STERIS CORP
Form 10-Q
February 08, 2008
**Table of Contents**

# UNITED STATES

# SECURITIES AND EXCHANGE COMMISSION

**WASHINGTON, D. C. 20549**

# FORM 10-Q

**(Mark One)**

**x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
**For the quarterly period ended December 31, 2007**

**or**

**¨ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
**For the transition period from _____ to _____**

**Commission File Number 1-14643**

# STERIS Corporation

**(Exact name of registrant as specified in its charter)**

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

**440-354-2600**

**(Registrant s telephone number, including area code)**

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

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

Large Accelerated Filer x Accelerated Filer ¨ Non-Accelerated Filer ¨

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

The number of common shares outstanding as of January 31, 2008: 62,065,799

Table of Contents

**STERIS Corporation**

**Form 10-Q**

**Index**


| | | Page |
|---|---|---|
| **Part I Financial Information** | | |
| Item 1. | Financial Statements | 3 |
| Item 2. | Management s Discussion and Analysis of Financial Condition and Results of Operations | 24 |
| Item 3. | Quantitative and Qualitative Disclosures About Market Risk | 43 |
| Item 4. | Controls and Procedures | 43 |
| **Part II Other Information** | | |
| Item 1. | Legal Proceedings | 44 |
| Item 1A. | Risk Factors | 44 |
| Item 2. | Unregistered Sales of Equity Securities and Use of Proceeds | 45 |
| Item 6. | Exhibits | 45 |
| | Signature | 46 |

Table of Contents

**PART I - FINANCIAL INFORMATION**

**ITEM 1. FINANCIAL STATEMENTS**

**STERIS CORPORATION**

**CONSOLIDATED BALANCE SHEETS**

**(in thousands)**

| | December 31, 2007 (Unaudited) | March 31, 2007 |
|---|---|---|
| **Assets** | | |
| **Current assets:** | | |
| Cash and cash equivalents | $ 55,388 | $ 52,296 |
| Accounts receivable (net of allowances of $8,959 and $9,911, respectively) | 201,213 | 251,207 |
| Inventories, net | 164,436 | 131,997 |
| Current portion of deferred income taxes, net | 18,272 | 14,560 |
| Prepaid expenses and other current assets | 33,902 | 34,660 |
| **Total current assets** | 473,211 | 484,720 |
| Property, plant, and equipment, net | 384,991 | 388,899 |
| Goodwill and intangibles, net | 333,241 | 332,947 |
| Other assets | 3,352 | 2,604 |
| **Total assets** | $ 1,194,795 | $ 1,209,170 |
| **Liabilities and shareholders equity** | | |
| **Current liabilities:** | | |
| Current portion of long-term indebtedness | $ 700 | $ 777 |
| Accounts payable | 62,586 | 76,184 |
| Accrued income taxes | 22,505 | 18,761 |
| Accrued payroll and other related liabilities | 49,628 | 59,003 |
| Accrued expenses and other | 63,866 | 62,674 |
| **Total current liabilities** | 199,285 | 217,399 |
| Long-term indebtedness | 132,225 | 100,800 |
| Deferred income taxes, net | 12,901 | 17,826 |
| Retirement benefit obligations | 96,443 | 98,853 |
| **Total liabilities** | 440,854 | 434,878 |
| **Commitments and contingencies (see note 10)** | | |
| Serial preferred shares, without par value; 3,000 shares authorized; no shares issued or outstanding | | |
| Common shares, without par value; 300,000 shares authorized; 70,040 shares issued; 62,350 and 64,982 shares outstanding, respectively | 28,325 | 102,466 |
| Retained earnings | 698,921 | 667,267 |
| Accumulated other comprehensive income | 26,695 | 4,559 |
| **Total shareholders equity** | 753,941 | 774,292 |
| **Total liabilities and shareholders equity** | $ 1,194,795 | $ 1,209,170 |

See notes to consolidated financial statements.

Table of Contents

**STERIS CORPORATION**

**CONSOLIDATED STATEMENTS OF INCOME**

**(in thousands, except per share amounts)**

**(Unaudited)**

| | Three Months Ended December 31, | | Nine Months Ended December 31, | |
|---|---|---|---|---|
| | 2007 | 2006 | 2007 | 2006 |
| **Revenues:** | | | | |
| Product | $ 201,743 | $ 192,945 | $ 556,563 | $ 538,079 |
| Service | 112,231 | 106,022 | 333,357 | 309,491 |
| **Total revenues** | 313,974 | 298,967 | 889,920 | 847,570 |
| **Cost of revenues:** | | | | |
| Product | 119,922 | 112,072 | 330,043 | 313,712 |
| Service | 63,853 | 59,194 | 187,296 | 174,021 |
| **Total cost of revenues** | 183,775 | 171,266 | 517,339 | 487,733 |
| **Gross profit** | 130,199 | 127,701 | 372,581 | 359,837 |
| **Operating expenses:** | | | | |
| Selling, general, and administrative | 85,612 | 82,594 | 260,100 | 243,789 |
| Research and development | 10,173 | 8,078 | 27,963 | 24,756 |
| Restructuring expenses | 952 | 3,179 | 3,041 | 5,442 |
| **Total operating expenses** | 96,737 | 93,851 | 291,104 | 273,987 |
| **Income from continuing operations** | 33,462 | 33,850 | 81,477 | 85,850 |
| **Non-operating expenses (income):** | | | | |
| Interest expense | 1,516 | 1,714 | 4,229 | 5,859 |
| Interest and miscellaneous income | (581) | (591) | (1,657) | (2,071) |
| **Total non-operating expense, net** | 935 | 1,123 | 2,572 | 3,788 |
| **Income from continuing operations before income tax expense** | 32,527 | 32,727 | 78,905 | 82,062 |
| Income tax expense | 10,751 | 11,859 | 27,908 | 30,773 |
| **Net income from continuing operations** | 21,776 | 20,868 | 50,997 | 51,289 |
| **Discontinued operations:** | | | | |
| Gain on the sale of discontinued operations, net of tax | | 431 | | 1,058 |
| **Net income** | $ 21,776 | $ 21,299 | $ 50,997 | $ 52,347 |
| **Basic earnings per common share:** | | | | |
| Income from continuing operations, net of tax | $ 0.35 | $ 0.32 | $ 0.80 | $ 0.78 |
| Income from discontinued operations, net of tax | $ | $ 0.01 | $ | $ 0.02 |
| Net income | $ 0.35 | $ 0.33 | $ 0.80 | $ 0.80 |
| **Diluted earnings per common share:** | | | | |

| | | | | |
|---|---|---|---|---|
| Income from continuing operations, net of tax | $ 0.34 | $ 0.32 | $ 0.79 | $ 0.78 |
| Income from discontinued operations, net of tax | $ | $ 0.01 | $ | $ 0.02 |
| Net income | $ 0.34 | $ 0.33 | $ 0.79 | $ 0.80 |
| **Cash dividends declared per common share outstanding** | $ 0.06 | $ 0.05 | $ 0.17 | $ 0.13 |

See notes to consolidated financial statements.

Table of Contents

**STERIS CORPORATION**

**CONSOLIDATED STATEMENTS OF CASH FLOWS**

**(in thousands)**

**(Unaudited)**

| | Nine Months Ended December 31, | |
|---|---|---|
| | **2007** | **2006** |
| **Operating activities:** | | |
| Net income | $ 50,997 | $ 52,347 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Depreciation, depletion, and amortization | 47,499 | 44,273 |
| Deferred income taxes | (17,261) | (7,107) |
| Share based compensation | 6,465 | 8,895 |
| Loss on the sale of property, plant, equipment, and intangibles, net | 966 | 742 |
| Gain on the sale of discontinued operations, net of tax | | (1,058) |
| Other items | (769) | (553) |
| Changes in operating assets and liabilities, excluding the effects of business acquisitions: | | |
| Accounts receivable, net | 55,438 | 39,095 |
| Inventories, net | (25,819) | (32,338) |
| Other current assets | 1,383 | (16,468) |
| Accounts payable | (15,191) | (26,939) |
| Accruals and other, net | (9,206) | (19,518) |
| **Net cash provided by operating activities** | 94,502 | 41,371 |
| **Investing activities:** | | |
| Purchases of property, plant, equipment, and intangibles, net | (39,142) | (33,066) |
| Proceeds from the sale of property, plant, equipment, and intangibles | 4,740 | 2,577 |
| Proceeds from the sale of discontinued operations | | 2,927 |
| **Net cash used in investing activities** | (34,402) | (27,562) |
| **Financing activities:** | | |
| Proceeds under credit facilities, net | 31,925 | 11,440 |
| Payments on long-term obligations and capital leases | (500) | (1,436) |
| Repurchases of common shares | (94,758) | (59,628) |
| Cash dividends paid to common shareholders | (10,910) | (8,508) |
| Stock option and other equity transactions, net | 11,540 | 6,746 |
| Tax benefit from stock options exercised | 2,591 | 1,440 |
| **Net cash used in financing activities** | (60,112) | (49,946) |
| Effect of exchange rate changes on cash and cash equivalents | 3,104 | 2,416 |
| Increase (decrease) in cash and cash equivalents | 3,092 | (33,721) |
| Cash and cash equivalents at beginning of period | 52,296 | 72,732 |
| Cash and cash equivalents at end of period | $ 55,388 | $ 39,011 |

See notes to consolidated financial statements.

5

Table of Contents

**STERIS CORPORATION**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)**

**For the Three and Nine Months Ended**

**December 31, 2007 and 2006**

**(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 business segments: Healthcare, Life Sciences, and STERIS Isomedix Services ( Isomedix Services ). 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 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, 2007, filed with the Securities and Exchange Commission ( SEC ) on May 30, 2007. The Consolidated Balance Sheet at March 31, 2007 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, 2007 are not necessarily indicative of results that may be expected for the full fiscal year ending March 31, 2008.

Table of Contents

**STERIS CORPORATION**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited) (Continued)**

**For the Three and Nine Months Ended**

**December 31, 2007 and 2006**

**(dollars in thousands, except per share amounts)**

***Recently Adopted Accounting Pronouncements***

In July 2006, the Financial Accounting Standards Board ( FASB ) issued FASB Interpretation No. 48 ( FIN No. 48 ), Accounting for Uncertainty in Income Taxes an interpretation of FASB Statement No. 109. This interpretation clarifies the recognition threshold and measurement attribute for financial statement recognition and measurement of tax positions taken or expected to be taken on a tax return. Under FIN No. 48, the economic benefit associated with a tax position is only recognized if it is more likely than not that the tax position will be sustained. After this threshold is met, a tax position is reported at the largest amount of benefit that is more likely than not to be ultimately sustained. FIN No. 48 also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure and transition. FIN No. 48 requires the cumulative effect of adoption to be recorded as an adjustment to the opening balance of retained earnings. We adopted FIN No. 48 effective April 1, 2007, as required. Prior to April 1, 2007, we regularly assessed our positions with respect to tax exposures and recorded liabilities for uncertain income tax positions according to Statement of Financial Accounting Standards No. 5 ( SFAS No. 5 ), Accounting for Contingencies. We describe the impact of adopting FIN No. 48 further in note 8 to our consolidated financial statements titled, Income Tax Expense.

***New Accounting Pronouncements***

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.

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.

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 choose to measure many financial instruments and certain other items at fair value that are not currently required to be measured at fair value. 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 are currently evaluating the impact of adopting SFAS No. 159 on our consolidated financial statements.

Table of Contents

**STERIS CORPORATION**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited) (Continued)**

**For the Three and Nine Months Ended**

**December 31, 2007 and 2006**

**(dollars in thousands, except per share amounts)**

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 generally accepted accounting principles, 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. In November 2007, the FASB agreed to defer the effective date of SFAS No. 157 for non-financial assets and liabilities until fiscal years and interim periods beginning after November 15, 2008. SFAS No. 157 is still effective for us beginning April 1, 2008 for financial assets and liabilities. The provisions of SFAS No. 157 will be applied prospectively. We are currently evaluating the impact of adopting SFAS No. 157 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, 2007, filed with the SEC on May 30, 2007. Our significant and critical accounting policies, estimates, and assumptions have not changed materially from March 31, 2007, other than for the adoption of FIN No. 48 as described above.

