UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

# FORM 10-Q

[x] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15 (d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended June 30, 1997

OR

[ ] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15 (d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from __________ to __________

Commission file number 0-20165

STERIS CORPORATION
(Exact name of registrant as specified in its charter)

| | |
|---|---|
| OHIO | 34-1482024 |
| (State or other jurisdiction of incorporation or organization) | (IRS Employer Identification No.) |
| 5960 HEISLEY ROAD, MENTOR, OHIO | 44060 |
| (Address of principal executive offices) | (Zip Code) |

(216) 354-2600
(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15 (d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes X No .

Indicate the number of shares outstanding of each of the issuer's classes of common shares, as of the latest practicable date.

| | |
|---|---|
| Common Shares, without par value | 33,950,274 |
| (Title of Class) | (Outstanding at June 30, 1997) |

PART I FINANCIAL INFORMATION

STERIS CORPORATION
CONSOLIDATED CONDENSED BALANCE SHEETS
(IN THOUSANDS)
(UNAUDITED)

| | JUNE 30, 1997 | MARCH 31, 1997 |
|---|---|---|
| ASSETS | | |
| Current assets: | | |
| Cash and cash equivalents | $ 24,429 | $ 20,576 |
| Marketable securities | 1,020 | 2,977 |
| Accounts receivable | 156,181 | 164,163 |
| Inventories | 82,876 | 78,762 |
| Current portion of deferred income taxes | 24,888 | 24,888 |
| Prepaid expenses and other assets | 6,576 | 8,676 |
| TOTAL CURRENT ASSETS | 295,970 | 300,042 |
| Property, plant, and equipment | 184,756 | 177,184 |
| Accumulated depreciation | (77,511) | (74,332) |
| Net property, plant, and equipment | 107,245 | 102,852 |
| Intangibles | 184,979 | 186,417 |
| Accumulated amortization | (66,500) | (67,032) |
| Net intangibles | 118,479 | 119,385 |
| Deferred income taxes | 14,862 | 14,862 |
| Other assets | 2,433 | 2,314 |
| TOTAL ASSETS | $ 538,989 | $ 539,455 |
| LIABILITIES AND SHAREHOLDERS' EQUITY | | |
| Current liabilities: | | |
| Current portion of long-term indebtedness | $ 0 | $ 12 |
| Accounts payable | 35,661 | 39,323 |
| Accrued income taxes | 19,854 | 19,059 |
| Accrued expenses and other | 91,633 | 100,294 |
| TOTAL CURRENT LIABILITIES | 147,148 | 158,688 |
| Long-term indebtedness | 35,854 | 35,879 |
| Other liabilities | 49,987 | 50,172 |
| TOTAL LIABILITIES | 232,989 | 244,739 |
| Shareholders' equity: | | |
| Serial preferred shares, without par value, 3,000 shares authorized; no shares outstanding | | |
| Common Shares, without par value, 100,000 shares authorized; issued and outstanding shares of 33,950 at June 30, 1997 and 33,984 at March 31, 1997, excluding 289 and 255 treasury shares, respectively | 229,877 | 231,278 |
| Retained earnings | 81,260 | 69,513 |
| Cumulative translation adjustment | (5,137) | (6,075) |
| TOTAL SHAREHOLDERS' EQUITY | 306,000 | 294,716 |
| TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY | $ 538,989 | $ 539,455 |

See notes to consolidated condensed financial statements.

STERIS CORPORATION
CONSOLIDATED CONDENSED STATEMENTS OF OPERATIONS
(IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)
(UNAUDITED)

| | THREE MONTHS ENDED JUNE 30 | |
| --- | --- | --- |
| | 1997 | 1996 |
| Net revenues | $ 155,134 | $ 127,868 |
| Cost of goods and services sold | 88,300 | 80,582 |
| Gross profit | 66,834 | 47,286 |
| Cost and expenses: | | |
| Selling, informational, and administrative | 41,143 | 26,118 |
| Research and development | 5,956 | 4,302 |
| Non-recurring items | 0 | 90,831 |
| | 47,099 | 121,251 |
| Income (loss) from operations | 19,735 | (73,965) |
| Interest expense | (522) | (1,602) |
| Interest income and other | 60 | 1,931 |
| Income (loss) before income taxes | 19,273 | (73,636) |
| Income tax expense (benefit) | 7,526 | (2,041) |
| Net income (loss) | $ 11,747 | $ (71,595) |
| Net income (loss) per share | $ 0.34 | $ (2.16) |
| Weighted average number of shares outstanding used in computing net income (loss) per share | 34,956 | 33,113 |

See notes to consolidated condensed financial statements.

STERIS CORPORATION
CONSOLIDATED CONDENSED STATEMENTS OF CASH FLOWS
(IN THOUSANDS)
(UNAUDITED)

