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

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**FORM 10-Q/A**

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(Amendment No. 1)

(Mark One)

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

For the quarterly period ended December 31, 2008

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)

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**Ohio**  
(State or other jurisdiction of  
incorporation or organization)

**5960 Heisley Road,  
Mentor, Ohio**  
(Address of principal executive offices)

**34-1482024**  
(IRS Employer  
Identification No.)

**44060-1834**  
(Zip code)

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

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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 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

Non-Accelerated Filer

(Do not check if a smaller reporting company)

Accelerated Filer

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 January 31, 2009: 58,436,157

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This Amendment No. 1 on Form 10-Q/A to the Quarterly Report on Form 10-Q for the quarter ended December 31, 2008 of STERIS Corporation (the “Company”), originally filed with the Securities and Exchange Commission on February 6, 2009, corrects a typographical error in a date contained in Exhibit 32.1 of such Quarterly Report and updates the dates of the certifications contained in Exhibits 31.1, 31.2 and 32.1 of such Quarterly Report as of the filing date of this Amendment No. 1.

Except for the correction of this error and the certification date updates, this Amendment No. 1 to the Company’s Quarterly Report on Form 10-Q/A does not update any disclosure from, or reflect any event occurring subsequent to, February 6, 2009, which is the filing date of the Quarterly Report on Form 10-Q as originally filed.

STERIS Corporation and Subsidiaries

Form 10-Q

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## PART I—FINANCIAL INFORMATION

## ITEM 1. FINANCIAL STATEMENTS

**STERIS CORPORATION AND SUBSIDIARIES**  
**CONSOLIDATED BALANCE SHEETS**  
(in thousands)

	December 31, 2008 (Unaudited)	March 31, 2008
<b>Assets</b>		
<b>Current assets:</b>		
Cash and cash equivalents	\$ 106,050	\$ 51,868
Accounts receivable (net of allowances of \$9,967 and \$9,396, respectively)	215,883	249,814
Inventories, net	148,116	147,210
Current portion of deferred income taxes, net	20,291	29,033
Prepaid expenses and other current assets	23,786	35,451
<b>Total current assets</b>	<b>514,126</b>	<b>513,376</b>
Property, plant, and equipment, net	361,263	384,642
Goodwill and intangibles, net	311,792	337,980
Other assets	7,730	3,294
<b>Total assets</b>	<b>\$ 1,194,911</b>	<b>\$ 1,239,292</b>
<b>Liabilities and shareholders' equity</b>		
<b>Current liabilities:</b>		
Current portion of long-term indebtedness	\$ 300	\$ 700
Accounts payable	59,003	75,532
Accrued income taxes	—	23,039
Accrued payroll and other related liabilities	47,850	59,243
Accrued expenses and other	75,961	71,845
<b>Total current liabilities</b>	<b>183,114</b>	<b>230,359</b>
Long-term indebtedness	210,000	179,280
Deferred income taxes, net	22,153	5,902
Other liabilities	64,789	117,599
<b>Total liabilities</b>	<b>480,056</b>	<b>533,140</b>
<b>Commitments and contingencies (see note 10)</b>		
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; 58,429 and 59,263 shares outstanding, respectively	228,736	231,566
Common shares held in treasury, 11,611 and 10,777 shares, respectively	(309,866)	(279,841)
Retained earnings	791,219	721,331
Accumulated other comprehensive income	4,766	33,096
<b>Total shareholders' equity</b>	<b>714,855</b>	<b>706,152</b>
<b>Total liabilities and shareholders' equity</b>	<b>\$ 1,194,911</b>	<b>\$ 1,239,292</b>

See notes to consolidated financial statements.

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

	Three Months Ended December 31,		Nine Months Ended December 31,	
	2008	2007	2008	2007
<b>Revenues:</b>				
Product	\$203,308	\$201,743	\$602,746	\$556,563
Service	116,159	112,231	351,413	333,357
<b>Total revenues</b>	<u>319,467</u>	<u>313,974</u>	<u>954,159</u>	<u>889,920</u>
<b>Cost of revenues:</b>				
Product	127,111	120,708	360,901	332,378
Service	68,289	66,664	206,327	195,132
<b>Total cost of revenues</b>	<u>195,400</u>	<u>187,372</u>	<u>567,228</u>	<u>527,510</u>
<b>Gross profit</b>	124,067	126,602	386,931	362,410
<b>Operating expenses:</b>				
Selling, general, and administrative	67,272	82,015	231,910	249,929
Research and development	8,122	10,173	24,469	27,963
Restructuring expenses	2,855	952	2,726	3,041
<b>Total operating expenses</b>	<u>78,249</u>	<u>93,140</u>	<u>259,105</u>	<u>280,933</u>
<b>Income from continuing operations</b>	45,818	33,462	127,826	81,477
<b>Non-operating expenses (income):</b>				
Interest expense	3,214	1,516	7,499	4,229
Interest and miscellaneous income	(366)	(581)	(1,288)	(1,657)
<b>Total non-operating expenses, net</b>	2,848	935	6,211	2,572
<b>Income from continuing operations before income tax expense</b>	42,970	32,527	121,615	78,905
Income tax expense	14,395	10,751	38,746	27,908
<b>Net income</b>	<u>\$ 28,575</u>	<u>\$ 21,776</u>	<u>\$ 82,869</u>	<u>\$ 50,997</u>
<b>Net income per common share:</b>				
Basic	<u>\$ 0.49</u>	<u>\$ 0.35</u>	<u>\$ 1.41</u>	<u>\$ 0.80</u>
Diluted	<u>\$ 0.48</u>	<u>\$ 0.34</u>	<u>\$ 1.39</u>	<u>\$ 0.79</u>
<b>Cash dividends declared per common share outstanding</b>	<u>\$ 0.08</u>	<u>\$ 0.06</u>	<u>\$ 0.22</u>	<u>\$ 0.17</u>

See notes to consolidated financial statements.

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

	Nine Months Ended	
	December 31,	
	2008	2007
<b>Operating activities:</b>		
Net income	\$ 82,869	\$ 50,997
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation, depletion, and amortization	43,876	47,499
Deferred income taxes	10,868	(17,261)
Share based compensation	5,653	6,465
(Gain) loss on the sale of property, plant, equipment, and intangibles, net	(1,445)	966
Other items	(8,346)	(769)
Changes in operating assets and liabilities, excluding the effects of business acquisitions:		
Accounts receivable, net	25,735	55,438
Inventories, net	(12,759)	(25,819)
Other current assets	10,663	1,383
Accounts payable	(13,333)	(15,191)
Accruals and other, net	(35,457)	(8,763)
<b>Net cash provided by operating activities</b>	<b>108,324</b>	<b>94,945</b>
<b>Investing activities:</b>		
Purchases of property, plant, equipment, and intangibles, net	(29,704)	(39,142)
Proceeds from the sale of property, plant, equipment, and intangibles	10,981	4,740
Equity investment in joint venture	(4,150)	—
<b>Net cash used in investing activities</b>	<b>(22,873)</b>	<b>(34,402)</b>
<b>Financing activities:</b>		
Proceeds from the issuance of long-term obligations	150,000	—
(Payments) proceeds under credit facilities, net	(79,180)	31,925
Payments on long-term obligations	(40,500)	(500)
Deferred financing fees and debt issuance costs	(476)	(443)
Repurchases of common shares	(80,466)	(94,758)
Cash dividends paid to common shareholders	(12,981)	(10,910)
Stock option and other equity transactions, net	33,254	11,540
Tax benefit from stock options exercised	8,766	2,591
<b>Net cash used in financing activities</b>	<b>(21,583)</b>	<b>(60,555)</b>
Effect of exchange rate changes on cash and cash equivalents	(9,686)	3,104
Increase in cash and cash equivalents	54,182	3,092
Cash and cash equivalents at beginning of period	51,868	52,296
Cash and cash equivalents at end of period	<u>\$ 106,050</u>	<u>\$ 55,388</u>

See notes to consolidated financial statements.

**STERIS CORPORATION AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)**  
**For the Three and Nine Months Ended**  
**December 31, 2008 and 2007**  
**(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 present fairly the 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, 2008, filed with the Securities and Exchange Commission (“SEC”) on May 30, 2008. The Consolidated Balance Sheet at March 31, 2008 has been 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. 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 and nine months ended December 31, 2008 are not necessarily indicative of results that may be expected for the full fiscal year ending March 31, 2009.

**STERIS CORPORATION AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)—(Continued)**  
**For the Three and Nine Months Ended**  
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**(dollars in thousands, except per share amounts)**

***Recently Adopted Accounting Pronouncements***

In September 2006, the FASB issued Statement of Financial Accounting Standards No. 157 (“SFAS No. 157”), “Fair Value Measurements.” SFAS No. 157 defines fair value, establishes a framework for measuring fair value in accordance with U.S. GAAP, and expands disclosures about fair value measurements. SFAS No. 157 does not require new fair value measurements, rather it applies under existing accounting pronouncements that require or permit fair value measurements. SFAS No. 157 is effective for fiscal years beginning after November 15, 2007 and requires prospective adoption as of the beginning of the fiscal year.

In February 2008, the FASB issued FASB Staff Position No. 157-1 (“FSP 157-1”), “Application of FASB Statement No. 157 to FASB Statement No. 13 and Other Accounting Pronouncements That Address Fair Value Measurements for Purposes of Lease Classification or Measurement Under Statement 13” and FASB Staff Position No. 157-2 (“FSP 157-2”), “Effective Date of Statement 157.” FSP 157-1 removed leasing transactions accounted for under FASB Statement No. 13 and related guidance from the scope of SFAS No. 157. FSP 157-2 deferred the effective date of SFAS No. 157 for all nonfinancial assets and liabilities to fiscal years beginning after November 15, 2008. We adopted the required provisions of SFAS No. 157 for financial assets and liabilities on April 1, 2008. The adoption of the standard did not have a material impact on our consolidated financial statements.

In February 2007, the FASB issued Statement of Financial Accounting Standards No. 159 (“SFAS No. 159”), “The Fair Value Option for Financial Assets and Financial Liabilities—Including an Amendment of FASB Statement No. 115,” which permits entities to make an irrevocable election to measure many financial instruments and certain other items at fair value that are not currently required to be measured at fair value. The fair value option may be applied instrument by instrument and must be applied to entire instruments. Unrealized gains and losses arising after adoption are reported in earnings. SFAS No. 159 is effective for fiscal years beginning after November 15, 2007. We adopted SFAS No. 159 on April 1, 2008 and did not elect to measure any additional financial instruments or other items at fair value.

***New Accounting Pronouncements***

In March 2008, the FASB issued Statement of Financial Accounting Standards No. 161 (“SFAS No. 161”), “Disclosures about Derivative Instruments and Hedging Activities—an amendment of FASB Statement No. 133.” SFAS No. 161 requires disclosures regarding how and why an entity uses derivative instruments, how derivative instruments and related hedged items are accounted for, and how derivative instruments and related hedged items affect an entity’s financial position, results of operations, and cash flows. SFAS No. 161 is effective for fiscal years beginning after November 15, 2008, with early adoption permitted. We are currently evaluating the impact of SFAS No. 161 on our consolidated financial statements.

In December 2007, the FASB issued Statement of Financial Accounting Standards No. 141 (revised 2007) (“SFAS No. 141R”), “Business Combinations.” SFAS No. 141R retains the purchase method of accounting for acquisitions, but requires a number of changes, including changes in the way assets and liabilities are recognized in purchase accounting. It also changes the recognition of assets acquired and liabilities assumed arising from contingencies, requires the capitalization of in-process research and development at fair value, and requires the expensing of acquisition-related costs as incurred. SFAS No. 141R will impact financial statements on the acquisition date and in subsequent periods, as well as prior to the acquisition date because of the accounting treatment for acquisition-related costs. The provisions of SFAS No. 141R are to be applied prospectively to business combinations completed in fiscal years beginning after December 15, 2008.



**STERIS CORPORATION AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)—(Continued)**  
**For the Three and Nine Months Ended**  
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**(dollars in thousands, except per share amounts)**

In December 2007, the FASB issued Statement of Financial Accounting Standards No. 160 (“SFAS No. 160”), “Noncontrolling Interests in Consolidated Financial Statements—Including an Amendment of ARB No. 51.” SFAS No. 160 recharacterizes minority interests as noncontrolling interests and requires these interests to be classified as a separate component of equity in our consolidated financial statements. Purchases or sales of equity interests that do not result in a change in control will be accounted for as equity transactions. In addition, net income related to the noncontrolling interests will be included in our consolidated net income and, upon a loss of control, the interest sold, as well as any interest retained, will be recorded at fair value with any gain or loss recognized in earnings. The provisions of SFAS No. 160 will be applied prospectively, except for the presentation and disclosure requirements, which will apply retrospectively, and are effective for the first annual reporting period beginning after December 15, 2008. We are currently evaluating the impact of adopting SFAS No. 160 on our consolidated financial statements.

***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, 2008, filed with the SEC on May 30, 2008. Our significant and critical accounting policies, estimates, and assumptions have not changed materially from March 31, 2008.

**2. Restructuring**

The following summarizes our restructuring plans announced in fiscal years 2009, 2008, 2007, and 2006. We recognize restructuring expenses as incurred as required under the provisions of Statement of Financial Accounting Standards No. 146 (“SFAS No. 146”), “Accounting for Costs Associated with Exit or Disposal Activities.” We recognize expenses for postemployment benefits associated with the affected employees when probable and estimable as required under the provisions of Statement of Financial Accounting Standards No. 112 (“SFAS No. 112”), “Employers’ Accounting for Postemployment Benefits, an Amendment of FASB Statements No. 5 and 43.” In addition, we assess the property, plant and equipment associated with the related facilities for impairment under the provisions of Statement of Financial Accounting Standards No. 144 (“SFAS No. 144”), “Accounting for the Impairment or Disposal of Long-Lived Assets.” Asset impairment and accelerated depreciation expenses primarily relate to an adjustment in the carrying value of the related facilities to their estimated fair value. In addition, the remaining useful lives of other property, plant and equipment associated with the related operations were re-evaluated based on the respective restructuring plan, resulting in the acceleration of depreciation and amortization of certain assets. Additional information regarding our respective restructuring plans is included in our Annual Report on Form 10-K for the year ended March 31, 2008, filed with the SEC on May 30, 2008.

**Fiscal 2009 Restructuring Plan**

During the third quarter of fiscal 2009, we adopted a restructuring plan intended to enhance our profitability and improve efficiency primarily by reducing ongoing international operating costs (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 will also close our sales offices in Japan. These actions are expected to directly impact approximately 100 employees worldwide. In the three months ended December 31, 2008, we recorded \$13,687 in pre-tax expenses related to these actions, of which \$3,765 was recorded as

**STERIS CORPORATION AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)—(Continued)**  
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restructuring expenses and \$9,922 was recorded in cost of revenues, with expenses of \$11,291 and \$2,396 related to the Healthcare and Life Sciences reporting segments, respectively. The expenses recorded primarily consist of severance and related benefits, product rationalization costs, and asset impairment costs. During the fourth quarter of fiscal 2009 and the first six months of fiscal 2010 we expect to incur approximately an additional \$2,000 in restructuring expenses related to the Fiscal 2009 Restructuring Plan primarily consisting of severance and related benefits and lease termination costs.

**Fiscal 2008 Restructuring Plan**

During the fourth quarter of fiscal 2008, we announced an expense reduction initiative which was primarily focused on our North American operations, and was intended to enhance our profitability and improve efficiency by reducing ongoing operating costs (the “Fiscal 2008 Restructuring Plan”).

The Fiscal 2008 Restructuring Plan included the closure of two sales offices, rationalization of certain products, and workforce reductions in certain support functions. In the third quarter of fiscal 2009, we reversed our decision with respect to one of the sales offices, since a satisfactory exit from our warranty and service obligations could not be achieved. As a result, we have reversed restructuring expenses recorded in the fourth quarter of fiscal 2008 totaling approximately \$1,000.

We did not incur any additional significant restructuring expenses related to the Fiscal 2008 Restructuring Plan in the three and nine months ended December 31, 2008, and we settled certain termination benefits and other costs for less than originally expected.

Since the inception of the Fiscal 2008 Restructuring Plan, we have incurred pre-tax restructuring expenses totaling \$14,448 related to these actions, of which \$10,789 was recorded as restructuring expenses and \$3,659 was recorded in cost of revenues, with expenses of \$11,789, \$1,479, \$429, and \$751 related to the Healthcare, Life Sciences, and Isomedix reporting segments, and Corporate and other, respectively. We do not expect to incur any significant additional restructuring expenses related to the Fiscal 2008 Restructuring Plan.

**European Restructuring Plan**

During the third quarter of fiscal 2007, we adopted a restructuring plan related to certain of our European operations (the “European Restructuring Plan”). In the first quarter of fiscal 2009, we settled the remaining obligations associated with this plan, incurring \$99 in pre-tax restructuring expenses related to a lease termination obligation. Since the inception of the European Restructuring Plan, we have incurred pre-tax restructuring expenses totaling \$1,887 primarily related to severance and termination benefits, with restructuring expenses of \$1,353 and \$534 related to the Healthcare and Life Sciences reporting segments, respectively.

**Fiscal 2006 Restructuring Plan**

During fiscal 2006, we announced the transfer of the Erie, Pennsylvania manufacturing operations to Monterrey, Mexico and other restructuring actions (the “Fiscal 2006 Restructuring Plan”), which were intended to improve our cost structure. We did not incur any restructuring expenses related to the Fiscal 2006 Restructuring Plan during the three and nine months ended December 31, 2008, and settled certain severance payment obligations for less than originally expected. During the three and nine months ended December 31, 2007, we recorded \$952 and \$3,076, respectively, in pre-tax restructuring expenses related to this plan, primarily

**STERIS CORPORATION AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)—(Continued)**  
**For the Three and Nine Months Ended**  
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for the transfer of manufacturing operations to Monterrey, Mexico, which were associated with our Healthcare business segment.

Since the inception of the Fiscal 2006 Restructuring Plan, we have incurred restructuring expenses of \$33,637, with restructuring expenses of \$33,223 and \$414 related to the Healthcare and Life Sciences segments, respectively, primarily related to the transfer of manufacturing operations to Monterrey, Mexico.

The following tables summarize our total pre-tax expenses for the third quarter and first nine months of fiscal 2009 and fiscal 2008:

	Fiscal 2009 Restructuring Plan	Fiscal 2008 Restructuring Plan	European Restructuring Plan	Fiscal 2006 Restructuring Plan	Total
<b>Three Months Ended December 31, 2008</b>					
Severance, payroll, and other related costs	\$ 3,362	\$ (107)	\$ —	\$ —	\$ 3,255
Asset impairment and accelerated depreciation	1,112	(83)	—	—	1,029
Product rationalization	9,100	(528)	—	—	8,572
Lease termination obligations	—	(17)	—	—	(17)
Other	113	(609)	—	—	(496)
<b>Total restructuring charges</b>	<b>\$ 13,687</b>	<b>\$ (1,344)</b>	<b>\$ —</b>	<b>\$ —</b>	<b>\$12,343</b>
<b>Three Months Ended December 31, 2007</b>					
Severance, payroll, and other related costs	\$ —	\$ —	\$ —	\$ (163)	\$ (163)
Asset impairment and accelerated depreciation	—	—	—	822	822
Other	—	—	—	293	293
<b>Total restructuring charges</b>	<b>\$ —</b>	<b>\$ —</b>	<b>\$ —</b>	<b>\$ 952</b>	<b>\$ 952</b>
<b>Nine Months Ended December 31, 2008</b>					
Severance, payroll, and other related costs	\$ 3,362	\$ (191)	\$ —	\$ (178)	\$ 2,993
Asset impairment and accelerated depreciation	1,112	(83)	—	—	1,029
Product rationalization	9,100	(523)	—	—	8,577
Lease termination obligations	—	20	99	—	119
Other	113	(609)	—	—	(496)
<b>Total restructuring charges</b>	<b>\$ 13,687</b>	<b>\$ (1,386)</b>	<b>\$ 99</b>	<b>\$ (178)</b>	<b>\$12,222</b>

**STERIS CORPORATION AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)—(Continued)**  
**For the Three and Nine Months Ended**  
**December 31, 2008 and 2007**  
**(dollars in thousands, except per share amounts)**

<u>Nine Months Ended December 31, 2007</u>	Fiscal 2009 Restructuring Plan	Fiscal 2008 Restructuring Plan	European Restructuring Plan	Fiscal 2006 Restructuring Plan	Total
Severance, payroll, and other related costs	\$ —	\$ —	\$ (24)	\$ 168	\$ 144
Asset impairment and accelerated depreciation	—	—	—	2,622	2,622
Lease termination obligations	—	—	(11)	(13)	(24)
Other	—	—	—	299	299
<b>Total restructuring charges</b>	<b>\$ —</b>	<b>\$ —</b>	<b>\$ (35)</b>	<b>\$ 3,076</b>	<b>\$3,041</b>

Liabilities related to our 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 2009 Restructuring Plan			
	March 31, 2008	Fiscal 2009		December 31, 2008
		Provision	Payments/ Impairments	
Severance and termination benefits	\$ —	\$ 3,362	\$ (481)	\$ 2,881
Asset impairments	—	1,112	(1,112)	—
Product rationalization	—	9,100	(7,699)	1,401
Other	—	113	(48)	65
<b>Total</b>	<b>\$ —</b>	<b>\$13,687</b>	<b>\$ (9,340)</b>	<b>\$ 4,347</b>

	Fiscal 2008 Restructuring Plan			
	March 31, 2008	Fiscal 2009		December 31, 2008
		Provision (a)	Payments/ Impairments	
Severance and termination benefits	\$ 4,244	\$ (191)	\$ (3,117)	\$ 936
Asset impairments	492	(83)	—	409
Lease termination obligations	898	20	(37)	881
Other	609	(609)	—	—
<b>Total</b>	<b>\$ 6,243</b>	<b>\$ (863)</b>	<b>\$ (3,154)</b>	<b>\$ 2,226</b>

(a) Does not include a negative \$523 in product rationalization costs that were charged against inventory.