**2. Restructuring**

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. In addition, we assess the property, plant and equipment associated with the related facilities for impairment under 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.

**Fiscal 2006 Restructuring Plan**

During the three and nine months ended December 31, 2007, we recorded $952 and $3,076, respectively, in restructuring expenses primarily related to the previously announced transfer of the Erie, Pennsylvania manufacturing operations to Monterrey, Mexico (the Fiscal 2006 Restructuring Plan ), which is intended to improve our cost structure. During the three and nine months ended December 31, 2006 we recorded $1,579 and $3,842, respectively, in restructuring expenses related to the transfer of manufacturing operations. Additional information regarding the Fiscal 2006 Restructuring Plan is included in our Annual Report on Form 10-K for the year ended March 31, 2007, filed with the SEC on May 30, 2007.

The restructuring costs incurred during the third quarter and first nine months of fiscal 2008 and fiscal 2007 are primarily associated with the Healthcare business segment. Since the inception of the Fiscal 2006 Restructuring Plan, we have incurred restructuring expenses of $33,265, with restructuring expenses of $32,851 and $414 related to the Healthcare and Life Sciences segments, respectively, primarily related to the transfer of manufacturing operations to Monterrey, Mexico.

Table of Contents

**STERIS CORPORATION**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited) (Continued)**

**For the Three and Nine Months Ended**

**December 31, 2007 and 2006**

**(dollars in thousands, except per share amounts)**

We anticipate incurring approximately an additional $1,000 in restructuring expenses during the remainder of fiscal 2008 in connection with the transfer of the manufacturing operations to Mexico. Restructuring expenses to be incurred include asset write-offs, severance, and other expenses.

**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 ) and recorded restructuring expenses of $1,600, primarily related to severance and termination benefits. For the three and nine months ended December 31, 2007, we did not incur any additional restructuring expenses related to the European Restructuring Plan and settled certain termination benefits for less than originally expected.

Since the inception of the European Restructuring Plan, we have incurred restructuring expenses of $1,668, with restructuring expenses of $1,178 and $490 related to the Healthcare and Life Sciences segments, respectively, primarily related to severance and termination benefits. We continue to evaluate our European operations for opportunities to enhance performance, but we have not committed to any additional specific restructuring actions.

The following tables summarize the total restructuring expenses we recorded for the third quarter of fiscal 2008 and fiscal 2007:

| Three Months Ended December 31, 2007 | Fiscal 2006 Restructuring Plan |
|---|---|
| Severance, payroll and other related costs | $ (163) |
| Asset impairment and accelerated depreciation | 822 |
| Other | 293 |
| **Total restructuring charges** | $ 952 |

| Three Months Ended December 31, 2006 | Fiscal 2006 Restructuring Plan | European Restructuring Plan | Total |
|---|---|---|---|
| Severance, payroll and other related costs | $ 739 | $1,276 | $2,015 |
| Lease termination costs | | 219 | 219 |
| Asset impairment and accelerated depreciation | 765 | 105 | 870 |
| Other | 75 | | 75 |
| Total restructuring charges | $ 1,579 | $ 1,600 | $ 3,179 |

The following tables summarize the total restructuring expenses we recorded for the first nine months of fiscal 2008 and fiscal 2007:

| Nine Months Ended December 31, 2007 | Fiscal 2006 Restructuring Plan | European Restructuring Plan | Total |
|---|---|---|---|
| Severance, payroll and other related costs | $ 168 | $ (24) | $ 144 |
| Lease termination costs | (13) | (11) | (24) |
| Asset impairment and accelerated depreciation | 2,622 | | 2,622 |
| Other | 299 | | 299 |
| **Total restructuring charges** | $ 3,076 | $ (35) | $ 3,041 |

Table of Contents

**STERIS CORPORATION**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited) (Continued)**

**For the Three and Nine Months Ended**

**December 31, 2007 and 2006**

**(dollars in thousands, except per share amounts)**

| Nine Months Ended December 31, 2006 | Fiscal 2006 Restructuring Plan | European Restructuring Plan | Total |
|---|---|---|---|
| Severance, payroll and other related costs | $ 1,717 | $ 1,276 | $ 2,993 |
| Lease termination costs | | 219 | 219 |
| Asset impairment and accelerated depreciation | 2,034 | 105 | 2,139 |
| Other | 91 | | 91 |
| **Total restructuring charges** | $ 3,842 | $ 1,600 | $ 5,442 |

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

| | | Fiscal 2006 Restructuring Plan Fiscal 2008 | | |
|---|---|---|---|---|
| | March 31, 2007 | Provision | Payments | December 31, 2007 |
| Severance and termination benefits | $ 1,799 | $ 156 | $ (846) | $ 1,109 |
| Lease termination obligation | 157 | (13) | (144) | |
| **Total** | $ 1,956 | $ 143 | $ (990) | $ 1,109 |

| | | European Restructuring Plan Fiscal 2008 | | |
|---|---|---|---|---|
| | March 31, 2007 | Provision | Payments | December 31, 2007 |
| Severance and termination benefits | $ 638 | $ (34) | $ (569) | $ 35 |
| Lease termination obligation | 219 | (11) | (94) | 114 |
| Fixed asset impairment | 105 | | (60) | 45 |
| **Total** | $ 962 | $ (45) | $ (723) | $ 194 |

**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, | |
|---|---|---|---|---|
| | 2007 | 2006 | 2007 | 2006 |
| Net income | $ 21,776 | $ 21,299 | $ 50,997 | $ 52,347 |
| Foreign currency translation adjustments | 4,060 | 3,256 | 21,250 | 14,874 |
| Amortization of pension and postretirement benefit plans costs, net of tax | 322 | | 967 | |
| Unrealized losses on investments | (77) | (4) | (81) | (4) |
| **Total comprehensive income** | $ 26,081 | $ 24,551 | $ 73,133 | $ 67,217 |

Table of Contents

**STERIS CORPORATION**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited) (Continued)**

**For the Three and Nine Months Ended**

**December 31, 2007 and 2006**

**(dollars in thousands, except per share amounts)**

**4. Property, Plant and Equipment**

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

| | December 31, 2007 | March 31, 2007 |
|---|---|---|
| Land and land improvements (1) | $ 26,278 | $ 25,553 |
| Buildings and leasehold improvements | 180,574 | 180,672 |
| Machinery and equipment | 279,919 | 268,852 |
| Information systems | 127,007 | 115,137 |
| Radioisotope | 144,916 | 133,723 |
| Construction in progress (1) | 40,628 | 40,098 |
| **Total property, plant, and equipment** | 799,322 | 764,035 |
| Less: accumulated depreciation and depletion | (414,331) | (375,136) |
| **Property, plant, and equipment, net** | $ 384,991 | $ 388,899 |

(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, 2007 | March 31, 2007 |
|---|---|---|
| Raw materials | $ 46,222 | $ 42,672 |
| Work in process | 36,436 | 30,443 |
| Finished goods | 81,778 | 58,882 |
| **Inventories, net** | $ 164,436 | $ 131,997 |

**6. Debt**

Indebtedness was as follows:

| | December 31, 2007 | March 31, 2007 |
|---|---|---|
| Private Placement | $ 100,000 | $ 100,000 |
| Credit facility | 31,925 | |
| Other debt | 1,000 | 1,577 |
| **Total** | 132,925 | 101,577 |
| Less: current portion | 700 | 777 |
| **Long-term portion** | $ 132,225 | $ 100,800 |

Table of Contents

**STERIS CORPORATION**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited) (Continued)**

**For the Three and Nine Months Ended**

**December 31, 2007 and 2006**

**(dollars in thousands, except per share amounts)**

On September 13, 2007, we signed the Second Amended and Restated Credit Agreement (the Credit Agreement ) with KeyBank National Association, as administrative agent for the lending institutions that are parties to the Credit Agreement (the Agent ), and the other lenders that may from time to time be a party to the Credit Agreement. This Credit Agreement amended, restated, and replaced our Amended and Restated Credit Agreement dated March 29, 2004, as amended, which was to mature in June, 2010. The Credit Agreement matures on September 13, 2012 and provides $400,000 of credit, which may be increased by up to an additional $100,000 in specified circumstances, for borrowings and letters of credit. A floating interest rate is applied to amounts borrowed as defined in the Credit Agreement or a fixed rate may be applied based on the Eurodollar Rate or other defined currency rate, plus a margin based on our leverage ratio. Interest is payable quarterly or at the end of the interest period, if shorter. We may prepay floating rate loans without paying a penalty, but we may be required to pay a penalty for prepaying fixed rate loans. The Credit Agreement also allows us to make short term swing loan borrowings not to exceed $35,000, with an interest rate equal to the Agent s cost of funds plus a margin. Our obligations under the Credit Agreement are unsecured but guaranteed by our material domestic subsidiaries.

In December 2003, we issued $100,000 of senior notes in a private placement (the December 2003 Private Placement ) to certain institutional investors in an offering that was exempt from the registration requirements of the Securities Act of 1933. We used the proceeds to pay down the outstanding balance of our revolving credit facility and invested the remaining balance in short-term marketable securities. Of the $100,000 notes, $40,000 had a maturity of five years at an annual interest rate of 4.20%, another $40,000 had a maturity of ten years at an annual interest rate of 5.25%, and the remaining $20,000 had a maturity of twelve years at an annual interest rate of 5.38%. Therefore, payment of the first $40,000 of notes is due in December 2008. However, we have excluded the liabilities for these notes from the Current portion of long-term indebtedness on the accompanying Consolidated Balance Sheet as of December 31, 2007 because it is our intention to refinance this amount with proceeds of borrowings available to us under the Credit Agreement outlined above.

Additional information regarding our indebtedness is included in our Annual Report on Form 10-K for the year ended March 31, 2007, filed with the SEC on May 30, 2007.

Table of Contents

**STERIS CORPORATION**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited) (Continued)**

**For the Three and Nine Months Ended**

**December 31, 2007 and 2006**

**(dollars in thousands, except per share amounts)**

**7. Additional Consolidated Balance Sheets Information**

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

| | December 31, 2007 | March 31, 2007 |
|---|---|---|
| **Accrued payroll and other related liabilities:** | | |
| Compensation and related items | $ 12,383 | $ 19,617 |
| Accrued vacation | 12,713 | 13,265 |
| Accrued bonuses | 8,117 | 8,436 |
| Accrued employee commissions | 8,624 | 9,989 |
| Other postretirement benefit obligations-current portion | 6,789 | 6,789 |
| Other employee benefit plans obligations-current portion | 1,002 | 907 |
| **Total accrued payroll and other related liabilities** | $ 49,628 | $ 59,003 |
| **Accrued expenses and other:** | | |
| Deferred revenues | $ 24,730 | $ 22,919 |
| Self-insured risk retention-GRIC-current portion | 5,390 | 4,096 |
| Other self-insured risks | 1,234 | 541 |
| Accrued dealer commissions | 6,102 | 6,474 |
| Accrued warranty | 6,574 | 5,893 |
| Other | 19,836 | 22,751 |
| **Total accrued expenses and other** | $ 63,866 | $ 62,674 |
| **Other liabilities:** | | |
| Self-insured risk retention-GRIC-long-term portion | $ 12,224 | $ 12,506 |
| Other postretirement benefit obligations-long-term portion | 74,143 | 74,275 |
| Defined benefit pension plans obligations | 8,449 | 11,466 |
| Other employee benefit plans obligations-long-term portion | 1,317 | 606 |
| Minority interest in joint venture | 310 | |
| **Total other liabilities** | $ 96,443 | $ 98,853 |

**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, 2007 and 2006 were 33.1% and 36.2%, respectively. For the nine months ended December 31, 2007 and 2006, the effective income tax rates for continuing operations were 35.4% and 37.5%, respectively. The lower effective income tax rate for the three and nine months ended December 31, 2007 resulted principally from a

favorable impact relating to the United States manufacturing deduction and favorable discrete item adjustments relating to various international and United States tax audit matters.

