 2010, the FDA notified healthcare facility administrators and infection control practitioners that FDA’s total recommended time period for transitioning from SYSTEM 1 in the U.S. was 18 months from that date. During this transition period in the U.S., we have continued to support the existing SYSTEM 1 installed base by providing accessories, sterilant, service and parts for U.S. Customers.

In April 2010 we reached agreement with the FDA on the terms of a consent decree (“Consent Decree”). On April 19, 2010, a Complaint and Consent Decree were filed in the U.S. District Court for the Northern District of Ohio, and on April 20, 2010, the Court approved the Consent Decree. In general, the Consent Decree addresses regulatory matters regarding SYSTEM 1, restricts further sales of SYSTEM 1 processors in the U.S., defines certain documentation and requirements for continued service and support of SYSTEM 1 in the U.S., prohibits the sale of liquid chemical sterilization or disinfection products in the U.S. that do not have FDA clearance, describes various process and compliance matters, and defines penalties in the event of violation of the Consent Decree.

The Consent Decree also provides that we may continue to support our Customers’ use of SYSTEM 1 in the U.S., including the sale of consumables, parts and accessories and service for a transition period, not to extend beyond August 2, 2011, subject to compliance with requirements for documentation of the Customer’s need for continued support and other conditions and limitations (the “Transition Plan”). Our Transition Plan includes the “SYSTEM 1 Customer Rebate Program” (the “Rebate Program”). In April 2010, we began to offer rebates to qualifying Customers. Generally, U.S. Customers that

STERIS CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(dollars in thousands, except per share amounts)

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 rebate or a trade-in allowance 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 SYSTEM 1 service contracts. As a result of the Rebate Program, we will record a liability of up to \$100 million during the first quarter of fiscal 2011 that will result in a one-time reduction of revenue and earnings on a pretax basis.

The Consent Decree has defined the resolution of a number of issues regarding SYSTEM 1, and we believe our actions since January 2009 with respect to SYSTEM 1, including the Transition Plan, were and are not recalls, corrections or removals under FDA regulations. However, there is no assurance that other claims will not be brought or that judicial, regulatory, administrative or other legal or enforcement actions, notices or remedies will not be pursued, or that action will not be taken in respect of the Consent Decree, the Transition Plan, SYSTEM 1, or otherwise with respect to regulatory or compliance matters, as described in this note 11 or in various portions of Item 1A. of Part I contained in this Annual Report on Form 10-K. On February 5, 2010, a complaint was filed by a Customer who claims to have purchased two SYSTEM 1 devices from STERIS, Physicians of Winter Haven LLC d/b/a Day Surgery Center v. Steris Corp., Case No. 1:1-cv-00264-CAB (N.D. Ohio). The complaint alleges statutory violations, breaches of various warranties, negligence, failure to warn, and unjust enrichment. Plaintiff seeks class certification, damages, and other legal and equitable relief including, without limitation, attorneys' fees and an order requiring STERIS to replace, recall or adequately repair the product and/or to take appropriate regulatory action. We are evaluating this matter and expect to defend against these allegations. This proceeding or others involving our SYSTEM 1 sterile processing system and STERIS 20 sterilant could possibly result in judgments, settlements or administrative or judicial decrees requiring us, among other actions, to pay damages or fines or effect recalls, or be subject to other governmental, Customer or other third party claims or remedies, which could materially affect our business, performance, prospects, value, financial condition, and results of operations.

For additional information regarding these matters, see the following portions of this Annual Report on Form 10-K for the year ended March 31, 2010: "Business – Information with respect to our Business in General – Recent Events – Government Regulation", and the "Risk Factor" titled: "We may be adversely affected by product liability claims or other legal actions or regulatory or compliance matters, including the Warning Letter and Consent Decree.", the "Risk Factor" titled: "Our business may be adversely affected as a result of the U.S. Food and Drug Administration notices to healthcare administrators and device manufacturers, and related matters," and the "Risk Factor" titled "Compliance with the Consent Decree may be more costly and burdensome than anticipated."

From time to time, STERIS is also involved in legal proceedings as a plaintiff involving contract, patent protection, and other claims asserted by us. Gains, if any, from these proceedings are recognized when they are realized.

Additional information regarding our contingencies is included in Item 7 of Part II titled, "Management's Discussion and Analysis of Financial Conditions and Results of Operations," and in Item 3 of Part I titled, "Legal Proceedings" contained in this Annual Report on Form 10-K.

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 jurisdiction or the closing of statute of limitation. Changes in applicable tax law or other events may also require us to revise past estimates. We describe income taxes further in Note 9 to our consolidated financial statements titled, "Income Taxes."

As of March 31, 2010 and 2009, our commercial commitments totaled \$36,706 and \$32,571, respectively. Commercial commitments include standby letters of credit, letters of credit required as security under our self-insured risk retention policies, and other potential cash outflows resulting from an event that requires payment by us. Approximately \$8,341 and \$8,482, respectively, of the totals at March 31, 2010 and 2009 relate to letters of credit required as security under our self-insured risk retention policies.

As of March 31, 2010 and 2009, we had minimum purchase commitments with suppliers for raw material purchases totaling \$17,666 and \$21,527, respectively.

STERIS CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(dollars in thousands, except per share amounts)

12. BUSINESS SEGMENT INFORMATION

We operate and report 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.

Our Healthcare segment manufactures and sells capital equipment, accessory, consumable, and service solutions to healthcare providers, including acute care hospitals and surgery centers. These solutions aid our Customers in improving the safety, quality, and productivity of their surgical, sterile processing, gastrointestinal, and emergency environments.

Our Life Sciences segment manufactures and sells engineered capital equipment, formulated cleaning chemistries, and service solutions to pharmaceutical companies, and private and public research facilities around the globe.

Our Isomedix segment operates through a network of 20 facilities located in North America. We sell a comprehensive array of contract sterilization services using gamma irradiation, and ethylene oxide ("EO") technologies. We provide sterilization and microbial reduction services to companies that supply products to the healthcare, industrial, and consumer products industries.

Financial information for each of our segments is presented in the following table. Operating income (loss) for each segment 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. These allocations are based upon variables such as segment headcount and revenues. 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.

The accounting policies for segments are the same as those for the consolidated Company. For the year ended March 31, 2010, revenues from a single Customer did not equal ten percent or more of any segment's revenues.

Years Ended March 31,	2010	2009	2008
Revenues:			
Healthcare	\$ 892,474	\$ 931,263	\$ 887,073
Life Sciences	218,209	216,701	228,350
Isomedix	140,871	142,645	140,558
Total Reportable Segments	1,251,554	1,290,609	1,255,981
Corporate and other	6,179	7,916	9,109
Total Revenues	\$ 1,257,733	\$ 1,298,525	\$ 1,265,090
Operating Income:			
Healthcare	\$ 151,520	\$ 132,601	\$ 103,447
Life Sciences	30,952	18,413	11,535
Isomedix	31,103	34,763	28,964
Total Reportable Segments	213,575	185,777	143,946
Corporate and other	(9,863)	(10,332)	(20,401)
Total Operating Income	\$ 203,712	\$ 175,445	\$ 123,545

STERIS CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(dollars in thousands, except per share amounts)

For the year ended March 31, 2010, pre-tax restructuring expenses of \$3,839 and \$555 are included in the operating results of the Healthcare and Life Sciences segments, respectively. For the year ended March 31, 2009, pre-tax restructuring expenses of \$11,399, \$2,562, \$40 and \$(1) are included in the operating results of the Healthcare, Life Sciences, and Isomedix segments, and in Corporate and other, respectively. For the year ended March 31, 2008, pre-tax restructuring expenses of \$16,868, \$1,536, \$389 and \$752 are included in the operating results of the Healthcare, Life Sciences and Isomedix segments, and in Corporate and other, respectively.

Assets include the current and long-lived assets directly attributable to the segment based on the management of the location or on utilization. Certain corporate assets were allocated to the reportable segments based on revenues. Assets attributed to sales and distribution locations are only allocated to the Healthcare and Life Sciences segments. Capital expenditures and depreciation and amortization are allocated to the segments based on variables such as headcount and revenues. Capital expenditures and depreciation and amortization related to research and development efforts are allocated to the Healthcare and Life Sciences segments based on the respective proportion of research and development expenses. "Corporate and other" includes assets, capital expenditures, and depreciation and amortization directly attributable to the Defense and Industrial business unit, as well as certain unallocated amounts related to being a publicly traded company.

Individual facilities, equipment, and intellectual properties are utilized for production by both the Healthcare and Life Sciences segments at varying levels over time. As a result, an allocation of total assets, capital expenditures, and depreciation and amortization is not meaningful to the individual performance of the Healthcare and Life Sciences segments. Therefore, their respective amounts are reported together.

March 31,	2010	2009	
Assets:			
Healthcare and Life Sciences	\$ 895,694	\$ 911,620	
Isomedix	341,452	302,247	
Total Reportable Segments	1,237,146	1,213,867	
Corporate and other	1,256	3,072	
Total Assets	\$ 1,238,402	\$1,216,939	
Years Ended March 31,	2010	2009	2008
Capital Expenditures:			
Healthcare and Life Sciences	\$ 20,602	\$15,278	\$20,296
Isomedix	23,454	25,559	36,078
Total Reportable Segments	44,056	40,837	56,374
Corporate and other	31	52	600
Total Capital Expenditures	\$ 44,087	\$40,889	\$56,974
Depreciation, Depletion, and Amortization:			
Healthcare and Life Sciences	\$ 32,640	\$34,866	\$37,991
Isomedix	23,553	23,848	24,420
Total Reportable Segments	56,193	58,714	62,411
Corporate and other	25	59	367
Total Depreciation, Depletion, and Amortization	\$ 56,218	\$58,773	\$62,778

STERIS CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(dollars in thousands, except per share amounts)

Financial information for each of our United States and international geographic areas is presented in the following table. Revenues are based on the location of these operations and their Customers. Property, plant and equipment, net are those assets that are identified within the operations in each geographic area.

Years Ended March 31,	2010	2009	2008
Revenues:			
United States	\$ 949,637	\$ 993,487	\$ 971,018
International	308,096	305,038	294,072
Total Revenues	\$ 1,257,733	\$1,298,525	\$1,265,090
March 31,		2010	2009
Property, Plant, and Equipment, Net			
United States		\$ 301,405	\$309,029
International		45,453	41,967
Property, Plant, and Equipment, Net		\$ 346,858	\$350,996

13. COMMON SHARES

We calculate basic earnings per common share based upon the weighted average number of common shares outstanding. We calculate diluted earnings per share based upon the weighted average number of common shares outstanding plus the dilutive effect of common share equivalents calculated using the treasury stock method. The following is a summary of common shares and common share equivalents outstanding used in the calculations of basic and diluted earnings per share:

(in thousands)	Years Ended March 31,		
	2010	2009	2008
Weighted average common shares outstanding – basic	58,826	58,778	63,300
Dilutive effect of common share equivalents	597	670	777
Weighted Average Common Shares and Equivalents – diluted	59,423	59,448	64,077

Options to purchase the following number of common shares were outstanding but excluded from the computation of diluted earnings per share because the combined exercise prices, unamortized fair values, and assumed tax benefits upon exercise were greater than the average market price for the common shares during the periods, so including these options would be anti-dilutive:

(shares in thousands)	Years Ended March 31,		
	2010	2009	2008
Number of common share options	1,138	1,286	1,332

STERIS CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(dollars in thousands, except per share amounts)

14. REPURCHASES OF COMMON SHARES

In March 2008, we announced that the Company's Board of Directors provided authorization to repurchase up to \$300,000 of STERIS common shares. This authorization replaced the prior authorization of July 26, 2007 to repurchase up to \$300,000 of STERIS common shares under which \$159,736 remained available for repurchase. The March 2008 common share repurchase authorization does not have a stated maturity date. Under this authorization, we may purchase shares from time to time through open market purchases, including transactions pursuant to Rule 10b5-1 plans, or privately negotiated transactions.