	European Restructuring Plan			
	March 31, 2008	Fiscal 2009		December 31, 2008
		Provision	Payments	
Lease termination obligation	\$ 247	\$ 99	\$ (346)	\$ —
<b>Total</b>	<b>\$ 247</b>	<b>\$ 99</b>	<b>\$ (346)</b>	<b>\$ —</b>

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	March 31, 2008	Fiscal 2006 Restructuring Plan		December 31, 2008
		Provision	Payments	
Severance and termination benefits	\$ 879	\$ (178)	\$ (636)	\$ 65
<b>Total</b>	<u>\$ 879</u>	<u>\$ (178)</u>	<u>\$ (636)</u>	<u>\$ 65</u>

**3. Comprehensive Income**

Statement of Financial Accounting Standards No. 130, "Reporting Comprehensive Income," establishes standards for reporting comprehensive income. Comprehensive income includes net income as currently reported under U.S. GAAP and other comprehensive income. Other comprehensive income considers the effects of additional economic events that are not required to be recorded in determining net income, but rather are reported as a separate component of shareholders' equity. The following table illustrates the components of our comprehensive income:

	Three Months Ended December 31,		Nine Months Ended December 31,	
	2008	2007	2008	2007
Net income	\$ 28,575	\$21,776	\$ 82,869	\$50,997
Foreign currency translation adjustments	(31,600)	4,060	(55,970)	21,250
Reduction in the unrecognized postretirement benefit plan obligation, net of taxes	6,458	—	28,652	—
Amortization of pension and postretirement benefit plans costs, net of taxes	(494)	322	(739)	967
Unrealized losses on investments	—	(77)	(273)	(81)
<b>Total comprehensive income</b>	<u>\$ 2,939</u>	<u>\$26,081</u>	<u>\$ 54,539</u>	<u>\$73,133</u>

The reduction in the unrecognized postretirement benefit plan obligation, net of taxes, is a result of modifying our United States postretirement welfare benefits plan during the second quarter of fiscal 2009. We provide additional information regarding the amendment and restatement of our United States postretirement welfare benefits plan in note 9 to our consolidated financial statements titled, "Benefit Plans."

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#### 4. Property, Plant and Equipment

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

	December 31, 2008	March 31, 2008
Land and land improvements (1)	\$ 26,293	\$ 26,696
Buildings and leasehold improvements	179,801	184,921
Machinery and equipment	268,862	271,646
Information systems	91,690	126,741
Radioisotope	158,072	148,738
Construction in progress (1)	34,160	38,065
<b>Total property, plant, and equipment</b>	<b>758,878</b>	<b>796,807</b>
Less: accumulated depreciation and depletion	(397,615)	(412,165)
<b>Property, plant, and equipment, net</b>	<b>\$ 361,263</b>	<b>\$ 384,642</b>

(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 (“FIFO”) 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:

	December 31, 2008	March 31, 2008
Raw materials	\$ 41,624	\$ 44,195
Work in process	30,368	28,158
Finished goods	76,124	74,857
<b>Inventories, net</b>	<b>\$ 148,116</b>	<b>\$ 147,210</b>

#### 6. Debt

Indebtedness was as follows:

	December 31, 2008	March 31, 2008
Private Placement	\$ 210,000	\$ 100,000
Credit facility	—	79,180
Other debt	300	800
<b>Total</b>	<b>210,300</b>	<b>179,980</b>
Less: current portion	300	700
<b>Long-term portion</b>	<b>\$ 210,000</b>	<b>\$ 179,280</b>

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On August 15, 2008, we issued \$150,000 of senior notes in a private placement (the “August 2008 Private Placement”) to certain institutional investors in an offering that was exempt from the registration requirements of the Securities Act of 1933. We have used and will use the proceeds for general corporate purposes, including repayment of debt, capital expenditures, acquisitions, dividends, and share repurchases. Of the \$150,000 notes, \$30,000 have a maturity of 5 years at an annual interest rate of 5.63%, another \$85,000 have a maturity of 10 years at an annual interest rate of 6.33%, and the remaining \$35,000 have a maturity of 12 years at an annual interest rate of 6.43%.

Also on August 15, 2008, we signed an amendment to various note purchase agreements, each dated December 17, 2003, that we previously entered into for the issuance of \$100,000 of senior notes in a private placement (the “December 2003 Private Placement”). This amendment, which was signed by the requisite majority in aggregate principal amount of the holders of the December 2003 Private Placement notes, modified the respective note purchase agreements primarily as they pertained to liens, electronic delivery of financial information and notices, and certain provisions regarding an intercreditor agreement.

During the third quarter of fiscal 2009, the first series of the December 2003 Private Placement notes in an aggregate principal amount of \$40,000 matured and was repaid.

Additional information regarding our indebtedness is included in our Annual Report on Form 10-K for the year ended March 31, 2008, filed with the SEC on May 30, 2008.

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**7. Additional Consolidated Balance Sheets Information**

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

	<u>December 31,</u> <u>2008</u>	<u>March 31,</u> <u>2008</u>
<b>Accrued payroll and other related liabilities:</b>		
Compensation and related items	\$ 13,311	\$ 17,500
Accrued vacation	5,280	14,085
Accrued bonuses	15,659	8,658
Accrued employee commissions	7,670	11,263
Other postretirement benefit plan obligation-current portion	5,129	6,824
Other employee benefit plans' obligations-current portion	801	913
<b>Total accrued payroll and other related liabilities</b>	<u>\$ 47,850</u>	<u>\$ 59,243</u>
<b>Accrued expenses and other:</b>		
Deferred revenues	\$ 25,977	\$ 24,833
Self-insured risk retention-current portion	5,870	5,436
Accrued dealer commissions	5,719	6,398
Accrued warranty	7,979	7,825
Other	30,416	27,353
<b>Total accrued expenses and other</b>	<u>\$ 75,961</u>	<u>\$ 71,845</u>
<b>Other liabilities:</b>		
Self-insured risk retention-long-term portion	\$ 11,814	\$ 11,814
Other postretirement benefit plan obligation-long-term portion	30,720	75,889
Defined benefit pension plans' obligations	9,583	14,058
Other employee benefit plans' obligations-long-term portion	1,621	1,314
Minority interest in joint venture	430	323
Accrued long-term income taxes	10,621	14,201
<b>Total other liabilities</b>	<u>\$ 64,789</u>	<u>\$117,599</u>

**8. Income Tax Expense**

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 months ended December 31, 2008 and 2007 were 33.5% and 33.1%, respectively. For the nine months ended December 31, 2008 and 2007, the effective income tax rates for continuing operations were 31.9% and 35.4%, respectively. The lower effective income tax rate for the nine months ended December 31, 2008 resulted principally from discrete item adjustments due to the settlement of certain tax years under examination in the United States.

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 carryforwards, and available tax planning alternatives.



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As of March 31, 2008, we had \$10,455 in unrecognized tax benefits, of which \$5,937 would favorably impact the effective tax rate if recognized. As of December 31, 2008, we had \$9,043 in unrecognized tax benefits, of which \$3,443 would favorably impact the effective income tax rate if recognized. There were no significant changes to any of these amounts during the third quarter of fiscal 2009. The decrease in the unrecognized tax benefits for the first nine months of fiscal 2009 is primarily due to the settlement of United States audit examinations for fiscal 2002 through fiscal 2005, partially offset by an increase in unrecognized tax benefits relating to both current and prior years. We believe that it is reasonably possible that unrecognized tax benefits may decrease by up to \$4,184 within 12 months of December 31, 2008, primarily as a result of audit settlements and the closure of statutes of limitation. As of December 31, 2008, we have recognized a liability for interest of \$1,144 and penalties of \$433.

We file income tax returns in the United States and in various state, local, and foreign jurisdictions. We are no longer subject to United States federal examinations for years before fiscal 2006 and, with limited exceptions, we are no longer subject to state and local tax income tax examinations or income tax examinations outside the United States for years before fiscal 2004.

### **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. 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, 2008, filed with the SEC on May 30, 2008.

During the second quarter of fiscal 2009, we modified our unfunded United States postretirement welfare benefits plan, reducing the benefits to be provided to retirees under the plan and increasing their share of the costs. As a result, the accumulated postretirement benefit obligation was re-measured. We also re-evaluated the actuarial assumptions, but made no changes to the assumptions used at March 31, 2008. The re-measurement resulted in a decrease of \$46,522 in the accumulated postretirement benefit obligation (decreases of \$1,695 and \$44,827 in the current and long-term portions of the accumulated postretirement benefit obligation, respectively), an increase of \$17,870 in long-term deferred income taxes, net, and an increase of \$28,652 in accumulated other comprehensive income. The impact of this change was recognized in our Consolidated Balance Sheets in fiscal 2009 and will be amortized as a component of the annual net periodic benefit cost over a period of approximately nine years.

A defined benefit pension plan is also provided to the employees of our Pieterlen, Switzerland manufacturing facility. During the third quarter of fiscal 2009, we adopted profitability improvement actions related to the Pieterlen, Switzerland manufacturing facility. These actions were part of the Fiscal 2009 Restructuring Plan and included a workforce reduction that impacted approximately 24 employees at the facility. These restructuring actions resulted in a curtailment and will result in a partial liquidation of the plan as the vested benefits of the affected employees are settled in the fourth quarter of fiscal 2009. The full impact of the actions could not be determined at this time. As a result, we recorded an estimated curtailment gain of approximately \$500, reducing our net periodic pension cost for the plan. The full impact of these actions will be calculated and recorded when the settlements are made during the fourth quarter of fiscal 2009.

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

	Defined Benefit Pension Plans				Other Postretirement Benefits Plan	
	U.S. Qualified		International		2008	2007
	2008	2007	2008	2007		
<b>Three Months Ended December 31,</b>						
Service cost	\$ 53	\$ 27	\$ 113	\$ 115	\$ —	\$ —
Interest cost	691	702	135	76	506	1,161
Expected return on plan assets	(719)	(802)	(147)	(110)	—	—
Recognized losses (gains)	159	103	(500)	—	364	247
Amortization of transition obligation	(28)	(28)	—	—	—	—
Prior service cost	—	—	—	—	(1,295)	—
<b>Net periodic benefit cost</b>	<b>\$ 156</b>	<b>\$ 2</b>	<b>\$ (399)</b>	<b>\$ 81</b>	<b>\$ (425)</b>	<b>\$ 1,408</b>

	Defined Benefit Pension Plans				Other Postretirement Benefits Plan	
	U.S. Qualified		International		2008	2007
	2008	2007	2008	2007		
<b>Nine Months Ended December 31,</b>						
Service cost	\$ 158	\$ 79	\$ 340	\$ 346	\$ —	\$ —
Interest cost	2,072	2,105	404	229	2,197	3,482
Expected return on plan assets	(2,156)	(2,404)	(442)	(330)	—	—
Recognized losses (gains)	477	309	(500)	—	1,003	741
Amortization of transition obligation	(83)	(83)	—	—	—	—
Prior service cost	—	—	—	—	(2,590)	—
<b>Net periodic benefit cost</b>	<b>\$ 468</b>	<b>\$ 6</b>	<b>\$ (198)</b>	<b>\$ 245</b>	<b>\$ 610</b>	<b>\$ 4,223</b>

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 welfare benefits plans) on our accompanying Consolidated Balance Sheets.

As a result of current market and economic instability, the values of the assets held by our defined benefit pension plans have declined since March 31, 2008. Although the specific impact of these declines has not been determined at this time, these developments may negatively impact the funded status of the plans and result in an increase in required contributions. Actuarial valuations for the plans will be completed during the fourth quarter of fiscal 2009.

**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, Customers, regulatory environment, and industries in which we participate. These legal proceedings, government investigations, and claims generally involve a variety of legal theories and allegations, including, without limitation, personal injury (e.g., slip and falls, burns, vehicle accidents), product

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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), economic loss (e.g., breach of contract, other commercial claims), financial (e.g., taxes, reporting), employment (e.g., wrongful termination, discrimination, benefits matters), and other claims for damage and relief.

In accordance with Statement of Accounting Standards No. 5 (“SFAS No. 5”), “Accounting for Contingencies,” we record accruals 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 estimated the likelihood of unfavorable outcomes and the amounts of such potential losses. In management’s opinion, the ultimate outcome of these proceedings and claims is not expected to have a material adverse effect on our consolidated financial position, results of operations, or cash flows. However, the ultimate outcome of claims, litigation, and other proceedings is unpredictable and actual results could be materially different from our estimates. We record expected recoveries under applicable insurance contracts when we are assured of recovery.

The United States Food and Drug Administration (“FDA”) and the United States Department of Justice have been conducting an investigation to our knowledge since 2003 involving our STERIS SYSTEM 1® sterile processing system. We have received requests for documents, including the subpoena received in January 2005, and are aware of interviews of current and former employees in connection with the investigation. We continue to respond to these requests and cooperate with the government agencies regarding this matter. There can be no assurance of the ultimate outcome of the investigation, or that any matter arising out of the investigation will not result in actions by the government agencies or third parties, or that the government agencies will not initiate administrative proceedings, civil proceedings, or criminal proceedings, or any combination thereof, against us.

On May 16, 2008, we received a warning letter (the “warning letter”) from the FDA regarding our STERIS SYSTEM 1 sterile processor and the STERIS™ 20 sterilant used with the processor (referred to collectively in the FDA letter and in this note as the “device”). We believe this warning letter arose from the previously disclosed investigation. In summary, the warning letter included the FDA’s assertion that significant changes or modifications have 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 believes a new premarket notification submission (known within FDA regulations as a 510(k) submission) should have been made. The warning letter referenced a number of changes to the device that, according to the FDA, require a new premarket notification submission, and asserted that our failure to make such a submission resulted in violations of applicable law. The warning letter also requested documentation and explanation regarding various corrective actions related to the device prior to 2003, and whether those actions should be considered corrections or removals requiring notice under applicable FDA regulations. On July 30, 2008 (with an Addendum on October 9, 2008), we provided a detailed response contending that the assertions in the warning letter are 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 is required. The agency did not address the removal and correction reporting issues and invited a meeting with STERIS to discuss the warning letter, based on our earlier request. 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

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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.

On January 20, 2009, we announced that we submitted to the FDA a new liquid chemical sterilization system for 510(k) clearance. The new submission follows discussions with the FDA regarding the prior 510(k) submission issues raised in the warning letter related to our existing device. The new liquid chemical sterilization system submitted to the FDA addresses the changes referenced by the FDA in the warning letter and includes additional technology updates.

We communicated to Customers that STERIS will continue supporting the existing SYSTEM 1 installed base by providing accessories, sterilant, service and parts, and replacement processor units for at least a two year period. In the United States, STERIS will continue sales of SYSTEM 1 processors only as replacements for existing units. Once the new liquid chemical sterilization system is cleared for market use by the FDA, we will work with Customers to transition to the new product.

For fiscal 2009, ending March 31, 2009, we anticipate that this development will not have a material impact on our consolidated financial results. Beginning in fiscal 2010, we anticipate that annualized revenues will be impacted by approximately \$10,000 until the new product is cleared and commercialized.

We continue to believe that the changes described in the warning letter from the FDA do not significantly affect the safety or effectiveness of the device and, therefore, did not and do not require a new premarket notification submission, and further, that the corrective actions were compliant with FDA regulations. However, if the FDA's assertions are ultimately determined to be correct, the device would be considered adulterated and misbranded under United States law, in which case, we would be required to make a new premarket notification submission. The FDA also could take enforcement action immediately without providing the opportunity to make a new 510(k) submission. If we did not make that 510(k) submission, if the FDA rejected that 510(k) submission, if the FDA took immediate enforcement action, or if governmental agencies and/or third parties otherwise considered the device to be non-compliant, civil, administrative, or criminal proceedings could be initiated. These or other proceedings involving our STERIS SYSTEM 1 sterile processing system and the STERIS 20 sterilant, a significant product to us, could possibly result in judgments requiring re-labeling or restriction on the manufacturing, sale, or distribution of products, or could require us to take other actions, including recalls, to pay fines or civil damages, or to be subject to other governmental or third party claims or remedies, which could materially affect our business, performance, value, financial condition, and results of operations. We intend to continue our discussions with the FDA and the Department of Justice to seek resolution of all other issues regarding the warning letter and the investigation.

The STERIS SYSTEM 1 sterile processing system has been in use since its clearance by the FDA in the late 1980's. We estimate that the devices currently in operation are used by approximately 5,000 users in excess of 30,000 times per day in the aggregate and that over 250 million medical instruments have been processed using the STERIS SYSTEM 1 sterile processing system. For additional information regarding this matter, see the following portions of our Annual Report on Form 10-K for the year ended March 31, 2008 filed with the SEC on May 30, 2008: "Business – Information with respect to our Business in General – Recent Events – Government Regulations", "Risk Factors – We are subject to extensive regulatory requirements and must receive and maintain regulatory clearance or approval for many products and operations. Failure to receive or maintain, or delays in receiving, clearance or approvals may hurt our revenues, profitability, financial condition or value", our

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Current Report on Form 8-K filed with the SEC on January 20, 2009, and Item 1A of Part II of this Form 10-Q, titled, “Risk Factors.”

We believe we have adequately reserved for our current litigation and that the ultimate outcome of pending lawsuits and claims will not have a material adverse effect 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 of current or future litigation, claims, proceedings, investigations, including the previously discussed investigation, or their effect. 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. Additional information regarding our contingencies is included in Item 2 of Part I titled, “Management’s Discussion and Analysis of Financial Conditions and Results of Operations” and in Item 1 of Part II titled, “Legal Proceedings” contained in this Quarterly Report on Form 10-Q.

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, 2008 and no new material pending legal proceedings that are required to be reported.

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 a 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 Expense” and in our Annual Report on Form 10-K for the year ended March 31, 2008, filed with the SEC on May 30, 2008.

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

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

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

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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 to the segments. 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. The Corporate and other segment includes the gross profit and direct expenses of the Defense and Industrial business unit, as well as certain unallocated corporate costs. These costs include executive office costs, Board of Directors compensation, shareholder services and investor relations, external audit fees, and legacy pension and postretirement benefit costs from our former Erie, Pennsylvania manufacturing operation.

The accounting policies for reportable segments are the same as those for the consolidated Company. Individual facilities, equipment and intellectual properties are utilized for production for multiple segments at varying levels over time. For the three months and nine months ended December 31, 2008, 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, 2008, filed with the SEC on May 30, 2008.

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

	Three Months Ended December 31,		Nine Months Ended December 31,	
	2008	2007	2008	2007
<b>Revenues:</b>				
Healthcare	\$230,177	\$220,451	\$682,078	\$622,826
Life Sciences	52,787	56,305	157,977	155,330
Isomedix	34,642	34,555	108,476	104,820
Total reportable segments	<u>317,606</u>	<u>311,311</u>	<u>948,531</u>	<u>882,976</u>
Corporate and other	1,861	2,663	5,628	6,944
<b>Total revenues</b>	<u><u>\$319,467</u></u>	<u><u>\$313,974</u></u>	<u><u>\$954,159</u></u>	<u><u>\$889,920</u></u>
<b>Operating income:</b>				
Healthcare	\$ 32,406	\$ 29,343	\$ 94,334	\$ 68,873
Life Sciences	7,151	2,337	14,426	5,975
Isomedix	8,453	7,025	26,851	21,827
Total reportable segments	48,010	38,705	135,611	96,675
Corporate and other	(2,192)	(5,243)	(7,785)	(15,198)
<b>Total operating income</b>	<u><u>\$ 45,818</u></u>	<u><u>\$ 33,462</u></u>	<u><u>\$127,826</u></u>	<u><u>\$ 81,477</u></u>

For the three months ended December 31, 2008, operating results of the Healthcare and Life Sciences reporting segments include pre-tax restructuring expenses of \$9,958 and \$2,386, respectively. For the three months ended December 31, 2007, operating results of the Healthcare reporting segment includes pre-tax restructuring expenses of \$952. For the nine months ended December 31, 2008, operating results of the Healthcare, Life Sciences and Isomedix reporting segments include pre-tax restructuring expenses of \$9,795, \$2,388 and \$40, respectively, and the operating results of Corporate and other include pre-tax restructuring

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expenses of negative \$1. For the nine months ended December 31, 2007, operating results of the Healthcare and Life Sciences reporting segments include pre-tax restructuring expenses of \$3,037 and \$4 respectively.

Financial information for our United States and international geographic areas is presented in the following table. Revenues are based on the location of our Customers. Long-lived assets are those assets that are identified within the operations in each geographic area, including property, plant, equipment, goodwill, intangibles, and other assets.

	Three Months Ended December 31,		Nine Months Ended December 31,	
	2008	2007	2008	2007
<b>Revenues:</b>				
United States	\$ 250,355	\$ 238,988	\$ 736,713	\$ 688,443
International	69,112	74,986	217,446	201,477
<b>Total revenues</b>	<u>\$ 319,467</u>	<u>\$ 313,974</u>	<u>\$ 954,159</u>	<u>\$ 889,920</u>
	December 31, 2008	March 31, 2008		
<b>Long-lived assets:</b>				
United States	\$ 546,663	\$ 559,305		
International	134,122	166,611		
<b>Total long-lived assets</b>	<u>\$ 680,785</u>	<u>\$ 725,916</u>		

## 12. Common Shares

Basic earnings per common share are calculated based upon the weighted average number of common shares outstanding. Diluted earnings per common share are calculated 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 table summarizes the common shares and common share equivalents outstanding used to calculate basic and diluted earnings per common share:

	Three Months Ended December 31,		Nine Months Ended December 31,	
	2008	2007	2008	2007
		(shares in thousands)		
Weighted average common shares outstanding—basic	58,660	62,995	58,889	64,073
Dilutive effect of common share equivalents	687	841	901	858
<b>Weighted average common shares outstanding and common share equivalents—diluted</b>	<u>59,347</u>	<u>63,836</u>	<u>59,790</u>	<u>64,931</u>

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Options to purchase the following number of common shares at the following weighted average exercise prices were outstanding but excluded from the computation of diluted earnings per common 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 December 31,		Nine Months Ended December 31,	
	2008	2007	2008	2007
Number of common share options	916	1,312	758	1,301
Weighted average exercise price	\$ 29.37	\$ 28.11	\$ 31.20	\$ 28.24

### 13. Repurchases of Common Shares

During the first nine months of fiscal 2009, we paid an aggregate amount of \$80,466 for the repurchase of 2,646,177 of our common shares, representing an average price of \$30.41 per common share. This includes certain March 2008 repurchases of 225,000 of our common shares for an aggregate amount of \$6,028 that were not settled until April 2008.

At December 31, 2008, \$203,864 in common shares remained authorized for repurchase and 11,610,524 common shares were held in treasury.

### 14. Share-Based Compensation

STERIS has a long-term incentive plan that makes available up to 6,600,000 common shares for grant 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, and restricted share units, and stock appreciation rights. STERIS previously granted stock options under various other plans. 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, stock options granted become exercisable in 25% increments 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 ceases to be employed by us. Certain option agreements have provisions that provide for an adjustment to the normal vesting schedule allowing the options to vest on a prorated basis as defined by the agreement in the event of employment termination. Restricted shares and restricted share units generally cliff vest over an approximately three-year period. As of December 31, 2008, 4,573,079 shares remain available for grant under the long-term incentive plan.

We account for share-based compensation grants in accordance with Statement of Financial Accounting Standard No. 123 (revised 2004) ("SFAS No. 123R"), "Share-Based Payment." We estimate the fair value of share-based awards on the grant date using an option pricing model. 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 revenues or selling, general and administrative expenses in a manner consistent with the employee's compensation and benefits.

Compensation cost recognized in the first nine months of fiscal 2009 and fiscal 2008 includes (a) compensation cost for all share-based compensation granted, but not yet vested, as of April 1, 2006, based on the grant date fair value estimated according to the original provisions of Statement of Financial Accounting



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Standards No. 123 (“SFAS No. 123”), “Accounting for Stock-Based Compensation,” and (b) compensation cost for all share-based compensation granted on or after April 1, 2006, based on the grant date fair value estimated according to the provisions of SFAS No. 123R.