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.

Table of Contents

**STERIS CORPORATION**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited) (Continued)**

**For the Three and Nine Months Ended**

**December 31, 2007 and 2006**

**(dollars in thousands, except per share amounts)**

Effective April 1, 2007, we adopted the provisions of FIN No. 48. In accordance with FIN No. 48, we recognized a cumulative-effect adjustment of $8,433, increasing our liability for unrecognized tax benefits, interest, and penalties and reducing the April 1, 2007 balance of retained earnings. At April 1, 2007, we had $15,207 in unrecognized tax benefits, of which $8,702 would affect the effective income tax rate if recognized.

In conjunction with the adoption of FIN No. 48, we classify uncertain tax positions as long-term liabilities within Deferred income taxes, net in our accompanying Consolidated Balance Sheets unless expected to be paid within 12 months. We recognize accrued interest and penalties related to unrecognized tax benefits within Income tax expense in our accompanying Consolidated Statements of Income. At April 1, 2007, we had accrued $3,449 and $2,906 for the potential payment of interest and penalties, respectively.

There were no significant changes to any of these amounts during the first six months of fiscal 2008. For the three and nine months ending December 31, 2007, the gross decrease in unrecognized tax benefits are $2,194 and $2,650, respectively, due to various international and United States tax audit matters. As of December 31, 2007, we had $12,557 in unrecognized tax benefits, of which $7,901 would affect the effective income tax rate if recognized, and we had accrued $3,052 and $2,786 for the potential payment of interest and penalties, respectively.

It is reasonably possible that unrecognized tax benefits may decrease by up to $10,179 within 12 months of December 31, 2007 primarily as a result of the settlement of federal audits and the closure of statutes of limitation.

We operate in numerous taxing jurisdictions and are subject to regular examinations by various United States federal, state and foreign jurisdictions. We are no longer subject to United States federal examinations for years before 1999 and, with limited exceptions, we are no longer subject to foreign, state and local tax examinations for years before 2003.

**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 medical benefit plan for two groups of United States employees comprised substantially of the same employees who receive pension benefits under the United States defined benefit pension plans. Benefits under this plan include retiree life insurance and retiree medical insurance, including prescription drug coverage and Medicare supplemental coverage. Additional information regarding our defined benefit pension plans and other postretirement medical benefit plan is included in our Annual Report on Form 10-K for the year ended March 31, 2007, filed with the SEC on May 30, 2007.

During the fourth quarter of fiscal 2006, we recorded curtailment and special termination benefit losses associated with the restructuring plan to transfer certain manufacturing operations from Erie, Pennsylvania to Monterrey, Mexico. Fiscal 2008 and fiscal 2007 net periodic benefit costs are reduced as a result of the recognition of these losses.

Table of Contents

**STERIS CORPORATION**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited) (Continued)**

**For the Three and Nine Months Ended**

**December 31, 2007 and 2006**

**(dollars in thousands, except per share amounts)**

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

| | Defined Benefit Pension Plans | | | | Other Post-Retirement Plan | |
|---|---|---|---|---|---|---|
| | U.S. Qualified | | International | | | |
| **Three Months Ended December 31,** | **2007** | **2006** | **2007** | **2006** | **2007** | **2006** |
| Service cost | $ 27 | $ (14) | $ 115 | $ 109 | $ | $ |
| Interest cost | 702 | 693 | 76 | 80 | 1,161 | 1,168 |
| Expected return on plan assets | (802) | (680) | (110) | (97) | | |
| Recognized losses | 103 | 94 | | | 247 | 231 |
| Amortization of transition obligation | (28) | (27) | | | | |
| **Net periodic benefit cost** | $ 2 | $ 66 | $ 81 | $ 92 | $ 1,408 | $ 1,399 |

| | Defined Benefit Pension Plans | | | | Other Post-Retirement Plan | |
|---|---|---|---|---|---|---|
| | U.S. Qualified | | International | | | |
| **Nine Months Ended December 31,** | **2007** | **2006** | **2007** | **2006** | **2007** | **2006** |
| Service cost | $ 79 | $ 85 | $ 346 | $ 328 | $ | $ |
| Interest cost | 2,105 | 2,077 | 229 | 240 | 3,482 | 3,505 |
| Expected return on plan assets | (2,404) | (2,039) | (330) | (291) | | |
| Recognized losses | 309 | 283 | | | 741 | 691 |
| Amortization of transition obligation | (83) | (83) | | | | |
| **Net periodic benefit cost** | $ 6 | $ 323 | $ 245 | $ 277 | $ 4,223 | $ 4,196 |

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. During the first nine months of fiscal 2008 and fiscal 2007, we contributed $2,404 and $3,125, respectively, to our United States defined benefit pension plans. As a result of making these contributions and due to the investment performance of the plan assets, we are not required to, and we do not anticipate making further contributions to, the United States defined benefit pension plans in fiscal 2008.

We record liabilities for the difference between the fair value of the plan assets and the benefit obligation (the projected benefit obligation for pension plans and the accumulated postretirement benefit obligation for other postretirement benefits plans) on our accompanying Consolidated Balance Sheets.

**10. Contingencies**

We are involved in various patent, product liability, consumer, environmental, tax proceedings and claims, governmental investigations, and other legal and regulatory proceedings that arise from time to time in the ordinary course of business. In accordance with SFAS No. 5, 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 anticipated to have a material adverse effect on our consolidated financial position, results of operations, or cash flows. However, the

Table of Contents

**STERIS CORPORATION**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited) (Continued)**

**For the Three and Nine Months Ended**

**December 31, 2007 and 2006**

**(dollars in thousands, except per share amounts)**

ultimate outcome of litigation is unpredictable and actual results could be materially different from our estimates. We record anticipated recoveries under applicable insurance contracts when we are assured of recovery.

The Food & Drug Administration ( FDA ) and the United States Department of Justice are continuing to conduct an investigation involving our SYSTEM 1® sterile processing system. We received requests for documents 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 that the ultimate outcome of the investigation will not result in an action by the government agencies or that the government agencies will not initiate administrative proceedings, civil proceedings or criminal proceedings, or any combination thereof, against us.

The Internal Revenue Service ( IRS ) routinely conducts audits of our federal income tax returns. During the fourth quarter of fiscal year 2006, we reached a settlement with the IRS with respect to federal income tax returns for the fiscal years 1997 and 1998 that were previously in appeals, and entered the appeals phase relative to audit results for fiscal years 1999 through 2001. The IRS began an audit of fiscal years 2002 through 2005 in fiscal year 2007. We also remain subject to tax authority audits in various other jurisdictions in which we operate.

We record accruals for tax positions taken or expected to be taken in a tax return in accordance with the provisions of FIN No. 48. If we were to prevail in matters for which accruals have been established, or are required to pay amounts in excess of established accruals, our effective income tax rate in a given financial statement period may be materially impacted.

**11. Business Segment Information**

We operate and report in three business segments: Healthcare, Life Sciences, and STERIS Isomedix Services.

Our Healthcare segment is a global provider of capital equipment and accessories used in surgical and critical care environments, emergency departments, gastrointestinal and sterile processing environments, and in infection control processes. We also manufacture and sell consumable products and provide services to this healthcare customer base.

Our Life Sciences segment manufactures and sells capital equipment, cleaning chemistries, and service solutions to pharmaceutical companies, public and private research facilities, government, military, aerospace, transportation, and food and beverage customers.

Our Isomedix Services segment operates through a network of 21 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.

Operating income for each segment reflects the full allocation of all distribution, corporate, and research and development expenses to the segments. These allocations are based upon variables such as segment headcount

Table of Contents

**STERIS CORPORATION**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited) (Continued)**

**For the Three and Nine Months Ended**

**December 31, 2007 and 2006**

**(dollars in thousands, except per share amounts)**

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 accounting policies for the 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. As a result, an allocation of depreciable assets is not meaningful to segment performance. For the three and nine months ended December 31, 2007, revenues from a single customer did not represent ten percent or more of any segment s revenues. Additional information regarding our segments is included in our Annual Report on Form 10-K for the year ended March 31, 2007, filed with the SEC on May 30, 2007.

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

| | Three Months Ended December 31, | | Nine Months Ended December 31, | |
|---|---|---|---|---|
| | 2007 | 2006 | 2007 | 2006 |
| **Revenues:** | | | | |
| Healthcare | $ 220,451 | $ 209,807 | $ 622,826 | $ 594,032 |
| Life Sciences | 58,968 | 56,062 | 162,274 | 154,394 |
| STERIS Isomedix Services | 34,555 | 33,098 | 104,820 | 99,144 |
| **Total revenues** | $ 313,974 | $ 298,967 | $ 889,920 | $ 847,570 |
| **Operating income:** | | | | |
| Healthcare | $ 26,222 | $ 25,598 | $ 59,952 | $ 67,142 |
| Life Sciences | 813 | 2,534 | 1,391 | 1,496 |
| STERIS Isomedix Services | 6,427 | 5,718 | 20,134 | 17,212 |
| **Total operating income** | $ 33,462 | $ 33,850 | $ 81,477 | $ 85,850 |

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, | |
|---|---|---|---|---|
| | 2007 | 2006 | 2007 | 2006 |
| **Revenues:** | | | | |
| United States | $ 238,988 | $ 227,792 | $ 688,443 | $ 662,973 |
| International | 74,986 | 71,175 | 201,477 | 184,597 |
| **Total revenues** | $ 313,974 | $ 298,967 | $ 889,920 | $ 847,570 |

| | December 31, 2007 | March 31, 2007 |
|---|---|---|
| **Long-lived assets:** | | |
| United States | $ 561,213 | $ 570,851 |
| International | 160,371 | 153,599 |
| **Total long-lived assets** | $ 721,584 | $ 724,450 |

Table of Contents

**STERIS CORPORATION**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited) (Continued)**

**For the Three and Nine Months Ended**

**December 31, 2007 and 2006**

**(dollars in thousands, except per share amounts)**

**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, | |
|---|---|---|---|---|
| | 2007 | 2006 | 2007 | 2006 |
| | (shares in thousands) | | | |
| Weighted average common shares outstanding - basic | 62,995 | 64,737 | 64,073 | 65,255 |
| Dilutive effect of common share equivalents | 841 | 603 | 858 | 541 |
| Weighted average common shares outstanding and common share equivalents - diluted | 63,836 | 65,340 | 64,931 | 65,796 |

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, | |
|---|---|---|---|---|
| | 2007 | 2006 | 2007 | 2006 |
| | (shares in thousands) | | | |
| Number of common share options | 1,312 | 1,262 | 1,301 | 2,157 |
| Weighted average exercise price | $ 28.11 | $ 28.85 | $ 28.24 | $ 26.69 |

**13. Repurchases of Common Shares**

On July 26, 2007, we announced that the Company s Board of Directors had authorized the repurchase of up to $300,000 in shares of our common stock, replacing a previous authorization to repurchase up to 3,000,000 common shares under which 1,886,869 shares remained available for repurchase. This new common share repurchase authorization does not have a stated maturity date. Under this new authorization, we may purchase shares from time to time through open market purchases or privately negotiated transactions, including transactions pursuant to Rule 10b5-1 plans.

During the first nine months of fiscal 2008, we repurchased 3,406,531 of our common shares for $96,263, representing an average price of $28.26 per common share, including repurchases of 51,200 of our common shares for $1,505 that were not settled until January 2008.

