UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D. C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended June 30, 2010

or

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

For the transition period from ______ to ______

Commission File Number 1-14643

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

Ohio **(State or other jurisdiction of incorporation or organization)**	**34-1482024** **(IRS Employer Identification No.)**
5960 Heisley Road, Mentor, Ohio **(Address of principal executive offices)**	**44060-1834** **(Zip code)**

440-354-2600
(Registrant's telephone number, including area code)

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

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

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

Large Accelerated Filer ☒	Accelerated Filer ☐
Non-Accelerated Filer ☐ (Do not check if a smaller reporting company)	Smaller Reporting Company ☐

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ☐ No ☒

The number of common shares outstanding as of July 30, 2010: 59,571,275

STERIS Corporation and Subsidiaries

Form 10-Q
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PART 1—FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

STERIS CORPORATION AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS
(in thousands)

	June 30, 2010 (Unaudited)	March 31, 2010
Assets		
Current assets:		
Cash and cash equivalents	$ 226,070	$ 214,971
Accounts receivable (net of allowances of $9,688 and $9,238, respectively)	185,691	214,940
Inventories, net	131,955	121,135
Deferred income taxes, net	48,892	6,976
Prepaid expenses and other current assets	15,266	18,435
Total current assets	607,874	576,457
Property, plant, and equipment, net	345,288	346,858
Goodwill and intangibles, net	302,678	305,311
Other assets	9,766	9,776
Total assets	$1,265,606	$1,238,402
Liabilities and equity		
Current liabilities:		
Current portion of long-term indebtedness	$ —	$ —
Accounts payable	64,132	66,035
Accrued income taxes	14,003	—
Accrued payroll and other related liabilities	29,968	58,986
Accrued SYSTEM 1 Rebate Program	110,004	—
Accrued expenses and other	68,573	72,108
Total current liabilities	286,680	197,129
Long-term indebtedness	210,000	210,000
Deferred income taxes, net	18,571	20,749
Other liabilities	54,465	56,030
Total liabilities	569,716	483,908
Commitments and contingencies (see note 10)		
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; 59,578 and 58,452 shares outstanding, respectively	235,650	237,165
Common shares held in treasury, 10,461 and 11,588 shares, respectively	(287,220)	(295,251)
Retained earnings	747,040	798,809
Accumulated other comprehensive (loss) income	(363)	12,991
Total shareholders' equity	695,107	753,714
Noncontrolling interest	783	780
Total equity	695,890	754,494
Total liabilities and equity	$1,265,606	$1,238,402

See notes to consolidated financial statements.

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STERIS CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS
(in thousands, except per share amounts)
(Unaudited)

	Three Months Ended June 30, 2010	Three Months Ended June 30, 2009
Revenues:		
Product	$ 77,272	$173,500
Service	111,708	110,043
Total revenues	188,980	283,543
Cost of revenues:		
Product	106,576	94,277
Service	64,338	64,430
Total cost of revenues	170,914	158,707
Gross profit	18,066	124,836
Operating expenses:		
Selling, general, and administrative	72,117	74,605
Research and development	8,609	7,580
Restructuring expenses	341	(211)
Total operating expenses	81,067	81,974
(Loss) income from operations	(63,001)	42,862
Non-operating expenses, net:		
Interest expense	3,007	3,083
Interest and miscellaneous income	(162)	(218)
Total non-operating expenses, net	2,845	2,865
(Loss) income before income tax (benefit) expense	(65,846)	39,997
Income tax (benefit) expense	(20,636)	14,455
Net (loss) income	$ (45,210)	$ 25,542
Net (loss) income per common share		
Basic	$ (0.76)	$ 0.44
Diluted	$ (0.76)	$ 0.43
Cash dividends declared per common share outstanding	$ 0.11	$ 0.11

See notes to consolidated financial statements.

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STERIS CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS
(in thousands)
(Unaudited)

	Three Months Ended June 30, 2010	Three Months Ended June 30, 2009
Operating activities:		
Net (loss) income	$ (45,210)	$ 25,542
Adjustments to reconcile net (loss) income to net cash provided by operating activities:		
Depreciation, depletion, and amortization	13,038	13,888
Deferred income taxes	(44,476)	(4,430)
Share-based compensation	3,913	1,985
(Gain) loss on the disposal of property, plant, equipment, and intangibles, net	405	(146)
Other items	(1,343)	271
Changes in operating assets and liabilities:		
Accounts receivable, net	25,794	38,334
Inventories, net	(14,157)	(1,914)
Other current assets	3,002	5,455
Accounts payable	(1,137)	(18,519)
Accrued SYSTEM 1 Rebate Program	110,004	—
Accruals and other, net	(20,139)	(27,846)
Net cash provided by operating activities	29,694	32,620
Investing activities:		
Purchases of property, plant, equipment, and intangibles, net	(12,411)	(8,355)
Proceeds from the sale of property, plant, equipment, and intangibles	3	175
Net cash used in investing activities	(12,408)	(8,180)
Financing activities:		
Cash dividends paid to common shareholders	(6,546)	(6,441)
Stock option and other equity transactions, net	2,226	152
Tax benefit from stock options exercised	659	47
Net cash used in financing activities	(3,661)	(6,242)
Effect of exchange rate changes on cash and cash equivalents	(2,526)	3,694
Increase in cash and cash equivalents	11,099	21,892
Cash and cash equivalents at beginning of period	214,971	154,180
Cash and cash equivalents at end of period	$226,070	$176,072

See notes to consolidated financial statements.

STERIS CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)
For the Three Months Ended June 30, 2010 and 2009
(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, develops, manufactures and markets infection prevention, contamination control, microbial reduction, and surgical and critical care support products and services for healthcare, pharmaceutical, scientific, research, industrial, and governmental Customers throughout the world. As used in this Quarterly 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 business segments in note 11 to our consolidated financial statements titled, "Business Segment Information." Our fiscal year ends on March 31. References in this Quarterly 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:

Interim Financial Statements

We prepared the accompanying unaudited consolidated financial statements of the Company according to accounting principles generally accepted in the United States ("U.S. GAAP") for interim financial information and the instructions to the Quarterly Report on Form 10-Q and Rule 10-01 of Regulation S-X. This means that they do not include all of the information and footnotes required by U.S. GAAP for complete financial statements. Our unaudited interim consolidated financial statements contain all material adjustments (including normal recurring accruals and adjustments) management believes are necessary to fairly state our financial condition, results of operations, and cash flows for the periods presented.

These interim consolidated financial statements should be read together with the consolidated financial statements and related notes included in our Annual Report on Form 10-K for the year ended March 31, 2010, filed with the Securities and Exchange Commission ("SEC") on May 28, 2010. The Consolidated Balance Sheet at March 31, 2010 was derived from the audited consolidated financial statements at that date, but does not include all of the information and footnotes required by U.S. GAAP for complete financial statements.

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

We make certain estimates and assumptions when preparing financial statements according to U.S. GAAP that affect the reported amounts of assets and liabilities at the financial statement dates and the reported amounts of revenues and expenses during the periods presented. These estimates and assumptions involve judgments with respect to many factors that are difficult to predict and are beyond our control. Actual results could be materially different from these estimates. We revise the estimates and assumptions as new information becomes available. This means that operating results for the three-month period ended June 30, 2010 are not necessarily indicative of results that may be expected for future quarters or for the full fiscal year ending March 31, 2011.

STERIS CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)—(Continued)
For the Three Months Ended June 30, 2010 and 2009
(dollars in thousands, except per share amounts)

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 $242,117 at June 30, 2010. The financial instruments that we hold could potentially expose us to a concentration of credit risk. We invest our excess cash in highly rated money market funds and other high-quality short-term investments 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 regarding the fair value of our financial instruments in note 17 titled, “Fair Value Measurements.”

Recently Adopted Accounting Pronouncements

In December 2009, the FASB issued an accounting standard update titled “Improvements to Financial Reporting by Enterprises Involved with Variable Interest Entities.” The guidance requires entities to determine whether variable interests give it a controlling financial interest in a variable interest entity. It also requires an ongoing assessment of the beneficiary to determine if it is the primary beneficiary of the variable interest entity and eliminates the quantitative approach previously required for determining whether a reporting entity is the primary beneficiary. The guidance also requires enhanced disclosures about an entity’s involvement with a variable interest entity. This guidance was effective for us in the first quarter of fiscal 2011. The adoption did not have a material impact on our consolidated results of operations or financial condition.

In January 2010, the FASB issued an accounting standard update titled “Fair Value Measurements and Disclosures (Topic 820), Improving Disclosures About Fair Value Measurements.” This new guidance requires additional disclosures to be provided, which follow as: 1) transfers in and out of Levels 1 and 2 and the reasons for the transfers, 2) additional breakout of asset and liability categories and 3) purchases, sales, issuances and settlements to be reported separately in the Level 3 rollforward. This guidance was effective for us for the first quarter of fiscal 2011 reporting with the exception of item 3 which is effective beginning with first quarter of fiscal 2012 reporting. The adoption did not have a material impact on our consolidated results of operations or financial condition.

Significant Accounting Policies

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

The Accrued SYSTEM 1 Rebate Program (the “Rebate Program”) recognized during the first quarter of fiscal 2011 is based upon the quantity of SYSTEM 1 processors eligible for rebates and the estimated value of rebates to be provided upon their return. Rebates of $102,313 are recognized as contra-revenue consistent with other returns and allowances offered to Customers. The estimated cost of $7,691 to facilitate the disposal of the returned SYSTEM 1 processors has been recognized as cost of revenues. Both components are recorded as current liabilities. No rebate obligations were settled during the three-months ended June 30, 2010. The key assumptions involved in the estimates associated with the Rebate Program include: the number and age of SYSTEM 1 processors eligible for rebates under the Rebate Program, the number of Customers that will elect to participate in the Rebate Program, the proportion of Customers that will choose each rebate option, and the estimated per unit costs of disposal.

The number and age of SYSTEM 1 processors has been estimated based on our historical sales and service records and we have assumed that 100% of these Customers will elect to participate in the Rebate Program. In order to estimate the portion of Customers that will choose each available rebate option, we first assessed recent trends in sales of the proprietary consumable products utilized in the SYSTEM 1 processor. The 19% decline in shipments during the approximately seven month period ended June 30, 2010 indicates that a portion of our Customers have already transitioned away from the SYSTEM 1 technology. The remaining 81%, provides the best available indication of the portion of Customers likely to elect the rebate for the SYSTEM 1E processor. Order and quote data from the fiscal 2011 first quarter provided indications of the proportion of Customers that are expected to choose each of the other rebate options. The per unit costs associated with disposal were estimated based on the service hours involved and quotes from our vendors which are based on current freight and disposal contracts.

2. Restructuring

The following summarizes our restructuring plans announced in prior fiscal years. We recognize restructuring expenses as incurred. In addition, we assess the property, plant and equipment associated with the related facilities for impairment. Additional information regarding our respective restructuring plans is included in our Annual Report on Form 10-K for the year ended March 31, 2010, filed with the SEC on May 28, 2010.

Fiscal 2010 Restructuring Plan.

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.