Total share based compensation expense recognized during the third quarter and first nine months of fiscal 2009 was \$1,810 and \$5,653, respectively, before income taxes (\$1,131 and \$3,533, respectively, net of income taxes). Total share based compensation expense recognized during the third quarter and first nine months of fiscal 2008 was \$2,296 and \$6,465, respectively, before income taxes (\$1,410 and \$3,970, respectively, net of income taxes).

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 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 following weighted-average assumptions were used for options granted during the first nine months of fiscal 2009 and fiscal 2008:

	<u>Fiscal 2009</u>	<u>Fiscal 2008</u>
Risk-free interest rate	2.65%	5.04%
Expected life of options	5.64 years	5.52 years
Expected dividend yield of stock	0.86%	0.93%
Expected volatility of stock	27.72%	29.61%

The risk-free interest rate is based upon the U.S. Treasury yield curve at the time of grant. 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 an estimated forfeiture rate of 2.2 percent for fiscal 2007 through the first quarter of fiscal 2008, then 2.49 percent from the second quarter of fiscal 2008 through the fourth quarter of fiscal 2008, and beginning in the first quarter of fiscal 2009, 2.86 percent. This rate is calculated based upon historical activity and represents an estimate of the granted options not expected to vest. If actual forfeitures differ from this calculated rate, we may be required to make additional adjustments to compensation expense in future periods. The assumptions used above are reviewed at the time of each significant option grant, or at least annually.

Stock option activity for the first nine months of fiscal 2009 is as follows:

	<u>Number of Options</u>	<u>Weighted Average Exercise Price</u>	<u>Weighted Average Remaining Contractual Term (Years)</u>	<u>Aggregate Intrinsic Value</u>
Outstanding at March 31, 2008	5,102,912	\$ 22.76		
Granted	555,700	30.91		
Exercised	(1,793,689)	20.77		
Forfeited	(138,577)	28.36		
<b>Outstanding at December 31, 2008</b>	<b>3,726,346</b>	<b>\$ 24.72</b>	<b>6.19</b>	<b>\$ 5,178</b>
<b>Exercisable at December 31, 2008</b>	<b>2,518,367</b>	<b>\$ 23.01</b>	<b>5.07</b>	<b>\$ 5,178</b>

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The aggregate intrinsic value in the table above represents the total pre-tax difference between the \$23.89 closing price of our common shares on December 31, 2008 over the exercise price of the stock option, multiplied by the number of options outstanding or outstanding and exercisable, as applicable. Under SFAS No. 123R, 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 nine months of fiscal 2009 and fiscal 2008 was \$24,348 and \$6,729, respectively. Net cash proceeds from the exercise of stock options were \$33,254 and \$11,540 for the first nine months of fiscal 2009 and fiscal 2008, respectively. An income tax benefit of \$8,766 and \$2,591 was realized from stock option exercises during the first nine months of fiscal 2009 and fiscal 2008, respectively.

The weighted average grant date fair value of stock option grants was \$8.74 and \$9.47 for the first nine months of fiscal 2009 and fiscal 2008, respectively.

Stock appreciation rights ("SARS") were also granted during the first quarter of fiscal 2009. The 24,880 SARS granted carry generally the same terms and vesting requirements as stock options except that they are settled in cash upon exercise. The fair value of the SARS at the grant date was an aggregate amount of \$111 and was determined utilizing the same assumptions as those used for the valuation of stock options. The fair value of the outstanding SARS is revalued at each reporting date and related expense is adjusted appropriately.

Restricted share and restricted share unit activity for the first nine months of fiscal 2009 is as follows:

	<b>Number of Restricted Shares</b>	<b>Number of Restricted Share Units</b>	<b>Weighted- Average Grant Date Fair Value</b>
Nonvested at March 31, 2008	114,035	95,850	\$ 26.13
Granted	105,227	3,300	30.68
Vested	(4,826)	(41,000)	27.95
Canceled	(13,040)	—	26.91
<b>Nonvested at December 31, 2008</b>	<b><u>201,396</u></b>	<b><u>58,150</u></b>	<b><u>\$ 27.65</u></b>

Restricted shares and restricted share units granted were valued based on the closing stock price at the grant date and are generally subject to cliff vesting over an approximately three-year period based upon the terms of the grants. The total intrinsic value of restricted shares and restricted share units that vested during the first nine months of fiscal 2009 and fiscal 2008 was \$1,281 and \$61, respectively, which is calculated as the number of restricted shares and share units vested during the period multiplied by the weighted-average grant date fair value.

As of December 31, 2008, there was \$10,348 of total unrecognized compensation cost related to non-vested share-based compensation granted under our share-based compensation plans. The cost is expected to be recognized over a weighted average period of 1.83 years.

**STERIS CORPORATION AND SUBSIDIARIES**  
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#### 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 country 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 within "Accrued expenses and other." 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 based on historical claim experience and specific customer contracts, and adjust the amounts as necessary. We also review the underlying assumptions used in our analysis at least annually.

Changes in our warranty liability during the first nine months of fiscal 2009 were as follows:

Balance, March 31, 2008	\$ 7,825
Warranties issued during the period	8,204
Settlements made during the period	<u>(8,050)</u>
<b>Balance, December 31, 2008</b>	<b><u>\$ 7,979</u></b>

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 \$16,597 and \$16,829 as of December 31, 2008 and March 31, 2008, respectively. Such deferred revenues are then amortized on a straight-line basis over the contract term and recognized as service revenues on the accompanying Consolidated Statements of Income. The activity related to the liability for deferred service contract revenues has been excluded from the table presented above.

#### 16. Foreign Currency Forward Contracts

From time to time, we enter into forward contracts to hedge potential foreign currency gains and losses that arise from assets and liabilities denominated in foreign currencies, including inter-company transactions. We do not use derivative financial instruments for speculative purposes. These contracts are marked to market, with gains and losses recognized on the accompanying Consolidated Statements of Income within "Selling, general, and administrative expenses."

At December 31, 2008, we held foreign currency forward contracts to buy 1.9 million euros and 56.0 million Mexican pesos, and to sell 1.9 million euros. We provide additional information regarding foreign currency forward contracts in note 18 to our consolidated financial statements titled, "Subsequent Events."

#### 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

**STERIS CORPORATION AND SUBSIDIARIES**  
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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 December 31, 2008:

	December 31, 2008	Fair Value Measurements at December 31, 2008 Using		
		Quoted Prices in Active Markets for Identical Assets Level 1	Significant Other Observable Inputs Level 2	Significant Unobservable Inputs Level 3
<b>Assets:</b>				
Investments (2)	\$ 867	\$ 867	\$ —	\$ —
<b>Liabilities:</b>				
Forward contracts (1)	\$ 378	\$ —	\$ 378	\$ —
Deferred compensation plans (2)	880	880	—	—

- (1) The fair values of forward contracts are based on period-end spot 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 account balances (amounts deferred, together with earnings (losses)).

#### **18. Subsequent Events**

Subsequent to December 31, 2008, foreign currency contracts to buy 1.9 million euros and 28.0 million Mexican pesos, and to sell 1.9 million euros matured. Subsequent to December 31, 2008, we entered into and settled a foreign currency forward contract to sell 28.0 million Mexican pesos.

On January 8, 2009, the Company's Board of Directors authorized the sale of substantially all the assets of an Isomedix facility located in the Northeastern United States to a Customer. The sales price is anticipated to be no less than \$8,000. The net property, plant, and equipment associated with this facility amounted to \$3,882 at December 31, 2008.

On January 21, 2009, we announced that the Company's Board of Directors had declared a quarterly cash dividend in the amount of \$0.08 per common share, payable on March 11, 2009, to shareholders of record as of February 11, 2009.

**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 December 31, 2008, and the related consolidated statements of income for the three-month and nine-month periods ended December 31, 2008 and 2007, and the consolidated statements of cash flows for the nine-month periods ended December 31, 2008 and 2007. 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, 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 on 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, 2008 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, 2008, 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, 2008, 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  
February 5, 2009

## 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 the prior periods;
- where our earnings came from;
- how this affects our overall financial condition; and
- where cash will come from to pay for future capital expenditures.

As you read the MD&A, you should refer to information in our unaudited consolidated financial statements, which present the results of our operations for the third quarter and first nine months of fiscal 2009 and fiscal 2008. For additional information, you should also read the MD&A in our Annual Report on Form 10-K for the year ended March 31, 2008, filed with the SEC on May 30, 2008. 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 have used the following financial measures in the context of this report: backlog, debt-to-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-capital** - We define debt-to-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.
- **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.

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In the following sections of MD&A, we may, at times, 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, net, plus proceeds from the sale of property, plant, equipment, and intangibles, which are also presented in the Consolidated Statements of Cash Flows. We use this measure to gauge our ability to fund future growth outside of core operations, repurchase common shares, pay cash dividends, and reduce debt. The following table reconciles the calculations of our free cash flow for the nine months ended December 31, 2008 and 2007:

<i>(dollars in thousands)</i>	Nine Months Ended December 31,	
	2008	2007
Cash flows from operating activities	\$ 108,324	\$ 94,945
Purchases of property, plant, equipment and intangibles, net	(29,704)	(39,142)
Proceeds from the sale of property, plant, equipment and intangibles	10,981	4,740
<b>Free cash flow</b>	<b>\$ 89,601</b>	<b>\$ 60,543</b>

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. For example, when discussing changes in revenues, we may, at times, exclude the impact of recently completed acquisitions and divestitures.

We present these financial measures because we believe that understanding these additional factors underlying our performance provides meaningful analysis of our financial performance. These financial measures should not be considered alternatives to measures required by U.S. GAAP. Our calculations of these measures may be different from the calculations of similar measures used by other companies.

**Revenues - Defined.** As required by Regulation S-X, we separately present revenues generated as either product revenues or service revenues on our Consolidated Statements of Income for each 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** - We present revenues 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<sup>®</sup> technology, water stills, and pure steam generators; surgical lights, tables and ceiling management systems; and the consumable family of products, which includes STERIS SYSTEM 1<sup>®</sup> 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 capital equipment, as well as revenues generated from contract sterilization offered through our Isomedix segment.
- **Capital Revenues** - We define capital revenues, a subset of product revenues, as revenues generated from sales of capital equipment, which includes steam and low temperature liquid sterilizers, washing systems, VHP<sup>®</sup> technology, water stills, and pure steam generators; and surgical lights, tables and ceiling management systems.

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- **Consumable Revenues** - We define consumable revenues, a subset of product revenues, as revenues generated from sales of the consumable family of products, which includes STERIS SYSTEM 1® consumables, sterility assurance products, skin care products, and cleaning consumables.
- **Recurring Revenues** - We define recurring revenues as the combination of consumable revenues and service revenues.

**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 equipment, consumables, and services to healthcare, pharmaceutical, industrial, and governmental Customers.

The bulk of our revenues is 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 may drive growth. Within the healthcare market, there is increased concern regarding the level of hospital-acquired infections around the world. The pharmaceutical industry has been impacted by increased regulatory scrutiny of cleaning and validation processes, mandating that manufacturers improve their processes. In the contract sterilization industry, where our Isomedix segment competes, a trend toward the outsourcing of sterilization services continues to drive growth.

However, recent financial market conditions may have an adverse economic effect and could negatively impact investment activity within the markets we serve and the ability of our Customers to obtain financing. Should that be the case, our business and the growth of our markets could be negatively impacted and our exposure to bad debt losses could increase.

Fiscal 2009 third quarter and year-to-date revenues were \$319.5 million and \$954.2 million, respectively, representing increases of 1.7% and 7.2%, respectively, from each of the same prior year periods. Revenue growth in the third quarter of fiscal 2009 was primarily driven by a 4.4% increase in our Healthcare business segment. Revenue growth in the first nine months of fiscal 2009 was driven by increases in all three reportable business segments.

Our gross margin percentages were 38.8% and 40.6% for the third quarter and first nine months of fiscal 2009, respectively, representing decreases of 150 basis points and 10 basis points, respectively, from the same prior year periods. Gross margins during both fiscal 2009 periods include pre-tax expenses of \$9.5 million related to our restructuring actions, which are discussed in further detail below. During both fiscal 2009 periods, we benefited from price increases and productivity improvements, including labor savings from the transfer of our manufacturing operations from Erie, Pennsylvania to Monterrey, Mexico, which more than offset increases in raw materials and freight costs. We are now beyond the one year anniversary of reaching full production levels in Monterrey and therefore, we do not anticipate significant additional savings when compared to prior year periods. In the third quarter of fiscal 2009, we also benefited from favorable foreign currency exchange rates.

Free cash flow was \$89.6 million in the first nine months of fiscal 2009 compared to \$60.5 million in the same prior year period, reflecting an increase in cash earnings in fiscal 2009 and \$9.5 million in proceeds received during the second quarter of fiscal 2009 from the sale of an Isomedix facility located in the Chicago, Illinois area to a privately held Customer. Our debt-to-capital ratio increased to 22.7% at December 31, 2008 from 20.3% at March 31, 2008, reflecting increased borrowings which were used and will be used for general corporate purposes, including repayment of debt, capital expenditures, acquisitions, dividends, and common share repurchases. During the first nine months of fiscal 2009, we paid for the repurchase of approximately 2.6 million common shares at an average purchase price per share of \$30.41. During the first nine months of fiscal 2008, we paid for the repurchase of approximately 3.4 million common shares at an average purchase price per share of \$28.24. We also declared and paid quarterly cash dividends totaling \$0.22 per common share in the first nine months of fiscal 2009. In the first nine months of fiscal 2008, we declared and paid quarterly cash dividends totaling \$0.17 per common share.



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Additional information regarding our fiscal 2009 third quarter and year to date financial performance is included in the subsection below titled “Results of Operations.”

### **Matters Affecting Comparability**

**Restructuring.** During the third quarter of fiscal 2009, we adopted a restructuring plan intended to enhance our profitability and improve efficiency primarily by reducing ongoing international operating costs (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 will also close two sales offices in Japan. These actions are expected to impact approximately 100 employees worldwide. In the three months ended December 31, 2008, we recorded \$13.7 million in pre-tax expenses related to these actions, including \$3.8 million recorded as restructuring expenses and \$9.9 million recorded in cost of revenues. The expenses recorded primarily related to severance and related benefits, product rationalization costs, and asset impairment costs.

In the fourth quarter of fiscal 2008, we adopted a restructuring plan intended to enhance profitability and improve efficiency by reducing ongoing operating costs (the “Fiscal 2008 Restructuring Plan”). The Fiscal 2008 Restructuring Plan included the closure of two sales offices, rationalization of certain products, and workforce reductions in certain support functions. In the third quarter of fiscal 2009, we reversed our decision with respect to one of the sales offices, since a satisfactory exit from our warranty and service obligations could not be achieved. As a result, we have reversed restructuring expenses recorded in the fourth quarter of fiscal 2008 totaling approximately \$1.0 million.

During the third quarter and first nine months of fiscal 2009, we did not incur any significant additional expenses related to our other previously announced restructuring actions, and we settled certain termination benefits for less than originally expected. During the third quarter and first nine months of fiscal 2008, we recorded pre-tax expenses of \$1.3 million and \$4.6 million, including \$1.0 million and \$3.1 million classified as restructuring expenses, respectively. The expenses recorded primarily related to accelerated depreciation of assets, asset impairment costs, compensation and severance, and termination benefits related to the transfer of our Erie, Pennsylvania manufacturing operations to Monterrey, Mexico.

**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 third quarter of fiscal 2009, our revenues were unfavorably impacted by \$7.0 million, or 2.1%, and income before taxes was favorably impacted by \$5.7 million, or 13.9%, compared with the same period in fiscal 2008. During the first nine months of fiscal 2009, our revenues were unfavorably impacted by \$1.0 million, or 0.1%, and income before taxes was favorably impacted by \$3.2 million, or 2.6%, as compared to the same prior year period.

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**Results of Operations**

In the following subsections, we discuss our earnings and the factors affecting them for the third quarter and first nine months of fiscal 2009 compared with the same fiscal 2008 periods. We begin with a general overview of our operating results and then separately discuss earnings for our operating segments.

**Revenues.** The following table contains information regarding our revenues for the third quarter and first nine months of fiscal 2009 and 2008:

<i>(dollars in thousands)</i>	Three Months Ended December 31,			Percent Change	Percent of Total Revenues	
	2008	2007	Change		2008 (1)	2007 (1)
Capital Revenues	\$ 129,563	\$ 129,025	\$ 538	0.4%	40.6%	41.1%
Consumable Revenues	73,745	72,718	1,027	1.4%	23.1%	23.2%
Product Revenues	203,308	201,743	1,565	0.8%	63.6%	64.3%
Service Revenues	116,159	112,231	3,928	3.5%	36.4%	35.7%
<b>Total Revenues</b>	<b>\$ 319,467</b>	<b>\$ 313,974</b>	<b>\$ 5,493</b>	<b>1.7%</b>	<b>100.0%</b>	<b>100.0%</b>
Service Revenues	\$ 116,159	\$ 112,231	\$ 3,928	3.5%	36.4%	35.7%
Consumable Revenues	73,745	72,718	1,027	1.4%	23.1%	23.2%
Recurring Revenues	189,904	184,949	4,955	2.7%	59.4%	58.9%
Capital Revenues	129,563	129,025	538	0.4%	40.6%	41.1%
<b>Total Revenues</b>	<b>\$ 319,467</b>	<b>\$ 313,974</b>	<b>\$ 5,493</b>	<b>1.7%</b>	<b>100.0%</b>	<b>100.0%</b>
United States	\$ 250,355	\$ 238,988	\$ 11,367	4.8%	78.4%	76.1%
International	69,112	74,986	(5,874)	(7.8)%	21.6%	23.9%
<b>Total Revenues</b>	<b>\$ 319,467</b>	<b>\$ 313,974</b>	<b>\$ 5,493</b>	<b>1.7%</b>	<b>100.0%</b>	<b>100.0%</b>

  

	Nine Months Ended December 31,			Percent Change	Percent of Total Revenues	
	2008	2007	Change		2008 (1)	2007 (1)
Capital Revenues	\$ 379,993	\$ 345,910	\$ 34,083	9.9%	39.8%	38.9%
Consumable Revenues	222,753	210,653	12,100	5.7%	23.3%	23.7%
Product Revenues	602,746	556,563	46,183	8.3%	63.2%	62.5%
Service Revenues	351,413	333,357	18,056	5.4%	36.8%	37.5%
<b>Total Revenues</b>	<b>\$ 954,159</b>	<b>\$ 889,920</b>	<b>\$ 64,239</b>	<b>7.2%</b>	<b>100.0%</b>	<b>100.0%</b>
Service Revenues	\$ 351,413	\$ 333,357	\$ 18,056	5.4%	36.8%	37.5%
Consumable Revenues	222,753	210,653	12,100	5.7%	23.3%	23.7%
Recurring Revenues	574,166	544,010	30,156	5.5%	60.2%	61.1%
Capital Revenues	379,993	345,910	34,083	9.9%	39.8%	38.9%
<b>Total Revenues</b>	<b>\$ 954,159</b>	<b>\$ 889,920</b>	<b>\$ 64,239</b>	<b>7.2%</b>	<b>100.0%</b>	<b>100.0%</b>
United States	\$ 736,713	\$ 688,443	\$ 48,270	7.0%	77.2%	77.4%
International	217,446	201,477	15,969	7.9%	22.8%	22.6%
<b>Total Revenues</b>	<b>\$ 954,159</b>	<b>\$ 889,920</b>	<b>\$ 64,239</b>	<b>7.2%</b>	<b>100.0%</b>	<b>100.0%</b>

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

***Quarter over Quarter Comparison***

Revenues increased \$5.5 million, or 1.7%, to \$319.5 million for the quarter ended December 31, 2008, as compared to \$314.0 million for the comparable prior year quarter. The increase was driven primarily by a 2.7% increase in recurring revenues resulting from growth of 3.5% and 1.4% in service revenues and consumable revenues, respectively. Capital equipment revenues increased 0.4% quarter over quarter, as growth in the United States and in the Asia Pacific region more than offset declines in Canada, Europe, and the Latin America region.

International revenues decreased \$5.9 million, or 7.8%, to \$69.1 million, for the quarter ended December 31, 2008, as compared to \$75.0 million for the comparable prior year quarter. Foreign currency movements were the primary driver of the decrease in international revenues. Declines in international capital equipment revenues and consumable revenues were 10.0% and 8.2%, respectively. The primary driver for this decrease was within the Life Sciences segment, which experienced a decline in international capital equipment revenues of 28.8% quarter over quarter. Service revenues also decreased 2.6% as compared to the same prior year period.

United States revenues increased \$11.4 million, or 4.8%, to \$250.4 million, for the quarter ended December 31, 2008, as compared to \$239.0 million for the comparable prior year quarter. United States revenues were positively impacted by recurring revenue growth in all three business segments with increases of 5.0%, 8.7%, and 0.6% in the Healthcare, Life Sciences, and Isomedix segments, respectively. Capital equipment revenues also grew within the Healthcare segment with an increase of 9.7%, which more than offset a 14.5% decline in the Life Sciences segment's capital equipment revenues.

***Nine Months over Nine Months Comparison***

Revenues increased \$64.2 million, or 7.2%, to \$954.2 million for the first nine months of fiscal 2009, as compared to \$889.9 million for the same prior year period. Capital equipment revenues increased 9.9%, driven by growth in the Healthcare business segment. Recurring revenues also increased 5.5%, reflecting growth in consumable revenues and service revenues, with increases of 5.7% and 5.4%, respectively.

International revenues for the first nine months of fiscal 2009 amounted to \$217.4 million, an increase of \$16.0 million, or 7.9%, as compared to the first nine months of fiscal 2008. International revenues were positively impacted by strong capital equipment revenue growth within both the Healthcare and Life Sciences segments, with increases of 11.4% and 2.8%, respectively. Recurring revenues grew within all three business segments with increases of 7.2%, 8.0%, and 4.9% in the Healthcare, Life Sciences, and Isomedix segments.

United States revenues for the first nine months of fiscal 2009 amounted to \$736.7 million, an increase of \$48.3 million, or 7.0%, as compared to the first nine months of fiscal 2008. Strong underlying demand for our consumable products in the Healthcare and Life Sciences segments and service offerings in all three segments, combined with growth in capital revenues in the Life Sciences segment more than offset a decline in capital revenues in the Healthcare segment.