At December 31, 2007, $224,972 in shares of our common stock remained authorized for repurchase and 7,689,343 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

Table of Contents

**STERIS CORPORATION**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited) (Continued)**

**For the Three and Nine Months Ended**

**December 31, 2007 and 2006**

**(dollars in thousands, except per share amounts)**

form of stock options, restricted shares, and restricted share units, or other forms permitted by the plan. 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, 2007, 5,354,078 shares remain available for grant under the long-term incentive plan.

On April 1, 2006, we adopted Statement of Financial Accounting Standard No. 123 (revised 2004) ( SFAS No. 123R ), Share-Based Payment, using the modified prospective transition method. 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 goods sold or selling, general and administrative expenses in a manner consistent with the employee s compensation and benefits.

Under the modified prospective transition method, compensation cost recognized in the first nine months of fiscal 2008 and fiscal 2007 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 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 2008 was $2,296 and $6,465, respectively, before income taxes ($1,410 and $3,970, respectively, net of income taxes). Total share based compensation expense recognized during the third quarter and first nine months of fiscal 2007 was $3,110 and $8,895, respectively, before income taxes ($1,910 and $5,462, respectively, net of income taxes). The expense recognized in the first nine months of fiscal 2008 and fiscal 2007 results is not indicative of the effect on each full fiscal year, as approximately $660 and $1,784 of the stock compensation expense recorded in the first nine months of fiscal 2008 and fiscal 2007, respectively, was attributable to the accelerated recognition of expense for certain employees that are or will become eligible for retirement during the vesting period.

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 2008 and fiscal 2007:

| | Fiscal 2008 | Fiscal 2007 |
|---|---|---|
| Risk-free interest rate | 5.04% | 4.73% |
| Expected life of options | 5.52 years | 6 years |
| Expected dividend yield of stock | 0.93% | 0.65% |
| Expected volatility of stock | 29.61% | 34.29% |

19

Table of Contents

**STERIS CORPORATION**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited) (Continued)**

**For the Three and Nine Months Ended**

**December 31, 2007 and 2006**

**(dollars in thousands, except per share amounts)**

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 beginning in the second quarter of fiscal 2008. 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 expected life and expected forfeiture rate used for options granted in fiscal 2008 and fiscal 2007 to our former Chief Executive Officer ( CEO ) were adjusted based on the terms of the employment agreements with the former CEO entered into in May 2007 and September 2006. 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 2008 is as follows:

| | Number of Options | Weighted Average Exercise Price | Weighted Average Remaining Contractual Term | Aggregate Intrinsic Value |
|---|---|---|---|---|
| Outstanding at March 31, 2007 | 5,462,997 | $ 21.60 | | |
| Granted | 541,668 | 27.84 | | |
| Exercised | (648,858) | 17.97 | | |
| Forfeited | (55,646) | 26.36 | | |
| Outstanding at December 31, 2007 | 5,300,161 | $ 22.63 | 5.59 | $ 33,536 |
| Exercisable at December 31, 2007 | 3,984,002 | $ 21.43 | 4.62 | $ 30,158 |

The aggregate intrinsic value in the table above represents the total pre-tax difference between the $28.84 closing price of our common shares on December 31, 2007 over the exercise price of the stock option, multiplied by the number of options outstanding and exercisable. 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 2008 and fiscal 2007 was $6,729 and $3,740, respectively. Net cash proceeds from the exercise of stock options were $11,540 and $6,692 for the first nine months of fiscal 2008 and fiscal 2007, respectively. An income tax benefit of $2,591 and $1,440 was realized from stock option exercises during the first nine months of fiscal 2008 and fiscal 2007, respectively.

The weighted average grant date fair value of stock option grants was $9.47 and $9.13 for the first nine months of fiscal 2008 and fiscal 2007, respectively. The weighted average grant date fair value of stock options granted to the former CEO was adjusted based on the terms of the employment agreements with the former CEO entered into in May 2007 and September 2006.

Table of Contents

**STERIS CORPORATION**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited) (Continued)**

**For the Three and Nine Months Ended**

**December 31, 2007 and 2006**

**(dollars in thousands, except per share amounts)**

Restricted share activity for the first nine months of fiscal 2008 is as follows:

| | Number of Restricted Shares | Number of Restricted Share Units | Weighted-Average Grant Date Fair Value |
|---|---|---|---|
| Nonvested at March 31, 2007 | 63,570 | 20,850 | $ 23.18 |
| Granted | 108,536 | 45,000 | 27.70 |
| Vested | (2,610) | | 23.35 |
| Canceled | (3,625) | | 25.05 |
| Nonvested at December 31, 2007 | 165,871 | 65,850 | $ 26.12 |

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 that vested during the first nine months of fiscal 2008 and fiscal 2007 was $61 and $50, respectively.

As of December 31, 2007, there was $11,769 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 1.75 years.

**15. Financial and Other Guarantees**

We generally offer a limited parts and labor warranty on capital equipment. The specific terms and conditions of those warranties vary depending on the product sold and the 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 2008 were as follows:

| | |
|---|---|
| Balance, March 31, 2007 | $ 5,893 |
| Warranties issued during the period | 8,922 |
| Settlements made during the period | (8,241) |
| **Balance, December 31, 2007** | $ 6,574 |

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 $16,437 and $16,751 as of December 31, 2007 and March 31, 2007,

Table of Contents

**STERIS CORPORATION**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited) (Continued)**

**For the Three and Nine Months Ended**

**December 31, 2007 and 2006**

**(dollars in thousands, except per share amounts)**

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, 2007, we held foreign currency forward contracts to sell 2.5 million euros and 100.0 million Japanese yen, and to buy 3.0 million Canadian dollars.

**17. Business Dispositions**

On October 31, 2005, we sold our freeze dryer (lyophilizer) product line to GEA Group of Germany for 20.8 million euros (approximately $25,161). As a result of the sale, we recognized an after-tax gain $7,292. The freeze dryer product line, based in Cologne, Germany, was part of our Life Sciences segment. As transaction costs were finalized, we recorded gains from the sale of this product line during the third quarter and first nine months of fiscal 2007, of $431 and $1,058, respectively. The gains are presented in our consolidated financial statements as a discontinued operation, net of tax.

**18. Subsequent Events**

Subsequent to December 31, 2007, foreign currency contracts to sell 2.0 million euros and 100.0 million Japanese yen, and to buy 2.0 million Canadian dollars matured. Subsequent to December 31, 2007, we entered into foreign currency forward contracts to sell 3.5 million euros and 160.0 million Japanese yen, and to buy 2.6 million Canadian dollars.

Effective January 14, 2008, the collective bargaining agreement between the Company and the United Auto Workers and its Local 832, which covered certain employees located at our former Erie, Pennsylvania manufacturing operations, was terminated. The collective bargaining agreement between the Company and the International Association of Machinists and Aerospace Workers and its Local 1968, which covered another smaller group of employees located at our former Erie, Pennsylvania manufacturing operations, was previously terminated effective July 20, 2007.

On January 22, 2008, we announced that the Company s Board of Directors had declared a quarterly cash dividend in the amount of $0.06 per common share, payable on March 11, 2008, to shareholders of record as of February 12, 2008.

Effective February 5, 2008, a total of 10,000 stock options at an exercise price of $24.14 per share were awarded to an officer of the Company.

Subsequent to December 31, 2007 and prior to February 7, 2008, we repurchased 665,119 of our common shares for an aggregate of $17,543, representing an average price of $26.38 per common share.

Table of Contents

**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, 2007, and the related consolidated statements of income for the three-month and nine-month periods ended December 31, 2007 and 2006, and the consolidated statements of cash flows for the nine-month periods ended December 31, 2007 and 2006. 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, 2007 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 24, 2007, 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, 2007, 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 7, 2008

Table of Contents

**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 the third quarter and first nine months of fiscal 2008 and 2007;
- 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, it may be helpful to 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 2008 and fiscal 2007. It may also be helpful to read the MD&A in our Annual Report on Form 10-K for the year ended March 31, 2007, filed with the SEC on May 30, 2007. 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 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 ( DSOs ) - 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.

Table of Contents

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, 2007 and 2006:

| | Nine Months Ended December 31, | |
|---|---|---|
| *(dollars in thousands)* | **2007** | **2006** |
| Cash flows from operating activities | $ 94,502 | $ 41,371 |
| Purchases of property, plant, equipment and intangibles, net | (39,142) | (33,066) |
| Proceeds from the sale of property, plant, equipment and intangibles | 4,740 | 2,577 |
| **Free cash flow** | $ 60,100 | $ 10,882 |

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® 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® 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 Services 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® technology, water stills, and pure steam generators; and surgical lights, tables and ceiling management systems.

25

Table of Contents

***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.

We participate in industries that currently benefit from strong underlying demand, with the bulk of our revenues derived from the healthcare and pharmaceutical industries. As such, much of the growth in our markets is driven by the aging of the population throughout the world, as an increasing number of individuals are entering their prime healthcare consumption years. In addition, each of our core industries also are benefiting from specific trends that 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 FDA scrutiny of cleaning and validation processes, mandating that manufacturers improve their processes. In the contract sterilization industry, where our Isomedix Services segment competes, a trend toward the outsourcing of sterilization services continues to drive growth.

Beyond our core markets, infection-control issues are becoming a global concern, and emerging threats have gained prominence in the news. Through the Life Sciences segment, we are actively pursuing new opportunities to adapt our proven technologies to meet the needs of emerging applications such as defense, aerospace, food and beverage, and industrial decontamination.

Fiscal 2008 third quarter and year to date revenues were $314.0 million and $889.9 million, respectively, representing increases of 5.0% from each of the same prior year periods. Revenue growth in the third quarter and first nine months of fiscal 2008 was driven by increased revenues in all three business segments.

Our gross margin percentages were 41.5% and 41.9% for the third quarter and first nine months of fiscal 2008, respectively, representing decreases of 120 basis points and 60 basis points, respectively, from the same prior year periods. Gross margins during both fiscal 2008 periods benefited from price increases and labor savings from the transfer of our manufacturing operations from Erie, Pennsylvania to Monterrey, Mexico, but the benefits were more than offset by increases in the costs of raw materials and inflationary increases in labor and transportation costs.

Free cash flow was $60.1 million in the first nine months of fiscal 2008 compared to $10.9 million in the same prior year period. The fiscal 2007 year-to-date free cash flow level was impacted by working capital changes, including approximately $27.6 million in payments to the IRS for taxes previously recognized. Our debt-to-capital ratio increased to 15.0% at December 31, 2007 from 11.6% at March 31, 2007, reflecting increased borrowings utilized to fund working capital changes and common share repurchases. 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. During the first nine months of fiscal 2007, we paid for the repurchase of approximately 2.6 million common shares at an average purchase price per share of $23.06. We also declared and paid quarterly cash dividends totaling $0.17 per common share in the first nine months of fiscal 2008. In the first nine months of fiscal 2007, we declared and paid quarterly cash dividends totaling $0.13 per common share.

Additional information regarding our fiscal 2008 third quarter and year to date financial performance is included in the subsection below titled Results of Operations.

Table of Contents

**Matters Affecting Comparability**

***Accounting for Uncertain Tax Positions.*** On April 1, 2007, we adopted FIN No. 48, which provides guidance for the recognition threshold and measurement attribute for financial statement recognition and measurement of tax positions taken or expected to be taken on a tax return. In accordance with FIN No. 48, we recorded a cumulative-effect adjustment of $8.4 million, increasing our liability for unrecognized tax benefits, interest, and penalties and reducing the April 1, 2007 balance of retained earnings.

Additional information regarding our adoption of FIN No. 48 is included in note 1 titled, Nature of Operations and Summary of Significant Accounting Policies, and in note 8 titled, Income Tax Expense, of our accompanying consolidated financial statements.