Since the inception of the Fiscal 2010 Restructuring Plan, we have incurred pre-tax expenses totaling $6,641 related to these actions, of which, $5,689 was recorded as restructuring expenses and $952 was recorded in cost of revenues. We also expect to incur an additional $4,000 by the end of fiscal 2012. 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 impacted 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.

STERIS CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)—(Continued)
For the Three Months Ended June 30, 2010 and 2009
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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.

The following tables summarize our total pre-tax restructuring expenses for the first quarter of fiscal 2011 and fiscal 2010:

Three Months Ended June 30, 2010	Fiscal 2010 Restructuring Plan (1)
Severance, payroll, and other related costs	$ (17)
Asset impairment and accelerated depreciation	356
Other	7
Total restructuring charges	$ 346

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

Three Months Ended June 30, 2009	Fiscal 2009 Restructuring Plan (1)
Severance, payroll, and other related costs	$ (46)
Product rationalization	(233)
Other	13
Total restructuring charges	$ (266)

(1) Includes $(55) in charges recorded in cost of revenues on Consolidated Statements of Operations.

STERIS CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)—(Continued)
For the Three Months Ended June 30, 2010 and 2009
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Liabilities related to restructuring activities are recorded as current liabilities on the accompanying Consolidated Balance Sheets within “Accrued payroll and other related liabilities” and “Accrued expenses and other.” The following table summarizes our liabilities related to these restructuring activities:

	Fiscal 2010 Restructuring Plan			
		Fiscal 2011		
	March 31, 2010	Provision	Payments/ Impairments	June 30, 2010
Severance and termination benefits	$ 1,894	$ (17)	$ (246)	$1,631
Asset impairments	—	356	(356)	—
Lease termination obligations	1,200	—	—	1,200
Other	509	7	(44)	472
Total	$ 3,603	$ 346	$ (646)	$3,303

	Fiscal 2008 Restructuring Plan			
		Fiscal 2011		
	March 31, 2010	Provision	Payments/ Impairments	June 30, 2010
Severance and termination benefits	$ 102	$ —	$ (70)	$ 32
Asset impairments	289	—	—	289
Lease termination obligations	411	—	(76)	335
Total	$ 802	$ —	$ (146)	$ 656

3. Comprehensive (Loss) Income

Comprehensive (loss) income includes net (loss) income as currently reported under U.S. GAAP and other comprehensive income. Other comprehensive (loss) income considers the effects of additional economic events that are not required to be recorded in determining net (loss) income, but rather are reported as a separate component of shareholders’ equity. The following table illustrates the components of our comprehensive (loss) income:

	Three Months Ended June 30,	
	2010	2009
Net (loss) income	$(45,210)	$25,542
Cumulative foreign currency translation adjustment	(12,959)	23,984
Amortization of pension and postretirement benefit plans costs, net of taxes	(276)	(159)
Unrealized gains (losses) on investments	(120)	117
Total comprehensive (loss) income	$(58,565)	$49,484

STERIS CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)—(Continued)
For the Three Months Ended June 30, 2010 and 2009
(dollars in thousands, except per share amounts)

4. Property, Plant and Equipment

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

	June 30, 2010	March 31, 2010
Land and land improvements (1)	$ 26,120	$ 26,234
Buildings and leasehold improvements	191,530	192,722
Machinery and equipment	277,181	276,714
Information systems	103,017	103,056
Radioisotope	178,028	172,489
Construction in progress (1)	30,649	29,614
Total property, plant, and equipment	806,525	800,829
Less: accumulated depreciation and depletion	(461,237)	(453,971)
Property, plant, and equipment, net	$ 345,288	$ 346,858

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

5. Inventories, Net

Inventories, net are stated at the lower of cost or market. We use the last-in, first-out (“LIFO”) and first-in, first-out cost methods. An actual valuation of inventory under the LIFO method is made only at the end of the fiscal year based on the inventory levels and costs at that time. Accordingly, interim LIFO calculations are based on management’s estimates of expected year-end inventory levels and are subject to the final fiscal year-end LIFO inventory valuation. Inventory costs include material, labor, and overhead. Inventories, net consisted of the following:

	June 30, 2010	March 31, 2010
Raw materials	$ 37,737	$ 36,170
Work in process	23,193	20,668
Finished goods	71,025	64,297
Inventories, net	$ 131,955	$ 121,135

6. Debt

Indebtedness was as follows:

	June 30, 2010	March 31, 2010
Private Placement	$ 210,000	$ 210,000
Credit facility	—	—
Total long term debt	$ 210,000	$ 210,000

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

STERIS CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)—(Continued)
For the Three Months Ended June 30, 2010 and 2009
(dollars in thousands, except per share amounts)

7. Additional Consolidated Balance Sheets Information

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

	June 30, 2010	March 31, 2010
Accrued payroll and other related liabilities:		
Compensation and related items	$13,342	$15,314
Accrued vacation/paid time off	6,237	5,734
Accrued bonuses	2,196	23,457
Accrued employee commissions	4,175	10,565
Other postretirement benefit obligations-current portion	3,340	3,340
Other employee benefit plans' obligations-current portion	678	576
Total accrued payroll and other related liabilities	$29,968	$58,986
Accrued expenses and other:		
Deferred revenues	$26,837	$27,908
Self-insured risk retention-current portion	4,111	4,956
Accrued dealer commissions	7,009	6,972
Accrued warranty	6,130	6,070
Other	24,486	26,202
Total accrued expenses and other	$68,573	$72,108
Other liabilities:		
Self-insured risk retention-long-term portion	$ 9,987	$ 9,986
Other postretirement benefit obligations-long-term portion	20,415	21,839
Defined benefit pension plans' obligations-long-term portion	10,069	10,179
Other employee benefit plans' obligations-long-term portion	2,816	2,336
Accrued long-term income taxes	11,178	11,690
Total other liabilities	$54,465	$56,030

8. Income Tax (Benefit) Expense

Income tax (benefit) expense includes United States federal, state and local, and foreign income taxes, and is based on reported pre-tax (loss) income. The effective income tax rates for the three-month periods ended June 30, 2010 and 2009 were 31.3% and 36.1%, respectively. Because the accrual established during the three month period ended June 30, 2010 in connection with the SYSTEM 1 Rebate Program was incurred in the United States at a higher effective tax rate, a higher portion of the projected income before income taxes will be subject to taxes in jurisdictions with lower tax rates.

Income tax expense is provided on an interim basis based upon our estimate of the annual effective income tax rate, adjusted each quarter for discrete items. In determining the estimated annual effective income tax rate, we analyze various factors, including projections of our annual earnings and taxing jurisdictions in which the earnings will be generated, the impact of state and local income taxes, our ability to use tax credits and net operating loss carry forwards, and available tax planning alternatives.

As of March 31, 2010, we had $11,788 in unrecognized tax benefits, of which $2,740 would favorably impact the effective tax rate if recognized. As of June 30, 2010, we had $11,193 in unrecognized tax benefits, of

STERIS CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)—(Continued)
For the Three Months Ended June 30, 2010 and 2009
(dollars in thousands, except per share amounts)

which $2,726 would favorably impact the effective tax rate if recognized. The decrease in unrecognized tax benefits for the three months ended June 30, 2010 is primarily due to a decrease in unrecognized tax benefits relating to prior years. We believe that it is reasonably possible that unrecognized tax benefits could decrease by up to $620 within 12 months of June 30, 2010, primarily as a result of audit settlements. As of June 30, 2010, we have recognized a liability for interest of $1,234 and penalties of $141.

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.

9. Benefit Plans

We provide defined benefit pension plans for certain 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 postretirement 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 coverage, including prescription drug coverage. Additional information regarding our defined benefit pension plans and other postretirement benefits plan is included in our Annual Report on Form 10-K for the year ended March 31, 2010, filed with the SEC on May 28, 2010.

Components of the net periodic benefit cost for our defined benefit pension plans and other postretirement medical benefits plan were as follows:

	Defined Benefit Pension Plans				Other Postretirement Benefits Plan	
	U.S. Qualified		International			
Three Months Ended June 30,	2010	2009	2010	2009	2010	2009
Service cost	$ 47	$ 59	$117	$ 79	$ —	$ —
Interest cost	654	761	75	81	292	487
Expected return on plan assets	(758)	(617)	(82)	(97)	—	—
Recognized losses	267	290	—	—	97	157
Amortization of transition obligation	—	(18)	—	—	—	—
Amortization of prior service cost	—	—	—	—	(816)	(816)
Net periodic benefit cost (income)	$ 210	$ 475	$110	$ 63	$(427)	$(172)

We contribute amounts to the defined benefit pension plans at least sufficient to meet the minimum requirements as stated in applicable employee benefit laws and local tax laws. We record liabilities for the difference between the fair value of the plan assets and the benefit obligation (the projected benefit obligation for pension plans and the accumulated postretirement benefit obligation for other postretirement benefits plans) on our accompanying Consolidated Balance Sheets.

STERIS CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)—(Continued)
For the Three Months Ended June 30, 2010 and 2009
(dollars in thousands, except per share amounts)

10. 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 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 note 10 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 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 rebate toward the future purchase of new STERIS capital equipment or consumable products. In addition, we will provide credits for SYSTEM 1 consumables in unbroken packaging and within shelf life and for the unused portion of SYSTEM 1 service contracts. As a result of the Rebate Program, we recorded a pre-tax liability of $110,004 related to the SYSTEM 1 Rebate Program. Of the $110,004, $102,313 is attributable to the Customer Rebate portion of the Program and was recorded as a reduction of revenues, and $7,691 is attributable to the disposal liability of the SYSTEM 1 units to be returned and was recorded as an increase in cost of revenues. This also resulted in a $110,004 reduction in operating income.

Recording the obligations associated with the Rebate Program requires the use of estimates and assumptions. The use of estimates and assumptions involves judgments with respect to factors that may impact the ultimate outcome and may be beyond management's control. The amount recognized during the first quarter of fiscal 2011 is based upon the quantity of SYSTEM 1 processors eligible for rebates and the estimated value of rebates to be provided upon their return. Rebates of $102,313 are recognized as contra-revenue consistent with other returns and allowances offered to Customers. The estimated cost of $7,691 to facilitate the return and disposal of the processors has been recognized as cost of revenues. Both components are recorded as current liabilities. No rebate obligations were settled during the three months ended June 30, 2010. The key assumptions involved in the estimates associated with the Rebate Program include: the number and age of SYSTEM 1 processors eligible for rebates under the Rebate Program, the number of Customers that will elect to participate in the Rebate Program, the proportion of Customers that will choose each rebate option, and the estimated per unit costs of disposal.

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The number and age of SYSTEM 1 processors has been estimated based on our historical sales and service records and we have assumed that 100% of eligible Customers will elect to participate in the Rebate Program. In order to estimate the portion of Customers that will choose each available rebate option, we first assessed recent trends in sales of the proprietary consumable products utilized in the SYSTEM 1 processor. The 19% decline in shipments during the approximately seven month period ended June 30, 2010 indicates that a portion of our Customers have already transitioned away from the SYSTEM 1 technology. The remaining 81%, provides the best available indication of the portion of Customers likely to elect the rebate for the SYSTEM 1E processor. Order and quote data from the fiscal 2011 first quarter provided indications of the proportion of Customers that are expected to choose each of the other cash and Rebate options. The per unit costs associated with disposal were estimated based on the service hours involved and quotes from our vendors which are based on current freight and disposal contracts.