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

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**Gross Profit.** The following table contains information regarding our gross profit for the three and nine months ended December 31, 2008 and 2007:

<i>(dollars in thousands)</i>	Three Months Ended		Change	Percent Change
	December 31,			
	2008	2007		
<b>Gross Profit:</b>				
Product	\$ 76,197	\$ 81,035	\$ (4,838)	(6.0)%
Service	47,870	45,567	2,303	5.1%
<b>Total Gross Profit</b>	<b>\$124,067</b>	<b>\$126,602</b>	<b>\$ (2,535)</b>	<b>(2.0)%</b>
<b>Gross Profit Percentage:</b>				
Product	37.5%	40.2%		
Service	41.2%	40.6%		
<b>Total Gross Profit Percentage</b>	<b>38.8%</b>	<b>40.3%</b>		
	Nine Months Ended		Change	Percent Change
	December 31,			
	2008	2007		
<b>Gross Profit:</b>				
Product	\$241,845	\$224,185	\$17,660	7.9%
Service	145,086	138,225	6,861	5.0%
<b>Total Gross Profit</b>	<b>\$386,931</b>	<b>\$362,410</b>	<b>\$24,521</b>	<b>6.8%</b>
<b>Gross Profit Percentage:</b>				
Product	40.1%	40.3%		
Service	41.3%	41.5%		
<b>Total Gross Profit Percentage</b>	<b>40.6%</b>	<b>40.7%</b>		

Our gross profit (margin) is affected by the volume, pricing, and mix of our products and services, as well as, the costs associated with the products and services that are sold. Gross margin for the third quarter of fiscal 2009 amounted to 38.8%, representing a decrease of 150 basis points as compared to the same prior year period. For the first nine months of fiscal 2009, gross margin amounted to 40.6%, representing a decrease of 10 basis points as compared to the same prior year period. Gross margins during both the third quarter and first nine months of fiscal 2009 include pre-tax expenses of \$9.5 million related to our restructuring actions. During both fiscal 2009 periods, we benefited from price increases, favorable foreign currency exchange rates, and productivity improvements, including labor savings from the transfer of our manufacturing operations from Erie, Pennsylvania to Monterrey, Mexico, which more than offset increases in raw materials and freight costs. We are now beyond the one year anniversary of reaching full production levels in Monterrey and therefore, we do not anticipate significant additional savings when compared to prior year periods.

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**Operating Expenses.** The following table contains information regarding our operating expenses for the three and nine months ended December 31, 2008 and 2007:

<i>(dollars in thousands)</i>	Three Months Ended December 31,		Change	Percent Change
	2008	2007		
<b>Operating Expenses:</b>				
Selling, General, and Administrative	\$ 67,272	\$ 82,015	\$(14,743)	(18.0)%
Research and Development	8,122	10,173	(2,051)	(20.2)%
Restructuring Expenses	2,855	952	1,903	199.9%
<b>Total Operating Expenses</b>	<b>\$ 78,249</b>	<b>\$ 93,140</b>	<b>\$(14,891)</b>	<b>(16.0)%</b>
	Nine Months Ended December 31,		Change	Percent Change
	2008	2007		
<b>Operating Expenses:</b>				
Selling, General, and Administrative	\$231,910	\$249,929	\$(18,019)	(7.2)%
Research and Development	24,469	27,963	(3,494)	(12.5)%
Restructuring Expenses	2,726	3,041	(315)	(10.4)%
<b>Total Operating Expenses</b>	<b>\$259,105</b>	<b>\$280,933</b>	<b>\$(21,828)</b>	<b>(7.8)%</b>

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 revenues, SG&A decreased 500 basis points to 21.1% for the third quarter of fiscal 2009 and decreased 380 basis points to 24.3% for the first nine months of fiscal 2009, as compared to the same prior year periods. The decrease in SG&A in both fiscal 2009 periods includes a reduction of \$7.9 million resulting from a change in our paid time off benefit which is now earned throughout the calendar year rather than earned in full at the beginning of the year. The reduction in both periods also reflects improved operating expense leverage and the benefit of cost reduction initiatives implemented. SG&A expenses for the first nine months of fiscal 2009 also includes a \$2.1 million gain on the sale of an Isomedix facility located in the Chicago, Illinois area to a privately held Customer.

As a percentage of total revenues, research and development expenses were 2.5% and 2.6% for the three and nine months ended December 31, 2008, respectively, as compared to 3.2% and 3.1%, respectively, for the same prior year periods. For the three and nine months ended December 31, 2008, research and development expenses decreased 20.2% and 12.5% to \$8.1 million and \$24.5 million, respectively, as compared to \$10.2 million and \$28.0 million, respectively, during the same prior year periods. 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 innovations. During the third quarter and first nine months of fiscal 2009, our investments in research and development continued to be focused on, but were not limited to, enhancing capabilities of new chemistries and delivery systems for disinfection and sterilization, sterile processing combination technologies, surgical tables and accessories, and in the areas of emerging infectious agents such as Prions and Nanobacteria.

Our operating expenses include restructuring expenses. During the third quarter of fiscal 2009, we recorded \$13.7 million in pre-tax restructuring expenses related to the Fiscal 2009 Restructuring Plan. The restructuring expenses predominately consist of product rationalization costs, asset impairment costs, and severance and related benefits, with restructuring expenses of \$11.3 million and \$2.4 million related to the Healthcare and Life Sciences segments, respectively. We expect to incur approximately an additional \$2.0 million in restructuring expenses for the Fiscal 2009 Restructuring Plan during the fourth quarter of fiscal 2009 and the first six months of fiscal 2010, primarily consisting of severance and related benefits and lease termination costs.

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During the third quarter and the first nine months of fiscal 2009, we did not incur any additional pre-tax restructuring expenses related to our other previously announced restructuring plans, and we settled certain termination benefits for less than originally expected. The Fiscal 2008 Restructuring Plan included the closure of two sales offices, rationalization of certain products, and workforce reductions in certain support functions. In the third quarter of fiscal 2009, we reversed our decision with respect to one of the sales offices, since a satisfactory exit from our warranty and service obligations could not be achieved. As a result, we have reversed restructuring expenses recorded in the fourth quarter of fiscal 2008 totaling approximately \$1.0 million.

During the third quarter and first nine months of fiscal 2008, we recorded pre-tax expenses of \$1.3 million and \$4.6 million, respectively, including \$1.0 million and \$3.1 million classified as restructuring expenses, respectively, primarily related to the transfer of our Erie, Pennsylvania manufacturing operations to Monterrey, Mexico, which was part of the Fiscal 2006 Restructuring Plan. These expenses were primarily associated with the Healthcare business segment.

The following tables summarize the total restructuring expenses we recorded for the third quarter and first nine months of fiscal 2009 and fiscal 2008:

	Fiscal 2009 Restructuring Plan	Fiscal 2008 Restructuring Plan	European Restructuring Plan	Fiscal 2006 Restructuring Plan	Total
<i>Three Months Ended December 31, 2008</i>					
Severance, payroll, and other related costs	\$ 3,362	\$ (107)	\$ —	\$ —	\$ 3,255
Asset impairment and accelerated depreciation	1,112	(83)	—	—	1,029
Product rationalization	9,100	(528)	—	—	8,572
Lease termination obligations	—	(17)	—	—	(17)
Other	113	(609)	—	—	(496)
<b>Total restructuring charges</b>	<b>\$ 13,687</b>	<b>\$ (1,344)</b>	<b>\$ —</b>	<b>\$ —</b>	<b>\$12,343</b>

	Fiscal 2009 Restructuring Plan	Fiscal 2008 Restructuring Plan	European Restructuring Plan	Fiscal 2006 Restructuring Plan	Total
<i>Three Months Ended December 31, 2007</i>					
Severance, payroll, and other related costs	\$ —	\$ —	\$ —	\$ (163)	\$ (163)
Asset impairment and accelerated depreciation	—	—	—	822	822
Other	—	—	—	293	293
<b>Total restructuring charges</b>	<b>\$ —</b>	<b>\$ —</b>	<b>\$ —</b>	<b>\$ 952</b>	<b>\$ 952</b>

	Fiscal 2009 Restructuring Plan	Fiscal 2008 Restructuring Plan	European Restructuring Plan	Fiscal 2006 Restructuring Plan	Total
<i>Nine Months Ended December 31, 2008</i>					
Severance, payroll, and other related costs	\$ 3,362	\$ (191)	\$ —	\$ (178)	\$ 2,993
Asset impairment and accelerated depreciation	1,112	(83)	—	—	1,029
Product rationalization	9,100	(523)	—	—	8,577
Lease termination obligations	—	20	99	—	119
Other	113	(609)	—	—	(496)
<b>Total restructuring charges</b>	<b>\$ 13,687</b>	<b>\$ (1,386)</b>	<b>\$ 99</b>	<b>\$ (178)</b>	<b>\$12,222</b>

	Fiscal 2009 Restructuring Plan	Fiscal 2008 Restructuring Plan	European Restructuring Plan	Fiscal 2006 Restructuring Plan	Total
<i>Nine Months Ended December 31, 2007</i>					
Severance, payroll, and other related costs	\$ —	\$ —	\$ (24)	\$ 168	\$ 144
Asset impairment and accelerated depreciation	—	—	—	2,622	2,622
Lease termination obligations	—	—	(11)	(13)	(24)
Other	—	—	—	299	299
<b>Total restructuring charges</b>	<b>\$ —</b>	<b>\$ —</b>	<b>\$ (35)</b>	<b>\$ 3,076</b>	<b>\$ 3,041</b>

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Liabilities related to our 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 2009 Restructuring Plan			
	March 31, 2008	Fiscal 2009		December 31, 2008
		Provision	Payments/ Impairments	
Severance and termination benefits	\$ —	\$ 3,362	\$ (481)	\$ 2,881
Asset impairments	—	1,112	(1,112)	—
Product rationalization	—	9,100	(7,699)	1,401
Other	—	113	(48)	65
<b>Total</b>	<b>\$ —</b>	<b>\$ 13,687</b>	<b>\$ (9,340)</b>	<b>\$ 4,347</b>

	Fiscal 2008 Restructuring Plan			
	March 31, 2008	Fiscal 2009		December 31, 2008
		Provision (a)	Payments/ Impairments	
Severance and termination benefits	\$ 4,244	\$ (191)	\$ (3,117)	\$ 936
Asset impairments	492	(83)	—	409
Lease termination obligations	898	20	(37)	881
Other	609	(609)	—	—
<b>Total</b>	<b>\$ 6,243</b>	<b>\$ (863)</b>	<b>\$ (3,154)</b>	<b>\$ 2,226</b>

(a) Does not include a negative \$523 in product rationalization costs that were charged against inventory.

	European Restructuring Plan			
	March 31, 2008	Fiscal 2009		December 31, 2008
		Provision	Payments	
Lease termination obligation	\$ 247	\$ 99	\$ (346)	\$ —
<b>Total</b>	<b>\$ 247</b>	<b>\$ 99</b>	<b>\$ (346)</b>	<b>\$ —</b>

	Fiscal 2006 Restructuring Plan			
	March 31, 2008	Fiscal 2009		December 31, 2008
		Provision	Payments	
Severance and termination benefits	\$ 879	\$ (178)	\$ (636)	\$ 65
<b>Total</b>	<b>\$ 879</b>	<b>\$ (178)</b>	<b>\$ (636)</b>	<b>\$ 65</b>

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**Non-Operating Expenses, Net.** Non-operating expenses (income), net consists of interest expense on debt, offset by interest earned on cash, cash equivalents, and short-term investment balances, and other miscellaneous income. The following table compares our non-operating expenses (income), net for the three and nine months ended December 31, 2008 and 2007:

<i>(dollars in thousands)</i>	Three Months Ended December 31,		Change
	2008	2007	
<b>Non-Operating Expenses:</b>			
Interest Expense	\$ 3,214	\$ 1,516	\$1,698
Interest and Miscellaneous Income	(366)	(581)	215
<b>Total Non-Operating Expenses, Net</b>	<b>\$ 2,848</b>	<b>\$ 935</b>	<b>\$1,913</b>

  

	Nine Months Ended December 31,		Change
	2008	2007	
<b>Non-Operating Expenses:</b>			
Interest Expense	\$ 7,499	\$ 4,229	\$3,270
Interest and Miscellaneous Income	(1,288)	(1,657)	369
<b>Total Non-Operating Expenses, Net</b>	<b>\$ 6,211</b>	<b>\$ 2,572</b>	<b>\$3,639</b>

Interest expense increased \$1.7 million and \$3.3 million during the third quarter and first nine months of fiscal 2009, respectively, as compared to the prior year periods as a result of higher average debt levels during both fiscal 2009 periods. Interest and miscellaneous income decreased \$0.2 million and \$0.4 million during the third quarter and first nine months of fiscal 2009, respectively, compared to the same prior year periods.

**Income Tax Expense.** The following table compares our income tax expense and effective income tax rates for the three and nine months ended December 31, 2008 and 2007:

<i>(dollars in thousands)</i>	Three Months Ended December 31,		Change	Percent Change
	2008	2007		
Income Tax Expense	\$14,395	\$10,751	\$ 3,644	33.9%
Effective Income Tax Rate	33.5%	33.1%		

  

	Nine Months Ended December 31,		Change	Percent Change
	2008	2007		
Income Tax Expense	\$38,746	\$27,908	\$10,838	38.8%
Effective Income Tax Rate	31.9%	35.4%		

Income tax expense includes United States federal, state and local, and foreign income taxes, and is based on reported pre-tax income. The effective income tax rates for continuing operations for the three and nine months ended December 31, 2008 were 33.5% and 31.9%, respectively, as compared to 33.1% and 35.4%, respectively, for the same prior year periods. The lower effective income tax rate for the nine months ended December 31, 2008 resulted principally from discrete item adjustments relating to the settlement of certain tax years under examination in the United States.

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.



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**Business Segment Results of Operations.** 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 Annual Report on Form 10-K for the year ended March 31, 2008, filed with the SEC on May 30, 2008 provides additional information about each business segment. The following table compares business segment revenues for the three and nine months ended December 31, 2008 to the three and nine months ended December 31, 2007:

<i>(dollars in thousands)</i>	Three Months Ended December 31,		Change	Percent Change
	2008	2007		
<b>Revenues:</b>				
Healthcare	\$ 230,177	\$ 220,451	\$ 9,726	4.4%
Life Sciences	52,787	56,305	(3,518)	(6.2)%
Isomedix	34,642	34,555	87	0.3%
Total reportable segments	317,606	311,311	6,295	2.0%
Corporate and other	1,861	2,663	(802)	(30.1)%
<b>Total Revenues</b>	<b>\$ 319,467</b>	<b>\$ 313,974</b>	<b>\$ 5,493</b>	<b>1.7%</b>
	Nine Months Ended December 31,		Change	Percent Change
	2008	2007		
<b>Revenues:</b>				
Healthcare	\$ 682,078	\$ 622,826	\$ 59,252	9.5%
Life Sciences	157,977	155,330	2,647	1.7%
Isomedix	108,476	104,820	3,656	3.5%
Total reportable segments	948,531	882,976	65,555	7.4%
Corporate and other	5,628	6,944	(1,316)	(19.0)%
<b>Total Revenues</b>	<b>\$ 954,159</b>	<b>\$ 889,920</b>	<b>\$ 64,239</b>	<b>7.2%</b>

### **Healthcare Segment**

Healthcare segment revenues represented 72.1% of total revenues for the third quarter of fiscal 2009 as compared to 70.2% of total revenues for the same prior year period. Healthcare revenues increased \$9.7 million, or 4.4%, to \$230.2 million for the quarter ended December 31, 2008, compared with \$220.5 million for the third quarter of fiscal 2008. A key driver of the increase in Healthcare revenues was strong growth in capital equipment revenues of 6.4%, primarily resulting from increased demand within the United States, particularly for new products. Healthcare service revenues also experienced strong growth, with an increase of 5.1%, primarily within the United States. Consumable revenues were relatively flat, with an increase of 0.3%. At December 31, 2008, the Healthcare segment's capital equipment backlog amounted to a record \$133.9 million. This represents an increase of \$9.7 million, or 7.8%, compared to the backlog of \$124.1 million at September 30, 2008 and an increase of \$26.6 million, or 24.8%, compared to the backlog of \$107.3 million at December 31, 2007.

Healthcare segment revenues represented 71.5% of total revenues for the first nine months of fiscal 2009 compared with 70.0% for the same prior year period. Healthcare revenues increased \$59.3 million, or 9.5%, to \$682.1 million for the nine months ended December 31, 2008, as compared to \$622.8 million for the same prior year period. The increase is attributable to strong growth in capital equipment revenues of 13.1% driven by increased demand for new products primarily within the United States. Healthcare recurring revenues grew 6.6%, with increases of 7.6% and 5.6% in service revenues and consumable revenues, respectively. This growth in recurring revenues was primarily driven by increases within the United States, with increases of 7.6% and 5.2% in service revenues and consumable revenues, respectively.

***Life Sciences Segment***

Life Sciences segment revenues represented 16.5% of total revenues for the third quarter of fiscal 2009 as compared to 17.9% of total revenues for the same prior year period. Life Sciences revenues decreased \$3.5 million, or 6.2%, to \$52.8 million for the quarter ended December 31, 2008, as compared to \$56.3 million for the third quarter of fiscal 2008. Life Sciences revenues were unfavorably impacted by a decrease in capital equipment revenues of 20.8% primarily due to declines in the United States and in Europe of 14.5% and 36.6%, respectively. In the United States and in Europe, the decrease in capital equipment revenues was driven by a continued slowdown in spending from pharmaceutical Customers, as well as a strategic business decision to improve the profitability of our capital equipment revenues. In the prior year period, the Life Sciences segment's capital revenues were favorably impacted by an improvement in the research equipment business in the United States. Our European performance was also unfavorably impacted by foreign currency movements. Life Sciences recurring revenues increased 5.9%, reflecting increases in consumable revenues and service revenues of 6.9% and 5.3%, respectively. The growth in consumable revenues reflects an increase in the United States of 14.2%. The growth in service revenues reflects increases in the United States and Europe. The Life Sciences segment's capital equipment backlog at December 31, 2008 amounted to \$50.2 million, an increase of \$1.5 million, or 3.0%, as compared to the backlog of \$48.7 million at September 30, 2008 and a decrease of \$8.1 million, or 13.9%, as compared to the backlog of \$58.3 million at December 31, 2007.

Life Sciences segment revenues represented 16.6% of total revenues for the first nine months of fiscal 2009 as compared to 17.5% of total revenues for the same prior year period. Life Sciences revenues increased \$2.6 million, or 1.7%, to \$158.0 million for the first nine months of fiscal 2009, as compared to \$155.3 million for the same prior year period. The increase in Life Sciences revenues was driven by a 4.7% increase in recurring revenues, reflecting growth in all geographic areas. Life Sciences capital revenues decreased 2.5%, as global growth was more than offset by a decline in the United States as a result of continued weakness in the pharmaceutical equipment business.

***Isomedix Segment***

Isomedix segment revenues represented 10.8% of total revenues for the third quarter of fiscal 2009 as compared to 11.0% of total revenues for the same prior year period. The segment's revenues were relatively flat at \$34.6 million during the third quarter of both fiscal periods. The prior year period includes revenues associated with the facility located in the Chicago, Illinois area that was sold in the second quarter of fiscal 2009.

Isomedix segment revenues represented 11.4% of total revenues for the first nine months of fiscal 2009 as compared to 11.8% for the same prior year period. The segment experienced revenue growth of \$3.7 million, or 3.5%, to \$108.5 million during the first nine months of fiscal 2009 as compared to \$104.8 million for the same prior year period. The revenue growth reflects an increase in demand from our core medical device Customers and routine price increases, tempered by the impact of the facility sale during the second quarter of fiscal 2009.

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The following table compares our business segment operating income for the three and nine months ended December 31, 2008 and 2007:

<i>(dollars in thousands)</i>	Three Months Ended		Change	Percent Change
	December 31,			
	2008	2007		
<b>Operating Income:</b>				
Healthcare	\$ 32,406	\$ 29,343	\$ 3,063	10.4%
Life Sciences	7,151	2,337	4,814	206.0%
Isomedix	8,453	7,025	1,428	20.3%
Total reportable segments	48,010	38,705	9,305	24.0%
Corporate and other	(2,192)	(5,243)	3,051	NM
<b>Total Operating Income</b>	<b>\$ 45,818</b>	<b>\$ 33,462</b>	<b>\$12,356</b>	<b>36.9%</b>
	Nine Months Ended		Change	Percent Change
	December 31,			
	2008	2007		
<b>Operating Income:</b>				
Healthcare	\$ 94,334	\$ 68,873	\$25,461	37.0%
Life Sciences	14,426	5,975	8,451	141.4%
Isomedix	26,851	21,827	5,024	23.0%
Total reportable segments	135,611	96,675	38,936	40.3%
Corporate and other	(7,785)	(15,198)	7,413	NM
<b>Total Operating Income</b>	<b>\$127,826</b>	<b>\$ 81,477</b>	<b>\$46,349</b>	<b>56.9%</b>

NM - Not meaningful

Segment operating income is calculated as the segment's gross profit less direct expenses and indirect cost allocations, which results in the full allocation of all distribution and research and development expenses, and the partial allocation of corporate costs. The Corporate and other segment includes the gross profit and direct expenses of the Defense and Industrial business unit, as well as certain unallocated corporate costs. These costs include executive office costs, Board of Directors compensation, shareholder services and investor relations, external audit fees, and legacy pension and postretirement benefit costs from our former Erie manufacturing operation. Corporate cost allocations are based on each segment's portion of revenues, headcount, or other variables in relation to 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.

### **Healthcare Segment**

The Healthcare segment's operating income increased \$3.1 million and \$25.5 million for the third quarter and first nine months of fiscal 2009, respectively, as compared to the same prior year periods. The segment's operating margins were 14.1% and 13.8% for the third quarter and first nine months of fiscal 2009, respectively, representing increases of 80 basis points and 270 basis points, respectively, as compared to the same prior year periods. Improved pricing and productivity improvements, including labor savings gained from the transfer of manufacturing operations from Erie, Pennsylvania to Monterrey, Mexico more than offset increases in raw materials and freight costs in the third quarter and the first nine months of fiscal 2009. The Healthcare segment's operating income for the third quarter and first nine months of fiscal 2009 include \$10.0 million and \$9.8 million in pre-tax expenses, respectively, related to our restructuring actions. Both fiscal 2009 periods also include a pre-tax benefit of \$5.9 million resulting from the change in our benefit policy related to paid time off. During both fiscal 2008 periods, the Healthcare segment incurred higher operating costs related to sales channel and marketing investments for new product offerings and increased research and development expenses. In addition, in the third quarter and nine month fiscal 2008 periods, the segment's operating income was unfavorably impacted by pre-tax expenses of \$1.3 million and \$4.6 million, respectively, including \$1.0 million and \$3.1

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million classified as restructuring expenses, respectively, associated with the transfer of manufacturing operations from Erie, Pennsylvania to Monterrey, Mexico.