***Restructuring.*** On January 30, 2006, we announced that the manufacturing portion of our Erie, Pennsylvania operations would be transferred to Mexico to reduce production costs and improve our competitive position. Plans for other restructuring actions designed to reduce operating costs within the ongoing operations of both the Healthcare and Life Sciences segments also were approved at that time.

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. During the third quarter and first nine months of fiscal 2007, we recorded pre-tax expenses of $3.0 and $8.7 million, including $1.7 and $3.9 million classified as restructuring expenses, respectively. The expenses recorded in each year primarily related to accelerated depreciation of assets, compensation and severance, and termination benefits related to the transfer of our Erie, Pennsylvania manufacturing operations to Monterrey, Mexico.

During the third quarter of fiscal 2007, we adopted a restructuring plan related to certain of our European operations. This plan included closing sales offices in Nanterre, France and Stockholm, Sweden and reducing the workforce in certain European support functions in an effort to improve our cost structure in Europe. At that time, we recorded pre-tax expenses of $1.6 million related to the European restructuring plan, primarily related to compensation and severance costs. During the first nine months of fiscal 2008, we did not incur any expenses related to the European restructuring plan and settled certain severance and lease termination costs for less than originally expected.

***Business Dispositions.*** On October 31, 2005, we sold our freeze dryer (lyophilizer) product line to GEA Group of Germany for 20.8 million euros (approximately $25.2 million). As a result of the sale, we recognized an after-tax gain of approximately $7.3 million. The freeze dryer product line, based in Cologne, Germany, was part of our Life Sciences segment. As transaction costs were finalized, we recorded gains from the sale of this product line during the third quarter and first nine months of fiscal 2007, of $0.4 million and $1.1 million, respectively. The gains are presented in our consolidated financial statements as a discontinued operation, net of tax.

***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 2008, our revenues were favorably impacted by $5.4 million, or 1.8%, and income before taxes was unfavorably impacted by $0.7 million, or 2.0%, compared with the same period in fiscal 2007, as a result of foreign currency fluctuations. During the first nine months of fiscal 2008, our revenues were favorably impacted by $10.9 million, or 1.2%, and income before taxes was unfavorably impacted by $3.1 million, or 3.7%, as compared to the same prior year period, as a result of foreign currency fluctuations.

Table of Contents

**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 2008 compared with the same fiscal 2007 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 2008 and 2007:

| | Three Months Ended December 31, | | | | Percent of Total Revenues | |
|---|---|---|---|---|---|---|
| *(dollars in thousands)* | 2007 | 2006 | Change | Percent Change | 2007 (1) | 2006 (1) |
| Capital Revenues | $ 129,025 | $ 127,624 | $ 1,401 | 1.1% | 41.1% | 42.7% |
| Consumable Revenues | 72,718 | 65,321 | 7,397 | 11.3% | 23.2% | 21.8% |
| Product Revenues | 201,743 | 192,945 | 8,798 | 4.6% | 64.3% | 64.5% |
| Service Revenues | 112,231 | 106,022 | 6,209 | 5.9% | 35.7% | 35.5% |
| **Total Revenues** | $ 313,974 | $ 298,967 | $ 15,007 | 5.0% | 100.0% | 100.0% |
| Service Revenues | $ 112,231 | $ 106,022 | $ 6,209 | 5.9% | 35.7% | 35.5% |
| Consumable Revenues | 72,718 | 65,321 | 7,397 | 11.3% | 23.2% | 21.8% |
| Recurring Revenues | 184,949 | 171,343 | 13,606 | 7.9% | 58.9% | 57.3% |
| Capital Revenues | 129,025 | 127,624 | 1,401 | 1.1% | 41.1% | 42.7% |
| **Total Revenues** | $ 313,974 | $ 298,967 | $ 15,007 | 5.0% | 100.0% | 100.0% |
| United States | $ 238,988 | $ 227,792 | $ 11,196 | 4.9% | 76.1% | 76.2% |
| International | 74,986 | 71,175 | 3,811 | 5.4% | 23.9% | 23.8% |
| **Total Revenues** | $ 313,974 | $ 298,967 | $ 15,007 | 5.0% | 100.0% | 100.0% |

| | Nine Months Ended December 31, | | | | Percent of Total Revenues | |
|---|---|---|---|---|---|---|
| | 2007 | 2006 | Change | Percent Change | 2007 (1) | 2006 (1) |
| Capital Revenues | $ 345,910 | $ 342,781 | $ 3,129 | 0.9% | 38.9% | 40.4% |
| Consumable Revenues | 210,653 | 195,298 | 15,355 | 7.9% | 23.7% | 23.0% |
| Product Revenues | 556,563 | 538,079 | 18,484 | 3.4% | 62.5% | 63.5% |
| Service Revenues | 333,357 | 309,491 | 23,866 | 7.7% | 37.5% | 36.5% |
| **Total Revenues** | $ 889,920 | $ 847,570 | $ 42,350 | 5.0% | 100.0% | 100.0% |
| Service Revenues | $ 333,357 | $ 309,491 | $ 23,866 | 7.7% | 37.5% | 36.5% |
| Consumable Revenues | 210,653 | 195,298 | 15,355 | 7.9% | 23.7% | 23.0% |
| Recurring Revenues | 544,010 | 504,789 | 39,221 | 7.8% | 61.1% | 59.6% |
| Capital Revenues | 345,910 | 342,781 | 3,129 | 0.9% | 38.9% | 40.4% |
| **Total Revenues** | $ 889,920 | $ 847,570 | $ 42,350 | 5.0% | 100.0% | 100.0% |
| United States | $ 688,443 | $ 662,973 | $ 25,470 | 3.8% | 77.4% | 78.2% |

| | | | | | | |
|---|---|---|---|---|---|---|
| International | 201,477 | 184,597 | 16,880 | 9.1% | 22.6% | 21.8% |
| **Total Revenues** | $ 889,920 | $ 847,570 | $ 42,350 | 5.0% | 100.0% | 100.0% |

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

Table of Contents

***Quarter over Quarter Comparison***

Revenues increased $15.0 million, or 5.0%, to $314.0 million for the quarter ended December 31, 2007, as compared to $299.0 million for the comparable prior year quarter. The increase was driven primarily by a 7.9% increase in recurring revenues resulting from growth of 11.3% and 5.9% in consumable revenues and service revenues, respectively. Capital revenues increased $1.4 million quarter over quarter as revenues increased in the United States and in the Asia Pacific region to more than offset declines in Europe and Canada.

International revenues increased $3.8 million, or 5.4%, to $75.0 million, for the quarter ended December 31, 2007, as compared to $71.2 million for the comparable prior year quarter. International revenues were positively impacted by recurring revenue growth within both the Healthcare and Life Sciences segments with increases of 20.9% and 14.7%, respectively. Growth in capital revenues within the Healthcare segment of 5.6% was more than offset by a decline in Life Sciences capital revenues.

United States revenues increased $11.2 million, or 4.9%, to $239.0 million, for the quarter ended December 31, 2007, as compared to $227.8 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 7.0%, 3.2%, and 4.5% in the Healthcare, Life Sciences, and Isomedix Services segments, respectively. Capital revenues also grew within the Life Sciences segment with an increase of 38.9%, partially offset by a decline in the Healthcare segment s capital revenues.

***Year over Year Comparison***

Revenues increased $42.3 million, or 5.0%, to $889.9 million for the first nine months of fiscal 2008, as compared to $847.6 million for the same prior year period. Recurring revenues increased 7.8%, reflecting growth in consumable revenues and service revenues, with increases of 7.9% and 7.7%, respectively. Capital revenues were relatively flat, with an increase of 0.9%.

International revenues for the first nine months of fiscal 2008 amounted to $201.5 million, an increase of $16.9 million, or 9.1%, as compared to the first nine months of fiscal 2007. International revenues were positively impacted by strong recurring revenue growth within both the Healthcare and Life Sciences segments, with increases of 17.8% and 16.4%, respectively. Capital revenues also grew within the Healthcare segment with an increase of 7.7%, partially offset by a decline in Life Sciences capital revenues.

United States revenues for the first nine months of fiscal 2008 amounted to $688.4 million, an increase of $25.5 million, or 3.8%, as compared to the first nine months of fiscal 2007. Strong underlying demand for our service offerings and consumable products 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.

Table of Contents

***Gross Profit.*** The following table contains information regarding our gross profit for the three and nine months ended December 31, 2007 and 2006:

| *(dollars in thousands)* | Three Months Ended December 31, 2007 | 2006 | Change | Percent Change |
|---|---|---|---|---|
| **Gross Profit:** | | | | |
| Product | $ 81,821 | $ 80,873 | $ 948 | 1.2% |
| Service | 48,378 | 46,828 | 1,550 | 3.3% |
| **Total Gross Profit** | $ 130,199 | $ 127,701 | $ 2,498 | 2.0% |
| **Gross Profit Percentage:** | | | | |
| Product | 40.6% | 41.9% | | |
| Service | 43.1% | 44.2% | | |
| **Total Gross Profit Percentage** | 41.5% | 42.7% | | |

| | Nine Months Ended December 31, 2007 | 2006 | Change | Percent Change |
|---|---|---|---|---|
| **Gross Profit:** | | | | |
| Product | $ 226,520 | $ 224,367 | $ 2,153 | 1.0% |
| Service | 146,061 | 135,470 | 10,591 | 7.8% |
| **Total Gross Profit** | $ 372,581 | $ 359,837 | $ 12,744 | 3.5% |
| **Gross Profit Percentage:** | | | | |
| Product | 40.7% | 41.7% | | |
| Service | 43.8% | 43.8% | | |
| **Total Gross Profit Percentage** | 41.9% | 42.5% | | |

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 2008 amounted to 41.5%, representing a decrease of 120 basis points as compared to the same prior year period. For the first nine months of fiscal 2008, gross margin amounted to 41.9%, representing a decrease of 60 basis points as compared to the same prior year period. We benefited from price increases and labor savings from the transfer of our manufacturing operations from Erie, Pennsylvania to Monterrey, Mexico in both fiscal 2008 periods, but the benefits were more than offset by increases in raw materials costs and inflationary increases in labor and transportation costs.

Table of Contents

***Operating Expenses.*** The following table contains information regarding our operating expenses for the three and nine months ended December 31, 2007 and 2006:

| *(dollars in thousands)* | Three Months Ended December 31, 2007 | 2006 | Change | Percent Change |
|---|---|---|---|---|
| **Operating Expenses:** | | | | |
| Selling, General, and Administrative | $ 85,612 | $ 82,594 | $ 3,018 | 3.7% |
| Research and Development | 10,173 | 8,078 | 2,095 | 25.9% |
| Restructuring Expense | 952 | 3,179 | (2,227) | (70.1)% |
| **Total Operating Expenses** | $ 96,737 | $ 93,851 | $ 2,886 | 3.1% |

| | Nine Months Ended December 31, 2007 | 2006 | Change | Percent Change |
|---|---|---|---|---|
| **Operating Expenses:** | | | | |
| Selling, General, and Administrative | $ 260,100 | $ 243,789 | $ 16,311 | 6.7% |
| Research and Development | 27,963 | 24,756 | 3,207 | 13.0% |
| Restructuring Expense | 3,041 | 5,442 | (2,401) | (44.1)% |
| **Total Operating Expenses** | $ 291,104 | $ 273,987 | $ 17,117 | 6.2% |

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 30 basis points to 27.3% for the third quarter of fiscal 2008 and increased 40 basis points to 29.2% for the first nine months of fiscal 2008, as compared to the same prior year periods. The increase in SG&A spending reflects investments in the development and marketing of new products along with added selling expenses for growth initiatives.