We did not repurchase any shares under the authorization provided by our Board of Directors during fiscal 2010. During fiscal 2009, we paid an aggregate amount of \$80,466 for the repurchase of 2,646,177 of our common shares, representing an average price of \$30.41 per common share. This includes certain March 2008 repurchases of 225,000 of our common shares for an aggregate amount of \$6,028 that were not settled until April 2008.

During fiscal 2008, we paid an aggregate amount of \$177,171 for the repurchase of 6,600,550 of our common shares, representing an average price of \$26.84 per common share. This does not include the certain March 2008 repurchases that were not settled until April 2008.

We obtained 11,220 of our common shares during fiscal 2010 in connection with stock-based compensation award programs. At March 31, 2010, \$203,864 of STERIS common shares remained authorized for repurchase pursuant to the March 2008 Board authorization.

15. SHARE-BASED COMPENSATION

We maintain a long-term incentive plan that makes available common shares for grants, at the discretion of the Compensation Committee of the Board of Directors, to officers, directors, and key employees in the form of stock options, restricted shares, restricted share units, and stock appreciation rights. Stock options provide the right to purchase our common shares at the market price on the date of grant, subject to the terms of the option plans and agreements. Generally, one-fourth of the stock options granted become exercisable for each full year of employment following the date of grant. Stock options granted generally expire 10 years after the date of grant, or earlier if an option holder is no longer employed by us. Certain option agreements have provisions that provide for an adjustment to the normal vesting schedule allowing the options to vest on a prorated basis, as defined by the agreement, in the event of employment termination. Restricted shares and restricted share units generally cliff vest over an approximately three-year period. As of March 31, 2010, 4,041,357 shares remain available for grant under the long-term incentive plan.

The fair value of share-based compensation awards was estimated at their grant date using the Black-Scholes-Merton option pricing model. This model was developed for use in estimating the fair value of traded options that have no vesting restrictions and are fully transferable, characteristics that are not present in our option grants. If the model permitted consideration of the unique characteristics of employee stock options, the resulting estimate of the fair value of the stock options could be different. The value of the portion of the award that is ultimately expected to vest is recognized as expense over the requisite service periods in our Consolidated Statements of Income. The expense is classified as cost of goods sold or selling, general, and administrative expenses in a manner consistent with the employee's compensation and benefits.

The following weighted average assumptions were used for options granted during fiscal 2010, fiscal 2009, and fiscal 2008:

	Fiscal 2010	Fiscal 2009	Fiscal 2008
Risk-free interest rate	1.89%	2.65%	5.04%
Expected life of options	5.5 years	5.6 years	5.5 years
Expected dividend yield of stock	1.49%	0.86%	0.93%
Expected volatility of stock	27.96%	27.72%	29.61%

The risk-free interest rate is based upon the U.S. Treasury yield curve. The expected life of options is reflective of our historical experience, vesting schedules, and contractual terms. The expected dividend yield of stock represents our best estimate of expected future dividend yield. The expected

STERIS CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(dollars in thousands, except per share amounts)

volatility of stock is derived by referring to our historical stock prices over a timeframe similar to that of the expected life of the grant. We applied an estimated forfeiture rate of 2.2 percent for the first quarter of fiscal 2008, then 2.49 percent from the second quarter of fiscal 2008 through the fourth quarter of fiscal 2008. An estimated forfeiture rate of 2.86 percent was applied in fiscal 2009, and in fiscal 2010, 2.39 percent. This rate is calculated based upon historical activity and represents an estimate of the granted options not expected to vest. If actual forfeitures differ from this calculated rate, we may be required to make additional adjustments to compensation expense in future periods. The assumptions used above are reviewed at the time of each significant option grant, or at least annually.

A summary of share option activity is as follows:

	Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term	Aggregate Intrinsic Value
Outstanding at March 31, 2009	3,695,931	\$ 24.72		
Granted	622,747	23.23		
Exercised	(644,364)	21.87		
Forfeited	(53,731)	26.43		
Canceled	(21,362)	22.22		
Outstanding at March 31, 2010	3,599,221	\$ 24.96	5.93	\$31,357
Exercisable at March 31, 2010	2,387,236	\$ 24.34	4.70	\$22,277

We estimate that 1,190,371 of the non-vested stock options outstanding at March 31, 2010 will ultimately vest.

The aggregate intrinsic value in the table above represents the total pre-tax difference between the \$33.66 closing price of our common shares on March 31, 2010 over the exercise price of the stock option, multiplied by the number of options outstanding or outstanding and exercisable. The aggregate intrinsic value is not recorded for financial accounting purposes and the value changes daily based on the daily changes in the fair market value of our common shares.

The total intrinsic value of stock options exercised during the years ended March 31, 2010, 2009, and 2008 was \$6,546, \$24,416, and \$8,295, respectively. Net cash proceeds from the exercise of stock options were \$14,047, \$33,621, and \$14,619 for the years ended March 31, 2010, 2009, and 2008, respectively. The tax benefit from stock option exercises was \$2,467, \$6,982, and \$3,194 for the years ended March 31, 2010, 2009, and 2008, respectively.

The weighted average grant date fair value of share-based compensation grants was \$5.69, \$8.74, and \$9.41 for the years ended March 31, 2010, 2009, and 2008, respectively.

Stock appreciation rights ("SARS") carry generally the same terms and vesting requirements as stock options except that they are settled in cash upon exercise and therefore, are classified as liabilities. The fair value of outstanding SARS as of March 31, 2010, and 2009 was \$616, and \$97, respectively. The fair value of each outstanding SAR is revalued each reporting date and the related liability and expense are adjusted appropriately.

STERIS CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(dollars in thousands, except per share amounts)

A summary of the non-vested restricted share and restricted share unit activity is presented below:

	Number of Restricted Shares	Number of Restricted Share Units	Weighted Average Grant Date Fair Value
Non-vested at March 31, 2009	188,671	54,850	27.31
Granted	122,814	—	24.32
Vested	(76,395)	(31,850)	25.10
Forfeited	(12,500)	—	26.35
Non-vested at March 31, 2010	222,590	23,000	\$ 26.80

Restricted shares and restricted share units granted are valued based on the closing stock price at the grant date and generally cliff vest over approximately a three-year period based upon the terms of the grants. The total fair value of restricted shares that vested during the years ended March 31, 2010, 2009, and 2008 was \$2,630, \$1,903, and \$497, respectively.

Cash-settled restricted share units carry generally the same terms and vesting requirements as restricted share units except that they are settled in cash upon vesting and therefore, are classified as liabilities. The fair value of outstanding cash-settled restricted share units as of March 31, 2010, and 2009 was \$229, and \$77, respectively. The fair value of each cash-settled restricted share unit is revalued at each reporting date and the related liability and expense are adjusted appropriately.

As of March 31, 2010, there was \$7,576 of total unrecognized compensation cost related to non-vested share-based compensation granted under our share-based compensation plans. We expect to recognize the cost over a weighted average period of 1.57 years.

16. FINANCIAL AND OTHER GUARANTEES

We generally offer a limited one-year parts and labor warranty on our capital equipment. The specific terms and conditions of those warranties vary depending on the product sold and the country where we conduct business. We record a liability for the estimated cost of product warranties at the time product revenue is recognized. The amounts we expect to incur on behalf of our Customers for the future estimated cost of these warranties are recorded as a current liability on the accompanying Consolidated Balance Sheets. Factors that affect the amount of our warranty liability include the number and type of installed units, historical and anticipated rates of product failures, and material and service costs per claim. We periodically assess the adequacy of our recorded warranty liabilities and adjust the recorded amounts as necessary.

Changes in our warranty liability during the periods presented are as follows:

Years Ended March 31,	2010	2009	2008
Balance, Beginning of Year	\$ 7,573	\$ 7,825	\$ 5,893
Warranties issued during the period	8,706	11,152	13,557
Settlements made during the period	(10,209)	(11,404)	(11,625)
Balance, End of Year	\$ 6,070	\$ 7,573	\$ 7,825

We also sell product maintenance contracts to our Customers. These contracts range in terms from one to five years and require us to maintain and repair the product over the maintenance contract term. We initially record amounts due from Customers under these contracts as a liability for deferred

STERIS CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(dollars in thousands, except per share amounts)

service contract revenue on the accompanying Consolidated Balance Sheets. The liability recorded for deferred service revenue was \$17,709 and \$17,477 as of March 31, 2010 and 2009, respectively. Such deferred revenue is then amortized on a straight-line basis over the contract term and recognized as service revenue on the accompanying Consolidated Statements of Income. The activity related to the liability for deferred service revenue has been excluded from the table presented above.

17. FORWARD AND SWAP CONTRACTS

From time to time, we enter into forward contracts to hedge potential foreign currency gains and losses that arise from transactions denominated in foreign currencies, including inter-company transactions. We also enter into commodity swap contracts to hedge price changes in commodities that impact raw materials included in our cost of revenues. We do not use derivative financial instruments for speculative purposes. These contracts are not designated as hedging instruments and do not receive hedge accounting treatment; therefore, changes in their fair value are not deferred but are recognized immediately in the Consolidated Statements of Income.

Balance Sheet Location	Asset Derivatives		Liability Derivatives	
	Fair Value at March 31, 2010	Fair Value at March 31, 2009	Fair Value at March 31, 2010	Fair Value at March 31, 2009
Prepaid & Other	\$ 992	\$ —	\$ —	\$ —
Accrued expenses and other	\$ —	\$ —	\$ —	\$ 183

The following table presents the impact of derivative instruments and their location within the Consolidated Statements of Income

	Location of gain (loss) recognized in income	Amount of gain (loss) recognized in income Years ended March 31,		
		2010	2009	2008
Foreign currency forward contracts	Selling, general and administrative	\$ 541	\$ (2,064)	\$ (399)
Commodity swap contracts	Cost of Revenues	\$ 826	\$ —	\$ —

STERIS CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(dollars in thousands, except per share amounts)

18. FAIR VALUE MEASUREMENTS

Fair value is defined as the price that would be received to sell an asset or that would be paid to transfer a liability in an orderly transaction between market participants at the measurement date. We estimate the fair value of financial instruments using available market information and generally accepted valuation methodologies. The inputs used to measure fair value are classified into three tiers. These tiers include Level 1, defined as observable inputs such as quoted prices in active markets; Level 2, defined as inputs other than quoted prices in active markets that are either directly or indirectly observable; and Level 3, defined as unobservable inputs in which little or no market data exists, therefore requiring the entity to develop its own assumptions. The following table shows our financial assets and liabilities accounted for at fair value on a recurring basis at March 31, 2010:

	Fair Value Measurements at March 31, 2010			
	March 31, 2010	Quoted Prices in Active Markets for Identical Assets	Significant Other Observable Inputs	Significant Unobservable Inputs
		Level 1	Level 2	Level 3
Assets:				
Cash and cash equivalents	\$ 214,971	\$ 214,971	\$ —	\$ —
Forward and swap contracts (1)	992	—	992	—
Investments (2)	1,778	1,778	—	—
Liabilities:				
Deferred compensation plans (2)	\$ 1,782	\$ 1,782	\$ —	\$ —

(1) The fair values of forward and swap contracts are based on period-end forward rates and reflect the value of the amount that we would pay or receive for the contracts involving the same notional amounts and maturity dates.