### ***Life Sciences Segment***

The Life Sciences segment's operating income increased \$4.8 million and \$8.5 million for the third quarter and first nine months of fiscal 2009, respectively, as compared to the same prior year periods. The segment's operating margins were 13.5% and 9.1% for the third quarter and first nine months of fiscal 2009, respectively, representing increases of 930 basis points and 530 basis points, respectively, as compared to the same prior year periods. The improvement in operating performance was primarily driven by greater operating expense leverage as compared to the same prior year periods. The fiscal 2009 third quarter also reflects declines in capital equipment revenues as a result of the slowdown in spending by our pharmaceutical Customers, as well as our strategic business decision to improve the profitability of these capital equipment revenues. The first nine months of fiscal 2009 also reflects high revenue throughput from the first half of the fiscal year. The Life Sciences segment's operating income for both fiscal 2009 periods includes pre-tax expenses of \$2.4 million related to our restructuring actions. Both fiscal 2009 periods also include a pre-tax benefit of \$1.2 million resulting from the change in our benefit policy related to paid time off.

### ***Isomedix Segment***

The Isomedix segment's operating income increased \$1.4 million and \$5.0 million for the third quarter and first nine months of fiscal 2009, respectively, as compared to the same prior year periods. The segment's operating margins were 24.4% and 24.8% for the third quarter and first nine months of fiscal 2009, respectively, representing increases of 410 basis points and 400 basis points, respectively, over the same prior year periods. The segment's margins reflect contracted price increases and increased volumes on a relatively fixed cost base. During both fiscal 2009 periods, the Isomedix segment's operating margins include a pre-tax benefit of \$0.8 million resulting from the change in our benefit policy related to paid time off. Also included in the segment's operating income for the first nine months of fiscal 2009 is a \$2.1 million pre-tax gain on the sale of a facility located in the Chicago, Illinois area to a privately held Customer.

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**Liquidity and Capital Resources.** The following table summarizes significant components of our cash flows for the nine months ended December 31, 2008 and 2007:

### Cash Flows

<i>(dollars in thousands)</i>	Nine Months Ended December 31,	
	2008	2007
<b>Operating activities:</b>		
Net income	\$ 82,869	\$ 50,997
Non-cash items	50,606	36,900
Changes in operating assets and liabilities	(25,151)	7,048
<b>Net cash provided by operating activities</b>	<b><u>\$ 108,324</u></b>	<b><u>\$ 94,945</u></b>
<b>Investing activities:</b>		
Purchases of property, plant, equipment, and intangibles, net	\$ (29,704)	\$ (39,142)
Proceeds from the sale of property, plant and equipment	10,981	4,740
Equity investment in joint venture	(4,150)	—
<b>Net cash used in investing activities</b>	<b><u>\$ (22,873)</u></b>	<b><u>\$ (34,402)</u></b>
<b>Financing activities:</b>		
Proceeds from the issuance of long-term obligations	\$ 150,000	\$ —
(Payments) proceeds under credit facilities, net	(79,180)	31,925
Payments on long-term obligations	(40,500)	(500)
Deferred financing fees and debt issuance costs	(476)	(443)
Repurchases of common shares	(80,466)	(94,758)
Cash dividends paid to common shareholders	(12,981)	(10,910)
Stock option and other equity transactions, net	33,254	11,540
Tax benefit from stock options exercised	8,766	2,591
<b>Net cash used in financing activities</b>	<b><u>\$ (21,583)</u></b>	<b><u>\$ (60,555)</u></b>
Debt-to-capital ratio	22.7%	15.0%
Free cash flow	\$ 89,601	\$ 60,543

**Net Cash Provided by Operating Activities.** The net cash provided by our operating activities was \$108.3 million for the first nine months of fiscal 2009 compared with \$94.9 million for the first nine months of fiscal 2008. The following discussion summarizes the significant changes in our operating cash flows:

- Non-cash items - Our non-cash items include depreciation, depletion, and amortization, share-based compensation expense, gains and losses on the disposal of property, plant, equipment, and intangibles, changes in deferred income taxes, and other items. Non-cash items were \$50.6 million for the first nine months of fiscal 2009 compared with \$36.9 million for the first nine months of fiscal 2008. Significant changes in these items for the first nine months of fiscal 2009 as compared to the same prior year period are summarized below:
  - Depreciation, depletion, and amortization - Depreciation, depletion, and amortization expense is the most significant component of non-cash items. This expense totaled \$43.9 million and \$47.5 million for the first nine months of fiscal 2009 and 2008, respectively. The \$3.6 million decrease in this expense was primarily the result of the sale of our former Erie, Pennsylvania manufacturing facility in the third quarter of fiscal 2008 and the sale of an Isomedix facility located in the Chicago, Illinois area to a privately held Customer in the second quarter of fiscal 2009.
  - (Gain) loss on the disposal of property, plant, equipment, and intangibles, net - During the first nine months of fiscal 2009, we recorded a gain of \$1.4 million for the disposal of property, plant,

equipment, and intangibles, compared with a loss of \$1.0 million for the same prior year period. Included in the gain recorded during the first nine months of fiscal 2009 is the \$2.1 million gain on the sale of an Isomedix facility in the Chicago, Illinois area to a privately held Customer, partially offset by asset impairments related to the Fiscal 2009 Restructuring Plan. The loss during the first nine months of fiscal 2008 was primarily related to the disposal of certain assets included in the Fiscal 2006 Restructuring Plan.

- Share-based compensation expense - We recorded non-cash share-based compensation expense of \$5.7 million and \$6.5 million for the first nine months of fiscal 2009 and fiscal 2008, respectively. The decline of \$0.8 million reflects a decline in the number of options subject to amortization in the current fiscal year.
- Deferred income taxes - Our deferred income tax benefits decreased \$10.9 million for the first nine months of fiscal 2009, compared with an increase of \$17.3 million for the first nine months of fiscal 2008. Deferred income tax balances are affected by the timing and recognition of settlements occurring during the period.
- Other items - Other items amounted to a negative \$8.3 million for the first nine months of fiscal 2009 as compared to a negative \$0.8 million for the first nine months of fiscal 2008. The increase in fiscal 2009 primarily consists of a \$7.9 million non-cash adjustment as a result of a change in our benefit policy with respect to paid time off and an estimated curtailment gain of approximately \$0.5 million related to our Switzerland defined benefit pension plan as a result of restructuring actions taken in the third quarter of fiscal 2009.
- Changes in operating assets and liabilities - Changes to our operating assets and liabilities amounted to a negative \$25.2 million during the first nine months of fiscal 2009 and \$7.0 million during the first nine months of fiscal 2008, respectively. Significant changes for the first nine months of fiscal 2009 as compared to the first nine months of fiscal 2008 are summarized below:
  - Accounts receivable, net - Changes in our net accounts receivable balances provided cash of \$25.7 million and \$55.4 million during the first nine months of fiscal 2009 and fiscal 2008, respectively. Accounts receivable days sales outstanding was 59 days at December 31, 2008 and 2007, representing a decrease from 72 days and 77 days at March 31, 2008 and March 31, 2007, 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 \$12.8 million and \$25.8 million during the first nine months of fiscal 2009 and fiscal 2008, respectively. Inventory balances in fiscal 2009 reflect higher levels of inventory related to increased raw material costs, new product inventory, and higher production volume levels, partially offset by pre-tax product rationalization expenses recorded as part of the Fiscal 2009 Restructuring Plan.
  - 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 drove uses of cash of \$10.7 million and \$1.4 million during the first nine months of fiscal 2009 and fiscal 2008, respectively. Balances may fluctuate from period to period due to the timing of accruals and payments. The use of cash during the first nine months of fiscal 2009 was primarily driven by the application of taxes previously on deposit with the IRS toward the settlement of certain tax years under examination, partially offset by an increase in prepaid taxes of \$4.6 million attributable to fiscal 2009. Approximately \$1.7 million remains on deposit with the IRS, pending the resolution of the fiscal 2006 and fiscal 2007 audit cycle, which began in fiscal 2009.
  - Accounts payable, net - Decreases in our net accounts payable balances drove uses of cash of \$13.3 million and \$15.2 million during the first nine months of fiscal 2009 and fiscal 2008, respectively. Cash flows related to accounts payable may change from period to period due to varying payment due dates and other terms of our accounts payable obligations.

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- Accruals and other, net - Changes in our net accruals and other liabilities balances drove uses of cash of \$35.5 million and \$8.8 million during the first nine months of fiscal 2009 and fiscal 2008, respectively. During the first nine months of fiscal 2009, we paid \$31.3 million in income taxes and made contributions of \$3.0 million to our United States defined benefit pension plans. Income tax payments made during the first nine months of fiscal 2009 contributed to the increase in prepaid taxes of \$4.6 million at December 31, 2008. Cash flows related to our accruals and other liabilities balances will change from period to period due to the timing of accruals and payments under our bonus and commission 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 and the timing of current income tax accruals and payments also contribute to the increase or decrease in these balances.

**Net Cash Used In Investing Activities.** The net cash we used in investing activities amounted to \$22.9 million for the first nine months of fiscal 2009 compared with \$34.4 million for the first nine months of fiscal 2008. The following discussion summarizes the significant changes in our investing cash flows for the first nine months of fiscal 2009 as compared to the first nine months of fiscal 2008:

- Purchases of property, plant, equipment, and intangibles, net - Capital expenditures were \$29.7 million compared with \$39.1 million during the same prior year period. Higher capital spending levels during the first nine months of fiscal 2008 resulted primarily from a planned expansion at one of our Isomedix facilities.
- Proceeds from the sale of property, plant and equipment - In fiscal 2009, these proceeds include \$9.5 million we received in the second quarter from the sale of an Isomedix facility located in the Chicago, Illinois area to a privately held Customer and \$1.5 million we received in the third quarter from the settlement of an insurance claim. In fiscal 2008, these proceeds include \$4.7 million we received in the third quarter from the sale of our former manufacturing facility located in Erie, Pennsylvania.
- Equity investment in joint venture - During the third quarter of fiscal 2009, we invested \$4.2 million in a joint venture with VTS Medical Systems Inc. designed to bring the latest high-definition video, touch-screen integration, and communication technology into hospital operating rooms.

**Net Cash Used In Financing Activities.** The net cash we used in financing activities totaled \$21.6 million for the first nine months of fiscal 2009 compared with \$60.6 million for the first nine months of fiscal 2008. The following discussion summarizes the significant changes in our financing cash flows for the first nine months of fiscal 2009 as compared to the first nine months of fiscal 2008:

- Proceeds from the issuance of long-term obligations - During the second quarter of fiscal 2009, we issued \$150.0 million of senior notes in an offering that was exempt from the registration requirements of the Securities Act of 1933. These senior notes are discussed further in note 6 to our consolidated financial statements titled, "Debt," and in the subsection of the MD&A titled, "Sources of Credit and Contractual and Commercial Commitments."
- Net (payments) proceeds under credit facilities - We repaid \$79.2 million and borrowed \$31.9 million under our revolving credit facilities during the first nine months of fiscal 2009 and fiscal 2008, respectively. Proceeds from the senior notes issued during the second quarter of fiscal 2009 were used in part to repay amounts outstanding under our revolving credit facility. The senior notes allowed us to lock-in favorable long-term rates. Amounts borrowed are generally used to fund share repurchases, working capital changes, and for other corporate purposes.
- Payments on long-term obligations - During the third quarter of fiscal 2009, the amounts we repaid included \$40.0 million for the first installment of the senior notes issued in December 2003, which matured.

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- **Deferred financing fees** - During the second quarter of fiscal 2009, we paid fees of \$0.5 million related to the issuance of the new senior notes and amendment of the senior notes issued in December 2003. In fiscal 2008, we paid fees of \$0.4 million related to the amendment and restatement of our revolving credit facility. These amounts are being amortized over the respective terms of the underlying agreements.
- **Repurchases of common shares** - The Company's Board of Directors has provided authorization to repurchase the Company's common shares. During the first nine months of fiscal 2009, we paid for the repurchase of 2,646,177 of our common shares at an average purchase price of \$30.41 per common share. During the first nine months of fiscal 2008, we paid for the repurchase of 3,355,331 of our common shares at an average purchase price of \$28.24 per common share.
- **Cash dividends paid to common shareholders** - During the first nine months of fiscal 2009 and fiscal 2008, we paid cash dividends totaling \$0.22 and \$0.17 per outstanding common share, respectively. Total cash dividends paid during the first nine months of fiscal 2009 and fiscal 2008 amounted to \$13.0 million and \$10.9 million, respectively.
- **Stock option and other equity transactions, net** - We receive cash for issuing common shares under our various employee stock option programs. During the first nine months of fiscal 2009 and 2008, cash proceeds from the issuance of common shares under these programs totaled \$33.3 million and \$11.5 million, respectively.
- **Tax benefit from stock options exercised** - During the first nine months of fiscal 2009 and fiscal 2008, our income taxes were reduced by \$8.8 million and \$2.6 million, respectively, as a result of deductions allowed for stock options exercised.

**Cash Flow Measures.** Free cash flow was \$89.6 million in the first nine months of fiscal 2009 compared to \$60.5 million in the first nine months of fiscal 2008, reflecting an increase in cash earnings during fiscal 2009, lower capital spending, and the sale of an Isomedix facility in the second quarter of fiscal 2009. Our debt-to-capital ratio was to 22.7% at December 31, 2008 and 20.3% at March 31, 2008.

**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, 2008, filed with the SEC on May 30, 2008. Our commercial commitments were approximately \$33.3 million at December 31, 2008, reflecting an increase of \$6.5 million in surety bonds and other commercial commitments from March 31, 2008. Except as described, our contractual commitments have not changed materially from March 31, 2008. The maximum borrowing limits under our revolving credit facility ("Facility") have not changed since March 31, 2008. At December 31, 2008, the maximum amount available for borrowing under this Facility was \$377.8 million. The maximum commitment limit of \$400.0 million under the Facility is reduced by outstanding amounts (none) and letters of credit issued (\$22.2 million) under a sub-limit within the Facility.

On August 15, 2008, we issued \$150.0 million of senior notes in a private placement (the "August 2008 Private Placement") to certain institutional investors in an offering that was exempt from the registration requirements of the Securities Act of 1933. We have used and will use the proceeds for general corporate purposes, including repayment of debt, capital expenditures, acquisitions, dividends, and share repurchases. Of the \$150.0 million notes, \$30.0 million have a maturity of 5 years at an annual interest rate of 5.63%, another \$85.0 million have a maturity of 10 years at an annual interest rate of 6.33%, and the remaining \$35.0 million have a maturity of 12 years at an annual interest rate of 6.43%.

Also on August 15, 2008, we signed an amendment to various note purchase agreements, each dated December 17, 2003, that we previously entered into for the issuance of \$100.0 million of senior notes in a private placement (the "December 2003 Private Placement"). This amendment, which was signed by the requisite majority in aggregate principal amount of the holders of the December 2003 Private Placement notes, modified



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the respective note purchase agreements primarily as they pertained to liens, electronic delivery of financial information and notices, and certain provisions regarding an intercreditor agreement.

**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 insufficient 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, 2008, filed with the SEC on May 30, 2008. Our critical accounting policies, estimates, and assumptions have not changed materially from March 31, 2008.

**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 ordinary course of our business. In accordance with SFAS No. 5, 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 claims is not anticipated to have a material adverse affect on our consolidated financial position, results of operations, or cash flows. However, the ultimate outcome of 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 fourth quarter of fiscal 2008, we reached a settlement with the IRS on all material tax matters for fiscal 1999 through fiscal 2001. In the first quarter of fiscal 2009, we reached a settlement with the IRS for all material tax matters for fiscal 2002 through fiscal 2005. In addition, the IRS began its audit of fiscal 2006 and fiscal 2007 in fiscal 2009. 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.

As a result of current market and economic instability, the values of the assets held by our defined benefit pension plans have declined since March 31, 2008. Although the specific impact of these declines has not been determined at this time, these developments may negatively impact the funded status of the plans and result in an increase in required contributions. Actuarial valuations for the plans will be completed during the fourth quarter of fiscal 2009.

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

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the third quarter of fiscal 2009, our revenues were unfavorably impacted by \$7.0 million, or 2.1%, and income before taxes was favorably impacted by \$5.7 million, or 13.9%, when compared to the same period in fiscal 2008. During the first nine months of fiscal 2009, our revenues were unfavorably impacted by \$1.0 million, or 0.1%, and income before taxes was favorably impacted by \$3.2 million, or 2.6%, when compared to the same period in fiscal 2008. 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 us or our 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,” “potential,” “confidence,” 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 government regulations or the application or interpretation thereof. Many of these important factors are outside of our control. No assurances can be provided as to any outcome from litigation, regulatory actions, administrative proceedings, government investigations, warning letters, cost reductions, business strategies, level of share repurchases, earnings and revenue trends, or other future financial results. Unless legally required, we do not undertake to update or revise any forward-looking statements even if events make clear that any projected results, express or implied, will not be realized. Other potential risks and uncertainties that could cause actual results to be materially different from those in the forward-looking statements include, without limitation, (a) the potential for increased pressure on pricing or raw material cost that leads to erosion of profit margins, (b) the possibility that market demand will not develop for new technologies, products or applications, or our business initiatives will take longer, cost more or produce lower benefits than anticipated, (c) the possibility that application of or compliance with laws, court rulings, regulations, regulatory actions, including without limitation, the previously disclosed FDA warning letter, certifications or other requirements or standards may delay or prevent new product introductions, affect the production and marketing of existing products, or otherwise affect our performance, results, or value, (d) the potential of international unrest or effects of fluctuations in currencies, tax assessments or rates, raw material costs, benefit, pension, or retirement plan costs, or other regulatory compliance costs, (e) the possibility of reduced demand, or reductions in the rate of growth in demand, for our products and services, (f) the possibility that anticipated growth, alignment, cost savings, or other results may not be achieved, or that transition, labor, competition, timing, execution, regulatory, governmental or other issues or risks associated with our business, industry, or other issues, activities, or other initiatives, including the impact on the currently marketed sterilizer or the ability to obtain clearance or market acceptance of the new sterilization system, may adversely impact our performance, results, or value, (g) the effect of the credit crisis on our ability, 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, 2008, filed with the SEC on May 30, 2008, under Item 1A, “Risk Factors,” in our Form 8-K filed with the SEC on January 20, 2009, and under Item 1A, “Risk Factors,” of this Form 10-Q.

**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 such materials are filed with or furnished 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 this Quarterly Report on Form 10-Q in Part I, Item 2, “Management’s Discussion and Analysis of Financial Condition and Results of Operations” in the subsection titled, “Liquidity and Capital Resources.” Additional 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,” included in our Annual Report on Form 10-K for the year ended March 31, 2008, filed with the SEC on May 30, 2008. Our exposures to market risks have not changed materially since March 31, 2008.

**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 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 December 31, 2008 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 from the ordinary course of our business, given our size, history, complexity, and the nature of our business, Customers, regulatory environment, and industries in which we participate. These legal proceedings 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), economic loss (e.g., breach of contract, other commercial claims), financial (e.g., taxes, reporting), employment (e.g., wrongful termination, discrimination, benefits matters), and other claims for damage and relief.

The FDA and the United States Department of Justice have been conducting an investigation to our knowledge since 2003 involving our STERIS SYSTEM 1® sterile processing system. We have received requests for documents, including the subpoena received in January 2005, and are aware of interviews of current and former employees in connection with the investigation. We continue to respond to these requests and cooperate with the government agencies regarding this matter. There can be no assurance of the ultimate outcome of the investigation, or that any matter arising out of the investigation will not result in actions by the government agencies or third parties, or that the government agencies will not initiate administrative proceedings, civil proceedings, or criminal proceedings, or any combination thereof, against us.

On May 16, 2008, we received a warning letter (the “warning letter”) from the FDA regarding our STERIS SYSTEM 1 sterile processor and the STERIS™ 20 sterilant used with the processor (referred to collectively in the FDA letter and in this Item 1 as the “device”). We believe this warning letter arose from the previously disclosed investigation. In summary, the warning letter included the FDA’s assertion that significant changes or modifications have 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 believes a new premarket notification submission (known within FDA regulations as a 510(k) submission) should have been made. The warning letter referenced a number of changes to the device that, according to the FDA, require a new premarket notification submission, and asserted that our failure to make such a submission resulted in violations of applicable law. The warning letter also requested documentation and explanation regarding various corrective actions related to the device prior to 2003, and whether those actions should be considered corrections or removals requiring notice under applicable FDA regulations. On July 30, 2008 (with an Addendum on October 9, 2008), we provided a detailed response contending that the assertions in the warning letter are 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 is required. The agency did not address the removal and correction reporting issues and invited a meeting with STERIS to discuss the warning letter, based on our earlier request. 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.

On January 20, 2009, we announced that we submitted to the FDA a new liquid chemical sterilization system for 510(k) clearance. The new submission follows discussions with the FDA regarding the prior 510(k) submission issues raised in the warning letter related to our existing device. The new liquid chemical sterilization system submitted to the FDA addresses the changes referenced by the FDA in the warning letter and includes additional technology updates.

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We communicated to Customers that STERIS will continue supporting the existing SYSTEM 1 installed base by providing accessories, sterilant, service and parts, and replacement processor units for at least a two year period. In the United States, STERIS will continue sales of SYSTEM 1 processors only as replacements for existing units. Once the new liquid chemical sterilization system is cleared for market use by the FDA, we will work with Customers to transition to the new product.

For fiscal 2009, ending March 31, 2009, we anticipate that this development will not have a material impact on our consolidated financial results. Beginning in fiscal 2010, we anticipate that annualized revenues will be impacted by approximately \$10,000 until the new product is cleared and commercialized.

We continue to believe that the changes described in the warning letter from the FDA do not significantly affect the safety or effectiveness of the device and, therefore, did not and do not require a new premarket notification submission, and further, that the corrective actions were compliant with FDA regulations. However, if the FDA's assertions are ultimately determined to be correct, the device would be considered adulterated and misbranded under United States law, in which case, we would be required to make a new premarket notification submission. The FDA also could take enforcement action immediately without providing the opportunity to make a new 510(k) submission. If we did not make that 510(k) submission, if the FDA rejected that 510(k) submission, if the FDA took immediate enforcement action, or if governmental agencies and/or third parties otherwise considered the device to be non-compliant, civil, administrative, or criminal proceedings could be initiated. These or other proceedings involving our STERIS SYSTEM 1 sterile processing system and the STERIS 20 sterilant, a significant product to us, could possibly result in judgments requiring re-labeling or restriction on the manufacturing, sale, or distribution of products, or could require us to take other actions, including recalls, to pay fines or civil damages, or to be subject to other governmental or third party claims or remedies, which could materially affect our business, performance, value, financial condition, and results of operations. We intend to continue our discussions with the FDA and the Department of Justice to seek resolution of all other issues regarding the warning letter and the investigation.

The STERIS SYSTEM 1 sterile processing system has been in use since its clearance by the FDA in the late 1980's. We estimate that the devices currently in operation are used by approximately 5,000 users in excess of 30,000 times per day in the aggregate and that over 250 million medical instruments have been processed using the STERIS SYSTEM 1 sterile processing system. For additional information regarding this matter, see the following portions of our Annual Report on Form 10-K for the year ended March 31, 2008 filed with the SEC on May 30, 2008: "Business – Information with respect to our Business in General – Recent Events – Government Regulations", "Risk Factors – We are subject to extensive regulatory requirements and must receive and maintain regulatory clearance or approval for many products and operations. Failure to receive or maintain, or delays in receiving, clearance or approvals may hurt our revenues, profitability, financial condition or value", our Current Report on Form 8-K filed with the SEC on January 20, 2009, and Item 1A of Part II of this Form 10-Q titled, "Risk Factors."