Our assumptions regarding the response of our Customers to the Rebate Program could be wrong and actual results could be different from these estimates. For example, if all Customers elected the maximum incentive rebate associated with the SYSTEM 1E processor rebate, the total estimated rebate liability of $102,313 would increase to approximately $111,000. Conversely, if all Customers elected the cash rebate option, the total estimated rebate liability would decrease to approximately $52,000.

Also, in April 2010 we voluntarily submitted information regarding modifications to the Reliance™ EPS Endoscope Processing System (the "EPS System") to the FDA. These incremental modifications to the EPS System were considered minor by us. FDA has recently advised us that it believes a new pre-market notification (510(k)) for those modifications should be submitted. We have submitted the pre-market notification to the FDA. We have suspended shipments of EPS Systems in the U.S. until we receive FDA clearance of the submission. FDA has agreed that we may continue servicing EPS Systems in the field and provide consumables necessary for the continued use of the EPS Systems. We do not believe the impact of these events will be material with respect to our financial results.

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, the EPS System, or otherwise with respect to regulatory or compliance matters, as described in this note 10 or in various portions of Item 1A. of Part I contained in our Annual Report on Form 10-K for the year ended March 31, 2010, filed with the SEC on May 28, 2010. 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 other civil, criminal, regulatory or other proceedings involving our SYSTEM 1, SYSTEM 1E, EPS System, or other products or services 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.

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For additional information regarding these matters, see the following portions of our 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.

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 8 to our consolidated financial statements titled, “Income Tax (Benefit) Expense”, and in our Annual Report on Form 10-K for the year ended March 31, 2010 filed with the SEC on May 28, 2010.

11. Business Segment Information

We operate and report in three 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 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, and productivity of their surgical, sterile processing, gastrointestinal, and emergency environments.

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.

Our Isomedix segment operates through a network of 19 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 expense 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.

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The accounting policies for reportable segments are the same as those for the consolidated Company. For the three month period ended June 30, 2010, revenues from a single Customer did not represent ten percent or more of any reportable segment's revenues. Additional information regarding our segments is included in our Annual Report on Form 10-K for the year ended March 31, 2010, filed with the SEC on May 28, 2010.

Financial information for each of our segments is presented in the following tables:

	Three Months Ended June 30,	
	2010	2009
Revenues:		
Healthcare (1)	$103,766	$200,604
Life Sciences	46,614	46,116
Isomedix	37,676	35,407
Total reportable segments	188,056	282,127
Corporate and other	924	1,416
Total revenues	$188,980	$283,543
Operating income (loss):		
Healthcare (2)	$ (77,912)	$ 32,102
Life Sciences	6,295	4,779
Isomedix	10,584	8,339
Total reportable segments	(61,033)	45,220
Corporate and other	(1,968)	(2,358)
Total operating (loss) income	$ (63,001)	$ 42,862

(1) Includes a reduction of $102,313 resulting from the SYSTEM 1 Rebate Program during the three months ended June 30, 2010.

(2) Includes a reduction of $110,004 resulting from the SYSTEM 1 Rebate Program during the three months ended June 30, 2010.

12. 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:

	Three Months Ended June 30,	
	2010	2009
Denominator (shares in thousands):		
Weighted average common shares outstanding—basic	59,397	58,517
Dilutive effect of common share equivalents	—	325
Weighted average common shares outstanding and common share equivalents—diluted	59,397	58,842

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The denominator in the computation of earnings per share for the three months ended June 30, 2010 does not include the potentially dilutive effect of common share equivalents because the numerator is a net loss. Inclusion would result in an antidilutive effect.

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:

	Three Months Ended June 30,	
	2010	2009
	(shares in thousands)	
Number of common share options	380	2,163

13. Repurchases of Common Shares

We did not repurchase any of our common shares during the first three months of fiscal 2011. At June 30, 2010, $203,864 of STERIS common shares remained authorized for repurchase pursuant to a March 2008 Board Authorization. Also, 10,461,229 common shares were held in treasury at June 30, 2010.

14. 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 grant date. Stock options granted generally expire 10 years after the grant date, or earlier if the 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 a three or four year period. As of June 30, 2010, 3,529,396 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.

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The following weighted-average assumptions were used for share-based compensation granted during the first quarter of fiscal 2011 and fiscal 2010:

	Fiscal 2011	Fiscal 2010
Risk-free interest rate	2.73%	1.82%
Expected life of options	5.52 years	5.43 years
Expected dividend yield of stock	1.54%	1.49%
Expected volatility of stock	30.19%	27.94%

The risk-free interest rate is based upon the U.S. Treasury yield curve. The expected life of options is reflective of historical experience, vesting schedules and contractual terms. The expected dividend yield of stock represents our best estimate of the expected future dividend yield. The expected 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 estimated forfeiture rates of 2.27 percent and 2.39 percent during fiscal 2011 and 2010, respectively. 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:

	Number of Options	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term	Aggregate Intrinsic Value
Outstanding at March 31, 2010	3,599,221	$ 24.96		
Granted	243,500	31.87		
Exercised	(117,899)	17.82		
Forfeited	(4,525)	27.13		
Canceled	(2,953)	33.93		
Outstanding at June 30, 2010	3,717,344	$ 25.63	6.05	$ 20,594
Exercisable at June 30, 2010	2,515,060	$ 24.83	4.94	$ 15,809

The aggregate intrinsic value in the table above represents the total pre-tax difference between the $31.08 closing price of our common shares on June 30, 2010 over the exercise price of the stock option, multiplied by the number of options outstanding or outstanding and exercisable, as applicable. 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 first three months of fiscal 2011 and fiscal 2010 was $1,695 and $131, respectively. Net cash proceeds from the exercise of stock options were $2,226 and $152 for the first three months of fiscal 2011 and fiscal 2010, respectively. An income tax benefit of $659 and $47 was realized from stock option exercises during the first three months of fiscal 2011 and fiscal 2010, respectively.

The weighted average grant date fair value of stock option grants was $8.82 and $5.52 for the first three months of fiscal 2011 and fiscal 2010, respectively.

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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 the outstanding SARS as of June 30, 2010 and 2009 was $149 and $263, respectively. The fair value of each outstanding SAR is revalued at each reporting date and the related liability and expense are adjusted appropriately.

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, 2010	222,590	23,000	$ 26.80
Granted	233,104	—	31.91
Vested	—	—	—
Canceled	—	—	—
Non-vested at June 30, 2010	455,694	23,000	$ 29.29

Restricted shares and restricted share units granted are valued based on the closing stock price at the grant date and are estimated to cliff vest over a three or four year period based upon the terms of the grants. The value of restricted shares and restricted share units that vested during the first three months of fiscal 2010 was $483.

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 June 30, 2010 and 2009 was $827 and $155, 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 June 30, 2010, there was a total of $13,101 in unrecognized compensation cost related to nonvested share-based compensation granted under our share-based compensation plans. We expect to recognize the cost over a weighted average period of 2.26 years.

15. Financial and Other Guarantees

We generally offer a limited parts and labor warranty on capital equipment. The specific terms and conditions of those warranties vary depending on the product sold and the countries where we conduct business. We record a liability for the estimated cost of product warranties at the time product revenues are 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 amounts as necessary.

Changes in our warranty liability during the first three months of fiscal 2011 were as follows:

Balance, March 31, 2010	$ 6,070
Warranties issued during the period	2,395
Settlements made during the period	(2,335)
Balance, June 30, 2010	$ 6,130

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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 service contract revenue on the accompanying Consolidated Balance Sheets within "Accrued expenses and other." The liability recorded for such deferred service revenue was $17,512 and $17,709 as of June 30, 2010 and March 31, 2010, respectively. Such deferred revenue is then amortized on a straight-line basis over the contract term and recognized as service revenue on our accompanying Consolidated Statements of Income. The activity related to the liability for deferred service contract revenues is excluded from the table presented above.

16. 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.

	Asset Derivatives		Liability Derivatives	
Balance Sheet Location	Fair Value at June 30, 2010	Fair Value at March 31, 2010	Fair Value at June 30, 2010	Fair Value at March 31, 2010
Prepaid & Other	$ 174	$ 992	$ —	$ —
Accrued expenses and other	$ —	$ —	$ 1,322	$ —

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

		Amount of gain (loss) recognized in income	
		Three months ended June 30,	
	Location of gain (loss) recognized in income	2010	2009
Foreign currency forward contracts	Selling, general and administrative	$ (834)	$ 256
Commodity swap contracts	Cost of revenues	$ (781)	$ —

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17. 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 June 30, 2010:

		Fair Value Measurements at June 30, 2010 Using		
	June 30, 2010	Quoted Prices in Active Markets for Identical Assets Level 1	Significant Other Observable Inputs Level 2	Significant Unobservable Inputs Level 3
Assets:				
Cash and cash equivalents	$226,070	$ 226,070	$ —	$ —
Forward and swap contracts (1)	174	—	174	—
Investments (2)	1,961	1,961	—	—
Liabilities:				
Forward and swap contracts (1)	$ 1,322	$ —	$ 1,322	$ —
Deferred compensation plans (2)	1,966	1,966	—	—

(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)).

18. Subsequent Events

We have evaluated subsequent events through the date the financial statements were filed with the SEC, noting no events that require adjustment of, or disclosure in, the consolidated financial statements for the period ended June 30, 2010. These financial statements should be read in conjunction with the consolidated financial statements and related notes included in the 2010 Annual Report on Form 10-K.

Report of Independent Registered Public Accounting Firm

Board of Directors and Shareholders
STERIS Corporation

We have reviewed the consolidated balance sheet of STERIS Corporation and subsidiaries as of June 30, 2010, and the related consolidated statements of operations and cash flows for the three month periods ended June 30, 2010 and 2009. These financial statements are the responsibility of the Company's management.

We conducted our review in accordance with the standards of the Public Company Accounting Oversight Board (United States). A review of interim financial information consists principally of applying analytical procedures and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with the standards of the Public Company Accounting Oversight Board (United States), the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

Based upon our review, we are not aware of any material modifications that should be made to the consolidated financial statements referred to above for them to be in conformity with U.S. generally accepted accounting principles.

We have previously audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheet of STERIS Corporation and subsidiaries as of March 31, 2010 and the related consolidated statements of income, shareholders' equity and cash flows for the year then ended, not presented herein, and in our report dated May 28, 2010, we expressed an unqualified opinion on those consolidated financial statements. In our opinion, the information set forth in the accompanying consolidated balance sheet as of March 31, 2010, is fairly stated, in all material respects, in relation to the consolidated balance sheet from which it has been derived.

/s/ Ernst & Young LLP

Cleveland, Ohio
August 9, 2010

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

Introduction

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

- what factors affect our business;
- what our earnings and costs were in each period presented;
- why those earnings and costs were different from prior periods;
- where our earnings came from;
- how this affects our overall financial condition;
- what our expenditures for capital projects were; and
- where cash will come from to fund future growth outside of core operations, pay cash dividends and fund future working capital needs.