(2) We provide a domestic non-qualified deferred compensation plan covering certain employees, which allows for the deferral of compensation for an employee-specified term or until retirement or termination. Amounts deferred can be allocated to various hypothetical investment options. We hold investments to satisfy the future obligations of the plan. Changes in the value of the investment accounts are recognized each period based on the fair value of the underlying investments. Employees making deferrals are entitled to receive distributions of their hypothetical account balances (amounts deferred, together with earnings (losses)).

19. SUBSEQUENT EVENTS

We have evaluated events occurring subsequent to March 31, 2010 through May 28, 2010, the date of issuance of these consolidated financial statements, to determine whether they require recognition or disclosure in the consolidated financial statements. Based upon this evaluation, we have determined that no material subsequent events occurred that require recognition or disclosure in the financial statements other than those already disclosed in note 11 to our consolidated financial statements titled, "Commitments and Contingencies."

STERIS CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(dollars in thousands, except per share amounts)

20. QUARTERLY RESULTS (UNAUDITED)

Quarters Ended	March 31	December 31	September 30	June 30
Fiscal 2010				
Revenues:				
Product	\$ 212,296	\$ 214,072	\$ 199,135	\$ 173,500
Service	119,833	113,760	115,094	110,043
Total Revenues	332,129	327,832	314,229	283,543
Cost of Revenues:				
Product	122,428	122,324	115,958	94,277
Service	67,493	66,025	65,616	64,430
Total Cost of Revenues	189,921	188,349	181,574	158,707
Gross Profit	142,208	139,483	132,655	124,836
Percentage of Revenues	42.8%	42.5%	42.2%	44.0%
Restructuring Expenses	5,161	14	(115)	(211)
Net Income	\$ 29,835	\$ 41,006	\$ 32,084	\$ 25,542
Basic Income Per Common Share (1):				
Net income	\$ 0.50	\$ 0.70	\$ 0.55	\$ 0.44
Diluted Income Per Common Share (1):				
Net income	\$ 0.50	\$ 0.69	\$ 0.54	\$ 0.43
Fiscal 2009				
Revenues:				
Product	\$ 228,783	\$ 203,308	\$ 203,856	\$ 195,582
Service	115,583	116,159	119,271	115,983
Total Revenues	344,366	319,467	323,127	311,565
Cost of Revenues:				
Product	136,014	127,111	120,923	112,867
Service	68,541	68,289	69,841	68,197
Total Cost of Revenues	204,555	195,400	190,764	181,064
Gross Profit	139,811	124,067	132,363	130,501
Percentage of Revenues	40.6%	38.8%	41.0%	41.9%
Restructuring Expenses	828	2,855	37	(166)
Net Income	\$ 27,816	\$ 28,575	\$ 28,794	\$ 25,500
Basic Income Per Common Share (1):				
Net income	\$ 0.48	\$ 0.49	\$ 0.49	\$ 0.43
Diluted Income Per Common Share (1):				
Net income	\$ 0.47	\$ 0.48	\$ 0.48	\$ 0.43

(1) Per share amounts for the quarters and the full year have been computed separately. Accordingly, quarterly amounts may not add to the annual amounts because of differences in the average shares outstanding during each quarter due to the effect of potentially dilutive securities only in the periods in which such effect would be dilutive and the effect of quarterly share repurchases.

SCHEDULE II – VALUATION AND QUALIFYING ACCOUNTS

Description	Balance at Beginning of Period	Charges to Costs and Expenses	Charges to Other Accounts	Deductions	Balance at End of Period
(in thousands)					
Year ended March 31, 2010					
Deducted from asset accounts:					
Allowance for trade accounts receivable(1)	\$ 10,728	\$ 948	\$ 101(3)	\$ (2,539)(4)	\$ 9,238
Inventory valuation reserve	15,025	(5,205)(2)	737(3)	—	10,557
Deferred tax asset valuation allowance	9,957	741	75	(892)	9,881
Recorded within liabilities:					
Self-insured risk retention	\$ 15,277	\$ 753	\$ —	\$ (2,900)	\$ 13,130
Year ended March 31, 2009					
Deducted from asset accounts:					
Allowance for trade accounts receivable(1)	\$ 9,396	\$ 6,982	\$ (242)(3)	\$ (5,408)(4)	\$ 10,728
Inventory valuation reserve	12,940	3,433(2)	(1,348)(3)	—	15,025
Deferred tax asset valuation allowance	8,998	4,103	(1,602)	(1,542)	9,957
Recorded within liabilities:					
Self-insured risk retention	\$ 16,400	\$ 2,555	\$ —	\$ (3,678)	\$ 15,277
Year ended March 31, 2008					
Deducted from asset accounts:					
Allowance for trade accounts receivable(1)	\$ 9,911	\$ 2,308	\$ 109(3)	\$ (2,932)(4)	\$ 9,396
Inventory valuation reserve	10,892	1,202(2)	846(3)	—	12,940
Deferred tax asset valuation allowance	6,308	2,999	992	(1,301)	8,998
Recorded within liabilities:					
Self-insured risk retention	\$ 16,602	\$ 3,105	\$ —	\$ (3,307)	\$ 16,400

- (1) Net allowance for doubtful accounts and allowance for sales and returns.
- (2) Provision for excess and obsolete inventory, net of inventory written off.
- (3) Change in foreign currency exchange, international subsidiaries.
- (4) Uncollectible accounts written off, net of recoveries.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

ITEM 9A. CONTROLS AND PROCEDURES

EVALUATION OF DISCLOSURE CONTROLS AND PROCEDURES

Our management, including the Principal Executive Officer (“PEO”) and Principal Financial Officer (“PFO”), has evaluated the effectiveness of our disclosure controls and procedures, as defined in Exchange Act Rules 13a-15(e) and 15d-15(e), as of the end of the period covered by this report. Based on this evaluation, the PEO and PFO have determined that, as of the end of the period covered by this report, our disclosure controls and procedures were effective.

MANAGEMENT’S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

Management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in the Exchange Act Rules 13a-15(f) and 15(d)-15(f). Under the supervision and with the participation of management, including the PEO and PFO, we conducted an evaluation of the effectiveness of internal control over financial reporting as of March 31, 2010 based on the framework in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (“COSO”). Based on this evaluation under this framework, management concluded that the internal control over financial reporting was effective as of March 31, 2010.

The effectiveness of our internal controls over financial reporting as of March 31, 2010 has been audited by our independent registered public accounting firm, Ernst & Young LLP. The Report of Management and the Report of Independent Registered Public Accounting Firm are included in Part II, Item 8 of this Annual Report on Form 10-K.

CHANGES IN INTERNAL CONTROLS

During the quarter ended March 31, 2010, there were no changes in our internal control over financial reporting that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

ITEM 9B. OTHER INFORMATION

None.

PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

This Annual Report on Form 10-K incorporates by reference the information appearing under the caption “Nominees for Election as Directors,” “Section 16(a) Beneficial Ownership Reporting Compliance,” “Board Meetings and Committees” and “Shareholder Nominations of Directors and Nominee Criteria” of our definitive proxy statement to be filed with the SEC in connection with our 2010 Annual Meeting of Shareholders (the “Proxy Statement”).

Our executive officers serve for a term of one year from the date of election to the next organizational meeting of the Board of Directors and until their respective successors are elected and qualified, except in the case of death, resignation, or removal. Information concerning our executive officers is contained in Item 4 of Part I of this Annual Report. We have adopted a code of ethics, our Code of Business Conduct for Employees that applies to our PEO and PFO and Principal Accounting Officer as well as all our other employees. We have also adopted a code of ethics, our Director Code of Ethics, which applies to the members of the Company’s Board of Directors, including our PEO. Our Code of Business Conduct for Employees and the Director Code of Ethics can be found on our Investor Relations website at www.steris-ir.com. Any amendments or waivers of either of these codes will be made available on this website.

ITEM 11. EXECUTIVE COMPENSATION

This Annual Report on Form 10-K incorporates by reference the information appearing beginning under the captions “Executive Compensation,” “Non-Employee Director Compensation” and “Miscellaneous Matters” of the Proxy Statement.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

This Annual Report on Form 10-K incorporates by reference the information appearing under the caption “Ownership of Voting Securities” of the Proxy Statement.

The table below presents information concerning all equity compensation plans and individual compensation arrangements in effect as of our fiscal year ended March 31, 2010:

Plan Category	Number of Securities to be Issued Upon Exercise of Outstanding Options, Warrants, and Rights (a)	Weighted-Average Exercise Price of Outstanding Options, Warrants, and Rights (b)	Number of Securities Remaining Available for Future Issuance Under Equity Compensation Plans (Excluding Securities Reflected in Column (a)) (c)
Equity Compensation Plans Approved by Security Holders	3,574,221	\$ 24.99	4,041,357
Equity Compensation Plans Not Approved by Security Holders	25,000(1)	\$ 20.30	
Total	3,599,221	\$ 24.96	4,041,357

- (1) Represents options granted to key employees as inducements for them to enter into the employ of the Company or a subsidiary. Although not issued pursuant to a plan approved by security holders, these options are, in general, subject to the terms of the STERIS Corporation 1994 Equity Compensation Plan (which was approved by the security holders) to the same extent as if they had been issued pursuant to that plan.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE

This Annual Report on Form 10-K incorporates by reference the information appearing beginning under the captions “Governance Generally,” “Board Meetings and Committees” and “Miscellaneous Matters” of the Proxy Statement.

ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

This Annual Report on Form 10-K incorporates by reference the information relating to principal accounting fees and services appearing under the caption “Independent Registered Public Accounting Firm” of the Proxy Statement.

PART IV

ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULE

LIST OF CONSOLIDATED FINANCIAL STATEMENTS AND FINANCIAL STATEMENT SCHEDULE

(a) (1) The following consolidated financial statements of STERIS Corporation and subsidiaries are included in Item 8:

Consolidated Balance Sheets – March 31, 2010 and 2009.

Consolidated Statements of Income – Years ended March 31, 2010, 2009, and 2008.

Consolidated Statements of Cash Flows – Years ended March 31, 2010, 2009, and 2008.

Consolidated Statements of Shareholders' Equity – Years ended March 31, 2010, 2009, and 2008.

Notes to Consolidated Financial Statements.