As a percentage of total revenues, research and development expenses were 3.2% and 3.1% for the three and nine months ended December 31, 2007, respectively, as compared to 2.7% and 2.9%, respectively, for the same prior year periods. For the three and nine months ended December 31, 2007, research and development expenses increased 25.9% and 13.0% to $10.2 million and $28.0 million, respectively, as compared to $8.1 million and $24.8 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 2008, our investments in research and development continued to be focused on, but were not limited to, enhancing capabilities of delivery systems in the defense and industrial areas, sterile processing combination technologies, surgical tables and accessories, and in the areas of emerging infectious agents such as Prions and Nanobacteria.

Operating expenses include restructuring expenses. We recognize restructuring expenses as incurred as required under the provisions of SFAS No. 146. In addition, we assess the property, plant and equipment associated with the related facilities for impairment under SFAS No. 144. Asset impairment and accelerated depreciation expenses primarily relate to an adjustment to 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.

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,

Table of Contents

respectively. During the third quarter and first nine months of fiscal 2007, we recorded pre-tax expenses of $3.0 million and $8.7 million, respectively, including $1.7 million and $3.9 million classified as restructuring expenses, respectively. The expenses primarily relate to the transfer of our Erie, Pennsylvania manufacturing operations to Monterrey, Mexico, which was part of the Fiscal 2006 Restructuring Plan. These costs are primarily associated with the Healthcare business segment. Since the inception of the Fiscal 2006 Restructuring Plan, we have incurred restructuring expenses of $33.3 million, with restructuring expenses of $32.9 million and $0.4 million related to the Healthcare and Life Sciences segments, respectively.

We anticipate incurring approximately an additional $1.0 million in restructuring expenses during the remainder of fiscal 2008 in connection with the transfer of the manufacturing operations to Mexico. Restructuring expenses to be incurred include asset write-offs, severance, and other expenses.

During the third quarter of fiscal 2007, we adopted the European Restructuring Plan, which included closing our Nanterre, France and Stockholm, Sweden sales offices and rationalizing certain European support functions. We recorded $1.6 million in restructuring expenses related to this plan during the third quarter of fiscal 2007. During the third quarter and first nine months of fiscal 2008, we did not incur any additional restructuring expenses related to the European Restructuring Plan and settled certain termination benefits for less than originally expected.

Since the inception of the European Restructuring Plan, we have incurred restructuring expenses of $1.7 million, with restructuring expenses of $1.2 million and $0.5 million related to the Healthcare and Life Sciences segments, respectively, primarily related to severance and termination benefits. We continue to evaluate our European operations for opportunities to enhance performance, but we have not committed to any additional specific restructuring actions.

The following tables summarize the total restructuring expenses we recorded for the third quarter of fiscal 2008 and fiscal 2007:

| *Three Months Ended December 31, 2007* | Fiscal 2006 Restructuring Plan |
|---|---|
| Severance, payroll and other related costs | $ (163) |
| Asset impairment and accelerated depreciation | 822 |
| Other | 293 |
| **Total restructuring charges** | $ 952 |

| *Three Months Ended December 31, 2006* | Fiscal 2006 Restructuring Plan | European Restructuring Plan | Total |
|---|---|---|---|
| Severance, payroll and other related costs | $ 739 | $ 1,276 | $ 2,015 |
| Lease termination costs | | 219 | 219 |
| Asset impairment and accelerated depreciation | 765 | 105 | 870 |
| Other | 75 | | 75 |
| **Total restructuring charges** | $ 1,579 | $ 1,600 | $ 3,179 |

**Table of Contents**

The following tables summarize the total restructuring expenses we recorded for the first nine months of fiscal 2008 and fiscal 2007:

| *Nine Months Ended December 31, 2007* | Fiscal 2006 Restructuring Plan | European Restructuring Plan | Total |
|---|---|---|---|
| Severance, payroll and other related costs | $ 168 | $ (24) | $ 144 |
| Lease termination costs | (13) | (11) | (24) |
| Asset impairment and accelerated depreciation | 2,622 | | 2,622 |
| Other | 299 | | 299 |
| **Total restructuring charges** | $ 3,076 | $ (35) | $ 3,041 |

| *Nine Months Ended December 31, 2006* | Fiscal 2006 Restructuring Plan | European Restructuring Plan | Total |
|---|---|---|---|
| Severance, payroll and other related costs | $ 1,717 | $ 1,276 | $ 2,993 |
| Lease termination costs | | 219 | 219 |
| Asset impairment and accelerated depreciation | 2,034 | 105 | 2,139 |
| Other | 91 | | 91 |
| **Total restructuring charges** | $ 3,842 | $ 1,600 | $ 5,442 |

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

| | | Fiscal 2006 Restructuring Plan | | |
|---|---|---|---|---|
| | March 31, 2007 | Fiscal 2008 Provision | Fiscal 2008 Payments | December 31, 2007 |
| Severance and termination benefits | $ 1,799 | $ 156 | $ (846) | $ 1,109 |
| Lease termination obligation | 157 | (13) | (144) | |
| **Total** | $ 1,956 | $ 143 | $ (990) | $ 1,109 |

| | | European Restructuring Plan | | |
|---|---|---|---|---|
| | March 31, 2007 | Fiscal 2008 Provision | Fiscal 2008 Payments | December 31, 2007 |
| Severance and termination benefits | $ 638 | $ (34) | $ (569) | $ 35 |
| Lease termination obligation | 219 | (11) | (94) | 114 |
| Fixed asset impairment | 105 | | (60) | 45 |
| **Total** | $ 962 | $ (45) | $ (723) | $ 194 |

Table of Contents

***Non-Operating Expense, Net.*** Non-operating expense (income), net consists of interest expense on debt, offset by interest earned on cash, cash equivalents, and short-term investment balances, and other miscellaneous income. The following table compares our non-operating expense (income), net for the three and nine months ended December 31, 2007 and 2006:

| *(dollars in thousands)* | Three Months Ended December 31, 2007 | 2006 | Change |
|---|---|---|---|
| **Non-Operating Expense, Net:** | | | |
| Interest Expense | $ 1,516 | $ 1,714 | $ (198) |
| Interest and Miscellaneous Income | (581) | (591) | 10 |
| **Total Non-Operating Expense, Net** | $ 935 | $ 1,123 | $ (188) |

| | Nine Months Ended December 31, 2007 | 2006 | Change |
|---|---|---|---|
| **Non-Operating Expense, Net:** | | | |
| Interest Expense | $ 4,229 | $ 5,859 | $ (1,630) |
| Interest and Miscellaneous Income | (1,657) | (2,071) | 414 |
| **Total Non-Operating Expense, Net** | $ 2,572 | $ 3,788 | $ (1,216) |

Interest expense decreased $0.2 million and $1.6 million during the third quarter and first nine months of fiscal 2007, respectively, as compared to the prior year periods as a result of lower average debt levels and lower average interest rates during both fiscal 2008 periods. Interest and miscellaneous income was relatively flat for the third quarter of fiscal 2008 as compared to the third quarter of fiscal 2007. For the first nine months of fiscal 2008, interest and miscellaneous income decreased $0.4 million. This decrease was due to lower average cash balances during the first nine months of fiscal 2008, which resulted in a smaller amount of interest earnings on those balances.

***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, 2007 and 2006:

| *(dollars in thousands)* | Three Months Ended December 31, 2007 | 2006 | Change | Percent Change |
|---|---|---|---|---|
| Income Tax Expense | $ 10,751 | $ 11,859 | $ (1,108) | (9.3)% |
| Effective Income Tax Rate | 33.1% | 36.2% | | |

| | Nine Months Ended December 31, 2007 | 2006 | Change | Percent Change |
|---|---|---|---|---|
| Income Tax Expense | $ 27,908 | $ 30,773 | $ (2,865) | (9.3)% |
| Effective Income Tax Rate | 35.4% | 37.5% | | |

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, 2007 were 33.1% and 35.4%, respectively, as compared to 36.2% and 37.5%, respectively, for the same prior year periods. The lower effective income tax rate for the three and nine months ended December 31, 2007 resulted principally from a favorable impact relating to the United States manufacturing deduction and favorable discrete item adjustments relating to various international and United States tax audit matters.

Table of Contents

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

***Business Segment Results of Operations.*** We operate and report in three business segments: Healthcare, Life Sciences, and STERIS Isomedix Services. Our Annual Report on Form 10-K for the year ended March 31, 2007, filed with the SEC on May 30, 2007 provides additional information about each business segment. The following table compares business segment revenues for the three and nine months ended December 31, 2007 to the three and nine months ended December 31, 2006:

| *(dollars in thousands)* | Three Months Ended December 31, 2007 | 2006 | Change | Percent Change |
|---|---|---|---|---|
| **Revenues:** | | | | |
| Healthcare | $ 220,451 | $ 209,807 | $ 10,644 | 5.1% |
| Life Sciences | 58,968 | 56,062 | 2,906 | 5.2% |
| STERIS Isomedix Services | 34,555 | 33,098 | 1,457 | 4.4% |
| **Total Revenues** | $ 313,974 | $ 298,967 | $ 15,007 | 5.0% |

| | Nine Months Ended December 31, 2007 | 2006 | Change | Percent Change |
|---|---|---|---|---|
| **Revenues:** | | | | |
| Healthcare | $ 622,826 | $ 594,032 | $ 28,794 | 4.8% |
| Life Sciences | 162,274 | 154,394 | 7,880 | 5.1% |
| STERIS Isomedix Services | 104,820 | 99,144 | 5,676 | 5.7% |
| **Total Revenues** | $ 889,920 | $ 847,570 | $ 42,350 | 5.0% |

***Healthcare Segment***

Healthcare segment revenues represented 70.2% of total revenues for the third quarter of fiscal 2008 and the third quarter of fiscal 2007. Healthcare revenues increased $10.6 million, or 5.1%, to $220.5 million for the quarter ended December 31, 2007, compared with $209.8 million for the third quarter of fiscal 2007. The increase in Healthcare revenues was driven by strong consumable revenue growth of 12.2%, with growth of 8.9% within the United States and 24.9% internationally, and service revenue growth of 7.1%. Capital revenues were essentially flat for the third quarter of fiscal 2008 as compared to the third quarter of fiscal 2007, largely due to a slower than anticipated ramp-up in production at the Monterrey, Mexico manufacturing facility. Demand remains strong, as reflected in the segment s order growth and record backlog levels. At December 31, 2007, the Healthcare segment s backlog amounted to a record $107.3 million. This represents an increase of $13.3 million, or 14.2%, compared to the backlog of $94.0 million at September 30, 2007 and an increase of $19.2 million, or 21.8%, compared to the backlog of $88.1 million at December 31, 2006.

Healthcare segment revenues represented 70.0% of total revenues for the first nine months of fiscal 2008 compared with 70.1% for the same prior year period. Healthcare revenues increased $28.8 million, or 4.8%, to $622.8 million for the nine months ended December 31, 2007, as compared to $594.0 million for the same prior year period. The increase is attributable to strong growth in consumable revenues and service revenues of 8.3% and 8.1%, respectively. The consumable revenues growth was driven by increases of 5.6% within the United States and 18.6% globally. The service revenues growth was driven by increases within the United States, Canada, and Europe of 6.4%, 25.2%, and 14.3%, respectively. Capital revenues grew 1.0% for the first nine months of fiscal 2008 as compared to the same prior year period.

Table of Contents

***Life Sciences Segment***

Life Sciences segment revenues represented 18.8% of total revenues for the third quarter of fiscal 2008 and the third quarter of fiscal 2007. Life Sciences revenues increased $2.9 million, or 5.2%, to $59.0 million for the quarter ended December 31, 2007, as compared to $56.1 million for the third quarter of fiscal 2007. The increase in Life Sciences revenues was driven by increases in consumable revenues, service revenues, and capital revenues of 7.5%, 4.8%, and 4.4%, respectively. The growth in consumable revenues and service revenues reflects increases in the United States and European markets. Capital revenues reflect a 38.9% increase in the United States, resulting from an improvement in the research equipment business. In the prior year period, the Life Sciences segment s capital revenues were unfavorably impacted by a competitive environment in the United States research equipment business. While the segment experienced growth in capital revenues from the research equipment business, delayed project activity among customers in pharmaceutical manufacturing affected capital equipment revenues during the third quarter of fiscal 2008. The Life Sciences segment s backlog at December 31, 2007 amounted to a record $58.3 million, an increase of $0.5 million, or 0.8%, as compared to the backlog of $57.8 million at September 30, 2007 and an increase of $13.4 million, or 29.8%, as compared to the backlog of $44.9 million at December 31, 2006.

