STERIS CORP
Form 10-K
May 30, 2012
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United States Securities and Exchange Commission
Washington, D. C. 20549

FORM 10-K
x Annual Report Pursuant to Section 13 OR 15(d) of The Securities Exchange Act of 1934
For the fiscal year ended March 31, 2012
OR
o Transition Report Pursuant to Section 13 OR 15(d) of The Securities Exchange Act of 1934
For the transition period from to
Commission file number 1-14643
STERIS Corporation
(Exact name of registrant as specified in its charter)

Ohio (State or other jurisdiction of incorporation or organization)		34-1482024 (IRS Employer Identification No.)
5960 Heisley Road, Mentor, Ohio (Address of principal executive offices)	44060-1834 (Zip Code)	440-354-2600 (Registrant's telephone number including area code)

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

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

SECURITIES REGISTERED PURSUANT TO SECTION 12(G) OF THE ACT:
None
Indicate by check mark if the Registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes x No o
Indicate by check mark if the Registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes o No x
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 o
Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 229.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes x No o
Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of the Registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. o
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer," and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

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

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

The aggregate market value of the voting stock held by non-affiliates of the Registrant, computed by reference to the closing price of such stock as of September 30, 2011: $1,539,707,782

The number of Common Shares outstanding as of May 18, 2012: 57,805,687

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Proxy Statement for the 2012 Annual Meeting – Part III

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PART 1

Throughout this Annual Report, STERIS Corporation and its subsidiaries together are called “STERIS,” “the Company,” “we,” “us,” or “our,” unless otherwise noted. References in this Annual Report to a particular “year” or “year-end” mean our fiscal year, which ends on March 31. For example, fiscal year 2012 ended on March 31, 2012.

ITEM 1. BUSINESS

INTRODUCTION

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

We were founded as Innovative Medical Technologies in Ohio in 1985, and renamed STERIS Corporation in 1987. However, some of our businesses that have been acquired and integrated into STERIS, notably American Sterilizer Company, have much longer operating histories. With global headquarters in Mentor, Ohio, we have approximately 5,000 employees worldwide and operate in more than 60 countries. We have a direct sales force of approximately 500 and a service organization of approximately 1,000 who work diligently to meet the increasingly complex needs of our Customers.

We operate in three reportable business segments: Healthcare, Life Sciences, and STERIS Isomedix Services. Corporate and other, which is presented separately, contains the Defense and Industrial business unit plus costs that are associated with being a publicly traded company and certain other corporate costs. These costs include executive office costs, Board of Directors compensation, shareholder services and investor relations, external audit fees, and legacy pension and post-retirement benefit costs.

In our largest segment, Healthcare, we are focused on assisting our Customers in enhancing their perioperative performance. We provide support directly to the operating room, as well as to the sterile processing functions where instruments are reprocessed between surgeries and gastrointestinal procedures. Our integrated offering of equipment, consumables and services used throughout healthcare facilities enables Customers to reduce costs and improve outcomes.

Our second largest segment, Life Sciences, primarily serves pharmaceutical manufacturers and research organizations by providing decontamination and sterilization technologies, products and services that help support the safety and effectiveness of the products they produce.

STERIS Isomedix Services (“Isomedix”) provides ethylene oxide and/or irradiation services on a contract basis through a network of facilities in North America, where we process medical devices and other products as designated by our Customers' specifications prior to their delivery to the end user.

Many factors are driving an increased awareness of the importance of infection control throughout the world. In the United States, hospitals are increasingly not reimbursed for the impacts of hospital acquired patient infections and infection is increasingly a reported quality measure that may impact reimbursement as well as provide patients with information that can help shape their decisions about where to receive care. On a more global basis, threats such as H1N1 virus, Avian Bird Flu, and the rise in drug-resistant strains of bacterial diseases have raised awareness of the need for enhanced safety. We are positioned to help address these concerns in traditional and non-traditional settings with our combination of capital equipment, consumables and services.

INFORMATION RELATED TO BUSINESS SEGMENTS

Our chief operating decision maker is our President and Chief Executive Officer ("CEO"). The CEO is responsible for performance assessment and resource allocation. The CEO regularly receives discrete financial information about each reportable segment. The CEO uses this information to assess performance and allocate resources. The accounting policies of the reportable segments are the same as those described in note 1 to the Consolidated Financial Statements titled, "Nature of Operations and Summary of Significant Accounting Policies," of this Annual Report. Segment performance information for fiscal years 2012, 2011, and 2010 is presented in note 12 to our Consolidated Financial Statements titled, "Business Segment Information" and in Item 7 titled, "Management's Discussion and Analysis of Financial Condition and Results of

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Operations" ("MD&A"), of this Annual Report.