(a) (2) The following consolidated financial statement schedule of STERIS Corporation and subsidiaries is included in Item 8:

Schedule II – Valuation and Qualifying Accounts

All other schedules for which provision is made in the applicable accounting regulation of the SEC are not required under the related instructions or are inapplicable and, therefore, have been omitted.

(a)(3) Exhibits

Exhibit Number	Exhibit Description
3.1	1992 Amended Articles of Incorporation of STERIS Corporation, as amended on May 14, 1996, November 6, 1996, and August 6, 1998 (filed as Exhibit 3.1 to Form 10-K filed for the fiscal year ended March 31, 2000 (Commission File No. 1-14643), and incorporated herein by reference).
3.2	Amended and Restated Regulations of STERIS Corporation, as amended on July 26, 2007 (filed as Exhibit 3.2 to Form 10-Q for the fiscal quarter ended June 30, 2007 (Commission File No. 1-14643), and incorporated herein by reference).
4.1	Specimen Form of Common Stock Certificate (filed as Exhibit 4.1 to Form 10-K filed for the fiscal year ended March 31, 2002 (Commission File No. 1-14643), and incorporated herein by reference).
10.1	Amended and Restated Non-Qualified Stock Option Plan (filed as Exhibit 10.1 to Form 10-K filed for the fiscal year ended March 31, 2005 (Commission File No. 1-14643), and incorporated herein by reference).*
10.2	STERIS Corporation 1994 Equity Compensation Plan (filed as Exhibit 10.2 to Form 10-K filed for the fiscal year ended March 31, 2005 (Commission File No. 1-14643), and incorporated herein by reference).*
10.3	STERIS Corporation 1994 Nonemployee Directors Equity Compensation Plan (filed as Exhibit 10.3 to Form 10-K filed for the fiscal year ended March 31, 2002 (Commission File No. 1-14643), and incorporated herein by reference).*
10.4	STERIS Corporation Form of Nonqualified Stock Option Grant Agreement for Directors (filed as Exhibit 10.4 to Form 10-Q for the fiscal quarter ended December 31, 2004 (Commission File No. 1-14643), and incorporated herein by reference).*
10.5	STERIS Corporation Form of Nonqualified Stock Option Agreement for Employees (filed as Exhibit 10.2 to Form 10-Q for the fiscal quarter ended December 31, 2004 (Commission File No. 1-14643), and incorporated herein by reference).*
10.6	STERIS Corporation 1997 Stock Option Plan (filed as Exhibit 10.5 to Form 10-K for the fiscal year ended March 31, 2003 (Commission File No. 1-14643), and incorporated herein by reference).*
10.7	STERIS Corporation 1998 Long-Term Incentive Stock Plan (filed as Exhibit 10.8 to Form 10-K for fiscal year ended March 31, 1999 (Commission File No. 1-14643), and incorporated herein by reference).*
10.8	STERIS Corporation 2002 Stock Option Plan (filed as Exhibit 10.7 to Form 10-K for the fiscal year ended March 31, 2003 (Commission File No. 1-14643), and incorporated herein by reference).*
10.9	STERIS Corporation 2006 Long-Term Equity Incentive Plan (filed as Exhibit 10.1 to Form 8-K filed July 28, 2006 (Commission File No. 1-14643), and incorporated herein by reference).*

Table of Contents

Exhibit Number	Exhibit Description
10.10	Amendment No. 1 to STERIS Corporation 2006 Long-Term Equity Incentive Plan (filed as Exhibit 10.11 to Form 10-K for the fiscal year ended March 31, 2007 (Commission File No. 1-14643), and incorporated herein by reference).*
10.11	STERIS Corporation Form of Restricted Stock Agreement for Employees (filed as Exhibit 10.3 to Form 8-K filed July 28, 2006 (Commission File No. 1-14643), and incorporated herein by reference).*
10.12	STERIS Corporation Form of Restricted Stock Agreement for Directors (filed as Exhibit 10.5 to Form 8-K filed July 28, 2006 (Commission File No. 1-14643), and incorporated herein by reference).*
10.13	STERIS Corporation Form of Restricted Stock Unit Agreement for Employees (filed as Exhibit 10.5 to Form 10-Q filed for the fiscal quarter ended September 30, 2007 (Commission File No. 1-14643), and incorporated herein by reference).*
10.14	STERIS Corporation Form of Nonqualified Stock Option Agreement for Employees (filed as Exhibit 10.7 to Form 10-Q filed for the fiscal quarter ended September 30, 2006 (Commission File No. 1-14643), and incorporated herein by reference).*
10.15	STERIS Corporation Form of Nonqualified Stock Option Agreement for Nonemployee Directors (filed as Exhibit 10.8 to Form 10-Q filed for the fiscal quarter ended September 30, 2006 (Commission File No. 1-14643), and incorporated herein by reference).*
10.16	STERIS Corporation Form of Restricted Stock Agreement for Employees (filed as Exhibit 10.1 to Form 10-Q filed for the fiscal quarter ended June 30, 2008 (Commission File No. 1-14643), and incorporated herein by reference).*
10.17	STERIS Corporation Form of Restricted Stock Agreement for Nonemployee Directors (filed as Exhibit 10.2 to Form 10-Q filed for the fiscal quarter ended June 30, 2008 (Commission File No. 1-14643), and incorporated herein by reference).*
10.18	STERIS Corporation Form of Nonqualified Stock Option Agreement for Employees (filed as Exhibit 10.3 to Form 10-Q filed for the fiscal quarter ended June 30, 2008 (Commission File No. 1-14643), and incorporated herein by reference).*
10.19	STERIS Corporation Form of Nonqualified Stock Option Agreement for Nonemployee Directors (filed as Exhibit 10.4 to Form 10-Q filed for the fiscal quarter ended June 30, 2008 (Commission File No. 1-14643), and incorporated herein by reference).*
10.20	STERIS Corporation Current Form of Restricted Stock Agreement for Employees (filed as Exhibit 10.1 to Form 10-Q filed for the fiscal quarter ended June 30, 2009 (Commission File No. 1-14643), and incorporated herein by reference).*
10.21	STERIS Corporation Current Form of Non-Qualified Stock Option Agreement for Employees (filed as Exhibit 10.2 to Form 10-Q filed for the fiscal quarter ended June 30, 2009 (Commission File No. 1-14643), and incorporated herein by reference).*
10.22	STERIS Corporation Deferred Compensation Plan Document (filed as Exhibit 10.1 to Form 8-K filed September 1, 2006 (Commission File No. 1-14643), and incorporated herein by reference).*
10.23	STERIS Corporation Deferred Compensation Plan Document (as Amended and Restated Effective January 1, 2009) (filed as Exhibit 10.1 to Form 10-Q filed for the fiscal quarter ended December 31, 2008 (Commission File No. 1-14643), and incorporated herein by reference).*
10.24	Amended and Restated Adoption Agreement related to STERIS Corporation Deferred Compensation Plan (filed as Exhibit 10.2 to Form 10-Q filed for the fiscal quarter ended December 31, 2008 (Commission File No. 1-14643), and incorporated herein by reference).*
10.25	STERIS Corporation Incentive Compensation Plan (filed as Exhibit 10.1 to Form 8-K filed May 7, 2009 (Commission File No. 1-14643), and incorporated herein by reference).*
10.26	STERIS Corporation Senior Executive Management Incentive Compensation Plan (filed as Exhibit 10.1 to Form 8-K filed August 3, 2005 (Commission File No. 1-14643), and incorporated herein by reference).*
10.27	Form of Change of Control Agreement between STERIS Corporation and certain executive officers of STERIS Corporation other than Mr. Walter M Rosebrough, Jr. (filed as Exhibit 10.2 to Form 10-Q filed for the quarter ended June 30, 1999 (Commission File No. 1-14643), and incorporated herein by reference).*
10.28	Employment Agreement dated September 7, 2007 between STERIS Corporation and Mr. Rosebrough (filed as Exhibit 10.3 to Form 10-Q for the fiscal quarter ended September 30, 2007 (Commission File No. 1-14643), and incorporated herein by reference).*
10.29	Agreement dated September 7, 2007 between STERIS Corporation and Mr. Rosebrough (filed as Exhibit 10.4 to Form 10-Q for the fiscal quarter ended September 30, 2007 (Commission File No. 1-14643), and incorporated herein by reference).*
10.30	Executive Retention Agreement dated May 29, 2007 between STERIS Corporation and Dr. Peter Burke (filed as Exhibit 10.24 to Form 10-K for the fiscal year ended March 31, 2007 (Commission File No. 1-14643), and incorporated herein by reference).*
10.31	Form of Indemnification Agreement between STERIS Corporation and each of its directors and executive officers.

Table of Contents

Exhibit Number	Exhibit Description
10.32	Agreement dated as of April 23, 2008 by and among STERIS Corporation, Richard C. Breeden, Robert H. Fields, and the Breeden Investors identified therein (filed as Exhibit 10.1 to Form 8-K filed April 24, 2008 (Commission File No. 1-14643), and incorporated herein by reference).
10.33	Second Amended and Restated Credit Agreement, dated September 13, 2007, among STERIS Corporation, KeyBank National Association, as agent for the lenders from time to time party thereto, and such lenders (filed as Exhibit 10.1 to Form 10-Q for the fiscal quarter ended September 30, 2007 (Commission File No. 1-14643), and incorporated herein by reference).
10.34	Form of Note Purchase Agreements, dated December 17, 2003, between STERIS Corporation and certain institutional investors (filed as Exhibit 10.3 to Form 10-Q filed for the fiscal quarter ended December 31, 2003 (Commission File No. 1-14643), and incorporated herein by reference).
10.35	First Amendment dated as of August 15, 2008 to Note Purchase Agreements dated as of December 17, 2003 between STERIS Corporation and certain institutional investors (filed as Exhibit 10.1 to Form 10-Q filed for the fiscal quarter ended September 30, 2008 (Commission File No. 1-14643), and incorporated herein by reference).
10.36	Subsidiary Guaranty dated December 17, 2003, by certain subsidiaries of STERIS Corporation (filed as Exhibit 10.4 to Form 10-Q filed for the fiscal quarter ended December 31, 2003 (Commission File No. 1-14643), and incorporated herein by reference).
10.37	Guaranty Supplement dated March 29, 2004, by SterilTek Holdings, Inc. and STERIS Corporation (filed as Exhibit 10.16 to Form 10-K for the fiscal year ended March 31, 2004 (Commission File No. 1-14643), and incorporated herein by reference).
10.38	Guaranty Supplement dated January 7, 2005, by STERIS Isomedix Services, Inc. and STERIS Corporation (filed as Exhibit 10.20 to Form 10-K for the fiscal year ended March 31, 2005 (Commission File No. 1-14643), and incorporated herein by reference).
10.39	Guaranty Supplement dated September 25, 2007, by HSTD LLC and STERIS Corporation filed as Exhibit 10.2 to Form 10-Q for the fiscal quarter ended September 30, 2007 (Commission File No. 1-14643), and incorporated herein by reference).
10.40	Form of Note Purchase Agreements dated as of August 15, 2008, between STERIS Corporation and certain institutional investors (filed as Exhibit 10.2 to Form 10-Q filed for the fiscal quarter ended September 30, 2008 (Commission File No. 1-14643), and incorporated herein by reference).
10.41	Subsidiary Guaranty dated as of August 15, 2008, by certain subsidiaries of STERIS Corporation (filed as Exhibit 10.3 to Form 10-Q filed for the fiscal quarter ended September 30, 2008 (Commission File No. 1-14643), and incorporated herein by reference).
21.1	Subsidiaries of STERIS Corporation
23.1	Consent of Independent Registered Public Accounting Firm
24.1	Power of Attorney
31.1	Certification of the Principal Executive Officer Pursuant to Exchange Act Rule 13a-14(a)/15d-14(a)
31.2	Certification of the Principal Financial Officer Pursuant to Exchange Act Rule 13a-14(a)/15d-14(a)
32.1	Certification of the Principal Executive Officer and the Principal Financial Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

* A management contract or compensatory plan or arrangement required to be filed as an exhibit hereto.