Life Sciences segment revenues represented 18.2% of total revenues for the first nine months of fiscal 2008 and the first nine months of fiscal 2007. Life Sciences revenues increased $7.9 million, or 5.1%, to $162.3 million for the first nine months of fiscal 2008, as compared to $154.4 million for the same prior year period. The increase in Life Sciences revenues was driven by an 8.6% increase in recurring revenues. Life Sciences capital revenues grew slightly at 0.4%, as growth in the United States and Asia Pacific markets was partially offset by declines in the Canadian and European markets.

***STERIS Isomedix Services Segment***

STERIS Isomedix Services segment revenues represented 11.0% of total revenues for the third quarter of fiscal 2008 and fiscal 2007. The segment s revenues increased $1.5 million, or 4.4%, to $34.6 million during the third quarter of fiscal 2008, as compared to $33.1 million during the same prior year quarter. The increase in the segment s revenues resulted from an increase in demand from our core medical device customers and routine price increases.

STERIS Isomedix Services segment revenues represented 11.8% of total revenues for the first nine months of fiscal 2008 as compared to 11.7% for the same prior year period. The segment experienced revenue growth of $5.7 million, or 5.7%, to $104.8 million during the first nine months of fiscal 2008 as compared to $99.1 million for the same prior year period. The increase in revenues was primarily driven by an increase in demand from our core medical device customers and routine price increases.

Table of Contents

The following table compares our business segment operating income for the three and nine months ended December 31, 2007 and 2006:

| *(dollars in thousands)* | Three Months Ended December 31, 2007 | 2006 | Change | Percent Change |
|---|---|---|---|---|
| **Operating Income:** | | | | |
| Healthcare | $ 26,222 | $ 25,598 | $ 624 | 2.4% |
| Life Sciences | 813 | 2,534 | (1,721) | (67.9)% |
| STERIS Isomedix Services | 6,427 | 5,718 | 709 | 12.4% |
| **Total Operating Income** | $ 33,462 | $ 33,850 | $ (388) | (1.1)% |

| | Nine Months Ended December 31, 2007 | 2006 | Change | Percent Change |
|---|---|---|---|---|
| **Operating Income:** | | | | |
| Healthcare | $ 59,952 | $ 67,142 | $ (7,190) | (10.7)% |
| Life Sciences | 1,391 | 1,496 | (105) | (7.0)% |
| STERIS Isomedix Services | 20,134 | 17,212 | 2,922 | 17.0% |
| **Total Operating Income** | $ 81,477 | $ 85,850 | $ (4,373) | (5.1)% |

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, corporate, and research and development expenses. 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 $0.6 million and decreased $7.2 million for the third quarter and first nine months of fiscal 2008, respectively, as compared to the same prior year periods. The segment s operating margins were 11.9% and 9.6% for the third quarter and first nine months of fiscal 2008, respectively, representing decreases of 30 basis points and 170 basis points, respectively, as compared to the same prior year periods. Improved pricing and labor savings gained from the transfer of manufacturing operations from Erie, Pennsylvania to Monterrey, Mexico were more than offset in the third quarter and the first nine months of fiscal 2008 by significant increases in raw material costs and inflationary increases in labor and transportation costs over the same prior year periods. During both fiscal 2008 periods, the Healthcare segment also incurred higher operating costs related to sales channel and marketing investments for new product offerings and increased research and development expenses.

***Life Sciences Segment***

The Life Sciences segment s operating income decreased $1.7 million and $0.1 million for the third quarter and first nine months of fiscal 2008, respectively, as compared to the same prior year periods. The segment s operating margins were 1.4% and 0.9% for the third quarter and first nine months of fiscal 2008, respectively, representing decreases of 310 basis points and 10 basis points, respectively, as compared to the same prior year periods. The decline in operating performance was primarily driven by higher research and development costs related to product enhancements and by foreign currency exchange translation.

***STERIS Isomedix Services Segment***

The STERIS Isomedix Services segment s operating income increased $0.7 million and $2.9 million for the third quarter and first nine months of fiscal 2008, respectively, as compared to the same prior year periods. The

37

Table of Contents

segment s operating margins were 18.6% and 19.2% for the third quarter and first nine months of fiscal 2008, respectively, representing increases of 130 basis points and 180 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.

**Liquidity and Capital Resources.** The following table summarizes significant components of our cash flows for the nine months ended December 31, 2007 and 2006:

**Cash Flows**

| *(dollars in thousands)* | Nine Months Ended December 31, 2007 | 2006 |
|---|---|---|
| **Operating activities:** | | |
| Net income | $ 50,997 | $ 52,347 |
| Non-cash items | 36,900 | 45,192 |
| Changes in operating assets and liabilities | 6,605 | (56,168) |
| **Net cash provided by operating activities** | $ 94,502 | $ 41,371 |
| **Investing activities:** | | |
| Purchases of property, plant, equipment, and intangibles, net | $ (39,142) | $ (33,066) |
| Proceeds from the sale of property, plant and equipment | 4,740 | 2,577 |
| Proceeds from the sale of discontinued operations | | 2,927 |
| **Net cash used in investing activities** | $ (34,402) | $ (27,562) |
| **Financing activities:** | | |
| Proceeds under credit facilities, net | $ 31,925 | $ 11,440 |
| Payments on long-term obligations and capital leases, net | (500) | (1,436) |
| Repurchases of common shares | (94,758) | (59,628) |
| Cash dividends paid to common shareholders | (10,910) | (8,508) |
| Stock option and other equity transactions, net | 14,131 | 8,186 |
| **Net cash used in financing activities** | $ (60,112) | $ (49,946) |
| Debt-to-captial ratio | 15.0% | 14.5% |
| Free cash flow | $ 60,100 | $ 10,882 |

***Net Cash Provided by Operating Activities.*** The net cash provided by our operating activities was $94.5 million for the first nine months of fiscal 2008 compared with $41.4 million for the first nine months of fiscal 2007. 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, losses on the disposal of property, plant, equipment, and intangibles, changes in deferred income taxes, gains on the sale of discontinued operations, and other items. Non-cash items were $36.9 million for the first nine months of fiscal 2008 compared with $45.2 million for the first nine months of fiscal 2007. Significant changes in these items for the first half of fiscal 2008 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 $47.5 million and $44.3 million for the first nine months of fiscal 2008 and 2007, respectively. The $3.2 million increase in this expense was primarily the result of capital purchases in support of

research efforts and increased material purchases for our Isomedix Services segment.

Loss on the disposal of property, plant equipment, and intangibles, net- During the first nine months of fiscal 2008, we recorded a loss of $1.0 million for the disposal of property, plant,

Table of Contents

equipment, and intangibles, compared with $0.7 million for the same prior year period. During both periods, this expense 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 $6.5 million and $8.9 million for the first nine months of fiscal 2008 and fiscal 2007, respectively. The decline of $2.4 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 increased $17.3 million for the first nine months of fiscal 2008, compared with an increase of $7.1 million for the first nine months of fiscal 2007. Deferred income tax balances in fiscal 2008 include $8.4 million for the effect of adopting FIN No. 48 and the effect of the timing and recognition of settlements occurring during the period.

Gain on the sale of discontinued operations- During the first nine months of fiscal 2007, we recorded a gain on the sale of discontinued operations totaling $1.1 million for the October 31, 2005 sale of our freeze dryer product line.

Working Capital- Excluding the impact of foreign currency translation adjustments, changes to our working capital amounted to $6.6 million and a negative $56.2 million during the first nine months of fiscal 2008 and fiscal 2007, respectively. Significant changes in our working capital for the first nine months of fiscal 2008 as compared to the first nine months of fiscal 2007 are summarized below:

Accounts receivable, net- Our net accounts receivable balances decreased $55.4 million during the first nine months of fiscal 2008 as compared to a net decrease of $39.1 million for the same prior year period. Our accounts receivable balances may change from period to period due to the timing of revenues and customer payments. Accounts receivable days sales outstanding decreased to 59 days at December 31, 2007, from 77 days and 64 days at March 31, 2007 and December 31, 2006, respectively. The decrease in the balance of accounts receivable and days sales outstanding from the March 31, 2007 level is reflective of lower revenues for the third quarter of fiscal 2008 as compared to the fourth quarter of fiscal 2007 and improvements in collections.

Inventories, net- Our net inventory balances increased $25.8 million during the first nine months of fiscal 2008 as compared to an increase of $32.3 million for the same prior year period. Inventory balances in fiscal 2008 increased as a result of the impact of increased raw material costs, new product and service initiatives, and targeted inventory production levels in anticipation of increased volumes during the fourth quarter of the fiscal year.

Other current assets- Our other current assets primarily consist of prepaid expenses for insurance, taxes, and other general corporate items. Other current assets decreased $1.4 million during the first nine months of fiscal 2008. The $16.5 million increase during the first nine months of fiscal 2007 was primarily driven by a $17.5 million tax payment made during the first quarter of fiscal 2007 which remains on deposit with the IRS, subject to final resolution of certain matters under audit.

Accounts payable, net- Our net accounts payable balances decreased $15.2 million during the first nine months of fiscal 2008 as compared to a decrease of $26.9 million for the same prior year period. Cash flows related to accounts payable may change from period to period due to varying payment due dates and other terms of our accounts payable obligations.

Accruals and other, net- Our net accruals and other liabilities balances decreased $9.2 million during the first nine months of fiscal 2008, primarily reflecting payments made in the first quarter of fiscal 2008 against amounts accrued in fiscal 2007 for incentive compensation. During the first nine months of fiscal 2007, our net accruals and other liabilities balances decreased

$19.5 million, primarily due to the application of approximately $13.0 million in tax payments made in the first nine months of the year to open tax years, a $3.1 million contribution we made to our United States

Table of Contents

defined benefit pension plan in September 2006, and an additional $3.0 million for the settlement of a fiscal 2006 accrual for the termination of certain long-term marketing contracts. 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 incentive compensation programs. Accruals under our various incentive compensation programs rise during the course of the fiscal year and decline significantly in the first fiscal quarter as payments are made under these programs. Changes in accruals for deferred revenues also contribute to the increase or decrease in these balances.

***Net Cash Used In Investing Activities.*** The net cash we used in investing activities amounted to $34.4 million for the first nine months of fiscal 2008 compared with $27.6 million for the first nine months of fiscal 2007. The following discussion summarizes the significant changes in our investing cash flows for the first nine months of fiscal 2008 as compared to the first nine months of fiscal 2007:

Purchases of property, plant, equipment, and intangibles, net- Capital expenditures were $39.1 million compared with $33.1 million during the same prior year period. Increased capital spending levels during the first nine months of fiscal 2008 resulted primarily from a planned expansion at one of our STERIS Isomedix Services facilities.

Proceeds from the sale of property, plant and equipment- In fiscal 2008, these proceeds include $4.7 million we received in the third quarter from the sale of our manufacturing facility located in Erie, Pennsylvania. In fiscal 2007, these proceeds include $2.4 million we received in the third quarter from the sale of a building located in Nogales, Arizona.

Proceeds from the sale of discontinued operations- During the first nine months of fiscal 2007, we recorded additional proceeds of $2.9 million for the October 31, 2005 sale of our freeze dryer product line.