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

Financial Measures

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

- Backlog – We define backlog as the amount of unfilled capital equipment purchase orders at a point in time. We use this figure as a measure to assist in the projection of short-term financial results and inventory requirements.
- Debt-to-total capital – We define debt-to-total capital as total debt divided by the sum of total debt and shareholders' equity. We use this figure as a financial liquidity measure to gauge our ability to borrow, 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 the rules of the SEC. 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 less purchases of property, plant, equipment, and intangibles plus proceeds from the sale of property, plant, equipment, and intangibles, which is 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 calculations of our free cash flow for the three months ended June 30, 2010 and 2009:

	Three Months Ended June 30,	
(dollars in thousands)	2010	2009
Net cash flows provided by operating activities	$ 29,694	$32,620
Purchases of property, plant, equipment and intangibles, net	(12,411)	(8,355)
Proceeds from the sale of property, plant, equipment and intangibles	3	175
Free cash flow	$ 17,286	$24,440

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 comparative analysis between the periods presented. In the discussion that follows, we will refer to revenues, gross profit and operating income excluding the impact of the SYSTEM 1 Rebate Program ("Rebate Program") to provide meaningful comparisons of our results of operations on a total company basis and for the Healthcare segment.

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 alternatives 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 Operations for each period presented. When we discuss revenues, we may, at times, refer to revenues summarized differently than the Regulation S-X requirements. The terminology, definitions, and applications of terms that we use to describe revenues may be different from terms used by other companies. We use the following terms to describe revenues:

- Revenues – Our revenues are presented net of sales returns and allowances.
- Product Revenues – We define product revenues as revenues generated from sales of capital equipment, which includes steam 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 Executive Summary

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

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

During the first quarter of fiscal 2011, we recorded a pre-tax liability related to the SYSTEM 1 Rebate Program. The Rebate Program reduced Healthcare revenues by $102.3 million, increased Healthcare cost of revenues by $7.7 million, decreased gross margin and operating margin by $110.0 million, decreased net income by $73.0 million and reduced earnings per diluted share by $1.22. The accrual of these estimated rebates and costs increased current liabilities by $110.0 million and did not impact free cash flow during the period.

Revenues for the first quarter of fiscal 2011 were $189.0 million and gross margin percentage for the period was 9.6%. Excluding the impact of the Rebate Program, fiscal 2011 first quarter revenues were $291.3 million compared to $283.5 million in the first quarter of fiscal 2010, representing an increase of $7.8 million, or 2.7%, driven by increases in all business segments. Excluding the impact of the Rebate Program, our gross margin percentage for the first quarter of fiscal 2011 was 44%, the same as in the first quarter of the prior fiscal year, reflecting the impact of price increases and efficiencies, offset by lower SYSTEM 1 consumable volume and unfavorable changes in foreign exchange.

Free cash flow was $17.3 million in the first quarter of fiscal 2011 compared to $24.4 million in the prior year first quarter due to changes in operating assets and liabilities and higher capital spending levels. Our debt-to-total capital ratio was 23.2% at June 30, 2010 and 21.8% at March 31, 2010. During the first quarter of fiscal 2011, we declared and paid quarterly cash dividends of $0.11 per common share.

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

Matters Affecting Comparability

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

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

To provide meaningful comparative analysis of our actual results for the period presented, we have excluded the impact of the Rebate Program when discussing revenues, gross profit, income tax expense and business segment results of operations. A reconciliation of amounts reported to the amounts excluding the impact of the Rebate Program which are used in the discussion of our results of operations is provided below.

	Three Months Ended June 30, 2010		
(dollars in thousands)	As reported	Impact of Rebate Program	Results of Operations, excluding Rebate Program
Revenues			
Product	$ 77,272	$ (102,313)	$ 179,585
Service	111,708	—	111,708
Total revenues	188,980	(102,313)	291,293
Cost of revenues			
Product	106,576	7,691	98,885
Service	64,338	—	64,338
Total cost of revenues	170,914	7,691	163,223
Gross profit	18,066	(110,004)	128,070
Operating expenses	81,067	—	81,067
(Loss) income from operations	(63,001)	(110,004)	47,003
Non-operating expenses, net	2,845	—	2,845
(Loss) income before income taxes	(65,846)	(110,004)	44,158
Income tax (benefit) expense	(20,636)	(36,955)	16,319
Net (loss) income	$ (45,210)	$ (73,049)	$ 27,839
Net (loss) income per common share:			
Basic	$ (0.76)	$ (1.23)	$ 0.47
Diluted	$ (0.76)	$ (1.22)	$ 0.46
Weighted average number of common shares outstanding used in EPS computation:			
Basic	59,397		59,397
Diluted	59,397		60,258
Effective income tax rate	31.3%	33.6%	37.0%

(dollars in thousands)	As reported	Impact of Rebate Program	Results of Operations, excluding Rebate Program
Healthcare segment:			
Revenues	$ 103,766	$ (102,313)	$ 206,079
Operating (loss) income	$ (77,912)	$ (110,004)	$ 32,092

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

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

International Operations. Since we conduct operations outside of the United States using various foreign currencies, our operating results are impacted by foreign currency movements relative to the U.S. dollar. During the first quarter of fiscal 2011, our revenues were favorably impacted by $0.9 million, or 0.3%, and income before taxes was favorably impacted by $1.9 million, or 4.3%, 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 for the first quarter of fiscal 2011, excluding the impact of the Rebate Program, compared with the first quarter of fiscal 2010. The impact of the Rebate Program is discussed previously in "Matters Affecting Comparability." We begin with a general overview of our operating results and then separately discuss earnings for our operating segments.

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

	Three Months Ended June 30,				Percent of Total Revenues	
(dollars in thousands)	2010	2009	Change	Percent Change	2010	2009
Capital Revenues	$103,252	$ 92,703	$10,549	11.4%	35.4%	32.7%
Consumable Revenues	76,333	80,797	(4,464)	(5.5)%	26.2%	28.5%
Product Revenues	179,585	173,500	6,085	3.5%	61.7%	61.2%
Service Revenues	111,708	110,043	1,665	1.5%	38.3%	38.8%
Total Revenues	$291,293	$283,543	$ 7,750	2.7%	100.0%	100.0%
Service Revenues	$111,708	$110,043	$ 1,665	1.5%	38.3%	38.8%
Consumable Revenues	76,333	80,797	(4,464)	(5.5)%	26.2%	28.5%
Recurring Revenues	188,041	190,840	(2,799)	(1.5)%	64.6%	67.3%
Capital Revenues	103,252	92,703	10,549	11.4%	35.4%	32.7%
Total Revenues	$291,293	$283,543	$ 7,750	2.7%	100.0%	100.0%
United States	$226,088	$223,806	$ 2,282	1.0%	77.6%	78.9%
International	65,205	59,737	5,468	9.2%	22.4%	21.1%
Total Revenues	$291,293	$283,543	$ 7,750	2.7%	100.0%	100.0%

Revenues increased $7.8 million, or 2.7%, to $291.3 million for the quarter ended June 30, 2010, as compared to $283.5 million for the same prior year quarter. Capital revenues increased $10.5 million in the first quarter of fiscal 2011, primarily driven by higher demand in North America from Healthcare Customers. Service revenues increased $1.7 million in the first quarter of fiscal 2011 primarily due to an increase in Isomedix, although these increases were partially offset by a decrease within the Healthcare business segment. Consumable revenues decreased $4.5 million for the quarter ended June 30, 2010, primarily driven by decreases within the Healthcare segment attributable to reductions in SYSTEM 1 consumables and lower H1N1 product sales as compared to the prior year quarter.

International revenues increased $5.5 million, or 9.2%, to $65.2 million for the quarter ended June 30, 2010, as compared to $59.7 million for the same prior year quarter. International revenues were favorably affected by increases in capital equipment revenues, which increased 14.4% primarily due to an increase in Healthcare revenues within Latin America. International recurring revenues increased during the first quarter of fiscal 2011 by 4.7%, reflecting an increase of 9.4% in service revenues.

United States revenues increased $2.3 million, or 1.0%, to $226.1 million for the quarter ended June 30, 2010, as compared to $223.8 million for the same prior year quarter. The increase in United States revenues was primarily driven by a 16.1% increase in Healthcare capital equipment revenues partially offset by a 23.9% decrease in Life Sciences capital equipment revenues. United States recurring revenues decreased 2.7% for the first quarter of fiscal 2011, and reflect a decrease of 7.1% in consumable revenues. The decline is primarily attributable to the decrease in SYSTEM 1 consumables.

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 three months ended June 30, 2010 to the three months ended June 30, 2009:

(dollars in thousands)	Three Months Ended June 30, 2010	Three Months Ended June 30, 2009	Change	Percent Change
Gross Profit:				
Product	$ 80,700	$ 79,223	$1,477	1.9%
Service	47,370	45,613	1,757	3.9%
Total Gross Profit	$128,070	$124,836	$3,234	2.6%
Gross Profit Percentage:				
Product	44.9%	45.7%		
Service	42.4%	41.5%		
Total Gross Profit Percentage	44.0%	44.0%		

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. Gross margin in the quarter was flat compared with the prior year at 44.0%. Reductions in SYSTEM 1 consumables volume along with a negative foreign currency impact were offset by productivity improvements and favorable product mix within the Life Sciences and Isomedix segments.

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

(dollars in thousands)	June 30, 2010	June 30, 2009	Change	Percent Change
Operating Expenses:				
Selling, General, and Administrative	$72,117	$74,605	$(2,488)	(3.3)%
Research and Development	8,609	7,580	1,029	13.6%
Restructuring Expenses	341	(211)	552	NM
Total Operating Expenses	$81,067	$81,974	$ (907)	(1.1)%

NM - Not meaningful.

Significant components of total selling, general, and administrative expenses (“SG&A”) are compensation and benefit costs, fees for professional services, travel and entertainment, facilities costs, and other general and administrative expenses. As a percentage of total revenue, SG&A decreased 150 basis points to 24.8% for the first quarter of fiscal 2011 as compared to 26.3% in the first quarter of fiscal 2010. The decrease in SG&A expense as a percentage of total revenue in the first quarter of fiscal 2011 reflects the benefit of cost reduction actions previously implemented as well as improved operating efficiencies.

As a percentage of total revenues, research and development expenses increased 30 basis points to 3.0% for the first quarter of fiscal 2011 as compared to 2.7% in the first quarter of fiscal 2010. Research and development expenses are influenced by the number and timing of in-process projects and labor hours and other costs associated with these projects. Our research and development initiatives continue to emphasize new product development, product improvements, and the development of new technological platform innovations. During the first quarter of fiscal 2011, our investments in research and development continued to be focused on, but were not limited to, enhancing capabilities of sterile processing combination technologies, surgical tables and accessories, and the areas of emerging infectious agents such as Prions and Nanobacteria.

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

(dollars in thousands) **Three Months Ended June 30, 2010**	**Fiscal 2010 Restructuring Plan (1)**
Severance, payroll, and other related costs	$ (17)
Asset impairment and accelerated depreciation	356
Other	7
Total restructuring charges	$ 346

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

(dollars in thousands) **Three Months Ended June 30, 2009**	**Fiscal 2009 Restructuring Plan (1)**
Severance, payroll, and other related costs	$ (46)
Product rationalization	(233)
Other	13
Total restructuring charges	$ (266)

(1) Includes $(55) in charges recorded in cost of revenues on Consolidated Statements of Operations.