| | THREE MONTHS ENDED JUNE 30 | |
|---|---|---|
| | 1997 | 1996 |
| OPERATING ACTIVITIES | | |
| Net income (loss) | $11,747 | $(71,595) |
| Adjustments to reconcile net income (loss) to net cash provided by operating activities: | | |
| Depreciation and amortization | 4,593 | 3,670 |
| Deferred income taxes | 0 | (91) |
| Non-recurring items | 0 | 65,810 |
| Other items | (1,233) | 780 |
| Changes in operating assets and liabilities: | | |
| Accounts receivable | 7,982 | 3,916 |
| Inventories | (4,114) | (4,131) |
| Other assets | 1,948 | 590 |
| Accounts payable and accruals | (12,323) | (1,701) |
| Accrued income taxes | 795 | 3,256 |
| NET CASH PROVIDED BY OPERATING ACTIVITIES | 9,395 | 504 |
| INVESTING ACTIVITIES | | |
| Purchases of property, plant, equipment, and patents | (6,999) | (3,458) |
| Proceeds from notes receivable | 0 | 19 |
| Purchases of marketable securities | 0 | (981) |
| Proceeds from sales of marketable securities | 1,957 | 4,069 |
| NET CASH USED IN INVESTING ACTIVITIES | (5,042) | (351) |
| FINANCING ACTIVITIES | | |
| Payments on long-term obligations | (37) | (76) |
| Purchase of treasury shares | (2,386) | 0 |
| Proceeds from exercise of stock options | 364 | 1,964 |
| Tax benefits from exercise of stock options | 621 | 129 |
| NET CASH (USED IN) PROVIDED BY FINANCING ACTIVITIES | (1,438) | 2,017 |
| Effect of exchange rate changes on cash and cash equivalents | 938 | (138) |
| INCREASE IN CASH AND CASH EQUIVALENTS | 3,853 | 2,032 |
| CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD | 20,576 | 140,788 |
| CASH AND CASH EQUIVALENTS AT END OF PERIOD | $24,429 | $142,820 |

See notes to consolidated condensed financial statements.

STERIS CORPORATION

NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS

(UNAUDITED)

(DOLLARS IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)

PERIODS ENDED JUNE 30, 1997 AND 1996

A.-REPORTING ENTITY

STERIS Corporation (the "Company" or "STERIS") develops, manufactures, markets, and services contamination prevention, contamination control, and surgical support systems, products, and technologies for healthcare, scientific, research and industrial Customers throughout the world. The Company has approximately 4,000 Associates (employees) worldwide, including more than 1,200 direct sales, service, and field support personnel. Customer Support facilities are in major global market centers with manufacturing operations in the United States, Canada, Germany, and Finland. STERIS operates in a single business segment.

B.-BASIS OF PRESENTATION

On May 13, 1996, STERIS merged with Amsco International, Inc. ("Amsco") in a tax-free, stock-for-stock transaction (the "Amsco Merger"). The Amsco Merger has been accounted for using the pooling-of-interests method. Accordingly, the accompanying unaudited consolidated condensed financial statements give retroactive effect to the Amsco Merger and include the combined operations of STERIS and Amsco for all periods presented.

The accompanying unaudited consolidated condensed financial statements have been prepared in accordance with generally accepted accounting principles for interim financial information and with the instructions to Form 10-Q; they do not include all of the information and footnotes required by generally accepted accounting principles for complete audited financial statements. Accordingly, the reader of these financial statements may wish to refer to the audited consolidated financial statements of STERIS filed with the Securities and Exchange Commission as part of STERIS's Form 10-K for the year ended March 31, 1997.

The accompanying consolidated condensed financial statements have been prepared in accordance with STERIS's customary accounting practices and have not been audited. Management believes that the financial information included herein reflect all adjustments necessary for a fair presentation of interim results and, except as discussed in Note D, all such adjustments are of a normal and recurring nature. The results for the three months ended June 30, 1997, are not necessarily indicative of the results to be expected for the fiscal year ending March 31, 1998.

## C.-EARNINGS (LOSS) PER SHARE

The computations of earnings (loss) per Common Share and Common Share equivalents are based upon the weighted average number of Common Shares outstanding and when applicable, the dilutive effect of Common Share equivalents (consisting solely of stock options). Common Share equivalents were antidilutive for the three month period ended June 30, 1996 and accordingly were excluded from the computation of earnings (loss) per Common Share for such period. Following is a summary, in thousands, of Common Shares and Common Share equivalents outstanding used in the calculations of earnings (loss) per share.

| | THREE MONTHS ENDED JUNE 30 | |
|---|---|---|
| | 1997 | 1996 |
| WEIGHTED AVERAGE COMMON SHARES OUTSTANDING | 33,935 | 33,113 |
| Dilutive effect of stock options--primary basis | 1,021 | 0 |
| WEIGHTED AVERAGE COMMON SHARES AND EQUIVALENTS--PRIMARY BASIS | 34,956 | 33,113 |
| Additional dilutive effect of stock options--fully diluted basis | 0 | 0 |
| WEIGHTED AVERAGE COMMON SHARES AND EQUIVALENTS--FULLY DILUTED BASIS | 34,956 | 33,113 |

The FASB has issued Statement 128, "Earnings Per Share," that will require the Company to calculate earnings per share using different methods beginning in the 1998 fiscal third quarter (early adoption is prohibited). Under the Statement 128 calculation of "basic" earnings per share, the dilutive effect of stock options will be excluded. The Company does not expect that applying the new methods to the 1998 fiscal first quarter operations would materially change the calculation of "diluted" earnings per share (the replacement under Statement 128 for fully diluted earnings per share).

## D.-NON-RECURRING ITEMS

Non-recurring charges of $90,831 ($81,300 net of tax, or $2.44 per share) were recorded in the 1997 fiscal first quarter for costs related to the Amsco Merger. The charges include transaction costs of approximately $15,000 and other non-recurring charges of approximately $75,800 ($66,300 net of tax). The transaction costs were for legal, accounting, investment banking, and related expenses. The other non-recurring charges were for (i) elimination of redundant facilities and other assets ($27,000), (ii) satisfaction of Amsco executive employment agreements and other Associate severance ($19,300), (iii) write-off of goodwill related to Amsco's Finn-Aqua business ($27,250), and (iv) other merger-related items. Property write downs of $20,000 were recorded as part of the estimated cost of eliminating redundant facilities based on fair value estimates. During fiscal 1997, STERIS closed a manufacturing and research facility in Apex, North Carolina, Amsco's headquarters in Pittsburgh, Pennsylvania, as well as Customer Service facilities in Dallas, Texas and Atlanta, Georgia. Operations of the closed facilities were consolidated into existing STERIS facilities.