STERIS or its subsidiaries are parties to indentures relating to long-term debt instruments, which, individually or in the aggregate, do not exceed 10% of the total assets of STERIS and its subsidiaries on a consolidated basis. STERIS will furnish a copy of any such indenture to the SEC upon request.

(b) Exhibits

The response to this portion of Item 15 is included under (a) (3) of this Item 15.

(c) Financial Statement Schedules

Not applicable.

SIGNATURES

Pursuant to the requirements of Sections 13 or 15(d) 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, on the date indicated.

STERIS CORPORATION
(Registrant)

Date May 28, 2010

By: /s/ MICHAEL J. TOKICH
Michael J. Tokich
Senior Vice President and Chief Financial Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the date indicated.

<u>SIGNATURE</u>	<u>TITLE</u>	<u>DATE</u>
<u>/s/ WALTER M ROSEBROUGH, JR.</u> Walter M Rosebrough, Jr.	President, Chief Executive Officer and Director	May 28, 2010
<u>/s/ MICHAEL J. TOKICH</u> Michael J. Tokich	Senior Vice President and Chief Financial Officer	May 28, 2010
<u>*</u> John P. Wareham	Chairman and Director	May 28, 2010
<u>*</u> Richard C. Breeden	Director	May 28, 2010
<u>*</u> Cynthia L. Feldmann	Director	May 28, 2010
<u>*</u> Jacqueline B. Kosecoff	Director	May 28, 2010
<u>*</u> Kevin M. McMullen	Director	May 28, 2010
<u>*</u> Mohsen M. Sohi	Director	May 28, 2010
<u>*</u> Loyal W. Wilson	Director	May 28, 2010
<u>*</u> Michael B. Wood	Director	May 28, 2010

* The undersigned, by signing his name hereto, does sign and execute this Annual Report on Form 10-K pursuant to the Powers of Attorney executed by the above-named directors of the Registrant and filed with the Securities and Exchange Commission on behalf of such directors.

Date May 28, 2010

By: /s/ MARK D. MCGINLEY
Mark D. McGinley,
Attorney-in-Fact for Directors

EXHIBIT INDEX

(b) Exhibit Number	Exhibit Description
3.1	1992 Amended Articles of Incorporation of STERIS Corporation, as amended on May 14, 1996, November 6, 1996, and August 6, 1998 (filed as Exhibit 3.1 to Form 10-K filed for the fiscal year ended March 31, 2000 (Commission File No. 1-14643), and incorporated herein by reference).
3.2	Amended and Restated Regulations of STERIS Corporation, as amended on July 26, 2007 (filed as Exhibit 3.2 to Form 10-Q for the fiscal quarter ended June 30, 2007 (Commission File No. 1-14643), and incorporated herein by reference).
4.1	Specimen Form of Common Stock Certificate (filed as Exhibit 4.1 to Form 10-K filed for the fiscal year ended March 31, 2002 (Commission File No. 1-14643), and incorporated herein by reference).
10.1	Amended and Restated Non-Qualified Stock Option Plan (filed as Exhibit 10.1 to Form 10-K filed for the fiscal year ended March 31, 2005 (Commission File No. 1-14643), and incorporated herein by reference).
10.2	STERIS Corporation 1994 Equity Compensation Plan (filed as Exhibit 10.2 to Form 10-K filed for the fiscal year ended March 31, 2005 (Commission File No. 1-14643), and incorporated herein by reference).
10.3	STERIS Corporation 1994 Nonemployee Directors Equity Compensation Plan (filed as Exhibit 10.3 to Form 10-K filed for the fiscal year ended March 31, 2002 (Commission File No. 1-14643), and incorporated herein by reference).
10.4	STERIS Corporation Form of Nonqualified Stock Option Grant Agreement for Directors (filed as Exhibit 10.4 to Form 10-Q for the fiscal quarter ended December 31, 2004 (Commission File No. 1-14643), and incorporated herein by reference).
10.5	STERIS Corporation Form of Nonqualified Stock Option Agreement for Employees (filed as Exhibit 10.2 to Form 10-Q for the fiscal quarter ended December 31, 2004 (Commission File No. 1-14643), and incorporated herein by reference).
10.6	STERIS Corporation 1997 Stock Option Plan (filed as Exhibit 10.5 to Form 10-K for the fiscal year ended March 31, 2003 (Commission File No. 1-14643), and incorporated herein by reference).
10.7	STERIS Corporation 1998 Long-Term Incentive Stock Plan (filed as Exhibit 10.8 to Form 10-K for fiscal year ended March 31, 1999 (Commission File No. 1-14643), and incorporated herein by reference).
10.8	STERIS Corporation 2002 Stock Option Plan (filed as Exhibit 10.7 to Form 10-K for the fiscal year ended March 31, 2003 (Commission File No. 1-14643), and incorporated herein by reference).
10.9	STERIS Corporation 2006 Long-Term Equity Incentive Plan (filed as Exhibit 10.1 to Form 8-K filed July 28, 2006 (Commission File No. 1-14643), and incorporated herein by reference).
10.10	Amendment No. 1 to STERIS Corporation 2006 Long-Term Equity Incentive Plan (filed as Exhibit 10.11 to Form 10-K for the fiscal year ended March 31, 2007 (Commission File No. 1-14643), and incorporated herein by reference).
10.11	STERIS Corporation Form of Restricted Stock Agreement for Employees (filed as Exhibit 10.3 to Form 8-K filed July 28, 2006 (Commission File No. 1-14643), and incorporated herein by reference).
10.12	STERIS Corporation Form of Restricted Stock Agreement for Directors (filed as Exhibit 10.5 to Form 8-K filed July 28, 2006 (Commission File No. 1-14643), and incorporated herein by reference).
10.13	STERIS Corporation Form of Restricted Stock Unit Agreement for Employees (filed as Exhibit 10.5 to Form 10-Q filed for the fiscal quarter ended September 30, 2007 (Commission File No. 1-14643), and incorporated herein by reference).
10.14	STERIS Corporation Form of Nonqualified Stock Option Agreement for Employees (filed as Exhibit 10.7 to Form 10-Q filed for the fiscal quarter ended September 30, 2006 (Commission File No. 1-14643), and incorporated herein by reference).

Table of Contents

(b) Exhibit Number	Exhibit Description
10.15	STERIS Corporation Form of Nonqualified Stock Option Agreement for Nonemployee Directors (filed as Exhibit 10.8 to Form 10-Q filed for the fiscal quarter ended September 30, 2006 (Commission File No. 1-14643), and incorporated herein by reference).
10.16	STERIS Corporation Form of Restricted Stock Agreement for Employees (filed as Exhibit 10.1 to Form 10-Q filed for the fiscal quarter ended June 30, 2008 (Commission File No. 1-14643), and incorporated herein by reference).
10.17	STERIS Corporation Form of Restricted Stock Agreement for Nonemployee Directors (filed as Exhibit 10.2 to Form 10-Q filed for the fiscal quarter ended June 30, 2008 (Commission File No. 1-14643), and incorporated herein by reference).
10.18	STERIS Corporation Form of Nonqualified Stock Option Agreement for Employees (filed as Exhibit 10.3 to Form 10-Q filed for the fiscal quarter ended June 30, 2008 (Commission File No. 1-14643), and incorporated herein by reference).
10.19	STERIS Corporation Form of Nonqualified Stock Option Agreement for Nonemployee Directors (filed as Exhibit 10.4 to Form 10-Q filed for the fiscal quarter ended June 30, 2008 (Commission File No. 1-14643), and incorporated herein by reference).
10.20	STERIS Corporation Current Form of Restricted Stock Agreement for Employees (filed as Exhibit 10.1 to Form 10-Q filed for the fiscal quarter ended June 30, 2009 (Commission File No. 1-14643), and incorporated herein by reference).
10.21	STERIS Corporation Current Form of Non-Qualified Stock Option Agreement for Employees (filed as Exhibit 10.2 to Form 10-Q filed for the fiscal quarter ended June 30, 2009 (Commission File No. 1-14643), and incorporated herein by reference).
10.22	STERIS Corporation Deferred Compensation Plan Document (filed as Exhibit 10.1 to Form 8-K filed September 1, 2006 (Commission File No. 1-14643), and incorporated herein by reference).
10.23	STERIS Corporation Deferred Compensation Plan Document (as Amended and Restated Effective January 1, 2009) (filed as Exhibit 10.1 to Form 10-Q filed for the fiscal quarter ended December 31, 2008 (Commission File No. 1-14643), and incorporated herein by reference).
10.24	Amended and Restated Adoption Agreement related to STERIS Corporation Deferred Compensation Plan (filed as Exhibit 10.2 to Form 10-Q filed for the fiscal quarter ended December 31, 2008 (Commission File No. 1-14643), and incorporated herein by reference).
10.25	STERIS Corporation Incentive Compensation Plan (filed as Exhibit 10.1 to Form 8-K filed May 7, 2009 (Commission File No. 1-14643), and incorporated herein by reference).
10.26	STERIS Corporation Senior Executive Management Incentive Compensation Plan (filed as Exhibit 10.1 to Form 8-K filed August 3, 2005 (Commission File No. 1-14643), and incorporated herein by reference).
10.27	Form of Change of Control Agreement between STERIS Corporation and certain executive officers of STERIS Corporation other than Mr. Walter M Rosebrough, Jr. (filed as Exhibit 10.2 to Form 10-Q filed for the quarter ended June 30, 1999 (Commission File No. 1-14643), and incorporated herein by reference).
10.28	Employment Agreement dated September 7, 2007 between STERIS Corporation and Mr. Rosebrough (filed as Exhibit 10.3 to Form 10-Q for the fiscal quarter ended September 30, 2007 (Commission File No. 1-14643), and incorporated herein by reference).
10.29	Agreement dated September 7, 2007 between STERIS Corporation and Mr. Rosebrough (filed as Exhibit 10.4 to Form 10-Q for the fiscal quarter ended September 30, 2007 (Commission File No. 1-14643), and incorporated herein by reference).
10.30	Executive Retention Agreement dated May 29, 2007 between STERIS Corporation and Dr. Peter Burke (filed as Exhibit 10.24 to Form 10-K for the fiscal year ended March 31, 2007 (Commission File No. 1-14643), and incorporated herein by reference).
10.31	Form of Indemnification Agreement between STERIS Corporation and each of its directors and executive officers.
10.32	Agreement dated as of April 23, 2008 by and among STERIS Corporation, Richard C. Breeden, Robert H. Fields, and the Breeden Investors identified therein (filed as Exhibit 10.1 to Form 8-K filed April 24, 2008 (Commission File No. 1-14643), and incorporated herein by reference).