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

	Fiscal 2010 Restructuring Plan			
		Fiscal 2011		
(dollars in thousands)	**March 31, 2010**	**Provision**	**Payments/ Impairments**	**June 30, 2010**
Severance and termination benefits	$ 1,894	$ (17)	$ (246)	$1,631
Asset impairments	—	356	(356)	—
Lease termination obligations	1,200	—	—	1,200
Other	509	7	(44)	472
Total	$ 3,603	$ 346	$ (646)	$3,303

(dollars in thousands)	March 31, 2010	Fiscal 2008 Restructuring Plan Fiscal 2011 Provision	Payments/ Impairments	June 30, 2010
Severance and termination benefits	$ 102	$ —	$ (70)	$ 32
Asset impairments	289	—	—	289
Lease termination obligations	411	—	(76)	335
Total	$ 802	$ —	$ (146)	$ 656

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

(dollars in thousands)	Three Months Ended June 30, 2010	2009	Change
Non-Operating Expenses, Net:			
Interest Expense	$ 3,007	$ 3,083	$ (76)
Interest and Miscellaneous Income	(162)	(218)	56
Non-Operating Expenses, Net	$ 2,845	$ 2,865	$ (20)

Interest expense decreased $0.1 million during the first three months of fiscal 2011, as compared to the same prior year period as a result of higher capitalized interest. Interest and miscellaneous income decreased $0.1 million during the first three months of fiscal 2011 compared with the same prior year period.

Income Tax Expense. The following table compares our income tax expense and effective income tax rates for operations, excluding the impact of the Rebate Program, for the three months ended June 30, 2010 to the three months ended June 30, 2009:

(dollars in thousands)	Three Months Ended June 30, 2010	2009	Change	Percent Change
Income Tax Expense	$16,319	$14,455	$1,864	12.9%
Effective Income Tax Rate	37.0%	36.1%		

Income tax expense includes United States federal, state and local, and foreign income taxes, and is based on reported pre-tax income. The effective income tax rates for continuing operations for the three-month periods ended June 30, 2010 and 2009 were 37.0% and 36.1%, respectively. We benefited from the settlement of certain tax years under examination in the United States during the three-month period ended June 30, 2009 and favorable changes in our valuation allowance.

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

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

(dollars in thousands)	Three Months Ended June 30, 2010	2009	Change	Percent Change
Revenues:				
Healthcare	$206,079	$200,604	$5,475	2.7%
Life Sciences	46,614	46,116	498	1.1%
Isomedix	37,676	35,407	2,269	6.4%
Total reportable segments	290,369	282,127	8,242	2.9%
Corporate and other	924	1,416	(492)	(34.7)%
Total Revenues	$291,293	$283,543	$7,750	2.7%

Healthcare segment revenues were 70.7% of total revenues for the first quarter of fiscal 2011 and fiscal 2010. Healthcare revenues increased $5.5 million, or 2.7%, to $206.1 million for the quarter ended June 30, 2010, as compared to $200.6 million for the same prior year quarter. Capital equipment revenues grew 16.3% in part because of higher demand for our products in North America and Latin America. This increase was partially offset by declines in revenues from consumables and service of 9.4% and 1.4%, respectively. Consumable revenues decreased in all geographies, although the primary driver was lower demand in the United States for SYSTEM 1 consumables and lower H1N1 product related sales. At June 30, 2010, the Healthcare segment's backlog amounted to $134.2 million, increasing $6.4 million, or 5.0%, compared to the backlog of $127.8 million at March 31, 2010 and increasing $1.8 million, or 1.4%, compared to the backlog of $132.4 million at June 30, 2009. The increase is driven by demand for new products.

Life Sciences segment revenues were 16.0% of total revenues for the first quarter of fiscal 2011 as compared to 16.3% for the same prior year quarter. Life Sciences revenues increased $0.5 million, or 1.1%, to $46.6 million for the quarter ended June 30, 2010, as compared to $46.1 million for the same prior year quarter. The increase in Life Sciences revenues was driven by increases of 12.7% and 4.1% in consumables and service revenues, respectively. The decline in capital equipment revenues occurred primarily in North America, which continues to be impacted by consolidations within the industry limiting the order levels from our pharmaceutical Customers. At June 30, 2010, the Life Sciences segment's backlog amounted to $37.9 million, decreasing $3.9 million, or 9.3% compared to the backlog of $41.8 million at March 31, 2010 and decreasing $8.3 million, or 18.0%, compared to the backlog of $46.3 million at June 30, 2009.

Isomedix segment revenues were 12.9% of total revenues for the first quarter of fiscal 2011 as compared to 12.5% for the same prior year quarter. The segment's revenues increased $2.3 million, or 6.4%, to $37.7 million for the quarter ended June 30, 2010, as compared to $35.4 million for the same prior year quarter. Revenues were favorably impacted by increased demand from our medical device Customers.

The following table compares our business segment operating results, excluding the impact of the Rebate Program, for the three months ended June 30, 2010 to the three months ended June 30, 2009:

(dollars in thousands)	Three Months Ended June 30, 2010	Three Months Ended June 30, 2009	Change	Percent Change
Operating Income (Loss):				
Healthcare	$32,092	$32,102	$ (10)	(0.0)%
Life Sciences	6,295	4,779	1,516	31.7%
Isomedix	10,584	8,339	2,245	26.9%
Total reportable segments	48,971	45,220	3,751	8.3%
Corporate and other	(1,968)	(2,358)	390	16.5%
Total Operating Income	$47,003	$42,862	$4,141	9.7%

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

The Healthcare segment's operating income was $32.1 for the first quarter of fiscal 2011 and fiscal 2010. The segment's operating margins were 15.6% and 16.0% for the quarters ended June 30, 2010 and 2009, respectively. Operating income was flat compared with the prior year primarily due to reductions in SYSTEM 1 consumables volume.

The Life Sciences segment's operating income increased to $6.3 million for the quarter ended June 30, 2010 from $4.8 million for the quarter ended June 30, 2009. The segment's operating margins were 13.5% and 10.4% for the quarters ended June 30, 2010 and 2009, respectively. The improvement in operating performance was primarily driven by product mix and efficiency initiatives.

The Isomedix segment's operating income increased $2.2 million, or 26.9%, to $10.6 million for the first quarter of fiscal 2011 as compared to $8.3 million for the same prior year period. The segment's operating margins were 28.1% and 23.6% for the quarters ended June 30, 2010 and 2009, respectively, due to increased revenues.

Liquidity and Capital Resources

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

Operating activities:		
Net (loss) income	$ (45,210)	$25,542
Non-cash items	(28,463)	11,568
Change in Accrued SYSTEM 1 Rebate Program	110,004	—
Changes in operating assets and liabilities	(6,637)	(4,490)
Net cash provided by operating activities	$ 29,694	$32,620
Investing activities:		
Purchases of property, plant, equipment, and intangibles, net	$ (12,411)	$ (8,355)
Proceeds from the sale of property, plant, equipment, and intangibles	3	175
Net cash used in investing activities	$ (12,408)	$ (8,180)
Financing activities:		
Cash dividends paid to common shareholders	$ (6,546)	$ (6,441)
Stock option and other equity transactions, net	2,226	152
Tax benefit from stock options exercised	659	47
Net cash used in financing activities	$ (3,661)	$ (6,242)
Debt-to-total capital ratio	23.2%	21.6%
Free cash flow	$ 17,286	$24,440

Net Cash Provided by Operating Activities. The net cash provided by our operating activities was $29.7 million for the first three months of fiscal 2011 compared to $32.6 million for the first three months of fiscal 2010. The following discussion summarizes the significant changes in our operating cash flows:

- Non-cash items – Our non-cash items include depreciation, depletion and amortization, share-based compensation expense, changes in deferred income taxes, and other items. Changes in our non-cash items used cash of $28.5 million for the first three months of fiscal 2011 and provided cash of $11.6 million for the first three months of fiscal 2010. Significant changes in these items for the first quarter of fiscal 2011 as compared to the same prior year period are summarized below:
  - Depreciation, depletion, and amortization – Depreciation, depletion, and amortization is a significant component of non-cash items. This expense totaled $13.0 million and $13.9 million for the first three months of fiscal 2011 and fiscal 2010, respectively.
  - Deferred income taxes – Our deferred income tax benefit was $44.5 million for the first three months of fiscal 2011, compared with a deferred income tax benefit of $4.4 million for the first three months of fiscal 2010. The increase is attributable to the recognition of a deferred tax asset in connection with the recording of the SYSTEM 1 Rebate Program accrual.
  - Share-based compensation expense – We recorded share-based compensation expense of $3.9 million and $2.0 million for the first three months of fiscal 2011 and fiscal 2010, respectively.
- Changes in operating assets and liabilities – Changes to our operating assets and liabilities, including the change in Accrued System 1 Rebate Program, provided cash of $103.4 million and used cash of $4.5 million during the first quarters of fiscal 2011 and fiscal 2010, respectively.
  - Accounts receivable, net – Changes in our net accounts receivable balances provided cash of $25.8 million and $38.3 million during the first three months of fiscal 2011 and fiscal 2010, respectively. Our accounts receivable balances may change from period to period due to the timing of revenues and Customer payments.

- Inventories, net – Increases in our net inventory balances drove uses of cash of $14.2 million and $1.9 million during the first three months of fiscal 2011 and fiscal 2010, respectively. The increase resulted from a higher level of inventory due to higher production volume levels and new product inventory.
- Other current assets – Our other current assets primarily consist of prepaid expenses for insurance, taxes, and other general corporate items. Changes in other current asset balances provided cash of $3.0 million and $5.5 million during the first three months of fiscal 2011 and 2010, respectively.
- Accounts payable – Decreases in our accounts payable balances drove uses of cash of $1.1 million and $18.5 million during the first three months of fiscal 2011 and fiscal 2010, respectively. Cash flows related to accounts payable may change from period to period due to varying payment due dates and other terms of our accounts payable obligations.
- Accrued SYSTEM 1 Rebate Program – The increase results from the establishment of the accrual of $110.0 million for liabilities resulting from the SYSTEM 1 Rebate Program.
- Accruals and other, net – Changes in our net accruals and other liabilities balances used cash of $20.1 million and $27.8 million during the first three months of fiscal 2011 and fiscal 2010, respectively. Cash flows related to our accruals and other liabilities balances may change from period to period primarily due to the timing of accruals and payments under our incentive compensation programs. Accruals under our various incentive compensation programs rise during the course of the fiscal year and decline significantly in the first fiscal quarter as payments are made under these programs. Changes in accruals for deferred revenues also contribute to the increase or decrease in these balances.

Net Cash Used In Investing Activities – The net cash we used in investing activities totaled $12.4 million for the first three months of fiscal 2011 compared with $8.2 million for the first three months of fiscal 2010. The following discussion summarizes the significant changes in our investing cash flows for the first three months of fiscal 2011 and fiscal 2010:

- Purchases of property, plant, equipment, and intangibles, net – Capital expenditures increased $4.0 million to $12.4 million during the first three months of fiscal 2011 as compared to $8.4 million during the same prior year period. Radioisotope purchases were higher during the first three months of fiscal 2011 in comparison to fiscal 2010.