The effective income tax rate for the three months ended June 30, 1996 differed from statutory rates principally because certain non-recurring items that increased the net loss are non-deductible for tax purposes. Non-deductible items include the write-off of goodwill related to Amsco's Finn-Aqua business and provisions for certain executive severance costs. Also, additional tax valuation allowances were provided to reflect the effects of merger activities.

E.-INVENTORIES

Inventories were as follows:

| | JUNE 30, 1997 | MARCH 31, 1997 |
|---|---|---|
| Raw material | $30,073 | $30,027 |
| Work in process | 17,306 | 15,240 |
| Finished goods | 35,497 | 33,495 |
| | $82,876 | $78,762 |

F.-FINANCING

During the first fiscal quarter 1998, STERIS increased the amount available for borrowing under its unsecured revolving Credit Facility from $125,000 to $215,000. The amended Credit Facility expires September 30, 2001 and may be used for general corporate purposes. Loans under the Credit Facility will bear interest, at STERIS's option, at either KeyBank National Association's prime rate or LIBOR rates plus 0.25 percent to 0.35 percent. The Credit Facility contains customary covenants which include maintenance of certain financial ratios. Outstanding borrowing under the Credit Facility was $35,000 at June 30, 1997.

G.-CONTINGENCIES

There are various pending lawsuits and claims arising out of the conduct of STERIS's business. In the opinion of management, the ultimate outcome of these lawsuits and claims will not have a material adverse effect on STERIS's consolidated financial position or results of operations.

H.-ACQUISITION

Late in the first fiscal quarter 1998, STERIS reached an agreement to acquire Joslyn Sterilizer Corporation, a designer and manufacturer of high quality, high performance sterile processing systems based upon widely accepted steam and gas sterilization methodologies. The Joslyn acquisition closed in early July. The acquisition will be accounted for using the purchase method of accounting.

# MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

## BASIS OF DISCUSSION

The Amsco Merger has been accounted for by the pooling-of-interests method. Accordingly, the accompanying unaudited consolidated condensed financial statements give retroactive effect to the transaction and include the combined operations of STERIS and Amsco for all periods presented.

## RESULTS OF OPERATIONS

Net revenue increased by 21.3% to $155.1 million in the first quarter fiscal 1998 from $127.9 million in the first quarter fiscal 1997. Infection Prevention revenues increased by 34.2% to $89.5 million in the first quarter fiscal 1998 from $66.7 million in the first quarter fiscal 1997. Surgical Support revenues increased by 7.7% to $32.4 million in the first quarter fiscal 1998 from $30.1 million in the first quarter fiscal 1997. Scientific, Management Services and Other revenue increased by 6.9% to $33.3 million in the first quarter fiscal 1998 from $31.1 million in the first quarter fiscal 1997. The increase in net revenues was due mainly to increases in the sales of consumable products and capital equipment during the first quarter fiscal 1998. The increase in sales of consumable products includes the benefits of the December 1996 acquisition of the assets of the infection control and contamination control businesses of Calgon Vestal Laboratories, and the fiscal second quarter 1996 acquisition of Surgicot, Inc., a manufacturer and supplier of biological and chemical sterile process monitors, sterilization wraps and pouches, and other consumable infection prevention products.

The costs of products and services sold increased by 9.6% to $88.3 million in the first quarter fiscal 1998 from $80.6 million in the first quarter fiscal 1997. The cost of products and services sold as a percentage of net revenue was 56.9% for the first quarter fiscal 1998 compared to 63.0% for the same period in fiscal 1997. The decrease in the cost of products and services sold as a percentage of net revenue for the first quarter fiscal 1998 resulted principally from changes in the mix of products sold, overhead absorption from plant consolidation and volume increases, and the benefits from the restructuring of the acquired and merged businesses.

Selling, informational, and administrative expenses increased by 57.5% to $41.1 million in the first quarter fiscal 1998 from $26.1 million in the first quarter fiscal 1997. The expenses as a percentage of net revenue increased to 26.5% in the first quarter fiscal 1998 from 20.5% in the first quarter fiscal 1997. The increase was primarily attributable to the investments in Customer Support, domestic and international sales organization expansion, business development, management information systems, and the inclusion of acquired companies' selling, informational and administrative expenses. The first quarter fiscal 1998 expenses included the costs of exhibiting at several major national and international conventions, including the Association of Operating Room Nurses Congress.

Research and development expenses increased by 38.4% to $6.0 million in the first quarter fiscal 1998 from $4.3 million in the first quarter fiscal 1997. Research and development expenses as a percentage of net revenue were 3.8% for the first quarter fiscal 1998 compared to 3.4% for the first quarter fiscal 1997. The increase was due to additional product and application

development expenditures.

Interest expense decreased by 67.4% to $0.5 million in the first quarter fiscal 1998 from $1.6 million in the first quarter fiscal 1997. The decrease was due primarily to the July 1996 redemption of approximately $100 million of Amsco 4.5%/6.5% Convertible Subordinated Notes.