Table of Contents

(b) Exhibit Number	Exhibit Description
10.33	Second Amended and Restated Credit Agreement, dated September 13, 2007, among STERIS Corporation, KeyBank National Association, as agent for the lenders from time to time party thereto, and such lenders (filed as Exhibit 10.1 to Form 10-Q for the fiscal quarter ended September 30, 2007 (Commission File No. 1-14643), and incorporated herein by reference).
10.34	Form of Note Purchase Agreements, dated December 17, 2003, between STERIS Corporation and certain institutional investors (filed as Exhibit 10.3 to Form 10-Q filed for the fiscal quarter ended December 31, 2003 (Commission File No. 1-14643), and incorporated herein by reference).
10.35	First Amendment dated as of August 15, 2008 to Note Purchase Agreements dated as of December 17, 2003 between STERIS Corporation and certain institutional investors (filed as Exhibit 10.1 to Form 10-Q filed for the fiscal quarter ended September 30, 2008 (Commission File No. 1-14643), and incorporated herein by reference).
10.36	Subsidiary Guaranty dated December 17, 2003, by certain subsidiaries of STERIS Corporation (filed as Exhibit 10.4 to Form 10-Q filed for the fiscal quarter ended December 31, 2003 (Commission File No. 1-14643), and incorporated herein by reference).
10.37	Guaranty Supplement dated March 29, 2004, by SterilTek Holdings, Inc. and STERIS Corporation (filed as Exhibit 10.16 to Form 10-K for the fiscal year ended March 31, 2004 (Commission File No. 1-14643), and incorporated herein by reference).
10.38	Guaranty Supplement dated January 7, 2005, by STERIS Isomedix Services, Inc. and STERIS Corporation (filed as Exhibit 10.20 to Form 10-K for the fiscal year ended March 31, 2005 (Commission File No. 1-14643), and incorporated herein by reference).
10.39	Guaranty Supplement dated September 25, 2007, by HSTD LLC and STERIS Corporation filed as Exhibit 10.2 to Form 10-Q for the fiscal quarter ended September 30, 2007 (Commission File No. 1-14643), and incorporated herein by reference).
10.40	Form of Note Purchase Agreements dated as of August 15, 2008, between STERIS Corporation and certain institutional investors (filed as Exhibit 10.2 to Form 10-Q filed for the fiscal quarter ended September 30, 2008 (Commission File No. 1-14643), and incorporated herein by reference).
10.41	Subsidiary Guaranty dated as of August 15, 2008, by certain subsidiaries of STERIS Corporation (filed as Exhibit 10.3 to Form 10-Q filed for the fiscal quarter ended September 30, 2008 (Commission File No. 1-14643), and incorporated herein by reference).
21.1	Subsidiaries of STERIS Corporation
23.1	Consent of Independent Registered Public Accounting Firm
24.1	Power of Attorney
31.1	Certification of the Principal Executive Officer Pursuant to Exchange Act Rule 13a-14(a)/15d-14(a)
31.2	Certification of the Principal Financial Officer Pursuant to Exchange Act Rule 13a-14(a)/15d-14(a)
32.1	Certification of the Principal Executive Officer and the Principal Financial Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

EXHIBIT 10.31

DIRECTOR AND OFFICER INDEMNIFICATION AGREEMENT

THIS INDEMNIFICATION AGREEMENT, entered into as of _____, 2010 (“Agreement”), is made by and between STERIS Corporation, an Ohio corporation (“Company”), and _____ (“Indemnitee”).

RECITALS

A. It is important to the Company to attract and retain capable and experienced directors and officers, and Indemnitee is a director and/or officer of the Company.

B. Both the Company and Indemnitee recognize the increasing risk of litigation and other claims being asserted against directors and officers of public companies.

C. The Ohio Revised Code (the “ORC”) authorizes corporations to indemnify and maintain liability insurance for their directors and officers; the Company currently maintains directors and officers liability insurance, and the Company’s Code of Regulations (“Regulations”) provide for indemnification of directors and officers of the Company.

D. The Company’s commitment to provide indemnification, insurance and advancement of expenses to its directors and officers is significant to the Indemnitee’s willingness to serve as a director and/or officer of the Company or a subsidiary or other entity related to the Company, and such willingness is based in part on Indemnitee’s reliance on such provisions.

E. In recognition of Indemnitee’s need for continued protection against personal liability in order to encourage Indemnitee’s continued service to the Company or a related entity in an effective manner, to support Indemnitee’s reliance on the aforesaid provisions of the Regulations, and to provide Indemnitee with express contractual indemnification regardless of, among other things, any amendment to the Company’s Articles of Incorporation or the Regulations (together, the “Constituent Documents”), changes in the composition of the Company’s Board of Directors (the “Board”), or any acquisition, disposition or other business combination or transaction relating to the Company, the Company wishes to provide by this Agreement for the indemnification of Indemnifiable Losses and the advancement of Expenses (both as defined below) to Indemnitee as set forth in this Agreement and, to the extent insurance is maintained, for the continued coverage of Indemnitee under the Company’s directors’ and officers’ liability insurance policies.

NOW, THEREFORE, the parties hereby agree as follows:

1. CERTAIN DEFINITIONS.

(a) “Affiliate” has the meaning given to that term in Rule 405 under the Securities Act of 1933, provided, however, that for purposes of this Agreement the Company and its subsidiaries will not be deemed to constitute Affiliates of Indemnitee.

(b) “Claim” means any threatened, pending or completed action, suit, demand or proceeding, whether civil, criminal, administrative, arbitral, investigative or other (including any cross-claim or counterclaim in any action, suit, demand or proceeding) against or involving the Indemnitee, whether instituted by or against the Company or any other party (including, without limitation, any governmental entity), or any threatened, pending or completed inquiry or investigation (including discovery), whether instituted by or against the Company or any other party (including, without limitation, any governmental entity) that Indemnitee believes in good faith might lead to the institution of any such action, suit, demand or proceeding.

(c) “Expenses” includes all attorneys’ and experts’ fees, expenses and charges and all other costs, expenses and obligations reasonably incurred in connection with investigating, defending, or participating in (as a party, a witness, or otherwise, including on appeal), or preparing to investigate, defend or participate in (as a party, a witness, or otherwise, including on appeal), any Claim.

(d) “Incumbent Directors” means the individuals who, as of the date of this Agreement, are directors of the Company and any individual becoming a director subsequent to the date hereof whose election, nomination for election by the Company’s stockholders, or appointment, was approved by a vote of at least a majority of the then Incumbent Directors (either by a specific vote or by approval of the proxy statement of the Company in which such person is named as a nominee for director, without objection to such nomination); provided, however, that an individual shall not be an Incumbent Director if such

individual's election or appointment to the Board occurs as a result of an actual or threatened election contest (as described in Rule 14a-12(c) of the Securities Exchange Act of 1934) with respect to the election or removal of directors or other actual or threatened solicitation of proxies or consents by or on behalf of a person other than the Board."

(e) "Indemnifiable Losses" means any and all Expenses, damages, losses, liabilities, judgments, fines, penalties (whether civil, criminal or other) and other amounts paid or payable by Indemnitee (whether by settlement or otherwise), including, without limitation, all interest, assessments and other charges paid or payable in connection therewith, relating to, resulting from or arising out of (i) any actual, alleged or suspected act or failure to act by Indemnitee in his or her capacity as a director, officer, employee or agent of the Company or as a director, officer, employee, member, manager, trustee, fiduciary or agent of any other corporation, limited liability company, partnership, joint venture, trust, committee, plan or other entity or enterprise, whether or not for profit, as to which Indemnitee is or was serving at the request of the Company as a director, officer, employee, member, manager, trustee, fiduciary or agent, (ii) any actual, alleged or suspected act or failure to act by Indemnitee in respect of any business, transaction, communication, filing, disclosure or other activity of the Company or any other entity or enterprise referred to in clause (i) of this sentence, or (iii) Indemnitee's status as a current or former director, officer, employee or agent of the Company or as a current or former director, officer, employee, member, manager, trustee, fiduciary or agent of the Company or any other entity or enterprise referred to in clause (i) of this sentence or any actual, alleged or suspected act or failure to act by Indemnitee in connection with any obligation or restriction imposed upon Indemnitee by reason of such status.

2. INDEMNIFICATION TERMS. Subject to Sections 4 and 16 below, the Company will indemnify, defend and hold harmless Indemnitee to the fullest extent permitted by the laws of the State of Ohio in effect on the date hereof or as such laws may from time to time hereafter be amended to increase the scope of such permitted indemnification (but in no case less than the extent permitted under the laws in effect as of the date hereof) against all Indemnifiable Losses relating to, resulting from or arising out of any Claim. The Indemnitee will notify the Company of any Claim or anticipated Claim as set forth in Section 16. The failure by Indemnitee to timely notify the Company of such Claim will not relieve the Company from any liability hereunder unless, and only to the extent that, the Company did not otherwise learn of the Claim and such failure results in forfeiture by the Company of substantial defenses, rights or insurance coverage.

3. ADVANCEMENT OF EXPENSES. Indemnitee shall have the right to advancement by the Company prior to the final disposition of any Claim of Expenses relating to, arising out of or resulting from any Claim paid or incurred by Indemnitee upon execution of an Undertaking (Exhibit A). If so requested by Indemnitee, within fifteen business days after receipt of such request and supporting invoices for monthly Expense estimates, the Company will advance to Indemnitee funds in an amount sufficient to pay such monthly Expenses which Indemnitee reasonably determines and supports are likely to be payable; provided, however, that Indemnitee will return, without interest, any amounts actually advanced to Indemnitee which remain unspent at the final disposition of the Claim to which the advance related; and provided, further, that all amounts advanced in respect of such Expenses shall be promptly repaid to the Company by Indemnitee if it shall ultimately be determined in a final judgment that Indemnitee is not entitled to be indemnified for such Expenses.

4. PARTIAL INDEMNITY. If Indemnitee is entitled under any provision of this Agreement to indemnification by the Company for some or a portion of any Indemnifiable Loss but not the entire amount thereof, the Company will nevertheless indemnify Indemnitee for the portion thereof to which Indemnitee is entitled, based on a reasonable allocation after good faith negotiation. Notwithstanding any other provision of this Agreement, to the extent that Indemnitee has been successful on the merits or otherwise in defense of any Claim relating in whole or in part to an Indemnifiable Loss (including, without limitation, dismissal without prejudice), Indemnitee will be indemnified against all Expenses incurred in connection therewith. In determining whether the extent to which Indemnitee is entitled to be indemnified under this Section 4, there will be a presumption that the Indemnitee is so entitled and, to the extent permitted by law, the Company shall have the burden of proof to establish that Indemnitee is not so entitled.