Net Cash Used In Financing Activities – The net cash used in financing activities amounted to $3.7 million for the first three months of fiscal 2011 compared with net cash used in financing activities of $6.2 million for the first three months of fiscal 2010. The following discussion summarizes the significant changes in our financing cash flows for the first three months of fiscal 2011 and fiscal 2010:

- Repurchases of common shares – The Company's Board of Directors has provided authorization to repurchase the Company's common shares. During the first three months of fiscal 2011 and fiscal 2010, we did not repurchase any common shares.
- Cash dividends paid to common shareholders – During the first three months of fiscal 2011, we paid total cash dividends of $6.5 million, or $0.11 per outstanding common share. During the first three months of fiscal 2010, we paid total cash dividends of $6.4 million, or $0.11 per outstanding common share.
- Stock option and other equity transactions, net – We receive cash for issuing common shares under our various employee stock compensation programs. During the first three months of fiscal 2011 and fiscal 2010, we received cash proceeds totaling $2.2 million and $0.2 million, respectively, under these programs.
- Tax benefit from stock options exercised – During the first three months of fiscal 2011, our income taxes were reduced by $0.7 million, respectively, as a result of deductions allowed for stock options exercised. The reduction in the fiscal 2010 comparable period was less than $0.1 million.

Cash Flow Measures. Free cash flow was $17.3 million in the first quarter of fiscal 2011 compared to $24.4 million in the prior year first quarter due to changes in operating assets and liabilities and higher capital spending levels. Our debt-to-total capital ratio was 23.2% at June 30, 2010 and 21.8% at March 31, 2010.

Sources of Credit and Contractual and Commercial Commitments. Information related to our sources of credit and contractual and commercial commitments is included in our Annual Report on Form 10-K for the year ended March 31, 2010, filed with the SEC on May 28, 2010. Our commercial commitments were approximately $39.4 million at June 30, 2010 reflecting a net increase of $2.7 million in surety bonds and other commercial commitments from March 31, 2010. In conjunction with facility consolidation projects, we have entered into commitments aggregating approximately $8.1 million with general contractors as of June 30, 2010. These obligations are comprised principally of construction contracts and are generally due within 24 months. The related construction costs are incurred and financed through operating cash flow. The maximum aggregate borrowing limits under our revolving credit facility ("Facility") have not changed since March 31, 2010. At June 30, 2010, there was $375.8 million available under the Facility for borrowing. The maximum aggregate borrowing limit of $400.0 million under the Facility is reduced by outstanding borrowings and letters of credit issued under a sub-limit within the Facility ($24.2 million at June 30, 2010.)

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

Critical Accounting Policies, Estimates, and Assumptions

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

SYSTEM 1 Rebate Program

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

Recording the obligations associated with the Rebate Program requires the use of estimates and assumptions. The use of estimates and assumptions involves judgments with respect to factors that may impact the ultimate outcome and may be beyond management's control. The amount recognized during the first quarter of fiscal 2011 is based upon the quantity of SYSTEM 1 processors eligible for rebates and the estimated value of rebates to be provided upon their return. Rebates of $102.3 million are recognized as contra-revenue consistent with other returns and allowances offered to Customers. The estimated cost of $7.7 million to facilitate the disposal of the processors has been recognized as cost of revenues. Both components are recorded as current liabilities. No rebate obligations were settled during the three months ended June 30, 2010. The key assumptions involved in the estimates associated with the Rebate Program include: the number and age of SYSTEM 1 processors eligible for rebates under the program, the number of Customers that will elect to participate in the Rebate Program, the proportion of Customers that will choose each rebate option, and the estimated per unit costs of disposal.

The number and age of SYSTEM 1 processors has been estimated based on our historical sales and service records and we have assumed that 100% of these Customers will elect to participate in the Rebate Program. In order to estimate the portion of Customers that will choose each available rebate option, we first assessed recent trends in sales of the proprietary consumable products utilized in the SYSTEM 1 processor. The 19% decline in shipments during the approximately seven month period ended June 30, 2010 indicates that a portion of our Customers have already transitioned away from the SYSTEM 1 technology. The remaining 81%, provides the best available indication of the portion of Customers likely to elect the rebate for the SYSTEM 1E processor. Order and quote data from the fiscal 2011 first quarter provided indications of the proportion of Customers that are expected to choose each of the other cash and rebate allowance options. The per unit costs associated with disposal were estimated based on the service hours involved and quotes from our vendors which are based on current freight and disposal contracts.

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

Contingencies

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

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

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

International Operations

Since we conduct operations outside the United States using various foreign currencies, our operating results are impacted by foreign currency movements relative to the U.S. dollar. During the first quarter of fiscal 2011, our revenues were favorably impacted by 0.9 million, or 0.3%, and income before income taxes was favorably impacted by $1.9 million, or 4.3%, 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.

Forward-Looking Statements

This Quarterly Report on Form 10-Q may contain statements concerning certain trends, expectations, forecasts, estimates, or other forward-looking information affecting or relating to the Company or its industry that are intended to qualify for the protections afforded “forward-looking statements” under the Private Securities Litigation Reform Act of 1995 and other laws and regulations. Forward-looking statements speak only as to the date of this report, and may be identified by the use of forward-looking terms such as “may,” “will,” “expects,” “believes,” “anticipates,” “plans,” “estimates,” “projects,” “targets,” “forecasts,” “outlook,” “impact,” “potential,” “confidence,” “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 or government regulations or the application or interpretation thereof. Other risk factors are described herein and in the Company’s Form 10-K and other securities filings. Many of these important factors are outside STERIS’s control. No assurances can be provided as to any outcome from litigation, regulatory action, administrative proceedings, government investigations, warning letters, cost reductions, business strategies, earnings and revenue trends, expense reduction or other future financial results. Unless legally required, the Company does not undertake to update or revise any forward-looking statements even if events make clear that any projected results, express or implied, will not be realized. Other potential risks and uncertainties that could cause actual results to differ materially from those in the forward-looking statements include, without limitation, (a) the potential for increased pressure on pricing that leads to erosion of profit margins, (b) the possibility that market demand will not develop for new technologies, products or applications or the Company’s business initiatives will take longer, cost more or produce lower benefits than anticipated, (c) the possibility that the application of or compliance with laws, court rulings, regulations, regulatory actions, including without limitation previously disclosed FDA warning letters, government investigations, the December 3, 2009 or February 22, 2010 FDA notices, the Consent Decree, Transition Plan, Rebate Program, the EPS System or other requirements or standards may delay or limit or prevent new product introductions, affect the production and marketing of existing products or services or otherwise affect Company performance, results, prospects or value, (d) the potential of international unrest or effects of fluctuations in currencies, tax assessments or rates, raw material costs, benefit or retirement plan costs, or other regulatory compliance costs, (e) the possibility of reduced demand, or reductions in the rate of growth in demand, for the Company’s products and services, (f) the possibility that anticipated growth, cost savings, rebate assumptions, new product acceptance, or other results may not be achieved or that transition, labor, competition, timing, execution, regulatory, governmental, or other issues or risks associated with our business, industry or initiatives including, without limitation, the Consent Decree, the transition to the new liquid chemical sterilant processing system, or those matters described in our Form 10-K for the year ended March 31, 2010 and this Form 10-Q may adversely impact our performance, results, prospects or value, (g) the effect of the contraction in credit availability, as well as the ability of our Customers and suppliers to adequately access the credit markets when needed, and (h) those risks described in our Annual Report on Form 10-K for the year ended March 31, 2010 and this Form 10-Q for the quarter ended June 30, 2010.

Availability of Securities and Exchange Commission Filings

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

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

In the ordinary course of business, we are subject to interest rate, foreign currency, and commodity risks. Information related to these risks and our management of these exposures is included in Part II, Item 7A, "Quantitative and Qualitative Disclosures about Market Risk," in our Annual Report on Form 10-K for the year ended March 31, 2010, filed with the SEC on May 28, 2010. Our exposures to market risks have not changed materially since March 31, 2010.

ITEM 4. CONTROLS AND PROCEDURES

Under the supervision of and with the participation of our management, including the Principal Executive Officer ("PEO") and Principal Financial Officer ("PFO"), we evaluated the effectiveness of the design and operation of our disclosure controls and procedures, as defined in Rules 13a-15(e) and 15d-15(e) promulgated under the Securities Exchange Act of 1934, as of the end of the period covered by this Quarterly Report. Based on that evaluation, including the assessment and input of our management, the PEO and PFO concluded that, as of the end of the period covered by this Quarterly Report, our disclosure controls and procedures were effective.

There were no changes in our internal control over financial reporting, as defined in Rules 13a-15(f) and 15d-15(f) promulgated under the Securities Exchange Act of 1934, that occurred during the quarter ended June 30, 2010 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II—OTHER INFORMATION

ITEM 1. 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 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 1 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 1installed 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 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 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 value or rebate toward the future purchase of new STERIS capital equipment or consumable products. In addition, we will provide credits for SYSTEM 1 consumables in unbroken packaging and within shelf life and for the unused portion of SYSTEM 1 service contracts. As a result of the Rebate Program, we recorded a pre-tax liability of $110.0 million related to the SYSTEM 1 Rebate Program. Of the $110.0 million, $102.3 million is attributable to the Customer Rebate portion of the Program and was recorded as a reduction of revenues, and $7.7 million is attributable to the disposal liability of the SYSTEM 1 units to be returned and was recorded as an increase in cost of revenues. This also resulted in a $110.0 million reduction in operating income.

Addition information regarding the liabilities associated with the Rebate Program is included in the Part I, Item 2 of this Form 10-Q titled, "SYSTEM 1 Rebate Program."

Also, in April, 2010 we voluntarily submitted information regarding modifications to the Reliance™ EPS Endoscope Processing System (the "EPS System") to the FDA. These incremental modifications to the EPS System were considered minor by us. FDA has recently advised us that it believes a new pre-market notification (510(k)) for those modifications should be submitted. We have submitted the pre-market notification to the FDA. We have suspended shipments of EPS Systems in the U.S. until we receive FDA clearance of the submission. FDA has agreed that we may continue servicing EPS Systems in the field and provide consumables necessary for the continued use of the EPS Systems. We do not believe the impact of these events will be material with respect to our financial results.

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, the EPS System, or otherwise with respect to regulatory or compliance matters, as described in this Item 1 or in various portions of Item 1A. of Part I contained in our Annual Report on Form 10-K for the year ended March 31, 2010, filed with the SEC on May 28, 2010. 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 other civil, criminal, regulatory or other proceedings involving our SYSTEM 1, SYSTEM 1E, EPS System or other products or services 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 our 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.

Except as noted above, we believe there have been no material recent developments concerning our legal proceedings since March 31, 2010 and no new material pending legal proceedings that are required to be reported.

ITEM 1A. RISK FACTORS

We believe there have been no material changes to the risk factors included in our Annual Report on Form 10-K for the fiscal year ended March 31, 2010, filed with the SEC on May 28, 2010, that would materially affect our business, results of operations, or financial condition.