Interest income and other decreased by 96.9% to $0.1 million in the first quarter fiscal 1998 from $1.9 million in the first quarter fiscal 1997. The decrease in interest income was due primarily to lower cash, cash equivalents, and marketable security balances, with the lower balances resulting from the cash redemption of the aforementioned Amsco Convertible Subordinated Notes.

Excluding the effect of non-recurring items, income for the first quarter of fiscal 1998 increased by 21.0% to $11.7 million ($.34 per share) from $9.7 million ($.28 per share) in the same period fiscal 1997.

The effective income tax rate for the three months ended June 30, 1996 differed from statutory rates principally because certain non-recurring items that increased the net loss are non-deductible for tax purposes. Non-deductible items include the write-off of goodwill related to Amsco's Finn-Aqua business and provisions for certain executive severance costs. Also, additional tax valuation allowances were provided to reflect the effects of merger activities.

As a result of the foregoing factors, net income for the first quarter fiscal 1998 was $11.7 million, compared to net loss of $71.6 million in the first quarter fiscal 1997.

## LIQUIDITY AND CAPITAL RESOURCES

The Company had $25.4 million in cash, cash equivalents and marketable securities as of June 30, 1997, compared to $23.6 million of the same at March 31, 1997.

Accounts receivable decreased by 4.9% to $156.2 million as of June 30, 1997, compared to $164.2 million at March 31, 1997.

Inventory increased by 5.2% to $82.9 million as of June 30, 1997, compared to $78.8 million at March 31, 1997.

Property, plant, and equipment increased by 4.3% to $184.8 million as of June 30, 1997, compared to $177.2 million at March 31, 1997.

Intangibles decreased by 0.8% to $185.0 million as of June 30, 1997, compared to $186.4 million at March 31, 1997.

Current liabilities decreased by 7.3% to $147.1 million as of June 30, 1997, compared to $158.7 million at March 31, 1997.

Other liabilities were $50.0 million as of June 30, 1997, compared to $50.2 million of the same at March 31, 1997.

During the first fiscal quarter 1998, STERIS increased the amount available for borrowing under its unsecured revolving Credit Facility from $125 million to $215 million. The amended Credit Facility expires September 30, 2001 and may be used for general corporate purposes. Loans under the Credit Facility will bear interest, at STERIS's option, at either KeyBank National Association's prime rate or LIBOR rates plus 0.25 percent to 0.35 percent. The Credit Facility contains customary covenants which include maintenance of certain financial ratios. Outstanding borrowing under the Credit Facility was $35 million at June 30, 1997.

The Company has no material commitments for capital expenditures. The Company believes that its cash requirements will increase due to increased sales requiring more working capital, accelerated research and development, and potential acquisitions or investments in complementary businesses. However, the Company believes that its available cash, cash flow from operations, and sources of credit will be adequate to satisfy its capital needs for the foreseeable future.

## CONTINGENCIES

For a discussion of contingencies, see Note G to the consolidated condensed financial statements.

## SEASONALITY

Historical data indicates that financial results of acquired businesses, including Amsco, were subject to recurring seasonal fluctuations. A number of factors have contributed to the seasonal patterns, including sales promotion and compensation programs, customer buying patterns, international business practices, and differing fiscal year ends. Sales and profitability of certain of the acquired and consolidated product lines have historically been disproportionately weighted toward the latter part of each quarter and each fiscal year. Various changes in business practices resulting from the integration of Amsco and other acquired businesses into STERIS, including the change to a March ending fiscal year, may alter the historical patterns of the previously independent businesses.

## FORWARD-LOOKING STATEMENTS

This discussion contains statements concerning certain trends and other forward-looking information affecting or relating to the Company and its industry that are intended to qualify for the protections afforded "forward-looking statements" under the Private Securities Litigation Reform Act of 1995. There are many important factors that could cause actual results to differ materially from those in the forward-looking statements. Many of these important factors are outside STERIS's control. Changes in market conditions, including competitive factors and changes in government regulations, could cause actual results to differ materially from the Company's expectations. No assurance can be provided as to any future financial results. Other potentially negative factors that could cause actual results to differ materially from those in the forward-looking statements include (a) the possibility that the continuing integration of acquired businesses will take longer than anticipated, (b) the potential for increased pressure on pricing that leads to erosion in profit margins, and (c) the possibility of reduced demand, or reductions in

the rate of growth in demand, for the Company's products.

PART II OTHER INFORMATION

ITEM 1 LEGAL PROCEEDINGS

Reference is made to Part I, Item 2., Note G of this Report on Form 10-Q, which is incorporated herein by reference.

ITEM 4 SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

The Company held its Annual Meeting of Shareholders on July 24, 1997, at 5960 Heisley Road, Mentor, Ohio. At the Annual Meeting, shareholders: (a) re-elected three directors to serve in the class with a term expiring at the Annual Meeting of Shareholders in 1999, and (b) approved the STERIS Corporation 1997 Stock Option Plan for employees and directors. Results of the voting on directors were: Raymond A. Lancaster 29,816,569 votes for, 352,696 withheld; Thomas J. Magulski 29,827,740 votes for, 341,525 withheld; J. B. Richey 29,826,645 votes for, 342,620 withheld. Results of the voting on the Stock Option Plan were 26,189,012 votes for, 3,703,960 against, 125,820 abstain, and 150,473 broker non-votes.