We believe we have adequately reserved for our current litigation and that the ultimate outcome of 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 of current or future litigation, claims, proceedings, investigations, including the previously discussed investigation, or their effect. 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. Additional information regarding our contingencies is included in Item 2 of Part I titled, "Management's Discussion and Analysis of Financial Conditions and Results of Operations" and in note 10 to our consolidated financial statements titled, "Contingencies," contained in this Quarterly Report on Form 10-Q.

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.

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Except as noted above, we believe there have been no material recent developments concerning our legal proceedings since March 31, 2008 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 in the risk factors included in our Annual Report on Form 10-K for the fiscal year ended March 31, 2008, filed with the SEC on May 30, 2008, that may materially affect our business, results of operations, or financial condition, except as follows:

#### ***The current economic crisis may adversely affect us.***

Adverse economic cycles or conditions could affect the Company's results of operations. There can be no assurances when these cycles or conditions will occur or when they will improve after they occur. Conditions such as the recent turmoil in the financial markets may have an adverse effect on United States and global economies, which could negatively impact access to capital markets and investment activity within key geographic and market segments served.

Credit and liquidity problems caused by the foregoing conditions may make it difficult for some businesses to access credit markets and obtain financing. If our Customers have difficulty financing their purchases due to credit market disruptions or related factors, our business could be adversely affected. Our exposure to bad debt losses could also increase if Customers are unable to pay for products previously ordered and delivered.

In addition, as a result of the current economic instability, the investment portfolio for our defined benefit pension plans has experienced volatility and a decline in fair value since March 31, 2008. Because the values of these pension plan investments have and will fluctuate in response to changing market conditions, the amount of gains or losses that will be recognized in subsequent periods and the impact on the funded status of the plans and future minimum required contributions, if any, could have a material adverse effect on our liquidity, financial conditions and result of operations, but such impact cannot be determined at this time. Actuarial valuations for the plans will be completed during the fourth quarter of fiscal 2009.

#### ***We may be adversely affected by product liability claims or other legal actions or regulatory or compliance matters.***

We refer to the corresponding Risk Factor set forth in our Annual Report on Form 10-K for the fiscal year ended March 31, 2008. The Risk Factor refers to the warning letter we received from the FDA on May 16, 2008 regarding our STERIS SYSTEM 1® sterile processing system. In summary, that letter outlines the FDA's assertion that significant changes or modifications have been made in the design, components, method of manufacture or intended use of the system, beyond the FDA's 1988 clearance of the device, such that the FDA asserts a new premarket notification submission is required. We responded to the warning letter. In November 2008, we received correspondence from the FDA indicating that the FDA disagreed, on a preliminary basis, with our response and that the FDA wanted to meet with us prior to finalizing its position and to outline next steps to resolve any differences between the Company and the FDA. On January 20, 2009, we announced that we submitted to the FDA a new liquid chemical sterilization system for 510(k) clearance. The new submission follows discussions with the FDA regarding the prior 510(k) submission issues raised in the warning letter related to our existing device. The new liquid chemical sterilization system submitted to the FDA addresses the changes referenced by the FDA in the warning letter and includes additional technology updates.

These or other proceedings, negotiations, or investigations involving our STERIS SYSTEM 1 sterile processing system and the STERIS 20 sterilant, a significant product to us, could possibly result in judgments requiring re-labeling or restriction on the manufacturing, sale, or distribution of products, or could require us to take other actions, including recalls, to pay fines or civil damages, or to be subject to other governmental or third party claims or remedies, which could materially affect our business, performance, value, financial condition, and results of operations. (For more information regarding this warning letter, see "Legal Proceedings" above.)

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***Most of our products, including the new liquid chemical sterilization system, must receive regulatory approvals before they can be marketed and sold in the United States and other countries.***

Our operations are subject to extensive regulation in both the United States and in other countries where we do business. In Europe, our products are regulated primarily by country and community regulations of those countries within the European Economic Area and must conform to the requirements of those authorities. Government regulation applies to nearly all aspects of testing, manufacturing, safety, labeling, storing, recordkeeping, reporting, promoting, distributing, and importing or exporting of medical devices, products, and services. In general, unless an exemption applies, a sterilization, decontamination or medical device or other product, including the new liquid chemical sterilization system recently submitted to FDA for clearance, must receive regulatory approval or clearance before it can be marketed or sold. Prior to clearance by the FDA, we may not sell the new sterilization system in the United States.

Regulatory agencies may refuse to grant approval or clearance. Regulatory submissions may require the provision of additional clinical or pre-clinical data and may be time consuming and costly. Regulatory agencies may also change policies, adopt additional regulations, or revise existing regulations, each of which could prevent or delay approval or clearance of our products, including the new liquid chemical sterilization system. If we are unable to obtain this or any other required approvals or clearances, approval supplements or clearances for our products, including the new liquid chemical sterilization system or the approvals are delayed, we may not be able to market and sell these products, which could have a material adverse effect on our business, performance, value, financial condition and results of operations.

***Existing and new Customers may not purchase or use the new liquid chemical sterilization system consistent with the purchase and use of the existing STERIS SYSTEM 1.***

We have submitted a 510(k) premarket notification to the FDA for a new liquid chemical sterilization system. If the new liquid chemical sterilization system is cleared for use in the United States by the FDA, we may begin to market and sell the new liquid chemical sterilization system. There can be no assurance as to the extent that such new liquid chemical sterilization system will receive market acceptance or that any such demand will be consistent with the market demand of the existing STERIS SYSTEM 1. If sales or use of the new liquid chemical sterilization system are less than the existing STERIS SYSTEM 1 that could have a material adverse effect on our business, performance, value, financial condition and results of operations.

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

During the third quarter of fiscal 2009, we repurchased 1,000,277 of our common shares. These repurchases were pursuant to a single repurchase program, authorizing the repurchase of up to \$300.0 million of our common shares, which was approved by the Company's Board of Directors and announced on March 14, 2008. This common share repurchase authorization does not have a stated maturity date. As of December 31, 2008, \$203.9 million in common shares remained available for repurchase under this common share repurchase authorization. The following table summarizes the common shares repurchased during the third quarter of fiscal 2009 under our common share repurchase program:

	(a) Total Number of Shares Purchased (1)	(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
October 1-31	595,277	\$ 30.86	595,277	\$ 215,747
November 1-30	405,000	\$ 29.34	405,000	\$ 203,864
December 1-31	—	\$ —	—	\$ —
Total	1,000,277	\$ 30.25	1,000,277	\$ 203,864

(1) Does not include approximately 43 shares purchased during the quarter at an average price of \$26.11 per share by the STERIS Corporation 401(k) Plan on behalf of certain executive officers who may be deemed to be affiliated purchasers.

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**ITEM 6. EXHIBITS**

**Exhibits required by Item 601 of Regulation S-K**

<u>Exhibit Number</u>	<u>Exhibit Description</u>
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	STERIS Corporation Deferred Compensation Plan Plan Document (As Amended and Restated Effective January 1, 2009).
10.2	Amended and Restated Adoption Agreement related to STERIS Corporation Deferred Compensation Plan.
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.



**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

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**Michael J. Tokich**  
**Senior Vice President and Chief Financial Officer**  
**April 30, 2009**

**EXHIBIT INDEX**

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**STERIS CORPORATION DEFERRED COMPENSATION PLAN  
PLAN DOCUMENT**

**(As Amended And Restated Effective January 1, 2009)**

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## STERIS CORPORATION DEFERRED COMPENSATION PLAN

### SECTION 1. PURPOSE:

By execution of the Adoption Agreement, STERIS has adopted the Plan set forth herein to provide a means by which certain management Employees of the Participating Employers may elect to defer receipt of current Compensation from the Participating Employer in order to provide retirement and other benefits on behalf of such Employees of the Participating Employer, as selected in the Adoption Agreement. The Plan is intended to be a nonqualified deferred compensation plan that complies with the provisions of Section 409A of the Internal Revenue Code of 1986, as amended from time to time (the "Code"). The Plan is intended to be an unfunded plan maintained primarily for the purpose of providing deferred compensation benefits for a select group of management or highly compensated employees under Sections 201(2), 301(a)(3) and 401(a)(1) of the Employee Retirement Income Security Act of 1974.

### SECTION 2. DEFINITIONS:

As used in the Plan, including this Section 2, references to one gender shall include the other and, unless otherwise indicated by the context:

2.1 "*Active Participant*" means, with respect to any day or date, a Participant who is in Service on such day or date; provided, that a Participant shall cease to be an Active Participant immediately upon a determination by the Committee that the Participant has ceased to be an Employee, or that the Participant no longer meets the eligibility requirements of the Plan.

2.2 "*Adoption Agreement*" means the written agreement pursuant to which STERIS adopts the Plan, as amended from time to time. The Adoption Agreement is a part of the Plan as applied to STERIS.

2.3 "*Beneficiary*" means the person, persons, entity or entities designated or determined pursuant to the provisions of Section 13 of the Plan.

2.4 "*Board*" means the Board of Directors of STERIS and, to the extent of any delegation by the Board of Directors to the Compensation and Corporate Governance Committee of the Board of Directors or any other Committee of the Board of Directors (or subcommittee thereof) pursuant to this Plan or pursuant to the charter of any such Committee or otherwise, such Committee (or subcommittee).

2.5 "*Change in Control*" shall mean a change of control of STERIS as defined for purposes of Section 409A of the Code, including regulations and administrative guidance promulgated thereunder.

2.6 "*Committee*" means the persons designated as such in the Adoption Agreement, as applicable. If the Committee is unable to serve, STERIS shall satisfy the duties of the Committee provided for in Section 9.

2.7 "*Compensation*" shall have the meaning designated in the Adoption Agreement.

2.8 "*Crediting Date*" means the date designated in the Adoption Agreement for crediting the amount of any Participant Deferral Credits to the Deferred Compensation Account of a Participant. Employer Credits may be credited to the Deferred Compensation Account of a Participant on any day that securities are traded on a national securities exchange.

2.9 "*Deferred Compensation Account*" means the account maintained with respect to each Participant under the Plan. Each Participant's Deferred Compensation Account shall contain a separate class year subaccount (each a "Class Year Subaccount") to reflect the credits and debits associated with the Participant Deferral Credits made to the Plan pursuant to each year's deferral election. The Deferred Compensation Account shall be credited with

Participant Deferral Credits and Employer Credits, credited or debited for deemed investment gains or losses, and adjusted for payments in accordance with the rules and elections in effect under Section 8. The Class Year Subaccount of a Participant shall include any In-Service Account or Education Account of the Participant, if so elected in the Adoption Agreement.

2.10 “*Disabled*” means a Participant who is unable to engage in any substantial gainful activity by reason of any medically determinable physical or mental impairment which can be expected to result in death or can be expected to last for a continuous period of not less than 12 months, or is, by reason of any medically determinable physical or mental impairment which can be expected to result in death or can be expected to last for a continuous period of not less than 12 months, receiving income replacement benefits for a period of not less than three months under an accident and health plan covering employees of a Participating Employer.

2.11 “*Education Account*” means a separate account to be kept for each Participant that has elected to take education distributions as described in Section 5.5. The Education Account shall be adjusted in the same manner and at the same time as the Deferred Compensation Account under Section 8 and in accordance with the rules and elections in effect under Section 8.

2.12 “*Effective Date*” shall be the date designated in the Adoption Agreement as of which the Plan first becomes effective.

2.13 “*Employee*” means an individual in the Service of the Participating Employer if the relationship between the individual and the Participating Employer is the legal relationship of employer and employee and if the individual is a highly compensated or management employee of the Participating Employer and excludes non-resident aliens with no U.S. source income. An individual shall cease to be an Employee no later than such time as such individual incurs a termination of Service.

2.14 “*Employer*” means STERIS and each other Participating Employer, and each trade or business (whether or not incorporated) that is required to be aggregated with STERIS under rules similar to subsections (b) and (c) of Section 414 of the Code.

2.15 “*Employer Credits*” means the amounts credited to the Participant’s Deferred Compensation Account pursuant to the provisions of Section 4.2.

2.16 “*In-Service Account*” means a separate account within a Class Year Subaccount to be kept for each Participant that has elected to take in-service distributions as described in Section 5.4. The In-Service Account shall be adjusted in the same manner and at the same time as the Deferred Compensation Account under Section 8 and in accordance with the rules and elections in effect under Section 8.

2.17 “*Normal Retirement Age*” of a Participant means the age designated as such in the Adoption Agreement.

2.18 “*Participant*” means with respect to any Plan Year an Employee who has been designated by the Committee as a Participant and who has entered the Plan or who has a Deferred Compensation Account under the Plan.

2.19 “*Participant Deferral Agreement*” means a written agreement entered into between a Participant and a Participating Employer pursuant to the provisions of Section 4.1.

2.20 “*Participant Deferral Credits*” means the amounts credited to the Participant’s Deferred Compensation Account and Class Year Subaccounts therein pursuant to the provisions of Section 4.1.



2.21 “*Participating Employer*” means STERIS and any trade or business (whether or not incorporated) which has been designated as a Participating Employer by STERIS or which adopts this Plan with the consent of STERIS.

2.22 “*Performance-Based Compensation*” means compensation where the amount of, or entitlement to, the compensation is contingent on the satisfaction of pre-established organizational or individual performance criteria relating to a performance period of at least twelve months in which the service provider performs services. Organizational or individual performance criteria are considered pre-established if established in writing no later than 90 days after the commencement of the period of service to which the criteria relates, provided that the outcome is substantially uncertain at the time the criteria are established. Performance-based compensation may include payments based upon subjective performance criteria in accordance with the Section 409A Guidance.

2.23 “*Plan*” means the STERIS Corporation Deferred Compensation Plan, as herein set out or as duly amended.

2.24 “*Plan Administrator*” means the person designated as such in the Adoption Agreement.

2.25 “*Plan-Approved Domestic Relations Order*” shall mean a court order that is lawfully directed to this Plan and that is served upon the Plan Administrator before the Participant receives a distribution of his benefit that pursuant to a state domestic relations law creates or recognizes the existence of the right of an alternate payee to receive all or a portion of a Participant’s benefit and that meets all of the following requirements. An order shall not be a Plan-Approved Domestic Relations Order unless the Plan Administrator determines that the court order on its face and without reference to any other document states all of the following:

(a) The court order expressly states that it relates to the provision of child support, alimony, or marital property rights to a spouse, former spouse, or child of a Participant and is made pursuant to State domestic relations law.

(b) The court order clearly and unambiguously specifies that it refers to this Plan.

(c) The court order clearly and unambiguously specifies the name of the Participant’s Employer.

(d) The court order clearly specifies: the name, mailing address, and social security number of the Participant; and the name, mailing address, and social security number of each alternate payee.

(e) The court order clearly specifies the amount or percentage, or the manner in which the amount or percentage is to be determined, of the Participant’s benefit to be paid to or segregated for the separate account of the alternate payee.

(f) The court order expressly states that the alternate payee’s segregated account shall bear all fees and expenses as though the alternate payee were a Participant.

(g) The court order clearly specifies that any distribution to the alternate payee becomes payable only after a Qualifying Distribution Event of the Participant and only upon the alternate payee’s written claim made to the Plan Administrator.

(h) The court order clearly specifies that any distribution to any alternate payee shall be payable only as a lump sum.

(i) The court order expressly states that it does not require this Plan to provide any type or form of benefit or any option not otherwise provided under this Plan.

(j) The court order expressly states that the order does not require this Plan to provide increased benefits.

(k) The court order expressly states that any provision of it that would have the effect of requiring any distribution to an alternate payee of deferred compensation that is required to be paid to another person under any court order is void.

(l) The court order expressly states that nothing in the order shall have any effect concerning any party's tax treatment, and that nothing in the order shall direct any person's tax reporting or withholding.

An order shall not be a Plan-approved Domestic Relations Order if it includes any provision that does not relate to this Plan. Without limiting the comprehensive effect of the preceding sentence, an order shall not be a Plan-Approved Domestic Relations Order if the order includes any provision relating to any pension plan, retirement plan, deferred compensation plan, health plan, welfare benefit plan, or employee benefit plan other than this Plan. An order shall not be a Plan-Approved Domestic Relations Order unless the order provides for only one alternate payee. An order shall not be a Plan-Approved Domestic Relations Order if the order includes any provision that would permit the alternate payee to designate any beneficiary for any purpose. However, an order does not fail to qualify as a Plan-approved Domestic Relations Order because it provides that any rights not paid before the alternate payee's death shall be payable to the duly appointed and then-currently serving personal representative of the alternate payee's estate. The Plan Administrator may assume that the alternate payee named by the court order is a proper payee and need not inquire into whether the person named is a spouse or former spouse or child of the Participant.

2.26 "*Plan Year*" means the twelve-month period ending on the last day of the month designated in the Adoption Agreement; provided, that the initial Plan Year may have fewer than twelve months.

2.27 "*Qualifying Distribution Event*" means (i) the separation from Service, as defined in the Section 409A Guidance, of the Participant, (ii) the date the Participant becomes Disabled, (iii) the death of the Participant, (iv) to the extent permitted, the time specified by the Participant for an in-service or education distribution, or (v) a Change in Control of STERIS, each as provided in Section 5. Distributions for unforeseeable emergencies or similar occurrences are not permitted under the Plan.

2.28 "*Retirement*" means the attainment of age 65 and cessation of Service with all Employers.

2.29 "*Retirement Account*" means the portion of the Deferred Compensation Account of a Participant, excluding any In-Service Account or any Education Account. The Retirement Account shall be adjusted in the same manner and at the same time as the Deferred Compensation Account under Section 8 and in accordance with the rules and regulations in effect under Section 8.

2.30 "*Section 409A Guidance*" means collectively Section 409A of the Code, any proposed, temporary or final regulations, and any other formal guidance issued by the Secretary of the Treasury or the Internal Revenue Service with respect thereto.

2.31 "*Service*" means employment of a Participant by a Participating Employer as an Employee. For purposes of the Plan, the employment relationship is treated as continuing intact while the Employee is on military leave, sick leave, or other bona fide leave of absence if the period of such leave does not exceed six months, or if longer, so long as the Employee's right to reemployment is provided either by statute or contract.

2.32 "*Service Bonus*" means any bonus paid to a Participant by the Participating Employer which is not Performance-Based Compensation.

2.33 "*Specified Employee*" means an employee who is a specified employee within the meaning of the Section 409A Guidance (determined pursuant to procedures adopted by STERIS in accordance with the Section 409A Guidance).

2.34 “Spouse” or “Surviving Spouse” means, except as otherwise provided in the Plan, a person who is the legally married spouse or surviving spouse of a Participant.

2.35 “STERIS” means STERIS Corporation, an Ohio corporation.

2.36 “Student” means the individual designated by the Participant in the Participant Deferral Agreement with respect to whom the Participant will create an Education Account, if applicable.

2.37 “Trust” means the trust fund established pursuant to Section 10.2, if designated by STERIS in the Adoption Agreement.

2.38 “Trustee” means the trustee, if any, named in the agreement establishing the Trust and such successor or additional trustee as may be named pursuant to the terms of the agreement establishing the Trust.

2.39 “Years of Service” means each Plan Year of Service completed by the Participant. For vesting purposes, Years of Service shall be calculated from the date designated in the Adoption Agreement.

#### SECTION 3. PARTICIPATION:

The Committee in its discretion shall designate each Employee who is eligible to participate in the Plan. Participation for any Plan Year shall be limited to Employees who are employed at salary grade level “H” or above by one or more of the Participating Employers and who will have an annual base salary of \$100,000 or above during such Plan Year. An Employee designated by the Committee as a Participant who has not otherwise entered the Plan shall enter the Plan and become a Participant as of the date determined by the Committee. A Participant who separates from Service with the Employer and who later returns to Service will not be an Active Participant under the Plan except upon satisfaction of such terms and conditions as the Committee shall establish upon the Participant’s return to Service, whether or not the Participant shall have a balance remaining in the Deferred Compensation Account under the Plan on the date of the return to Service. A Participant who separates from Service will cease to be a Participant at such time as he or she no longer has a Deferred Compensation Account under the Plan.

#### SECTION 4. CREDITS TO DEFERRED COMPENSATION ACCOUNT:

4.1 *Participant Deferral Credits.* To the extent provided in the Adoption Agreement, each year each Active Participant may elect, by entering into a Participant Deferral Agreement with a Participating Employer, to defer the receipt of Compensation from the Participating Employer by a percentage specified in the Participant Deferral Agreement. The amount of the Participant Deferral Credit shall be credited to the respective Class Year Subaccount of the Deferred Compensation Account maintained for the Participant pursuant to Section 8. The following special provisions shall apply with respect to the Participant Deferral Credits of a Participant:

4.1.1 The respective Class Year Subaccount of the Participant’s Deferred Compensation Account shall be credited on each Crediting Date an amount equal to the total Participant Deferral Credit for the period ending on such Crediting Date.

4.1.2 An election pursuant to this Section 4.1 shall be made by the Participant by executing and delivering a Participant Deferral Agreement to the Committee. Except as otherwise provided in this Section 4.1, each such election shall be effective (i) for the calendar year next following the date such Participant Deferral Agreement is received by the Committee with respect to base salary, as defined in Section 2.7(f) of the Adoption Agreement, that is paid with respect to services provided in that calendar year, and (ii) for the fiscal year of the Employer that commences in the calendar year next following the date such Participant Deferral Agreement is received by the Committee with respect to commissions and bonuses that are paid with respect to services performed in that fiscal year. A Participant’s election may be changed at any time prior to the last permissible date for making the election as permitted in this Section 4.1, and shall thereafter be irrevocable.

4.1.3 In the case of the first year in which the Participant becomes eligible to participate in the Plan, the Participant may execute and deliver a Participant Deferral Agreement to the Committee within 30 days after the date the Participant enters the Plan to be effective with respect to Compensation to be paid for services performed after the election and as of the first administratively practicable payroll period next following the date the Participant Deferral Agreement is received by the Committee. For Compensation that is earned based upon a specified performance period (for example, an annual bonus), where a deferral election is made in the first year of eligibility but after the beginning of the service period, the election will be deemed to apply to Compensation paid for services subsequent to the election if the election applies to the portion of the Compensation equal to the total amount of the Compensation for the service period multiplied by the ratio of the number of days remaining in the performance period after the election over the total number of days in the performance period.

4.1.4 A Participant may unilaterally modify a Participant Deferral Agreement (either to terminate, increase or decrease the portion of his future Compensation which is subject to deferral within the percentage limits set forth in Section 4.1 of the Adoption Agreement) by providing a written modification of the Participant Deferral Agreement to the Committee. The modification shall become effective as of the first day of January following the date such written modification is received by the Committee.