5. NO OTHER PRESUMPTION. For purposes of this Agreement, the termination of any Claim by judgment, order, settlement (whether with or without court approval) or conviction, or upon a plea of nolo contendere or its equivalent, will not, of itself, create a presumption that Indemnitee did not meet any particular standard of conduct, act in good faith, or have any particular belief or that a court has determined that indemnification is not permitted by applicable law.

6. NON-EXCLUSIVITY, ETC. The rights of Indemnitee hereunder will be in addition to any other rights Indemnitee may have from time to time under the Constituent Documents, or the substantive laws of the Company's jurisdiction of incorporation, any other contract or otherwise (collectively, "Other Indemnity Provisions"), provided, however, that (i) to the extent that Indemnitee otherwise would have any greater right to indemnification under any Other Indemnity Provision, Indemnitee will be deemed to have such greater right hereunder and (ii) to the extent that any change is made to any Other Indemnity

Provision which permits any greater right to indemnification than that provided under this Agreement as of the date hereof, Indemnitee will be deemed to have such greater right hereunder. In the event of any amendment to the Constituent Documents the effect of which would be to deny or materially diminish or encumber Indemnitee's right to indemnification under this Agreement or any Other Indemnity Provision, the Company will provide at least thirty (30) days written notice to the Indemnitee prior to the effective date of such amendment. In the event of such amendment, it shall not in any way diminish the obligations of the Company hereunder with respect to any Claim related to acts or omissions prior to the effective date of such amendment.

7. **LIABILITY INSURANCE.** To the extent the Company maintains an insurance policy or policies providing directors' and officers' liability insurance ("D&O Insurance"), Indemnitee will be covered by such policy or policies, in accordance with its or their terms, to the maximum extent of the coverage available for directors and officers of the Company. Notwithstanding the foregoing, the Company shall not be required to cover the Indemnitee under its D&O Insurance with the same coverage as that provided to other directors or officers of the Company, or at all, if the Company determines in good faith that such insurance is not available on commercially reasonable terms, or the cost, scope or amount of such insurance is materially disproportionate to the cost, scope or amount of coverage available without consideration of the Indemnitee; provided, however, the Company shall not discontinue or significantly reduce the scope or amount of D&O Insurance coverage with respect to Indemnitee from one policy period to the next policy period (i) without the prior approval thereof by a majority vote of the Incumbent Directors, even if less than a quorum, or (ii) if at the time that any such discontinuation or significant reduction in the scope or amount of coverage is proposed there are no Incumbent Directors, without the prior written consent of Indemnitee (which consent shall not be unreasonably withheld or delayed). In no event will such discontinuation or significant reduction in D&O Insurance coverage in any way diminish the obligation of the Company hereunder with respect to any Claim related to acts or omissions prior to the effective date of such termination.

8. **SUBROGATION.** In the event of payment under this Agreement, the Company will be subrogated to the extent of such payment to all rights of recovery Indemnitee may have against other persons or entities (other than Indemnitee's successors). Indemnitee will take, at the request of the Company, all actions reasonably necessary to secure such rights, including the execution of all papers reasonably required to evidence such rights (with all of Indemnitee's reasonable Expenses, including attorneys' fees and charges, related thereto to be paid by the Company).

9. **NO DUPLICATION OF PAYMENTS.** The Company will not be liable under this Agreement to make any payment in connection with any Indemnifiable Loss to the extent Indemnitee has actually received payment (net of Expenses incurred in connection therewith) under any insurance policy, the Constituent Documents, Other Indemnity Provisions or otherwise for the Indemnifiable Losses; provided that, if Indemnitee for any reason is required to disgorge any payment actually received by the Indemnitee, the Company shall be obligated to pay such amount to Indemnitee to the extent required by the other terms of this Agreement (disregarding the terms of this Section 9).

10. **DEFENSE OF CLAIMS.** The Company will be entitled to participate in or assume the defense (including, without limitation, the negotiation and approval of any settlement) of any Claim for which Indemnitee seeks indemnification hereunder using legal counsel selected by the Company. In the event, however, that Indemnitee provides the Company with the written opinion of separate legal counsel that (i) the named parties in any such Claim (including any impleaded parties) include both the Company and Indemnitee and there are one or more legal defenses available to Indemnitee that are different from or in addition to those available to the Company, or (ii) any such representation by such counsel would be precluded under the applicable standards of professional conduct then prevailing, then Indemnitee will be entitled to retain other counsel (but not more than one law firm plus, if applicable, local counsel in respect of any particular Claim) at the Company's expense, and Company's and Indemnitee's counsel shall seek to enter into joint defense agreement(s) if possible without an actual conflict. Notwithstanding the preceding sentence, in any event the Company shall be liable to Indemnitee under this Agreement for the reasonable costs of investigation and preparation for the defense of any Claim (including, without limitation, appearing as a witness and reasonable fees and expenses of counsel in connection therewith). The Company will not effect any settlement of any threatened or pending Claim unless such settlement solely involves the payment of money and includes an unconditional release of the Indemnitee from all liability for such Claim.

11. **SUCCESSORS AND BINDING AGREEMENT.**

(a) In the event of any purchase, merger, consolidation or reorganization in which the Company is not the surviving entity, any sale of all or substantially all of the business or assets of the Company, or any liquidation of the Company, the Company shall require the obligations of this Agreement to be expressly and fully assumed by such purchaser, survivor or successor (including any holding company as described in ORC 1701.802(A)) (as the case may be, a "Successor"), in the same manner and to the same extent the Company would be required to perform if no such succession had taken place. This Agreement will be binding upon and inure to the benefit of the Company and may be assigned to a Successor on terms consistent with the immediately preceding sentence, but will not otherwise be assigned or delegated by the Company.

(b) This Agreement will inure to the benefit of and be enforceable by the Indemnitee and Indemnitor's personal or legal representatives, executors, administrators, successors, heirs, distributees, legatees and other successors.

(c) This Agreement is personal in nature and neither of the parties hereto will, without the consent of the other, assign or delegate this Agreement or any rights or obligations hereunder except as expressly provided in Sections 11(a) and 11(b). Without limiting the generality or effect of the foregoing, Indemnitee's right to receive payments hereunder will not be assignable, whether by pledge, creation of a security interest or otherwise, other than by a transfer by the Indemnitee's will or by the laws of descent and distribution, and, in the event of any attempted assignment or transfer contrary to this Section 11(c), the Company will have no liability to pay any amount so attempted to be assigned or transferred.

12. NOTICES. All communications, including without limitation notices, consents, requests or approvals, required or permitted to be given hereunder will be in writing and will be deemed to have been duly given when hand delivered, when delivered by electronic facsimile transmission (with receipt confirmation) or within two business days after having been sent for next-day delivery by a nationally recognized overnight courier service, addressed to the Company (to the attention of the Secretary of the Company) and to Indemnitor at the addresses shown on the signature page hereto, or to such other address as any party may have furnished to the other in writing and in accordance herewith, except that notices of changes of address will be effective only upon receipt.

13. GOVERNING LAW. The validity, interpretation, construction and performance of this Agreement will be governed by and construed in accordance with the substantive laws of the State of Ohio, without giving effect to the principles of conflict of laws of such State. Each party consents to the exclusive jurisdiction of the courts of Cuyahoga or Lake County, Ohio or the federal courts of Ohio for purposes of any action, suit or proceeding hereunder, and waives any objection to jurisdiction or venue therein.

14. VALIDITY. If any provision of this Agreement or the application thereof is held invalid, unenforceable or otherwise illegal, the remainder of this Agreement and the application of such provision will not be affected, and the provision so held to be invalid, unenforceable or otherwise illegal will be modified to the extent necessary to make it enforceable, valid or legal while accomplishing the most similar purpose. In the event that any court or other adjudicative body shall decline to modify any provision of this Agreement held to be invalid, unenforceable or otherwise illegal as contemplated by the immediately preceding sentence, the parties thereto shall take all such action as may be necessary or appropriate to replace the provision so held to be invalid, unenforceable or otherwise illegal with one or more alternative provisions that effectuate the purpose and intent of the original provisions of this Agreement as fully as possible without being invalid, unenforceable or otherwise illegal.

15. LEGAL FEES AND EXPENSES. It is the intent of the Company that the Indemnitee not be required to incur legal fees or other Expenses associated with the interpretation, enforcement or defense of Indemnitee's rights under this Agreement by litigation or otherwise because the cost and expense thereof would substantially detract from the intended benefits hereunder. Accordingly, without limiting the generality or effect of any other provision hereof, if it should reasonably appear, in good faith, to the Indemnitor that the Company has failed to comply with any of its obligations under this Agreement, or in the event that the Company or any other person takes or threatens to take any action to declare this Agreement void or unenforceable, or institutes any litigation or other action or proceeding designed to deny, or to recover from, Indemnitor the benefits provided or intended to be provided to Indemnitor hereunder, the Indemnitor may from time to time retain counsel of Indemnitor's choice, at the expense of the Company to advise and represent the Indemnitor in connection with any such interpretation, enforcement or defense, including without limitation the initiation or defense of any litigation or other legal action, whether by or against the Company or any director, officer, stockholder or other person affiliated with the Company. Without respect to whether Indemnitor prevails, in whole or in part, in connection with any act taken in good faith by the Indemnitor with respect to of the foregoing, the Company will pay and be solely financially responsible for any and all attorneys' and related fees and expenses incurred by Indemnitor.

16. PROCEDURE. (i) Notwithstanding any other term or provision of this Agreement, the Company shall not be required to indemnify Indemnitor for, and Claims and Indemnifiable Losses shall not include:

(a) any claim or part thereof which Indemnitor shall have been adjudged by a court of competent jurisdiction (from which no appeal can be taken) by clear and convincing evidence to have acted with deliberate intent to cause injury to the Company or with reckless disregard for the best interests of the Company;

(b) any claim or part thereof arising under Section 16(b) of the Securities Exchange Act of 1934, pursuant to which Indemnitor shall be obligated to pay any penalty, fine, settlement, disgorgement, or judgment;

(c) any proceeding initiated by Indemnitee without the consent and authorization of the Board, except with respect to a proceeding to enforce the Company's obligations under this Agreement; and

(d) any claim or part thereof which is not indemnifiable under the laws of Ohio.

(ii) Any indemnification obligation under this Agreement shall be undertaken as soon as practicable but in any event no later than 30 days after receipt of the written request of the Indemnitee for such indemnification (such request to be accompanied by Exhibit A and any other reasonable supporting documentation of the Claim and/or Indemnifiable Losses), unless a determination is made within such 30 day period by a majority vote of the Board (consisting of directors who are not parties to such Claim even if less than a quorum) that the Indemnitee has not met the standards for indemnification set forth in this Agreement and does not otherwise have a right to indemnification under any Other Indemnity Provision. In such case, the Company shall send written notice to the Indemnitee within seven (7) days of such determination. Notwithstanding any other provision of this Section 16, to the extent Indemnitee shall have been successful on the merits or otherwise in defense of any Claim or any portion thereof or in defense of any issue or matter therein, including dismissal without prejudice, such result shall be conclusive, and the Indemnitee's shall be indemnified against all Indemnifiable Losses and Expenses relating to or arising from such Claim in accordance with this Agreement. In the event of any unresolved dispute under this Section 16, either party may bring action in the counties described in Section 13 or non-binding arbitration before three (3) arbitrators in the City of Cleveland, Ohio, pursuant to the rules of the American Arbitration Association.