ITEM 6 EXHIBITS AND REPORTS ON FORM 8-K

(a) Exhibits

| EXHIBIT NUMBER | EXHIBIT DESCRIPTION |
|---|---|
| 10.1 | Second Amendment Agreement, dated June 10, 1997, to Credit Agreement, dated May 13, 1996, among STERIS Corporation, various financial institutions and KeyBank National Association, as Agent |
| 10.2 | Third Amendment Agreement dated June 10, 1997, to Credit Agreement, dated May 13, 1996, among STERIS Corporation, various financial institutions and KeyBank National Association, as Agent |
| 27.1 | Financial Data Schedule |

(b) Reports on Form 8-K

None

SIGNATURE

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

STERIS Corporation
(Registrant)

/s/ Michael A. Keresman, III
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Michael A. Keresman, III
Chief Financial Officer and
Senior Vice President
(Principal Financial Officer)
August 12, 1997

EXHIBIT 10.1

SECOND AMENDMENT AGREEMENT

This Second Amendment Agreement is made as of the 10th day of June, 1997, by and among STERIS CORPORATION, an Ohio corporation ("Borrower"), KEYBANK NATIONAL ASSOCIATION (successor by merger to Society National Bank), as Agent ("Agent") and the banking institutions listed on the signature pages hereto ("Banks"):

WHEREAS, Borrower, Agent and the Banks are parties to a certain Credit Agreement dated as of May 13, 1996, as amended and as it may from time to time be further amended, restated or otherwise modified, which provides, among other things, for revolving loans and swing loans aggregating not more than One Hundred Twenty-Five Million Dollars, all upon certain terms and conditions ("Credit Agreement");

WHEREAS, Borrower, Agent and the Banks desire to amend the Credit Agreement to modify certain provisions thereof;

WHEREAS, each term used herein shall be defined in accordance with the Credit Agreement;

NOW, THEREFORE, in consideration of the premises and of the mutual covenants herein and for other valuable considerations, Borrower, Agent and the Banks agree as follows:

1. Article I of the Credit Agreement is hereby amended to delete the definition of "Consolidated EBIT" in its entirety and to insert in place thereof the following:

"Consolidated EBIT" shall mean, for any period on a consolidated basis for Borrower and its Subsidiaries, the sum of the amounts for such period of:

(a) Consolidated Net Earnings, provided that: (i) all gains and all losses realized by Borrower and its Subsidiaries upon the sale or other disposition (including, without limitation, pursuant to sale and leaseback transactions) of property or assets which are not sold or otherwise disposed of in the ordinary course of business, or pursuant to the sale of any capital stock of Borrower or any Subsidiary, shall be excluded from such Consolidated Net Earnings, (ii) net income or net loss of Borrower and its Subsidiaries combined on a "pooling of interests" basis attributable to any period prior to the date of such combination shall be excluded from such Consolidated Net Earnings, (iii)(A) all items of gain or loss which are properly classified as extraordinary in accordance with GAAP, (B) all charges recorded for costs in connection with the Merger which are properly classified as non-recurring in accordance with GAAP, and (C) all non-recurring (in accordance with GAAP) restructuring charges incurred in connection with any acquisition shall be excluded from such Consolidated Net Earnings, (iv) all items which are properly classified in accordance with GAAP as cumulative effects of accounting changes shall be excluded from such Consolidated Net Earnings, and (v) net income of any Person which is not a Subsidiary of Borrower and its Subsidiaries and which is consolidated with Borrower and its Subsidiaries or is accounted for by Borrower and its Subsidiaries by the equity method of accounting shall be included in such Consolidated Net Earnings only to the extent of the amount of dividends or distributions paid to Borrower and its Subsidiaries or a Subsidiary;

(b) Consolidated Interest Expense; and

(c) charges for federal, state, local and foreign income taxes.

2. Section 5.9 of the Credit Agreement is hereby deleted in its entirety with the following being inserted in place thereof:

SECTION 5.9 LEVERAGE. Borrower shall not suffer or permit at any time, for Borrower and its Subsidiaries, on a consolidated basis, the ratio of (a) (i) Funded Senior Debt, plus (ii) Subordinated Indebtedness, to (b) (i) Funded Senior Debt, plus (ii) Subordinated Indebtedness, plus (iii) Consolidated Net Worth, to be greater than .50 to 1.00, based upon the financial statements of Borrower and its Subsidiaries for the most recent calendar quarter.

3. Section 5.10 of the Credit Agreement is hereby deleted in its entirety with the words "Intentionally Omitted" to be inserted in place thereof.

4. Section 5.11 of the Credit Agreement is hereby amended to delete sub-part (d) in its entirety and to insert in place thereof the following:

(d) purchase money Liens on real estate and fixed assets securing loans not in excess of the aggregate amount, for all Companies, of Twenty Five Million Dollars ($25,000,000); and

5. Borrower hereby represents and warrants to Agent and the Banks that (a) Borrower has the legal power and authority to execute and deliver this Second Amendment Agreement; (b) officials executing this Second Amendment Agreement have been duly authorized to execute and deliver the same and bind Borrower with respect to the provisions hereof; (c) the execution and delivery hereof by Borrower and the performance and observance by Borrower of the provisions hereof do not violate or conflict with the organizational agreements of Borrower or any law applicable to Borrower or result in a breach of any provision of or constitute a default under any other agreement, instrument or document binding upon or enforceable against Borrower; (d) no Possible Default or Event of Default exists under the Credit Agreement, nor will any occur immediately after the execution and delivery of the Second Amendment Agreement or by the performance or observance of any provision hereof; (e) neither Borrower nor any Subsidiary has any claim or offset against, or defense or counterclaim to, any of Borrower's or any Subsidiary's obligations or liabilities under the Credit Agreement or any Related Writing, and Borrower and each Subsidiary hereby waives and releases Agent and each of the Banks from any and all such claims, offsets, defenses and counterclaims of which Borrower and any Subsidiary is aware, such waiver and release being with full knowledge and understanding of the circumstances and effect thereof and after having consulted legal counsel with respect thereto and (f) this Second Amendment Agreement constitutes a valid and binding obligation of Borrower in every respect, enforceable in accordance with its terms.