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ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

During the first quarter of fiscal 2011, we did not repurchase any of our common shares. A repurchase program approved by the Company's Board of Directors and announced on March 14, 2008, authorized the repurchase of up to $300,000 of our common shares. As of June 30, 2010, $203,864 in common shares remained authorized for repurchase under this authorization. This common share repurchase authorization does not have a stated maturity date. The following table summarizes the common shares repurchase activity during the first quarter of fiscal 2011 under our common share repurchase program:

	(a) Total Number of Shares Purchased	(b) Average Price Paid Per Share	(c) Total Number of Shares Purchased as Part of Publicly Announced Plans	(d) Maximum Dollar Value of Shares that May Yet Be Purchased Under the Plans at Period End
April 1-30	—	$ —	—	$ 203,864
May 1-31	—	—	—	203,864
June 1-30	—	—	—	203,864
Total	— (1)	$ — (1)	—	$ 203,864

(1) Does not include 62 shares purchased during the quarter at an average price of $33.14 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.

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ITEM 6. EXHIBITS

Exhibits required by Item 601 of Regulation S-K

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	Executive Retention Agreement, dated April 1, 2010 between STERIS Corporation and Dr. Peter Burke.
15.1	Letter Re: Unaudited Interim Financial Information.
31.1	Certification of the Principal Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of the Principal Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Certification of the Principal Executive Officer and Principal Financial Officer Pursuant to 18 U.S.C. Section 1350 as Adopted Pursuant Section 906 of the Sarbanes-Oxley Act of 2002.
EX-101	Instance Document.
EX-101	Schema Document.
EX-101	Calculation Linkbase Document.
EX-101	Definition Linkbase Document.
EX-101	Labels Linkbase Document.
EX-101	Presentation Linkbase Document.

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SIGNATURE

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

STERIS Corporation

/s/ MICHAEL J. TOKICH

Michael J. Tokich
Senior Vice President and Chief Financial Officer
August 9, 2010

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EX-101	Definition Linkbase Document.
EX-101	Labels Linkbase Document.
EX-101	Presentation Linkbase Document.

EXECUTIVE RETENTION AGREEMENT

THIS EXECUTIVE RETENTION AGREEMENT ("Agreement") is made as of the 1st day of April, 2010, by and between STERIS Corporation, an Ohio corporation (the "Company"), and Peter A. Burke ("Executive"). Capitalized terms not otherwise defined are used as defined in Exhibit A.

1. **EMPLOYEE STATUS.** As of the date of this Agreement, the Company is employing Executive, and Executive has agreed to be employed by the Company, upon and subject to the terms of this Agreement, as Senior Vice President. Executive agrees to continue to perform the duties as are reasonably assigned to him by the President and Chief Executive Officer (CEO) of the Company and comply with the terms of this Agreement. As used herein, "employment", "employed", or similar terms shall include employment by STERIS Corporation or its subsidiaries, parent or affiliates.

2. **RESPONSIBILITIES.** Except as otherwise specified in Section 8 of this Agreement while employed by the Company, Executive shall:

(a) diligently and faithfully serve the Company in the capacities described above, and shall devote his best, good faith efforts and full business time and attention to the advancement of the Company's interests and to the benefit of the Company's shareholders;

(b) diligently and faithfully carry out the policies, programs and directions of the CEO and the Board of Directors of the Company; and

(c) fully cooperate with such other employees of, and consultants and representatives retained by, the Company.

3. **COMPENSATION.** The Company will compensate Executive for his services during his employment by the Company as follows:

(a) Base Compensation. The Company shall pay to Executive base compensation (salary) at his current rate for the 2010 Fiscal Year, payable in accordance with the Company's normal payroll schedule. Executive's base compensation in subsequent Fiscal Years while this Agreement is in effect shall be determined by the Company's CEO and Board of Directors, but shall not be less than the rate of base compensation (salary) paid to Executive in Fiscal Year 2010. All payments are subject to all applicable taxes and other withholdings.

(b) Bonus. Executive shall have the opportunity to participate in the Company's Management Incentive Compensation Plan ("Bonus"). Executive's Bonus opportunity shall be established annually by the Company's Board of Directors, and shall be communicated to Executive in writing at or about the same time as communicated by the Company to similarly situated employees. Any Bonus payable under this Agreement shall be paid to Executive in a single lump sum, and shall be subject to applicable taxes, other withholdings, and the criteria and conditions of the Management Incentive Compensation Plan.

(c) Benefits. Executive shall be entitled to participate in all benefit plans maintained from time to time by the Company for regular, full-time employees, currently including medical insurance, life insurance, dental, vacation, flexible spending account and short- and long-term disability plans. The maintenance and terms of any such plan shall be determined in the sole discretion of the Company. During his employment, Executive will be entitled to participate in any applicable, additional benefits and perquisites approved by the Company's Board of Directors.

(d) Reimbursement of Expenses. Executive shall be entitled to reimbursement of ordinary and necessary out-of-pocket expenses reasonably incurred by Executive on behalf of the Company in the course of performing duties on behalf of the Company, upon furnishing appropriate documentation in the form and substance satisfactory to the Company and subject to the Company's expense reimbursement policies as in effect at the time the expense is incurred.

(e) Equity-Based Compensation. Subject to the approval of the Company's Board of Directors and the terms and conditions of applicable programs, Executive shall be eligible for stock option and/or restricted share grants under the Company's equity programs as may be in effect from time to time.

4. **EMPLOYMENT DURATION AND TERM.** There is no specified term or duration of employment of the Executive, as Executive's employment with the Company is at-will. Therefore, either party can terminate the employment relationship at any time by written notice effective upon receipt. Such termination shall not, however, affect the surviving terms of this Agreement and the "Other Agreements" as defined below. The term of this Agreement shall commence on the date of this Agreement and shall terminate on the earlier of the date the Executive's employment with the Company terminates or the "Expiration Date" as defined below in Paragraph 5(b) or 5(c), as applicable.

5. **SEPARATION.**

(a) If Executive's employment with the Company is terminated by either party at any time prior to the Expiration Date, the Company shall pay to Executive his earned but unpaid salary through the date of termination of employment and shall reimburse Executive pursuant to Paragraph 3(d) for expenses incurred prior to the termination, but shall have no obligation to pay any severance or other compensation or amounts after the date of termination except as specifically provided in this Section 5.

(b) Subject to Paragraph 5(c) below, if Executive's employment is terminated prior to March 31, 2013 ("Expiration Date") (i) by the Company without Cause, or (ii) by Executive with Good Reason, the Company will pay Executive (a) his then current base salary during the "Severance Period", and (b) the one-time payment Executive would have been paid, if any, as a Bonus relating to the Fiscal Year of termination (based on applicable targets, threshold and other Bonus Plan terms and payable at the same time that Bonus amounts are payable to other plan participants) prorated to the date of termination (the foregoing items in this Paragraph 5(b) are collectively referred to as "Severance"). If this Paragraph 5(b) is applicable, the "Severance Period" for the purposes of Paragraph 5(d) shall be the number of months remaining from the date of such termination to the Expiration Date, or twelve (12) months, whichever is greater.

(c) If Executive has remained in the continuous employment of the Company through March 31, 2013 and is thereafter terminated prior to March 31, 2014 ("Expiration Date") (i) by the Company without Cause, or (ii) by Executive with Good Reason, Paragraph 5(b) above will be void and of no effect, and the following terms, conditions and definitions shall apply: the Company will pay Executive (a) his then current base salary for a period of twelve (12) months, and (b) the one-time payment Executive would have been paid, if any, as a Bonus relating to the Fiscal Year of termination (based on applicable targets, threshold and other Bonus Plan terms and payable at the same time that Bonus amounts are payable to other plan participants) prorated to the date of termination (the foregoing items in this Paragraph 5(c) are collectively referred to as "Severance"). If this Paragraph 5(c) is applicable, the "Severance Period" for the purpose of Paragraph 5(d) shall equal twelve (12) months from the date of termination.

(d) Severance shall be payable under the payment schedule that would have existed if the Executive had been employed by the Company during the Severance Period; provided, however, that if the payment of any amount of Severance to the Executive before the date which is six months after the date of Executive's separation from service (as defined in Section 409A of the Internal Revenue code) would cause all or any portion of the Severance to be subject to inclusion in the Executive's gross income for federal income tax purposes under Section 409A(a)(1)(A) of the Internal Revenue Code, then the payment of any such amount shall be delayed until the first business day after such date (or, if earlier, the date of the Executive's death). If Severance is payable pursuant to this Section 5, Executive shall also be entitled, during the Severance Period, to continue to participate in the Company's medical and dental insurance coverages as are in effect from time to time for corporate employees until the earlier of (x) Executive's eligibility under another employer's medical or dental plan, (y) the end of the Severance Period, or (z) expiration of the Executive's eligibility to participate in such coverages pursuant to COBRA. Executive agrees that the period of medical and dental coverage under the Company's plans shall count against the obligation to provide continuation coverage under ERISA. In addition, any exercise or other rights with respect to options for Company stock granted to Executive shall be continue to be subject to the terms and conditions of the applicable equity plans and the Executive's Non-Qualified Stock Option and Restricted Share Agreements, which remain in full force and effect, including without limitation the requirement of maintaining "Good Standing". Executive shall not be entitled to any bonus or any other payment, compensation amount, option rights, or benefit other than as described in this Section 5. Severance and the other rights and benefits provided under Paragraph 5(b) or 5(c) are strictly contingent upon Executive's execution of a release of all claims against the Company (other than the right to receive such Severance and such other benefits) in form and substance and under procedures determined by the Company in its discretion to be adequate to effectively waive all such claims under applicable laws. Executive's right to Severance and the other rights and benefits provided under Paragraph 5(b) or 5(c) shall automatically terminate upon any material breach by Executive of this Agreement or upon the Company's termination of Executive's employment for Cause or upon the Executive's termination without Good Reason.

(e) In the event that the Company terminates the Executive without Cause or the Executive terminates his employment for Good Reason, the Company shall use reasonable efforts to handle the matter in such a way as to minimize any negative impact on the Executive's career or reputation. Notwithstanding anything to the contrary, if Executive is entitled to payment or other benefit ("benefits") under this Agreement and the Change in Control Agreement between the Company and Executive, based on the same event, Executive will be entitled to benefits under either this Agreement or the Change in Control Agreement, whichever provides for greater benefits, but will not be entitled to benefits under both agreements. If, pursuant to the preceding sentence, benefits are provided under the Change in Control Agreement but the change in control of the Company giving rise to benefits under the Change in Control Agreement does not constitute a change of ownership or effective control of the Company, or a change in the ownership of a substantial portion of the assets of the Company, within the meaning of Section 409A of the Internal Revenue Code, benefits shall be paid to Executive at the time and in the form that they would be paid to him under Paragraph 5(b) or 5(c) to the extent they are not in excess of the benefits payable under such applicable Paragraph. Nothing herein requires the Company to continue to keep the Change in Control agreement in effect.

(f) Each Severance payment and the provision of each benefit under this Section 5 shall be considered a separate payment and not one of a series of payments under Section 409A of the Internal Revenue Code.