4.1.5 Notwithstanding other provisions to the contrary, if permitted by the Committee, if the Participant performed services continuously from a date no later than the date upon which the performance criteria are established through a date no earlier than the date upon which the Participant makes an initial deferral election, a Participant Deferral Agreement relating to the deferral of Performance-Based Compensation may be executed and delivered to the Committee no later than the date which is 6 months prior to the end of the performance period, provided that in no event may an election to defer Performance-Based Compensation be made after such Compensation has become both substantially certain to be paid and readily ascertainable.

4.1.6 Except as may be provided by Section 4.1.5, if the Participating Employer has a fiscal year other than the calendar year, Compensation relating to service in the fiscal year of the Participating Employer (such as a bonus based on the fiscal year of the Participating Employer), of which no amount is paid or payable during the fiscal year, may be deferred at the Participant's election only if the election to defer is made not later than the close of the Participating Employer's fiscal year next preceding the first fiscal year in which the Participant performs any services for which such Compensation is payable.

4.1.7 Compensation payable after the last day of the Participant's taxable year solely for services provided during the final payroll period containing the last day of the Participant's taxable year (i.e., December 31) is treated for purposes of this Section 4.1 as Compensation for services performed in the subsequent taxable year.

4.1.8 The Committee may from time to time establish policies or rules consistent with the Section 409A Guidance to govern the manner in which Participant Deferral Credits may be made.

4.2 *Employer Credits.* As designated by STERIS in the Adoption Agreement, the Deferred Compensation Accounts of Active Participants will be credited with Employer Credits as determined in accordance with the Adoption Agreement.

4.3 *Deferred Compensation Account.* All Participant Deferral Credits and Employer Credits shall be credited to the Deferred Compensation Account of the Participant.

#### SECTION 5. QUALIFYING DISTRIBUTION EVENTS:

5.1 *Separation from Service.* If the Participant separates from Service with the Employer, the vested balance in the Deferred Compensation Account shall be paid to the Participant by STERIS as provided in Section 6. Notwithstanding the foregoing, no distribution triggered solely by a separation from Service shall be made earlier than six months after the date of separation from Service (or, if earlier, the date of death) with respect to a

Participant who is a Specified Employee of a corporation the stock in which is traded on an established securities market or otherwise. Any payments to which a Specified Employee would be entitled during the first six months following the date of separation from Service shall be accumulated and paid on the first day of the seventh month following the date of separation from service.

*5.2 Disability.* If the Participant becomes Disabled while in Service, the vested balance in the Deferred Compensation Account shall be paid to the Participant by STERIS as provided in Section 6.

*5.3 Death.* If the Participant dies while in Service, STERIS shall pay a benefit to the Participant's Beneficiary in the amount designated in the Adoption Agreement. Payment of such benefit shall be made by STERIS as provided in Section 6. If a Participant dies following his separation from Service for any reason, and before all payments under the Plan have been made, the vested balance in the Deferred Compensation Account shall be paid by STERIS to the Participant's Beneficiary in a single lump sum within the 90-day period following the Participant's death, provided that the Participant's Beneficiary shall not have the right to designate the taxable year of the payment.

*5.4 In-Service Distributions.* If STERIS designates in the Adoption Agreement that in-service distributions are permitted under the Plan, a Participant may designate in a Participant Deferral Agreement to have a specified amount credited to the Participant's In-Service Account within a relevant Class Year Subaccount for in-service distributions at the later of the date specified by the Participant or as specified in the Adoption Agreement. In no event may an in-service distribution be made prior to two years following the establishment of the In-Service Account within a relevant Class Year Subaccount of the Participant. If the Participant elects to receive in-service distributions in annual installment payments, the payment of each annual installment shall be made on the anniversary of the date of the first installment payment, and the amount of the annual installment shall be adjusted on such anniversary for credits or debits to the Participant's Class Year Subaccount pursuant to Section 8 of the Plan. Such adjustment shall be made by dividing the balance in the In-Service Account of the relevant Class Year Subaccount on such date by the number of annual installments remaining to be paid hereunder; provided that the last annual installment due under the Plan shall be the entire amount credited to the Participant's In-Service Account of the relevant Class Year Subaccount on the date of payment. Notwithstanding the foregoing, if a Participant incurs a Qualifying Distribution Event prior to the date on which the entire balance in the In-Service Account of the relevant Class Year Subaccount has been distributed, then the balance in the In-Service Account of the relevant Class Year Subaccount on the date of the Qualifying Distribution Event shall be distributed to the Participant in the same manner and at the same time as the balance in the Deferred Compensation Account is distributed under Section 6 and in accordance with the rules and elections in effect under Section 6.

*5.5 Education Distributions.* If STERIS designates in the Adoption Agreement that education distributions are permitted under the Plan, a Participant may designate in the Participant Deferral Agreement to have a specified amount credited to the Participant's Education Account for education distributions at the later of the date specified by the Participant or the date specified in the Adoption Agreement. If the Participant designates more than one Student, the Education Account will be divided into a separate Education Account for each Student, and the Participant may designate in the Participant Deferral Agreement the percentage or dollar amount to be credited to each Education Account. In the absence of a clear designation, all credits made to the Education Account shall be equally allocated to each Education Account. STERIS shall pay to the Participant the balance in the Education Account with respect to the Student at the time and in the manner designated by the Participant in the Participant Deferral Agreement. If the Participant elects to receive education distributions in annual installment payments, the payment of each annual installment shall be made on the anniversary of the date of the first installment payment, and the amount of the annual installment shall be adjusted on such anniversary for credits or debits to the Participant's Education Account pursuant to Section 8 of the Plan. Such adjustment shall be made by dividing the balance in the Education Account on such date by the number of annual installments remaining to be paid hereunder; provided that the last annual installment due under the Plan shall be the entire amount credited to the Participant's Education Account on the date of payment. Notwithstanding the foregoing, if

the Participant incurs a Qualifying Distribution Event prior to the date on which the entire balance of the Education Account has been distributed, then the balance in the Education Account on the date of the Qualifying Distribution Event shall be distributed to the Participant in the same manner and at the same time as the Deferred Compensation Account is distributed under Section 6 and in accordance with the rules and elections in effect under Section 6.

5.6 *Change in Control.* If STERIS designates in the Adoption Agreement that distributions are permitted under the Plan in the event of a Change in Control, the Participant may designate in a Participant Deferral Agreement to have the vested balance in the Class Year Subaccount of the Deferred Compensation Account associated with such Participant Deferral Agreement paid to the Participant upon a Change in Control as provided in Section 6.

#### SECTION 6. QUALIFYING DISTRIBUTION EVENTS PAYMENT OPTIONS:

6.1 *Payment Options.* STERIS shall designate in the Adoption Agreement the payment options which may be elected by the Participant. The Participant shall elect in each Participant Deferral Agreement the method under which the vested balance in the Class Year Subaccount of the Participant's Deferred Compensation Account associated with that Participant Deferral Agreement will be distributed from among the designated payment options. Payment shall be made in the manner elected by the Participant and shall be paid or commence to be paid upon the date of the Qualifying Distribution Event. For purposes of this Plan, including Section 6.2, a payment shall be treated as made upon the date of the Qualifying Distribution Event if it is made on such date or a later date within the same calendar year or, if later, by the 15<sup>th</sup> day of the third calendar month following the Qualifying Distribution Event, provided that the Participant does not have the ability to designate the taxable year of payment. The Participant may elect a different method of payment for each Qualifying Distribution Event as specified in the Adoption Agreement and with respect to different Class Year Subaccounts. If the Participant elects the installment payment option, the payment of each annual installment shall be made on the anniversary of the date of the first installment payment, and the amount of the annual installment paid from a specific Class Year Subaccount shall be adjusted on such anniversary for credits or debits to such Class Year Subaccount pursuant to Section 8 of the Plan. Such adjustment shall be made by dividing the balance in the Class Year Subaccount in the Deferred Compensation Account on such date by the number of annual installments remaining to be paid hereunder from such Class Year Subaccount; provided that the last annual installment due under the Plan from such Class Year Subaccount shall be the entire amount credited to the Participant's Class Year Subaccount on the date of payment. In the event the Participant fails to make a valid election of the payment method, the distribution will be made in a single lump sum payment upon the Qualifying Distribution Event.

6.2 *De Minimis Amounts.* Notwithstanding any payment election made by the Participant, the vested balance in the Deferred Compensation Account of the Participant will be distributed in a single lump sum payment if the payment accompanies the termination of the Participant's entire interest in the Plan and the amount of such payment does not exceed the amount designated by STERIS in the Adoption Agreement. Such payment shall be made within the ninety-day period following the date of the Qualifying Distribution Event, provided that the Participant shall not have the right to designate the taxable year of payment.

6.3 *Subsequent Elections.* With the consent of the Committee, a Participant may delay or change the method of payment of a Class Year Subaccount of the Deferred Compensation Account subject to the following requirements:

6.3.1 The new election may not take effect until at least 12 months after the date on which the new election is made.

6.3.2 If the new election relates to a payment for a Qualifying Distribution Event other than the death of the Participant or the Participant becoming Disabled, the new election must provide for the deferral of the first payment for a period of at least five years from the date such payment would otherwise have been made.

6.3.3 If the new election relates to a payment from the In-Service Account of the Class Year Subaccount or Education Account, the new election must be made at least 12 months prior to the date of the first scheduled payment from such account.

For purposes of this Section 6.3 and Section 6.4, a payment is each separately identified amount to which the Participant is entitled under the Plan; provided that entitlement to a series of payments is treated as the entitlement to a single payment.

*6.4 Acceleration Prohibited.* The acceleration of the time or schedule of any payment due under the Plan is prohibited except as provided in regulations and administrative guidance promulgated under Section 409A of the Code. It is not an acceleration of the time or schedule of payment if STERIS waives or accelerates the vesting requirements applicable to a benefit under the Plan.

#### SECTION 7. VESTING:

A Participant shall be fully vested in the portion of his Deferred Compensation Account attributable to Participant Deferral Credits, and all income, gains and losses attributable thereto. A Participant shall become fully vested in the portion of his Deferred Compensation Account attributable to Employer Credits, and income, gains and losses attributable thereto, in accordance with the vesting schedule and provisions designated by STERIS in the Adoption Agreement. If a Participant's Deferred Compensation Account is not fully vested upon separation from Service, the portion of the Deferred Compensation Account that is not fully vested shall thereupon be forfeited.

#### SECTION 8. ACCOUNTS; DEEMED INVESTMENT; ADJUSTMENTS TO ACCOUNT:

*8.1 Accounts.* The Committee shall establish a book reserve account, entitled the "Deferred Compensation Account," on behalf of each Participant. Each Participant's Deferred Compensation Account shall contain one or more Class Year Subaccounts to reflect the credits and debits associated with the Participant Deferral Credits made to the Plan pursuant to each year's deferral election. The Committee shall also establish an In-Service Account and Education Account as a part of the Class Year Subaccount of each Participant, if applicable. The amount credited to the Deferred Compensation Account shall be adjusted pursuant to the provisions of Section 8.3.

*8.2 Deemed Investments.* The Deferred Compensation Account of a Participant shall be credited with an investment return determined as if the account were invested in one or more investment funds made available by the Committee. Each year the Participant shall elect the investment funds in which his respective Class Year Subaccount in his Deferred Compensation Account shall be deemed to be invested. Such election shall be made in the manner prescribed by the Committee and shall take effect initially upon the entry of the Participant into the Plan. The investment election of the Participant with respect to a Class Year Subaccount shall remain in effect with respect to that Class Year Subaccount until a new election is made by the Participant. In the event the Participant fails for any reason to make an effective election of the investment return to be credited to a Class Year Subaccount, the investment return for such Class Year Subaccount shall be determined by the Committee.

*8.3 Adjustments to Deferred Compensation Account.* With respect to each Participant who has a Deferred Compensation Account under the Plan, the amount credited to such account shall be adjusted by the following debits and credits, at the times and in the order stated:

8.3.1 The Deferred Compensation Account shall be debited each business day with the total amount of any payments made from such account since the last preceding business day to him or for his benefit.

8.3.2 The Deferred Compensation Account shall be credited on each Crediting Date with the total amount of any Participant Deferral Credits and Employer Credits to such account since the last preceding Crediting Date.

8.3.3 The Deferred Compensation Account shall be credited or debited on each day securities are traded on a national stock exchange with the amount of deemed investment gain or loss resulting from the performance of the investment funds elected by the Participant in accordance with Section 8.2. The amount of such deemed investment gain or loss, as finally determined by the Committee, shall be final and conclusive upon all concerned.

SECTION 9. ADMINISTRATION BY COMMITTEE:

9.1 *General.* The Committee and the Plan Administrator shall have all authority to operate and administer the Plan and shall possess such powers as are necessary or proper for such operation and administration. Subject to Section 11, the Committee and the Plan Administrator shall allocate responsibility for such operation and administration between themselves.

9.2 *Conflicts of Interest.* No individual member of the Committee shall have any right to vote or decide upon any matter relating solely to himself or to any of his rights or benefits under the Plan (except that such member may sign unanimous written consent to resolutions adopted or other action taken without a meeting), except relating to the terms of his Participant Deferral Agreement.

9.3 *Correction of Errors.* The Committee may correct errors and, so far as practicable, may adjust any benefit or credit or payment accordingly. The Committee may in its discretion waive any notice requirements in the Plan; provided, that a waiver of notice in one or more cases shall not be deemed to constitute a waiver of notice in any other case.

9.4 *Authority to Interpret Plan.* Subject to the claims procedure set forth in Section 16 the Plan Administrator and the Committee shall have the duty and discretionary authority to interpret and construe the provisions of the Plan and to decide any dispute which may arise regarding the rights of Participants hereunder, including the discretionary authority to construe the Plan and to make determinations as to eligibility and benefits under the Plan.

9.5 *Third-Party Advisors.* The Committee or the Plan Administrator may engage an attorney, accountant, actuary or any other technical advisor on matters regarding the operation of the Plan and to perform such other duties as shall be required in connection therewith, and may employ such clerical and related personnel as the Committee or the Plan Administrator shall deem requisite or desirable in carrying out the provisions of the Plan. The Committee or the Plan Administrator shall from time to time, but no less frequently than annually, review the financial condition of the Plan and determine the financial and liquidity needs of the Plan. The Committee or the Plan Administrator shall communicate such needs to the Employer so that its policies may be appropriately coordinated to meet such needs.

9.6 *Expense Reimbursement.* The Committee shall be entitled to reimbursement by STERIS for its reasonable expenses properly and actually incurred in the performance of its duties in the administration of the Plan.

9.7 *Indemnification.* No member of the Committee shall be personally liable by reason of any contract or other instrument executed by him or on his behalf as a member of the Committee nor for any mistake of judgment made in good faith, and the Employer shall indemnify and hold harmless, directly from its own assets (including the proceeds of any insurance policy the premiums for which are paid from the Employer's own assets), each member of the Committee and each other officer, employee, or director of the Employer to whom any duty or power relating to the administration or interpretation of the Plan may be delegated or allocated, against any unreimbursed or uninsured cost or expense (including any sum paid in settlement of a claim with the prior written approval of the Board) arising out of any act or omission to act in connection with the Plan unless arising out of such person's own fraud, bad faith, willful misconduct or gross negligence.



SECTION 10. CONTRACTUAL LIABILITY; TRUST:

*10.1 Contractual Liability.* The obligation of STERIS to make payments hereunder shall constitute a contractual liability of STERIS to the Participant. Such payments shall be made from the general funds of STERIS, and STERIS shall not be required to establish or maintain any special or separate fund, or otherwise to segregate assets to assure that such payments shall be made, and the Participant shall not have any interest in any particular assets of STERIS by reason of its obligations hereunder. To the extent that any person acquires a right to receive payment from STERIS, such right shall be no greater than the right of an unsecured creditor of STERIS.

10.1.1 Subject to the provisions of Section 10.1.2, each Participating Employer shall be solely liable for and shall reimburse STERIS for the Participating Employer's appropriate share of any funding necessary to provide benefits to its employees who are Participants under this Plan;

10.1.2 Notwithstanding the foregoing, upon a transfer of employment among Participating Employers, any liability for the payment to or on behalf of a Participant shall be transferred from the prior Participating Employer to the new Participating Employer. The last Participating Employer of the Participant shall be responsible for the payment hereunder after the Participant's Qualifying Distribution Event, whether liability for such payment accrued before or after the Participant's transfer of employment to such Participating Employer.

*10.2 Trust.* If so designated in the Adoption Agreement, a Trust will be established by STERIS with the Trustee, pursuant to such terms and conditions as are set forth in the Trust Agreement. The Trust, if and when established, is intended to be treated as a grantor trust for purposes of the Code and all assets of the Trust shall be held in the United States. The establishment of the Trust is not intended to cause Participants to realize current income on amounts contributed thereto, and the Trust shall be so interpreted and administered. In no event shall any amount be transferred to a Trust described in this Section 10.2 if, pursuant to Section 409A(b)(3)(A) of the Code, such amount would, for purposes of Section 83 of the Code, be treated as property transferred in connection with the performance of services.

SECTION 11. ALLOCATION OF RESPONSIBILITIES:

The persons responsible for the Plan and the duties and responsibilities allocated to each are as follows:

*11.1 Board.*

- (i) To amend the Plan;
- (ii) To terminate the Plan as permitted in Section 14; and
- (iii) To perform such other responsibilities as are otherwise specified herein.

*11.2 Committee.*

- (i) To designate Participants;
- (ii) To interpret the provisions of the Plan and to determine the rights of the Participants under the Plan, except to the extent otherwise provided in Section 16 relating to claims procedure;
- (iii) To administer the Plan in accordance with its terms, except to the extent powers to administer the Plan are specifically delegated to another person or persons as provided in the Plan;
- (iv) To account for the amount credited to the Deferred Compensation Account of a Participant;
- (v) To direct STERIS in the payment of benefits; and
- (vi) To perform such other responsibilities as may be allocated to it pursuant to Section 9 hereof or as are otherwise specified herein.

### 11.3 Plan Administrator.

- (i) To file such reports as may be required with the United States Department of Labor, the Internal Revenue Service and any other government agency to which reports may be required to be submitted from time to time;
- (ii) To administer the claims procedure to the extent provided in Section 16; and
- (iii) To perform such other responsibilities as may be allocated to it pursuant to Section 9 hereof or as are otherwise specified herein.

Each of the Board and the Committee may delegate to one or more of its members or to one or more officers or employees of STERIS, or to one or more agents or advisors, such administrative duties or powers as it may deem advisable, and the Board, the Committee or any person to whom duties or powers have been delegated as aforesaid, may employ one or more persons to render advice with respect to any responsibility the Board, the Committee or such person may have under the Plan.

### SECTION 12. BENEFITS NOT ASSIGNABLE; FACILITY OF PAYMENTS:

*12.1 Benefits Not Assignable.* Except as otherwise provided herein, no portion of any benefit credited or paid under the Plan with respect to any Participant shall be subject in any manner to anticipation, alienation, sale, transfer, assignment, pledge, encumbrance or charge, and any attempt so to anticipate, alienate, sell, transfer, assign, pledge, encumber or charge the same shall be void, nor shall any portion of such benefit be in any manner payable to any assignee, receiver or any one trustee, or be liable for his debts, contracts, liabilities, engagements or torts. Notwithstanding the foregoing, in the event that all or any portion of the benefit of a Participant is transferred to the former spouse of the Participant incident to a divorce pursuant to a Plan Approved Domestic Relations Order, the Committee shall maintain such amount for the benefit of the former spouse until distributed in the manner required by an order of any court having jurisdiction over the divorce, and the former spouse shall be entitled to the same rights as the Participant with respect to such benefit.

*12.2 Payments to Minors and Others.* If any individual entitled to receive a payment under the Plan shall be physically, mentally or legally incapable of receiving or acknowledging receipt of such payment, the Committee, upon the receipt of satisfactory evidence of his incapacity and satisfactory evidence that another person or institution is maintaining him and that no guardian or committee has been appointed for him, may cause any payment otherwise payable to him to be made to such person or institution so maintaining him. Payment to such person or institution shall be in full satisfaction of all claims by or through the Participant to the extent of the amount thereof.

### SECTION 13. BENEFICIARY:

The Participant's beneficiary shall be the person or persons designated by the Participant on the beneficiary designation form provided by and filed with the Committee or its designee. If the Participant does not designate a beneficiary, the beneficiary shall be his Surviving Spouse. If the Participant does not designate a beneficiary and has no Surviving Spouse, the beneficiary shall be the Participant's estate. The designation of a beneficiary may be changed or revoked only by filing a new beneficiary designation form with the Committee or its designee. If a beneficiary (the "primary beneficiary") is receiving or is entitled to receive payments under the Plan and dies before receiving all of the payments due him, the balance to which he is entitled shall be paid to the contingent beneficiary, if any, named in the Participant's current beneficiary designation form. If there is no contingent beneficiary, the balance shall be paid to the estate of the primary beneficiary. Any beneficiary may disclaim all or any part of any benefit to which such beneficiary shall be entitled hereunder by filing a written disclaimer with the Committee before payment of such benefit is to be made. Such a disclaimer shall be made in a form satisfactory to the Committee and shall be irrevocable when filed. Any benefit disclaimed shall be payable from the Plan in the same manner as if the beneficiary who filed the disclaimer had predeceased the Participant.

SECTION 14. AMENDMENT AND TERMINATION OF PLAN:

The Board may amend any provision of the Plan or terminate the Plan at any time; provided, that in no event shall such amendment or termination reduce the balance in any Participant's Deferred Compensation Account as of the date of such amendment or termination, nor shall any such amendment affect the terms of the Plan relating to the payment of such Deferred Compensation Account; and, provided, further, that the Oversight Committee for the STERIS Corporation 401(k) Plan (the "Oversight Committee") may amend the Plan to comply with any legislation, or any regulations, rulings, or other published guidance issued with respect to such legislation, in order to maintain the Plan in compliance with the requirements of Section 409A of the Code and to make any other modifications which the Oversight Committee deems necessary or advisable and which either does not materially affect the substance of the Plan or is otherwise required by the Internal Revenue Service in order for the Plan to continue to comply with Section 409A of the Code or for the Trust maintained for purposes of the Plan to continue to constitute a "grantor trust" for purposes of the Code. Notwithstanding the foregoing, the following special provisions shall apply:

*14.1 Termination in the Discretion of STERIS.*

Except as otherwise provided in Sections 14.2 or 14.3, STERIS in its discretion may terminate the Plan and distribute benefits to Participants subject to the following requirements:

14.1.1 All arrangements sponsored by the Employer that would be aggregated with the Plan under Section 1.409A-1(c) of the Treasury Regulations are terminated.

14.1.2 No payments other than payments that would be payable under the terms of the Plan if the termination had not occurred are made within 12 months of the date STERIS takes action to irrevocably terminate and liquidate the Plan.