6. Each reference that is made in the Credit Agreement or any other writing to the Credit Agreement shall hereafter be construed as a reference to the Credit Agreement as amended hereby. Except as herein otherwise specifically provided, all provisions of the Credit Agreement shall remain in full force and effect and be unaffected hereby.

7. This Second Amendment Agreement may be executed in any number of counterparts, by different parties hereto in separate counterparts and by facsimile signature, each of which when so executed and delivered shall be deemed to be an original and all of which taken together shall constitute but one and the same agreement.

8. The rights and obligations of all parties hereto shall be governed by the laws of the State of Ohio.

| | | |
|---|---|---|
| Address: | 5960 Heisley Road<br>Mentor, OH 44060 | STERIS CORPORATION<br>By: /s/ Bill R. Sanford<br>------------------------------------<br>Bill R. Sanford, Chairman, President, and Chief Executive Officer<br><br>And: /s/ Michael A. Keresman, III<br>------------------------------------<br>Michael A. Keresman, III, Senior Vice President, and Chief Financial Officer |
| Address: | Key Tower<br>127 Public Square<br>Mailcode: OH-01-27-0611<br>Cleveland, OH 44114-0611 | KEYBANK NATIONAL ASSOCIATION<br>as a Bank and as Agent<br>By: /s/ Thomas A. Crandell<br>------------------------------------<br>Thomas A. Crandell, Assistant Vice President |
| Address: | 600 Superior Avenue<br>Cleveland, OH 44114-2650<br>Attention: N. Ohio Large Corp. Markets Group, #0149 | BANK ONE, COLUMBUS, NA<br>By: /s/ Babette C. Coerdt<br>------------------------------------<br>Babette C. Coerdt, Vice President and Group Manager |
| Address: | 611 Woodland Avenue<br>Detroit, MI 48226<br>Attention: Mid-corporate Banking Division | NBD BANK<br>By: /s/ Paul R. DeMelo<br>------------------------------------<br>Paul R. DeMelo, Vice President |
| Address: | One Cleveland Center<br>1375 E. 9th St., Ste. 1250<br>Cleveland, OH 44114<br>Attention: Corporate Banking | PNC BANK, NATIONAL ASSOCIATION<br>By: /s/ Bryon A. Pike<br>------------------------------------<br>Bryon A. Pike, Vice President |
| Attention: | Pittsburgh Branch<br>One PPG Place, Ste. 2950<br>Pittsburgh, PA 15222-5400 | ABN AMRO BANK N.V., PITTSBURGH BRANCH<br>By: ABN AMRO North America, Inc., as agent<br><br>By: /s/ Roy D. Hasbrook<br>------------------------------------<br>Roy D. Hasbrook, Group Vice President and Director<br><br>And: /s/ Kathyrn C. Toth<br>------------------------------------<br>Kathyrn C. Toth, Vice President |

The undersigned each consent to the terms hereof.

AMSCO INTERNATIONAL, INC.
MEDICAL & ENVIRONMENTAL DESIGNS, INC.
ECOMED, INC.
AMERICAN STERILIZER COMPANY
AMSCO STERILE RECOVERIES, INC.
AMSCO INTERNATIONAL SALES CORPORATION
HAS, INC.
AMSCO EUROPE, INC.
AMSCO ASIA PACIFIC, INC.
AMSCO LATIN AMERICA, INC.
CALGON VESTAL, INC.
SURGICOT, INC.

By: /s/ Bill R. Sanford
------------------------------
Bill R. Sanford, President of each of the Companies listed above

And: /s/ Michael A. Keresman, III
-----------------------------
Michael A. Keresman, III, Vice President, and Secretary of each of the Companies listed above

EXHIBIT 10.2

# THIRD AMENDMENT AGREEMENT

This Third Amendment Agreement is made as of the 10th day of June, 1997, by and among STERIS CORPORATION, an Ohio corporation ("Borrower"), KEYBANK NATIONAL ASSOCIATION (successor by merger to Society National Bank), as Agent ("Agent") and the banking institutions listed on Schedule 1 attached hereto and made a part hereof ("Banks"):

WHEREAS, Borrower, Agent and the Banks are parties to a certain Credit Agreement dated as of May 13, 1996, as amended and as it may from time to time be further amended, restated or otherwise modified, which provides, among other things, for revolving loans and swing loans aggregating not more than One Hundred Twenty-Five Million Dollars, all upon certain terms and conditions ("Credit Agreement");

WHEREAS, Borrower, Agent and the Banks desire to amend the Credit Agreement to increase the amount of the credit facility and to modify certain other provisions thereof;

WHEREAS, each term used herein shall be defined in accordance with the Credit Agreement;

NOW, THEREFORE, in consideration of the premises and of the mutual covenants herein and for other valuable considerations, Borrower, Agent and the Banks agree as follows:

1. Article I of the Credit Agreement is hereby amended to delete the definitions of "Commitment Period" and "Total Commitment Amount" in their entirety and to insert in place thereof the following:

"Commitment Period" shall mean the period from the Effective Date to September 30, 2001.