6. **PROTECTIVE COVENANTS.** Executive agrees that the Change of Control Agreement, Restricted Share Agreements, Stock Option Agreements (including non-compete and other terms), confidentiality and other agreements between the Company and Executive ("Other Agreements") and the Company's codes and policies in effect (now or in the future) shall remain in full force and effect subject to their terms, excluding any severance policy, benefits, or other post termination obligation of the Company except as specified in Paragraph 5(b) or 5(c). This Agreement shall be in addition to and not in substitute for such Other Agreements, provided that any material breach, default or violation by Executive under any such Other Agreements, shall constitute a breach of this Agreement, if so determined by Company. This Agreement and the Other Agreements are separate and distinct obligations and are intended to supplement, not conflict with, each other. However, in the event of any conflict between the terms of those Other Agreements and this Agreement, such conflict shall be governed by the terms of this Agreement. Executive acknowledges and agrees that (i) adequate consideration has been provided for this Agreement as well as the Other Agreements and that he will not dispute their binding effect, and (ii) both during and after his employment with the Company, Executive will freely assist and cooperate with the Company concerning matters in his knowledge or arising from or relating to his responsibilities with the Company.

7. **CONFIDENTIALITY.** As used in this Agreement, Confidential Information means any information concerning the Company or any Affiliate of the Company that is not ordinarily provided to Persons who are not employees of the Company except pursuant to a confidentiality agreement, provided that any information that is or becomes publicly known other than as a result of a breach of this Agreement by Executive shall not be or shall cease to be Confidential Information. Executive shall not disclose Confidential Information to any Person other than: (a) an officer, director or employee of the Company who needs to know such information in his or her capacity as such and (b) an attorney who has been retained by the Executive or Company with respect to matters relating to the Company and in accordance with attorney/client privilege. Executive shall not use Confidential Information for any purpose unrelated to his duties as an officer, director or employee of the Company. Nothing in this Agreement will prohibit Executive from disclosing Confidential Information as necessary to comply with

valid legal process or investigations or to fulfill a legal duty of Executive, but Executive shall give the Company prompt notice of such process or investigation or Executive's intent to disclose pursuant to such legal duty so that the Company may take such steps as it deems appropriate to limit or protect the Confidential Information to be disclosed.

8. **CLAIMS.** In the event that Executive becomes a party, is threatened to be made a party, or is required to provide evidence or testimony, to any pending, threatened or completed investigation, action, suit or proceeding, whether civil or criminal, relating to the Executive's service to the Company, the Company shall Indemnify the Executive as required by and consistent with the Indemnification Agreement entered into between and Company and Executive dated April 12, 2010 ("Indemnity Agreement").

9. **ARBITRATION.** Any disputes arising out of this Agreement or connected with Executive's employment shall be submitted by Executive and the Company to arbitration in Cleveland, Ohio. The arbitration shall be conducted by the American Arbitration Association or another arbitral body mutually agreed upon by the parties. The determination of the arbitrator shall be final and absolute. Notwithstanding this arbitration provision, the Company shall be entitled to apply to any court of competent jurisdiction for temporary or permanent injunctive relief or other equitable relief to enforce Sections 6 or 7. The decision of the arbitrator may be entered as a judgment in any court of competent jurisdiction. The non-prevailing party in the Arbitration shall pay the reasonable legal fees of the other party in enforcing this Agreement.

10. **GOVERNING LAW; INTERPRETATION.** This Agreement shall be governed by and construed in accordance with the laws of the State of Ohio. The titles of the paragraphs have been inserted as a matter of convenience of reference only and shall not be construed to control or affect the meaning or construction of this Agreement.

11. **SEVERABILITY.** In the event that any portion of this Agreement is found to be in violation of or conflict with any federal or state law, the parties agree that said portion shall be modified only to the extent necessary to enable it to comply with such law.

12. **ASSIGNMENT.** This Agreement shall not be assignable by either party without the prior written consent of the other; provided that the Company may, without such consent, assign this Agreement to any Person that acquires all or substantially all of its assets or otherwise succeeds to all or substantially all of its business and operations.

13. **NOTICES.** All notices given under this Agreement shall be in writing. Any notice may be transmitted by any means selected by the sender. A notice that is mailed to a party at its address given below, registered or certified mail, return receipt requested, with all postage prepaid, will be deemed to have been given and received on the earlier of the date reflected on the return receipt or the third business day after it is posted. Any notice transmitted by recognized overnight courier service to a party at its address given below shall be deemed given and received on the first business day after it is delivered to the courier. Any notice given by any other means shall be deemed given and received only upon actual receipt. The addresses of the parties for notice purposes are as follows:

If to the Executive:
Peter A. Burke

If to the Company:
STERIS Corporation
5960 Heisley Road
Mentor, Ohio 44060
Attn: Legal Department

with a copy to:
Thomas O. Henteleff
c/o Kleinfeld, Kaplan and Becker, LLP
1140 19th St. NW, Suite 900
Washington, DC 20036

Any person may change its address for notice purposes, or add additional persons to whom copies of any notice should be sent, by written notice to the other party.

14. **REMEDIES.** If Executive breaches any of his obligations under this Agreement in any material respect, then the Company may, at its sole option, terminate all remaining payments and benefits described in this Agreement and obtain reimbursement from Executive of all payments and benefits provided pursuant to Paragraph 5(b) or 5(c) of this Agreement, in addition to other remedies. If, following Executive's termination of employment which results in the obligation to pay Severance, Company breaches its obligations under this Agreement in any material respect, then Executive may, at his sole option, accelerate all amounts due under Paragraph 5(b) or 5(c), as applicable, of this Agreement in addition to other remedies. The breaching party shall also pay expenses and costs incurred as a result of the breach (including, without limitation, reasonable attorneys' fees).

15. **ENTIRE AGREEMENT.** Subject to the provisions of Section 6 and 8, this Agreement, together with Exhibit A, is the entire agreement and understanding of the parties hereto with respect to the subject matter hereof and supersedes any and all prior and contemporaneous negotiations, understandings and agreements with regard to the subject matter hereof, whether oral or written, including without limitation the Executive Retention Agreement dated May 29, 2007 and any prior Executive employment agreement. Nothing herein changes the Executive's employment at will status, and Executive acknowledges and confirms that he is an employee at will and has no specific duration or promise of employment. The Company may withhold from any amount payable under this Agreement all federal, state, local, or other taxes and other deduction required by law, regulation, ruling or agreement to be withheld. No representation, inducement, agreement, promise or understanding altering, modifying, taking from or adding to the terms and conditions hereof shall have any force or effect unless the same is in writing and validly executed by the parties hereto or is part of a formal Company benefit plan.

16. **SURVIVAL.** The following provisions in this Agreement shall survive termination or expiration of this Agreement for any reason, as shall any other provisions which by their nature are intended to survive: Sections 5, 6, 7, 8, 9, 10, 12, 13 and 14.

IN WITNESS WHEREOF, the parties hereto have executed this Employment Agreement as of the day and year first above written.

STERIS CORPORATION		EXECUTIVE	
By:	/s/ WALTER ROSEBROUGH		/s/ PETER A. BURKE
Name:	**Walter Rosebrough**	Name:	**Peter A. Burke**
Title:	**President & CEO**		

EXHIBIT A

Definitions

As used in the Executive Retention Agreement between STERIS Corporation (the Company) and Peter A. Burke (Executive) dated as of April 1, 2010 (the "Agreement"), the following terms have the indicated meanings:

"Affiliates" means any Person directly or indirectly controlling, controlled by or under direct or indirect common control with the Company. For purposes of this definition, "control" means the power to direct the management and policies of a Person, directly or through one or more intermediaries, whether through ownership of voting securities, by contract, or otherwise.

"Cause" means: (i) a material breach of this Agreement by Executive which, if curable, has not been cured within 30 days after notice from the Company, (ii) the Executive has engaged in dishonest conduct relating to or affecting the performance of his responsibilities for the Company, (iii) the Executive has been convicted of a crime relating to the performance of his duties on behalf of the Company, or involving moral turpitude or constituting a felony, (iv) the Executive has committed gross negligence, willful misconduct, or deceit with respect to the business of the Company, (v) Executive has failed without adequate justification to perform his duties under this Agreement with at least the same degree of skill, attention and care that he has exercised in the performance of his duties to the Company prior to the date of this Agreement, (vi) the Executive has violated the Company Code of Conduct or other codes, policies or requirements regarding employee conduct or performance, (vii) insubordination, (viii) death, or (ix) "Disability" as defined under the Company's long term disability plan as in effect from time to time; provided, however, subsections (ii)-(v) of the "Cause" definition above shall not include (a) any action by Executive with respect to the marketing, prior to the date of this Executive Retention Agreement, of the STERIS System 1 and accessories thereto; (b) any demand or requirement of the FDA, the United States Department of Justice or a Court of competent jurisdiction that Executive agree to or otherwise be included as a party to an action arising out of the marketing, prior to the date of this Executive Retention Agreement, of the STERIS System 1 and accessories thereto; (c) any exercise by Executive of his legal rights with respect to any demand or requirement described in the preceding clause (b); or (d) any decision or action of the FDA, the United States Department of Justice or a Court of competent jurisdiction that results in Executive being subject to injunctive or other relief resulting from or relating to the marketing, prior to the date of this Executive Retention Agreement, of the STERIS System 1 and accessories thereto; provided further, the exclusions from the definition of "Cause" described in subsections (a)-(d) in this paragraph shall not apply in the event Executives actions or inactions were, unbeknownst to his supervisor on or prior to the execution of this Agreement, (x) fraudulent or intentional violations of law or regulation, (y) undertaken with intent to cause injury to the Company or with reckless disregard for the best interests of the Company, or (z) not in compliance with the Other Agreements, the Company's Code of Regulations, or his fiduciary duties to the Company.

"Change in Control Agreement" means that certain Change in Control Agreement between Company and Executive dated March 5, 2001.

"Good Reason" means (i) a reduction in Executive's salary below the minimum amount required by Paragraph 3(a) of the Agreement, (ii) the removal of Executive from the office described in Paragraph 1 of the Agreement other than for Cause, or (iii) any material breach of the Agreement by the Company which has not been cured by the Company within 30 days after notice from Executive; provided, however, termination of employment by Executive will not be considered a possible "Good Reason" event for purposes of this Agreement unless Executive provides written notice to the Company describing the purported Good Reason within sixty (60) days after the occurrence, the Company does not remedy such event or events within thirty (30) days of the receipt of such notice, and the Executive terminates his employment on the basis of the purported Good Reason within thirty (30) days thereafter.

"Fiscal Year" means the fiscal year of Company for financial reporting purposes, commencing April 1 and ending March 31.

"Person" means any individual and any corporation, partnership, trust, unincorporated organization, association, limited liability company or other entity.

Exhibit 15.1

LETTER of Ernst & Young LLP REGARDING UNAUDITED INTERIM FINANCIAL INFORMATION

Board of Directors and Shareholders
STERIS Corporation

We are aware of the incorporation by reference in the following Registration Statements and Post Effective Amendments and related Prospectuses of our report dated August 9, 2010 relating to the unaudited consolidated interim financial statements of STERIS Corporation and subsidiaries that are included in its Form 10-Q for the quarter ended June 30, 2010:

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
August 9, 2010

Exhibit 31.1

CERTIFICATION OF THE PRINCIPAL EXECUTIVE OFFICER

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

1. I have reviewed this quarterly report on Form 10-Q 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 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: August 9, 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 quarterly report on Form 10-Q 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 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: August 9, 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-Q of STERIS Corporation (the "Company") for the quarter ended June 30, 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**

Dated: August 9, 2010