***Net Cash Used In Financing Activities.*** The net cash we used in financing activities totaled $60.1 million for the first nine months of fiscal 2008 compared with $49.9 million for the first nine months of fiscal 2007. The following discussion summarizes the significant changes in our financing cash flows for the first nine months of fiscal 2008 as compared to the first nine months of fiscal 2007:

Net proceeds under credit facilities- We borrowed $31.9 million and $11.4 million under our revolving credit facilities during the first nine months of fiscal 2008 and fiscal 2007, respectively. Proceeds borrowed are generally used to fund share repurchases and working capital changes.

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 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. During the first nine months of fiscal 2007, we paid for the repurchase of 2,585,300 of our common shares at an average purchase price of $23.06 per common share.

Cash dividends paid to common shareholders- During the first nine months of fiscal 2008 and fiscal 2007, we paid cash dividends totaling $0.17 and $0.13 per outstanding common share, respectively. Total cash dividends paid during the first nine months of fiscal 2008 and fiscal 2007 amounted to $10.9 million and $8.5 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 2008 and 2007, cash proceeds from the issuance of common shares under these programs totaled $11.5 million and $6.7 million, respectively.

***Cash Flow Measures.*** Free cash flow was $60.1 million in the first nine months of fiscal 2008 compared to $10.9 million in the first nine months of fiscal 2007. Free cash flow for the first nine months of fiscal 2007 was impacted by working capital changes, including approximately $27.6 million in payments to the IRS for taxes previously recognized. Our debt-to-capital ratio increased to 15.0% at December 31, 2007 from 11.6% at March 31, 2007 reflecting increased borrowings utilized to fund working capital changes and common share repurchases.

40

Table of Contents

**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, 2007, filed with the SEC on May 30, 2007. Our commercial commitments were approximately $29.3 million at December 31, 2007, reflecting an increase of $3.4 million in surety bonds and other commercial commitments from March 31, 2007. Our contractual commitments have not changed materially from March 31, 2007.

On September 13, 2007, we signed the Second Amended and Restated Credit Agreement (the Credit Agreement ) with KeyBank National Association, as administrative agent for the lending institutions that are parties to the Credit Agreement (the Agent ), and the other lenders that may from time to time be a party to the Credit Agreement. This Credit Agreement amended, restated, and replaced our Amended and Restated Credit Agreement dated March 29, 2004, as amended, which was to mature in June 2010. The Credit Agreement matures on September 13, 2012 and provides $400.0 million of credit, which may be increased by up to an additional $100.0 million in specified circumstances, for borrowings and letters of credit. A floating interest rate is applied to amounts borrowed as defined in the Credit Agreement or a fixed rate may be applied based on the Eurodollar Rate or other defined currency rate, plus a margin based on our leverage ratio. Interest is payable quarterly or at the end of the interest period, if shorter. We may prepay floating rate loans without paying a penalty, but we may be required to pay a penalty for prepaying fixed rate loans. The Credit Agreement also allows us to make short term swing loan borrowings not to exceed $35.0 million, with an interest rate equal to the Agent s cost of funds plus a margin. Our obligations under the Credit Agreement are unsecured but guaranteed by our material domestic subsidiaries.

At December 31, 2007, the maximum amount available under this Credit Agreement was $348.0 million. The maximum commitment limit of $400.0 million under the Credit Agreement is reduced by outstanding borrowings ($31.9 million) and letters of credit issued ($20.1 million) under a sub-limit within the Credit Agreement.

In December 2003, we issued $100,000 of senior notes in a private placement (the December 2003 Private Placement ) to certain institutional investors in an offering that was exempt from the registration requirements of the Securities Act of 1933. We used the proceeds to pay down the outstanding balance of our revolving credit facility and invested the remaining balance in short-term marketable securities. Of the $100,000 notes, $40,000 had a maturity of five years at an annual interest rate of 4.20%, another $40,000 had a maturity of ten years at an annual interest rate of 5.25%, and the remaining $20,000 had a maturity of twelve years at an annual interest rate of 5.38%. Therefore, payment of the first $40,000 of notes is due in December 2008. However, we have excluded the liabilities for these notes from the Current portion of long-term indebtedness on the accompanying Consolidated Balance Sheet as of December 31, 2007 because it is our intention to refinance this amount with proceeds of borrowings available to us under the Credit Agreement outlined above.

**Cash Requirements.** Currently, we intend to use our existing cash and cash equivalent balances, cash generated from operations, and our existing Credit Agreement 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.** We adopted FIN No. 48 effective April 1, 2007, which provides guidance for the recognition and measurement of tax positions taken or expected to be

Table of Contents

taken on a tax return. In accordance with FIN No. 48, we recorded a cumulative-effect adjustment of $8.4 million, increasing our liability for unrecognized tax benefits, interest, and penalties and reducing the April 1, 2007 balance of retained earnings.

Additional information regarding our adoption of FIN No. 48 is included in note 1 titled, Nature of Operations and Summary of Significant Accounting Policies, and in note 8 titled, Income Tax Expense of our accompanying consolidated financial statements.

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, 2007, filed with the SEC on May 30, 2007. Our critical accounting policies, estimates, and assumptions have not changed materially from March 31, 2007, other than for the adoption of FIN No. 48 as described above.

**Contingencies.** We are involved in various patent, product liability, consumer, environmental, tax proceedings and claims, governmental investigations, and other legal and regulatory proceedings that arise from time to time in the ordinary course of business. In accordance with SFAS No. 5, 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 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 effect on our consolidated financial position, results of operations, or cash flows. However, the ultimate outcome of litigation is unpredictable and actual results could be materially different from our estimates. We record anticipated recoveries under applicable insurance contracts when assured of recovery.

We record tax accruals for tax positions taken or expected to be taken in a tax return in accordance with the provisions of FIN No. 48. If we were to prevail in matters for which accruals have been established, or are required to pay amounts in excess of established accruals, our effective income tax rate in a given financial statement period could be materially impacted.

**International Operations.** Since we conduct operations outside the United States using various foreign currencies, our operating results are impacted by foreign currency movements relative to the U.S. dollar. During the third quarter of fiscal 2008, our revenues were favorably impacted by $5.4 million, or 1.8%, and income before taxes was unfavorably impacted by $0.7 million, or 2.0%, when compared to the same period in fiscal 2007, as a result of foreign currency movements relative to the U.S. dollar. During the first nine months of fiscal 2008, our revenues were favorably impacted by $10.9 million, or 1.2%, and income before taxes was unfavorably impacted by $3.1 million, or 3.7%, when compared to the same period in fiscal 2007, as a result of foreign currency movements relative to the U.S. dollar. We have taken steps to reduce this foreign currency volatility by converting foreign currency denominated inter-company loans to equity for certain legal entities. 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, and seeks, or the negative of such terms or other variations on suc 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, and changes in government regulations or the application or interpretation thereof. Many of these important factors are outside of our control. No

Table of Contents

assurances can be provided as to any 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, 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 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 cost savings may not be achieved, or that transition, labor, competition, timing, execution, regulatory, governmental or other issues or risks associated with our expansion, transfer, executive recruitment or retention, or other initiatives may adversely impact our performance, results, or value, and (g) those risks described in our Annual Report on Form 10-K for the year ended March 31, 2007, filed with the SEC on May 30, 2007, under Item 1A, Risk Factors.

**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 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, 2007, filed with the SEC on May 30, 2007. Our exposures to market risks have not changed materially since March 31, 2007.

**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, 2007 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Table of Contents

## PART II - OTHER INFORMATION

### ITEM 1. LEGAL PROCEEDINGS

From time to time, we may be involved in a number of legal proceedings and claims, which we believe arise from the ordinary course of our business, given our size, history, complexity, nature of our business, 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, automobile accidents), product liability (e.g., based on the operation or claimed malfunction of products), product exposure (e.g., claimed exposure to chemicals, asbestos, contaminants), property damage (e.g., claimed damage due to leaking equipment, fire), economic loss (e.g., breach of contract, other commercial claims), employment (e.g., wrongful termination), and other claims for damage and relief.

The FDA and the United States Department of Justice are continuing to conduct an investigation involving our SYSTEM 1® sterile processing system. We have received requests for documents 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 that the ultimate outcome of the investigation will not result in an action by the government agencies or that the government agencies will not initiate administrative proceedings, civil proceedings or criminal proceedings, or any combination thereof, against us.

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, proceedings, investigations, or claims or their effect. We presently maintain product liability insurance coverage, and other liability coverage 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 against us.

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

We believe there have been no material recent developments concerning our legal proceedings since March 31, 2007 and no new material pending legal proceedings are required to be reported, as of the end of the quarterly period ending December 31, 2007.

### ITEM 1A. RISK FACTORS

We believe there have been no material changes to the risk factors included in our Annual Report on Form 10-K for the fiscal year ended March 31, 2007, filed with the SEC on May 30, 2007, that would materially affect our business, results of operations, or financial condition.

Table of Contents

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

During the third quarter of fiscal 2008, we repurchased 1,453,200 of our common shares. These repurchases were pursuant to a single repurchase program, authorizing the repurchase of up to $300 million of our common shares, which was approved by the Company s Board of Directors and announced on July 26, 2007 and does not have a stated maturity date. The following table summarizes the common shares repurchased during the third quarter of fiscal 2008 under our common share repurchase program:

| | (a) Total Number of Shares Purchased | (b) Average Price Paid Per Share | (c) Total Number of Shares Purchased as Part of Publicly Announced Plans | (d) Maximum Dollar Value of Shares that May Yet Be Purchased Under the Plans |
|---|---|---|---|---|
| October 1-31 | 342,100 | $ 28.43 | 342,100 | $ 255,888,034 |
| November 1-30 | 640,800 | $ 27.44 | 640,800 | $ 238,302,643 |
| December 1-31 (1) | 470,300 | $ 28.34 | 470,300 | $ 224,972,401 |
| Total | 1,453,200 | $ 27.97 | 1,453,200 | $ 224,972,401 |

(1) Includes 51,200 shares repurchased at an average price of $29.40 per share that were not settled until January 2008.

**ITEM 6. EXHIBITS**

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

| Exhibit Number | Exhibit Description |
|---|---|
| 3.1 | 1992 Amended Articles of Incorporation of STERIS Corporation, as amended on May 14, 1996, November 6, 1996, and August 6, 1998 (filed as Exhibit 3.1 to Form 10-K filed for the fiscal year ended March 31, 2000 (Commission File No. 1-14643), and incorporated herein by reference). |
| 3.2 | Amended and Restated Regulations of STERIS Corporation, as amended on July 26, 2007 (filed as Exhibit 3.2 to Form 10-Q for the fiscal quarter ended June 30, 2007 (Commission File No. 1-14643), and incorporated herein by reference). |
| 4.1 | Specimen Form of Common Stock Certificate (filed as Exhibit 4.1 to Form 10-K filed for the fiscal year ended March 31, 2002 (Commission File No. 1-14643), and incorporated herein by reference). |
| 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. |

Table of Contents

**SIGNATURE**

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

STERIS Corporation

/s/ MICHAEL J. TOKICH
**Michael J. Tokich**
**Vice President and Corporate Controller**
**February 8, 2008**

Table of Contents

## EXHIBIT INDEX

| Exhibit Number | Exhibit Description |
|---|---|
| 3.1 | 1992 Amended Articles of Incorporation of STERIS Corporation, as amended on May 14, 1996, November 6, 1996, and August 6, 1998 (filed as Exhibit 3.1 to Form 10-K filed for the fiscal year ended March 31, 2000 (Commission File No. 1-14643), and incorporated herein by reference). |
| 3.2 | Amended and Restated Regulations of STERIS Corporation, as amended on July 26, 2007 (filed as Exhibit 3.2 to Form 10-Q for the fiscal quarter ended June 30, 2007 (Commission File No. 1-14643), and incorporated herein by reference). |
| 4.1 | Specimen Form of Common Stock Certificate (filed as Exhibit 4.1 to Form 10-K filed for the fiscal year ended March 31, 2002 (Commission File No. 1-14643), and incorporated herein by reference). |
| 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. |