"Total Commitment Amount" shall mean the obligation hereunder of the Banks to make Loans up to the maximum aggregate principal amount of Two Hundred Fifteen Million Dollars ($215,000,000) during the Commitment Period (or such lesser amount as shall be determined pursuant to Section 2.5 hereof).

2. The Credit Agreement is hereby amended by deleting Schedule 1 thereof in its entirety and be inserting in place thereof a new Schedule 1 in the form of Schedule 1 attached hereto.

3. The Credit Agreement is hereby amended by deleting Exhibit A in its entirety and by substituting in place thereof a new Exhibit A in the form of Exhibit A attached hereto.

4. Concurrently with the execution of this Third Amendment Agreement, Borrower shall:

(a) execute and deliver to each Bank a new Revolving Credit Note dated as of May 13, 1996, and such new Revolving Credit Note shall be in the form and substance of Exhibit A attached hereto. After a Bank receives a new Revolving Credit Note, such Bank will mark its Revolving Credit Note being replaced thereby "Replaced" and return the same to Borrower; and

(b) pay to Agent for the benefit of the Banks an amendment fee in the amount of five (5) basis points times the amount of the increase in the Total Commitment Amount.

5. Borrower hereby represents and warrants to Agent and the Banks that (a) Borrower has the legal power and authority to execute and deliver this Third Amendment Agreement; (b) officials executing this Third Amendment Agreement have been duly authorized to execute and deliver the same and bind Borrower with respect to the provisions hereof; (c) the execution and delivery hereof by Borrower and the performance and observance by Borrower of the provisions hereof do not violate or conflict with the organizational agreements of Borrower or any law applicable to Borrower or result in a breach of any provision of or constitute a default under any other agreement, instrument or document binding upon or enforceable against Borrower; (d) no Possible Default or Event of Default exists under the Credit Agreement, nor will any occur immediately after the execution and delivery of the Third Amendment Agreement or by the performance or observance of any provision hereof; (e) neither Borrower nor any Subsidiary has any claim or offset against, or defense or counterclaim to, any of Borrower's or any Subsidiary's obligations or liabilities under the Credit Agreement or any Related Writing, and Borrower and each Subsidiary hereby waives and releases Agent and each of the Banks from any and all such claims, offsets, defenses and counterclaims of which Borrower and any Subsidiary is aware, such waiver and release being with full knowledge and understanding of the circumstances and effect thereof and after having consulted legal counsel with respect thereto, and (f) this Third Amendment Agreement constitutes a valid and binding obligation of Borrower in every respect, enforceable in accordance with its terms.

6. Each reference that is made in the Credit Agreement or any other writing to the Credit Agreement shall hereafter be construed as a reference to the Credit Agreement as amended hereby. Except as herein otherwise specifically provided, all provisions of the Credit Agreement shall remain in full force and effect and be unaffected hereby.

7. This Third Amendment Agreement may be executed in any number of counterparts, by different parties hereto in separate counterparts and by facsimile signature, each of which when so executed and delivered shall be deemed to be an original and all of which taken together shall constitute but one and the same agreement.

8. The rights and obligations of all parties hereto shall be governed by the laws of the State of Ohio.

| | | |
|---|---|---|
| Address: | 5960 Heisley Road<br>Mentor, OH 44060 | STERIS CORPORATION<br>By: /s/ Bill R. Sanford<br>------------------------------------<br>Bill R. Sanford, Chairman, President, and Chief Executive Officer<br><br>And: /s/ Michael A. Keresman, III<br>------------------------------------<br>Michael A. Keresman, III, Senior Vice President, and Chief Financial Officer |
| Address: | Key Tower<br>127 Public Square<br>Mailcode: OH-01-27-0611<br>Cleveland, OH 44114-0611 | KEYBANK NATIONAL ASSOCIATION<br>as a Bank and as Agent<br>By: /s/ Thomas A. Crandell<br>------------------------------------<br>Thomas A. Crandell, Assistant Vice President |
| Address: | 600 Superior Avenue<br>Cleveland, OH 44114-2650<br>Attention: N. Ohio Large Corp.<br>Markets Group, #0149 | BANK ONE, COLUMBUS, NA<br>By: /s/ Babette C. Coerdt<br>--------------------------------------<br>Babette C. Coerdt, Vice President and Group Manager |
| Address: | 611 Woodland Avenue<br>Detroit, MI 48226<br>Attention: Mid-corporate<br>Banking Division | NBD BANK<br>By: /s/ Paul R. DeMelo<br>--------------------------------------<br>Paul R. DeMelo, Vice President |
| Address: | One Cleveland Center<br>1375 E. 9th St., Ste. 1250<br>Cleveland, OH 44114<br>Attention: Corporate Banking | PNC BANK, NATIONAL ASSOCIATION<br>By: /s/ Bryon A. Pike<br>--------------------------------------<br>Bryon A. Pike, Vice President |
| Attention: | Pittsburgh Branch<br>One PPG Place, Ste. 2950<br>Pittsburgh, PA 15222-5400 | ABN AMRO BANK N.V., PITTSBURGH BRANCH<br>By: ABN AMRO North America, Inc., as agent<br><br>By: /s/ Roy D. Hasbrook<br>------------------------------------<br>Roy D. Hasbrook, Group Vice President and Director<br><br>And: /s/ Kathyrn C. Toth<br>------------------------------------<br>Kathyrn C. Toth, Vice President |

The undersigned each consent to the terms hereof.