14.1.3 All benefits under the Plan are paid within 24 months of the date STERIS takes action to irrevocably terminate and liquidate the Plan.

14.1.4 The Employer does not adopt a new arrangement that would be aggregated with the Plan under Section 1.409A-1(c) of the Treasury Regulations providing for the deferral of compensation at any time within three years following the date STERIS takes action to irrevocably terminate and liquidate the Plan.

14.1.5 The termination and liquidation does not occur proximate to a downturn in the financial health of STERIS.

*14.2 Termination Upon Change in Control.* If STERIS takes irrevocable action to terminate the Plan within thirty days preceding or twelve months following a Change in Control of STERIS, the Deferred Compensation Account of each Participant shall become fully vested and, subject to the aggregation requirements of the Section 409A Guidance, payable to the Participant in a lump sum within twelve months following the date of termination.

*14.3 No Financial Triggers.* STERIS may not terminate the Plan and make distributions to a Participant due solely to a change in the financial health of the Employer.

SECTION 15. COMMUNICATION TO PARTICIPANTS:

STERIS shall make a copy of the Plan available for inspection by Participants and their beneficiaries during reasonable hours at the principal office of STERIS.

SECTION 16. CLAIMS PROCEDURE:

The following claims procedure shall apply with respect to the Plan:

*16.1 Filing of a Claim for Benefits.* If a Participant or beneficiary (the "claimant") believes that he is entitled to benefits under the Plan which are not being paid to him or which are not being accrued for his benefit, he shall file a written claim therefor with the Committee. In the event a member of the Committee shall be the claimant, all actions which are required to be taken by the Committee pursuant to this Section 16 shall be taken instead by the remaining members of the Committee.

*16.2 Notification to Claimant of Decision.* Within 90 days after receipt of a claim by the Committee (or within 180 days if special circumstances require an extension of time), the Committee shall notify the claimant of the decision with regard to the claim. In the event of such special circumstances requiring an extension of time, there shall be furnished to the claimant prior to expiration of the initial 90-day period written notice of the extension, which notice shall set forth the special circumstances and the date by which the decision shall be furnished. If such claim shall be wholly or partially denied, notice thereof shall be in writing and worded in a manner calculated to be understood by the claimant, and shall set forth: (i) the specific reason or reasons for the denial; (ii) specific reference to pertinent provisions of the Plan on which the denial is based; (iii) a description of any additional material or information necessary for the claimant to perfect the claim and an explanation of why such material or information is necessary; and (iv) an explanation of the procedure for review of the denial and the time limits applicable to such procedures, including a statement of the claimant's right to bring a civil action under ERISA following an adverse benefit determination on review. Notwithstanding the forgoing, if the claim relates to a distribution on the basis of a Participant being Disabled, the Committee shall notify the claimant of the decision within 45 days (which may be extended for an additional 30 days if required by special circumstances).

*16.3 Procedure for Review.* Within 60 days following receipt by the claimant of notice denying his claim, in whole or in part, or, if such notice shall not be given, within 60 days following the latest date on which such notice could have been timely given, the claimant shall appeal denial of the claim by filing a written application for review with the Committee. Following such request for review, the Committee (or the Plan Administrator if the claim relates to a distribution on the basis of a Participant being Disabled) shall fully and fairly review the decision denying the claim. Prior to the decision of the Committee (or the Plan Administrator, as the case may be), the claimant shall be given an opportunity to review pertinent documents and to submit issues and comments in writing.

*16.4 Decision on Review.* The decision on review of a claim denied in whole or in part by the Committee (or the Plan Administrator if the claim relates to a distribution on the basis of a Participant being Disabled) shall be made in the following manner:

16.4.1 Within 60 days following receipt by the Committee of the request for review (or within 120 days if special circumstances require an extension of time), the Committee shall notify the claimant in writing of its decision with regard to the claim. In the event of such special circumstances requiring an extension of time, written notice of the extension shall be furnished to the claimant prior to the commencement of the extension. Notwithstanding the forgoing, if the claim relates to a distribution on the basis of a Participant being Disabled, the Plan Administrator shall notify the claimant of the decision within 45 days (which may be extended for an additional 45 days if required by special circumstances).

16.4.2 With respect to a claim that is denied in whole or in part, the decision on review shall set forth specific reasons for the decision, shall be written in a manner calculated to be understood by the claimant, and shall cite specific references to the pertinent Plan provisions on which the decision is based.

16.4.3 The decision of the Committee (or the Plan Administrator if the claim relates to a distribution on the basis of a Participant being Disabled) shall be final and conclusive.

*16.5 Action by Authorized Representative of Claimant.* All actions set forth in this Section 16 to be taken by the claimant may likewise be taken by a representative of the claimant duly authorized by him to act in his behalf on such matters. The Plan Administrator and the Committee may require such evidence as either may reasonably deem necessary or advisable of the authority to act of any such representative.

SECTION 17. MISCELLANEOUS PROVISIONS:

*17.1 Set off.* Notwithstanding any other provision of this Plan, STERIS may reduce the amount of any payment otherwise payable to or on behalf of a Participant hereunder (net of any required withholdings) by the amount (no greater than \$5,000 in any fiscal year of STERIS) of any loan, cash advance, extension of credit or other obligation of the Participant to the Employer that was incurred in the ordinary course of the Participant's employment with the Employer and that is then due and payable, provided that any such reduction shall be taken at the same time and in the same manner as such loan, cash advance, extension of credit or other obligation would have been due and collected from the Participant. The Participant shall be deemed to have consented to such reduction.

*17.2 Notices.* Each Participant who is not in Service and each Beneficiary shall be responsible for furnishing the Committee or its designee with his current address for the mailing of notices and benefit payments. Any notice required or permitted to be given to such Participant or Beneficiary shall be deemed given if directed to such address and mailed by regular United States mail, first class, postage prepaid. If any check mailed to such address is returned as undeliverable to the addressee, mailing of checks will be suspended until the Participant or beneficiary furnishes the proper address. This provision shall not be construed as requiring the mailing of any notice or notification otherwise permitted to be given by posting or by other publication.

*17.3 Reliance on Data.* Each Employer, the Committee and the Plan Administrator shall have the right to rely on any data provided by the Participant or by any Beneficiary. Representations of such data shall be binding upon any party seeking to claim a benefit through a Participant, and each Employer, the Committee and the Plan Administrator shall have no obligation to inquire into the accuracy of any representation made at any time by a Participant or beneficiary.

*17.4 Receipt and Release for Payments.* Subject to the provisions of Section 17.1, any payment made from the Plan to or with respect to any Participant or Beneficiary, or pursuant to a disclaimer by a Beneficiary, shall, to the extent thereof, be in full satisfaction of all claims hereunder against the Plan and each Employer with respect to the Plan. The recipient of any payment from the Plan may be required by the Committee, as a condition precedent to such payment, to execute a receipt and release with respect thereto in such form as shall be acceptable to the Committee.

*17.5 Headings.* The headings and subheadings of the Plan have been inserted for convenience of reference and are to be ignored in any construction of the provisions hereof.

*17.6 Continuation of Employment.* The establishment of the Plan shall not be construed as conferring any legal or other rights upon any Employee or any persons for continuation of employment, nor shall it interfere with the right of the Participating Employer or any other Employer to discharge any Employee or to deal with him without regard to the effect thereof under the Plan.

*17.7 Construction.* STERIS shall designate in the Adoption Agreement the state according to whose laws the provisions of the Plan shall be construed and enforced, except to the extent that such laws are superseded by ERISA and the applicable requirements of the Code.

*17.8 Section 409A Compliance.* It is intended that this Plan comply with the provisions of Section 409A of the Code, so as to prevent the inclusion in gross income of any amounts deferred hereunder in a taxable year that is prior to the taxable year or years in which such amounts would otherwise actually be distributed or made available to the Participants. This Plan shall be administered in a manner consistent with such intent.

## AMENDED AND RESTATED ADOPTION AGREEMENT

THIS AMENDED AND RESTATED ADOPTION AGREEMENT is adopted by **STERIS Corporation** (the "Employer") in connection with the **STERIS Corporation Deferred Compensation Plan**, as amended from time to time.

## WITNESSETH:

WHEREAS, the Employer adopted the Plan as an unfunded, nonqualified deferred compensation plan through its execution of an Adoption Agreement effective September 1, 2006; and

WHEREAS, the Employer desires to amend the provisions of the Adoption Agreement to comply with the requirements of Section 409A of the Code and the regulations thereunder and to make certain technical changes;

NOW, THEREFORE, the Employer hereby amends and restates the Adoption Agreement effective September 1, 2006 so that the Adoption Agreement provides as follows:

## ARTICLE I

Terms used in this Adoption Agreement shall have the same meaning as in the Plan, unless some other meaning is expressly herein set forth. The Employer hereby represents and warrants that the Plan has been adopted by the Employer upon proper authorization and the Employer hereby elects to adopt the Plan for the benefit of its Participants as referred to in the Plan. By the execution of this Adoption Agreement, the Employer hereby agrees to be bound by the terms of the Plan.

## ARTICLE II

The Employer hereby makes the following designations or elections for the purpose of the Plan:

*2.6 Committee:* The duties of the Committee set forth in the Plan shall be satisfied by and the term "Committee" shall mean:

- (a) The administrative committee of at least three individuals appointed by the Board to serve at the pleasure of the Board.
- (b) Employer.
- XX (c) Other (specify): The Oversight Committee for the STERIS Corporation 401(k) Plan ("Oversight Committee") or, in the case of any determinations or actions specific to a Participant who is an officer (as defined in Rule 16a-1(f) promulgated under the Securities Exchange Act of 1934 or in any successor to such Rule), the Compensation and Corporate Governance Committee of the Board of Directors of STERIS or such Board of Directors. Any actions or determinations which the Oversight Committee is authorized to take or make may be taken or made by the Compensation and Corporate Governance Committee. Any actions or determinations which the Compensation and Corporate Governance Committee is authorized to take or make may be taken or made by the Board of Directors of STERIS.

*2.7 Compensation:* The "Compensation" of a Participant shall mean all of a Participant's:

- (a) Base salary.
- XX (b) Service Bonus.
- XX (c) Performance-Based Compensation earned in a period of 12 months or more.
- XX (d) Commissions.
- (e) Compensation received as an Independent Contractor reportable on Form 1099.

- XX (f) Other: Base salary, before giving effect to contributions made by the Participant through a salary reduction agreement with an Employer to a Code Section 401(k), 403(b), 408(k), 408(p) or 457 deferred compensation arrangement or an executive nonqualified deferred compensation arrangement, including the Plan, and before giving effect to amounts contributed to fringe benefits by the Participant under a Code Section 125 plan.

2.8 *Crediting Date:* The Deferred Compensation Account of a Participant shall be credited with the amount of any Participant Deferral to such account at the time designated below:

- (a) The last business day of each Plan Year.
- (b) The last business day of each calendar quarter during the Plan Year.
- (c) The last business day of each month during the Plan Year.
- (d) The last business day of each payroll period during the Plan Year.
- (e) Each pay day as reported by the Employer.
- (f) Any business day on which the Participant Deferral is received by the Provider.

- XX (g) Other: Any business day on which the Participant Deferral is received by Principal Life Insurance Company.

2.12 *Effective Date:*

- XX (a) This is a newly-established Plan, and the Effective Date of the Plan is *September 1, 2006*.
- (b) This is an amendment and restatement of a plan named  
with an effective date of

The Effective Date of this amended and restated Plan is .  
This is amendment number .

2.18 *Normal Retirement Age:* The Normal Retirement Age of a Participant shall be:

- XX (a) Age 65.
- (b) The later of age or the anniversary of the participation commencement date. The participation commencement date is the first day of the first Plan Year in which the Participant commenced participation in the Plan.
- (c) Other: .

2.22 *Participating Employer(s):* As of the Effective Date, the following entities are designated by STERIS Corporation as Participating Employer(s) under the Plan, all with the same address and telephone number set forth below:

<u>Name of Employer</u>	<u>Address</u>	<u>Telephone No.</u>	<u>EIN</u>
STERIS Corporation	5960 Heisley Road Mentor, OH 44060	(440) 354-2600	34-1482024

<u>Name of Employer</u>	<u>EIN</u>
American Sterilizer Company	25-0320960
SterilTek, Inc.	94-3350306
Isomedix Operations Inc.	22-2773397
STERIS, Inc.	91-1904549
Strategic Technology Enterprises, Inc.	01-0694100
STERIS Isomedix Services, Inc.	20-2091512
STERIS Personnel Services, Inc.	20-5763617

2.24 Plan: The name of the Plan as applied to the Employer is

STERIS CORPORATION DEFERRED COMPENSATION PLAN

2.25 Plan Administrator: The Plan Administrator shall be:

- (a) Committee.
- (b) Employer.
- XX (c) Other: STERIS Corporation.

2.27 Plan Year: The Plan Year shall end each year on the last day of the month of December.

2.35 Trust:

- XX (a) The Employer **does desire** to establish a “rabbi” trust for the purpose of setting aside assets of the Employer contributed thereto for the payment of benefits under the Plan.
- (b) The Employer **does not desire** to establish a “rabbi” trust for the purpose of setting aside assets of the Employer contributed thereto for the payment of benefits under the Plan.
- (c) The Employer desires to establish a “rabbi” trust for the purpose of setting aside assets of the Employer contributed thereto for the payment of benefits under the Plan **upon the occurrence of a Change in Control.**

4.1 Participant Deferral Credits: Subject to the limitations in Section 4.1 of the Plan, a Participant may elect to have his Compensation (as selected in Section 2.7 of this Adoption Agreement) deferred within the annual limits below by the following percentage or amount as designated in writing to the Committee:

- XX (a) Base salary, as defined in Section 2.7(f):  
          maximum deferral: \$           or 25%
- XX (b) Service Bonus:  
          maximum deferral: \$           or 100%
- XX (c) Performance-Based Compensation:  
          maximum deferral: \$           or 100%
- XX (d) Other: Commissions.  
          maximum deferral: \$           or 100%
- (e) Participant deferrals not allowed.

4.2 Employer Credits: The Employer will make Employer Credits in the following manner:

- (a) **Employer Discretionary Credits:** The Employer may make discretionary credits to the Deferred Compensation Account of each Participant in an amount determined as follows:
  - (i) An amount determined each Plan Year by the Employer.
  - (ii) Other: .
- (b) **Employer Profit Sharing Credits:** The Employer may make profit sharing credits to the Deferred Compensation Account of each Active Participant in an amount determined as follows:
  - (i) An amount determined each Plan Year by the Employer.
  - (ii) Other: .
- XX (c) **Other:** The Employer may make discretionary credits to the Deferred Compensation Accounts of such Participants as determined by the Compensation and Corporate Governance Committee of the Board of Directors of STERIS or such Board of Directors, which may be made to all or less than all the Participants.
- (d) Employer Credits not allowed.



5.3 *Death of a Participant*: If the Participant dies while in Service, the Employer shall pay a benefit to the Beneficiary in an amount equal to the vested balance in the Deferred Compensation Account of the Participant determined as of the date payments to the Beneficiary commence, plus:

- (a) An amount to be determined by the Committee.
- (b) Other: .
- XX (c) No additional benefits.

5.4 *In-Service Distributions*: In-service distributions are permitted under the Plan:

- XX (a) Yes, with respect to:
  - Participant Deferral Credits only.
  - Employer Credits only.
- XX Participant Deferral and Employer Credits.

In-service distributions may be made in the following manner:

- XX Single lump sum payment.
- XX Annual installment payments over no more than 10 years.

If applicable, amounts not vested at the specified time of distribution will be:

- Forfeited
- Distributed annually when vested
- (b) No in-service distributions permitted.

5.5 *Education Distributions*: Education accounts are permitted under the Plan:

- (a) Yes, with respect to:
  - Participant Deferral Credits only.
  - Employer Credits only.
  - Participant Deferral and Employer Credits.

Education distributions may be made in the following manner:

- Single lump sum payment.
- Annual installment payments over no more than        years.

If applicable, amounts not vested at the specified time of distribution will be:

- Forfeited
- Distributed annually when vested
- XX (b) No education distributions permitted.

5.6 *Change in Control*: Participant may elect to receive distributions under the Plan upon a Change in Control:

- XX (a) Yes, Participants may elect upon initial enrollment to have accounts distributed upon a Change in Control.
- (b) Participants may not elect to have accounts distributed upon a Change in Control.

6.1 *Payment Options:* Any benefit payable under the Plan upon a Qualifying Distribution Event may be made to the Participant or his Beneficiary (as applicable) in any of the following payment forms, as selected by the Participant in the Participant Deferral Agreement:

1. Separation from Service other than Retirement or Death
  - XX (a) A lump sum in cash upon the date of the Qualifying Distribution Event.
  - (b) Approximately equal annual installments over a term certain as elected by the Participant not to exceed years.
  - (c) Other: .
2. Separation from Service due to Retirement
  - XX (a) A lump sum in cash upon the date of the Qualifying Distribution Event.
  - XX (b) Approximately equal annual installments over a term certain as elected by the Participant not to exceed 10 years.
  - (c) Other: .
3. Death
  - XX (a) A lump sum in cash upon the date of the Qualifying Distribution Event.
  - (b) Approximately equal annual installments over a term certain as elected by the Participant not to exceed years.
  - (c) Other: .
4. Disability
  - XX (a) A lump sum in cash upon the date of the Qualifying Distribution Event.
  - XX (b) Approximately equal annual installments over a term certain as elected by the Participant not to exceed 10 years.
  - (c) Other: .
5. Change in Control
  - XX (a) A lump sum in cash upon the date of the Qualifying Distribution Event.
  - XX (b) Approximately equal annual installments over a term certain as elected by the Participant not to exceed 10 years.
  - (c) Other: .
  - (d) Not applicable (if not permitted in 5.6)

6.2 *De Minimis Amounts.* Notwithstanding any payment election made by the Participant, the vested balance in the Deferred Compensation Account of the Participant will be distributed in a single lump sum payment if the payment accompanies the termination of the Participant's entire interest in the Plan and the amount of such payment does not exceed **\$50,000**.

7. *Vesting:* An Active Participant shall be fully vested in the Employer Credits made to the Deferred Compensation Account upon the first to occur of the following events:

- (a) Normal Retirement Age.
- (b) Death.
- (c) Disability.
- (d) Change in Control
- (e) Other: .

XX (f) Satisfaction of the vesting requirement specified below:

**Employer Discretionary Credits:**

- (i) Immediate 100% vesting.
- (ii) 100% vesting after Years of Service.
- (iii) 100% vesting at age .

(iv)	<u>Number of Years of Service</u>	<u>Vested Percentage</u>
	Less than 1	%
	1	%
	2	%
	3	%
	4	%
	5	%
	6	%
	7	%
	8	%
	9	%
	10 or more	%

For this purpose, Years of Service of a Participant shall be calculated from the date designated below:

- (1) First Day of Service.
- (2) Effective Date of the Plan Participation.
- (3) Each Crediting Date. Under this option (3), each Employer Credit shall vest based on the Years of Service of a Participant from the Crediting Date on which each Employer Discretionary Credit is made to his or her Deferred Compensation Account. Notwithstanding the vesting schedule elected above, all Employer Discretionary Credits to the Deferred Compensation Account shall be 100% vested upon the following event(s): .

**Employer Profit Sharing Credits:**

- (i) Immediate 100% vesting.
- (ii) 100% vesting after Years of Service.
- (iii) 100% vesting at age .

(iv)	<u>Number of Years of Service</u>	<u>Vested Percentage</u>
	Less than 1	%
	1	%
	2	%
	3	%
	4	%
	5	%
	6	%
	7	%
	8	%
	9	%
	10 or more	%

For this purpose, Years of Service of a Participant shall be calculated from the date designated below:

- (1) First Day of Service.
- (2) Effective Date of the Plan Participation.
- (3) Each Crediting Date. Under this option (3), each Employer Credit shall vest based on the Years of Service of a Participant from the Crediting Date on which each Employer Profit Sharing Credit is made to his or her Deferred Compensation Account. Notwithstanding the vesting schedule elected above, all Employer Profit Sharing Credits to the Deferred Compensation Account shall be 100% vested upon the following event(s):

**XX Other Employer Credits:**

- XX (i) Immediate 100% vesting.
- (ii) 100% vesting after Years of Service.
- (iii) 100% vesting at age .

(iv)	<u>Number of Years of Service</u>	<u>Vested Percentage</u>
	Less than 1	%
	1	%
	2	%
	3	%
	4	%
	5	%
	6	%
	7	%
	8	%
	9	%
	10 or more	%

For this purpose, Years of Service of a Participant shall be calculated from the date designated below:

- (1) First Day of Service.
- (2) Effective Date of the Plan Participation.
- (3) Each Crediting Date. Under this option (3), each Employer Credit shall vest based on the Years of Service of a Participant from the Crediting Date on which each Employer Credit is made to his or her Deferred Compensation Account. Notwithstanding the vesting schedule elected above, all other Employer Credits to the Deferred Compensation Account shall be 100% vested upon the following event(s): .

14. *Amendment and Termination of Plan:* Notwithstanding any provision in this Adoption Agreement or the Plan to the contrary, Section \_\_\_\_\_ of the Plan shall be amended to read as provided in attached Exhibit \_\_\_\_\_.

XX There are no amendments to the Plan.

17.9 *Construction:* The provisions of the Plan and Trust (if any) shall be construed and enforced according to the laws of the State of **OHIO**, except to the extent that such laws are superseded by ERISA and the applicable provisions of the Code.

IN WITNESS WHEREOF, this Agreement has been executed as of the day and year stated below.

STERIS CORPORATION  
Name of Employer

By: \_\_\_\_\_ /S/ WILLIAM L. AAMOTH  
Authorized Person

Date: 12/16/08

**NOTE: Execution of this Adoption Agreement creates a legal liability of the Employer with significant tax consequences to the Employer and Participants. The Employer should obtain legal and tax advice from its professional advisors before adopting the Plan. Principal Life Insurance Company disclaims all liability for the legal and tax consequences which result from the elections made by the Employer in this Adoption Agreement.**

## LETTER 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 related Prospectuses of our report dated February 5, 2009 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 December 31, 2008:

<u>Registration Number</u>	<u>Description</u>
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
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 Registration Statement – 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

/s/ ERNST & YOUNG LLP

Cleveland, Ohio  
February 5, 2009

## CERTIFICATION OF THE PRINCIPAL EXECUTIVE OFFICER

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

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

Date: April 30, 2009

/s/ WALTER M ROSEBROUGH, JR.

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Walter M Rosebrough, Jr.  
President and Chief Executive Officer

## CERTIFICATION OF THE PRINCIPAL FINANCIAL OFFICER

I, Michael J. Tokich, certify that:

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

Date: April 30, 2009

/s/ MICHAEL J. TOKICH

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Michael J. Tokich  
Senior Vice President and Chief Financial Officer



**Certification Pursuant to 18 U.S.C. § 1350 as Adopted  
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/A of STERIS Corporation (the "Company") for the quarter ended December 31, 2008, 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: April 30, 2009