17. MISCELLANEOUS. Indemnitee will cooperate with the Company and its advisors with respect to the defense of all Claims, Indemnifiable Losses, and other obligations of the Company under this Agreement. Company will provide Indemnitee and Indemnitee's counsel with reasonable and confidential access (consistent with Indemnitee's fiduciary duties to the Company and its Affiliates) to documents specifically relevant to the defense of Claims and Indemnifiable Losses. No provision of this Agreement may be waived, modified or discharged unless agreed to in writing signed by Indemnitee and the Company. No waiver by either party of any breach or compliance by the other party will be deemed a waiver of similar or dissimilar provisions or conditions at any time. No agreements or representations, oral or otherwise, expressed or implied with respect to the subject matter hereof have been made by either party that are not set forth expressly in this Agreement. No provision of this Agreement will be interpreted in favor of, or against, either of the parties hereto by reason of such party's or its counsel's participation in the drafting thereof. This Agreement may be executed in one or more counterparts, each of which will be deemed to be an original but will constitute one and the same agreement.

IN WITNESS WHEREOF, Indemnitee has executed and the Company has caused its duly authorized representative to execute this Agreement as of the date first above written.

STERIS CORPORATION

INDEMNITEE

By: _____
Title: _____

Name: _____
Signature: _____
Title: _____
[address] _____

EXHIBIT A

UNDERTAKING

STATE OF)
) SS
COUNTY OF)

I, _____, being first duly sworn, do depose and state as follows:

1. This Undertaking is submitted pursuant to the Indemnification Agreement between STERIS Corporation, an Ohio corporation (the "Company") and the undersigned Indemnitee.

2. I have determined that an indemnifiable Claim has been made against me /or I am enforcing or defending my rights under the Indemnification Agreement. The general nature of the Claim is

_____.

3. I am requesting payment (or advancement) of Expenses and/or Indemnifiable Losses that I have reasonably incurred or will reasonably incur in defending / or responding to an indemnifiable Claim as defined in the Indemnification Agreement / in pursuing a Claim under the Indemnification Agreement.

4. The Expenses / Claims for which payment is requested are, in general, all expenses related to

_____.

5. I hereby undertake to (1) repay all amounts paid pursuant hereto if and to the extent it is determined that I am not entitled under the Indemnification Agreement to have the Company pay such amount and (2) to reasonably cooperate with the Company regarding such Claim.

[Signature of Indemnitee]

Subscribed and sworn to before me, a Notary Public in and for said County and State, this __ day of _____, ____.

My commission expires the __ day of _____.

EXHIBIT 21.1

SUBSIDIARIES OF STERIS CORPORATION

STERIS Corporation has no parent company. As of March 31, 2010, its direct and indirect subsidiaries⁽¹⁾ were as follows:

Albert Browne Limited	United Kingdom
American Sterilizer Company	Pennsylvania
CLBV Limited	United Kingdom
Global Risk Insurance Company	Vermont
Hamo UK Limited	United Kingdom
Hausted, Inc.	Delaware
HSTD LLC	Delaware
HTD Holding Corp.	Delaware
Isomedix Corporation	Canada
Isomedix Inc.	Delaware
Isomedix Operations Inc.	Delaware
SB Servicos Administrativos Ltda.	Brazil
SterilTek Holdings, Inc.	Delaware
SterilTek, Inc.	Nevada
STERIS	France
STERIS AB	Sweden
STERIS Asia Pacific, Inc.	Delaware
STERIS-Austar Pharmaceutical Systems Hong Kong Limited	Hong Kong
STERIS-Austar Pharmaceutical Systems (Shanghai) Limited	China
STERIS (Barbados) Corp.	Barbados
STERIS Brasil Servicos Administrativos Ltda.	Brazil
STERIS (BVI) I Limited	British Virgin Islands
STERIS Canada Corporation	Canada
STERIS Canada Inc.	Canada
STERIS CH Limited	United Kingdom
STERIS China Holdings Limited	Hong Kong
STERIS Corporation de Costa Rica, S.A.	Costa Rica
STERIS Deutschland GmbH	Germany
STERIS Enterprises LLC	Russia
STERIS Europe, Inc.	Delaware
STERIS GmbH	Switzerland
STERIS Holdings B.V.	Netherlands
STERIS Hong Kong Limited	Hong Kong
STERIS Iberia, S.A.	Spain
STERIS Inc.	Delaware
STERIS (India) Private Limited	India
STERIS Isomedix Services, Inc.	Delaware
STERIS Japan Inc.	Japan
STERIS Latin America, Inc.	Delaware
STERIS Limited	United Kingdom
STERIS Mauritius Limited	Republic of Mauritius
STERIS Mexico, S. de R.L. de C.V.	Mexico
STERIS Personnel Services, Inc.	Delaware
STERIS Personnel Services Mexico, S.de RL.de C.V.	Mexico
STERIS SA	Belgium
STERIS SEA Sdn. Bhd. (Malaysia)	Malaysia
STERIS (Shanghai) Trading Co. Ltd.	China
STERIS Singapore Pte. Ltd.	Singapore
STERIS S.r.l.	Italy
STERIS Surgical Technologies	France
STERIS Surgical Technologies Holdings	France
Strategic Technology Enterprises, Inc.	Delaware

(1) The names of one or more subsidiaries which, considered in the aggregate as a single subsidiary, would not constitute at the end of fiscal 2010 a “significant subsidiary” within the meaning of Rule 1-02(w) of Regulation S-X have been excluded.

EXHIBIT 23.1

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We consent to the incorporation by reference of our reports dated May 28, 2010, with respect to the consolidated financial statements and schedule of STERIS Corporation and subsidiaries, and the effectiveness of internal control over financial reporting of STERIS Corporation and subsidiaries included in this Annual Report (Form 10-K) for the year ended March 31, 2010 in the following Registration Statements and in the related Prospectuses:

Registration Number	Description
333-65155	Form S-8 Registration Statement – STERIS Corporation 1998 Long-Term Incentive Compensation Plan
333-32005	Form S-8 Registration Statement – STERIS Corporation 1997 Stock Option Plan
333-06529	Form S-3 Registration Statement – STERIS Corporation
333-01610	Post-effective Amendment to Form S-4 on Form S-8 – STERIS Corporation
33-91444	Form S-8 Registration Statement – STERIS Corporation 1994 Equity Compensation Plan
33-91442	Form S-8 Registration Statement – STERIS Corporation 1994 Nonemployee Directors Equity Compensation Plan
33-55976	Form S-8 Registration Statement – STERIS Corporation 401(k) Plan
333-09733	Form S-8 Registration Statement – STERIS Corporation 401(k) Plan
333-101308	Form S-8 Registration Statement – STERIS Corporation 2002 Stock Option Plan
333-91302	Form S-8 Registration Statement – Nonqualified Stock Option Agreement between STERIS Corporation and Mark D. McGinley
333-137167	Form S-8 Registration Statement – STERIS Corporation Deferred Compensation Plan
333-136239	Form S-8 Registration Statement – STERIS Corporation 2006 Long-Term Equity Incentive Plan

/s/ ERNST & YOUNG LLP

Cleveland, Ohio
May 28, 2010

**STERIS CORPORATION
POWER OF ATTORNEY
FORM 10-K**

Each of the undersigned hereby makes, constitutes, and appoints Walter M Rosebrough, Jr., Michael J. Tokich, Mark D. McGinley, J. Adam Zangerle, Dennis P. Patton, and each of them, his or her true and lawful attorney, with full power of substitution, for and in his or her name, place, and stead, to affix, as attorney-in-fact, his or her signature in any and all capacities, to the Annual Report on Form 10-K of STERIS Corporation for its fiscal year ended March 31, 2010, and any and all amendments thereto to be filed with the Securities and Exchange Commission, Washington, D.C., under the provisions of the Securities Exchange Act of 1934, as amended, with power to file said Form 10-K and such amendments, and any and all other documents that may be required in connection therewith, with the Securities and Exchange Commission, hereby granting unto said attorneys-in-fact, and each of them, full power and authority to do and perform any and all acts and things requisite or appropriate in connection therewith, as fully to all intents and purposes as he or she might or could do in person, hereby ratifying and confirming all that said attorneys-in-fact or any of them may lawfully do or cause to be done by virtue hereof.

IN WITNESS WHEREOF, the undersigned have executed this Power of Attorney as of the 28th day of April 2010.

/s/ RICHARD C. BREEDEN

Richard C. Breeden,
Director

/s/ CYNTHIA L. FELDMANN

Cynthia L. Feldmann,
Director

/s/ JACQUELINE B. KOSECOFF

Jacqueline B. Kosecoff,
Director

/s/ KEVIN M. MCMULLEN

Kevin M. McMullen,
Director

/s/ MOHSEN M. SOHI

Mohsen M. Sohi,
Director

/s/ JOHN P. WAREHAM

John P. Wareham,
Chairman of the Board

/s/ LOYAL W. WILSON

Loyal W. Wilson,
Director

/s/ MICHAEL B. WOOD

Michael B. Wood,
Director

/s/ WALTER M ROSEBROUGH, JR.

Walter M Rosebrough, Jr.
President and Chief Executive Officer
(Principal Executive Officer), Director

/s/ MICHAEL J. TOKICH

Michael J. Tokich
Senior Vice President and
Chief Financial Officer
(Principal Financial and Accounting Officer)

EXHIBIT 31.1

CERTIFICATION OF THE PRINCIPAL EXECUTIVE OFFICER

I, Walter M Rosebrough, Jr., certify that:

1. I have reviewed this annual report on Form 10-K of STERIS Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a. designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b. designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of the financial statements for external purposes in accordance with generally accepted accounting principles;
 - c. evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d. disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a. all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize, and report financial information; and
 - b. any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 28, 2010

/s/ WALTER M ROSEBROUGH, JR.

Walter M Rosebrough, Jr.
President and Chief Executive Officer

EXHIBIT 31.2

CERTIFICATION OF THE PRINCIPAL FINANCIAL OFFICER

I, Michael J. Tokich, certify that:

1. I have reviewed this annual report on Form 10-K of STERIS Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a. designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b. designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c. evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d. disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a. all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize, and report financial information; and
 - b. any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 28, 2010

/s/ MICHAEL J. TOKICH
Michael J. Tokich
Senior Vice President and
Chief Financial Officer

EXHIBIT 32.1

CERTIFICATION PURSUANT TO § 906 OF THE SARBANES-OXLEY ACT OF 2002

Pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, in connection with the filing of the Form 10-K of STERIS Corporation (the "Company") for the fiscal year ended March 31, 2010, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), each of the undersigned officers of the Company certifies, that, to such officer's knowledge:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company as of the dates and for the periods expressed in the Report.

/S/ WALTER M ROSEBROUGH, JR.

Name: Walter M Rosebrough, Jr.
Title: President and Chief Executive Officer

/S/ MICHAEL J. TOKICH

Name: Michael J. Tokich
Title: Senior Vice President and Chief Financial Officer

Date: May 28, 2010