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MEDICAL & ENVIRONMENTAL DESIGNS, INC.
ECOMED, INC.
AMERICAN STERILIZER COMPANY
AMSCO STERILE RECOVERIES, INC.
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HAS, INC.
AMSCO EUROPE, INC.
AMSCO ASIA PACIFIC, INC.
AMSCO LATIN AMERICA, INC.
CALGON VESTAL, INC.
SURGICOT, INC.

By: /s/ Bill R. Sanford
--------------------------------------------
Bill R. Sanford, President of each of the Companies listed above

And: /s/ Michael A. Keresman, III
--------------------------------------------
Michael A. Keresman, III, Vice President, and Secretary of each of the Companies listed above

SCHEDULE 1

| BANKING INSTITUTIONS | PERCENTAGE | MAXIMUM AMOUNT |
|---|---|---|
| KeyBank National Association | 25.3% | $54,320,000 |
| Bank One, Columbus, NA | 19.5% | 42,000,000 |
| NBD Bank | 18.4% | 39,560,000 |
| PNC Bank, National Association | 18.4% | 39,560,000 |
| ABN AMRO Bank N.V., Pittsburgh Branch | 18.4% | 39,560,000 |
| Total Commitment Amount | 100.0% | $215,000,000 |

EXHIBIT A

REVOLVING CREDIT NOTE

$ ___________                                                     Cleveland, Ohio
As of May 13, 1996

FOR VALUE RECEIVED, the undersigned STERIS CORPORATION, an Ohio corporation, ("Borrower"), promises to pay on September 30, 2001, to the order of ________ ("Bank") at the Main Office of KeyBank National Association (successor by merger to Society National Bank), as Agent, 127 Public Square, Cleveland, Ohio 44114-1306 the principal sum of ____________________________________________________________________DOLLARS or the aggregate unpaid principal amount of all Revolving Loans made by Bank to Borrower pursuant to Section 2.1 of the Credit Agreement, as hereinafter defined, whichever is less, in lawful money of the United States of America. As used herein, "Credit Agreement" means the Credit Agreement dated as of May 13, 1996, among Borrower, the banks named therein and KeyBank National Association, as Agent, as amended and as the same may from time to time be further amended, restated or otherwise modified. Capitalized terms used herein shall have the meanings ascribed to them in the Credit Agreement.

Borrower also promises to pay interest on the unpaid principal amount of each Revolving Loan from time to time outstanding, from the date of such Revolving Loan until the payment in full thereof, at the rates per annum which shall be determined in accordance with the provisions of Section 2.1A of the Credit Agreement. Such interest shall be payable on each date provided for in such Section 2.1A; provided, however, that interest on any principal portion which is not paid when due shall be payable on demand.

The portions of the principal sum hereof from time to time representing Prime Rate Loans and LIBOR Loans, and payments of principal of any thereof, shall be shown on the records of Bank by such method as Bank may generally employ; provided, however, that failure to make any such entry shall in no way detract from Borrower's obligations under this Note.

If this Note shall not be paid at maturity, whether such maturity occurs by reason of lapse of time or by operation of any provision for acceleration of maturity contained in the Credit Agreement, the principal hereof and the unpaid interest thereon shall bear interest, until paid, at the Default Rate. All payments of principal of and interest on this Note shall be made in immediately available funds.

This Note is one of the Revolving Credit Notes referred to in the Credit Agreement. Reference is made to the Credit Agreement for a description of the right of the undersigned to anticipate payments hereof, the right of the holder hereof to declare this Note due prior to its stated maturity, and other terms and conditions upon which this Note is issued.

The undersigned authorizes any attorney at law at any time or times after the maturity hereof (whether maturity occurs by lapse of time or by acceleration) to appear in any state or federal court of record in the State of Ohio to waive the issuance and service of process, to admit the maturity of this Note and the nonpayment thereof when due, to confess judgment against the undersigned in favor of the holder of this Note for the amount then appearing due, together with interest and costs of suit, and thereupon to release all errors and to waive all rights of appeal and stay of execution. The foregoing warrant of attorney shall survive any judgment, and if any judgment be vacated for any reason, the holder hereof nevertheless may thereafter use the foregoing warrant of attorney to obtain an additional judgment or judgments against the undersigned. The undersigned agrees that the Agent or the Banks' attorney may confess judgment pursuant to the foregoing warrant of attorney. The undersigned further agrees that the attorney confessing judgment pursuant to the foregoing warrant of attorney may receive a legal fee or other compensation from the Agent or the Banks.

STERIS CORPORATION
By: /s/ Bill R. Sanford
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Bill R. Sanford, Chairman, President and Chief Executive Officer

and /s/ Michael A. Keresman, III
-----------------------------------
Michael A. Keresman, III, Senior Vice President, Chief Financial Officer

"WARNING -- BY SIGNING THIS PAPER YOU GIVE UP YOUR RIGHT TO NOTICE AND COURT TRIAL. IF YOU DO NOT PAY ON TIME A COURT JUDGMENT MAY BE TAKEN AGAINST YOU WITHOUT YOUR PRIOR KNOWLEDGE AND THE POWERS OF A COURT CAN BE USED TO COLLECT FROM YOU REGARDLESS OF ANY CLAIMS YOU MAY HAVE AGAINST THE CREDITOR WHETHER FOR RETURNED GOODS, FAULTY GOODS, FAILURE ON HIS PART TO COMPLY WITH THE AGREEMENT OR ANY OTHER CAUSE."

3-MOS
MAR-31-1998
JUN-30-1997
24,429
1,020
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82,876
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