HEALTHCARE SEGMENT

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

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

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

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

Services Offered. Our Healthcare segment provides various preventive maintenance programs and repair services to support the effective operation of capital equipment over its lifetime. We offer these corrective and preventive service solutions to Customers who have internal clinical/biomedical engineering departments and Customers who rely on us to provide those services. Field service personnel install, maintain, upgrade, repair, and troubleshoot equipment throughout the world. We also offer comprehensive sterilization and surgical management consulting services allowing healthcare facilities to achieve safety, quality, and productivity improvements in the perioperative loop that flows between and among surgical suites and the central sterile department. We utilize remote equipment monitoring technology to improve Customers' equipment uptime by servicing equipment during off-peak hours. Additionally, our Healthcare segment provides other support services such as construction and facility planning, engineering support, device testing, Customer education, hand hygiene process excellence, asset management/planning, and the sale of replacement parts. Finally, we also provide information management and decision support solutions to operating room and central sterilization managers to help in managing these environments and identifying opportunities to improve performance.

Customer Concentration. Our Healthcare segment sells capital equipment, consumables, and services to Customers in the United States and many other countries throughout the world. For the year ended March 31, 2012, no Customer represented more than 10% of the Healthcare segment's total revenues and the loss of any single Customer is not expected to have a material impact on the segment's results of operations or cash flows.

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

LIFE SCIENCES SEGMENT

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

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

- Formulated cleaning chemistries that are used to prevent biological and chemical contamination and to monitor sterilization and decontamination processes, including products used to clean components used in manufacturing,

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decontaminate systems, and disinfect or sterilize hard surfaces.

- Vaporized Hydrogen Peroxide ("VHP®") generators used to decontaminate many high value spaces, from small isolators to large pharmaceutical processing and laboratory animal rooms.
- High-purity water equipment, which generates water for injection and pure steam.
- Sterilizers used in the manufacture of pharmaceuticals and biopharmaceuticals as well as sterilizers for equipment and instruments used in research studies, mitigating the risk of contamination.
- Washer/disinfectors that decontaminate various large and small components in pharmaceutical and industrial manufacturing processes and in research labs, such as glassware, vessels, equipment parts, drums, hoses, and animal cages.

Significant brand names for these products include Amsco®, Reliance®, Finn-Aqua®, VHP®, and the CIP® Products.

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

Customer Concentration. Our Life Sciences segment sells capital equipment, consumables, and services to Customers in the United States and many other countries throughout the world. For the year ended March 31, 2012, no Customer represented more than 10% of the Life Sciences segment's total revenues and the loss of any single Customer is not expected to have a material impact on the segment's results of operations or cash flows.

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

STERIS ISOMEDIX SERVICES SEGMENT

Description of Business. Our Isomedix segment operates through a network of facilities located in North America. We sell a comprehensive array of contract materials processing services using gamma irradiation ("Gamma") and ethylene oxide ("EO") technologies. We offer microbial reduction services based on Customer specifications to companies that supply products to the healthcare, industrial, and consumer product industries.

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

Customer Concentration. Our Isomedix segment operates in North America. The segment's services are offered to Customers throughout the footprint of our network. For the year ended March 31, 2012, no Customer represented more than 10% of the segment's revenues. Because of a largely fixed cost structure, the loss of a single Customer could have a material impact on the segment's results of operations or cash flows but would not be expected to have a material impact on STERIS.

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

INFORMATION WITH RESPECT TO OUR BUSINESS IN GENERAL

Sources and Availability of Raw Materials. We purchase raw materials, sub-assemblies, components, and other supplies needed in our operations from numerous suppliers in the United States and internationally. The principal raw materials and supplies used in our operations include stainless steel, organic chemicals, fuel, and plastic components. These raw materials and supplies are available from several suppliers and in sufficient quantities that we do not currently expect any significant sourcing

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problems in fiscal 2013. We have longer-term supply contracts for certain materials, such as radioisotope (cobalt-60) used by the Isomedix segment, for which there are few suppliers.

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

As of March 31, 2012, we held 297 United States patents and 699 foreign patents and had 62 United States patent applications and 290 foreign patent applications pending. Patents for individual products extend for varying periods according to the date of filing or grant and legal term of patents in various countries where a patent is obtained. The actual protection a patent provides, which can vary from country to country, depends upon the type of patent, the scope of its coverage, and the availability of legal remedies in each country.

Our products are sold around the world under various brand names and trademarks. We consider our brand names and trademarks to be valuable in the marketing of our products. As of March 31, 2012, we had a total of 995 trademark registrations in the United States and in various foreign countries.

Research and Development. Research and development is an important factor in our long-term strategy. For the years ended March 31, 2012, 2011, and 2010, research and development expenses were $36.0 million, $34.3 million, and $34.0 million, respectively. We incurred these expenses primarily for the research and development of commercial products.

New products are a key element of our success. In the operating room, our Harmony LED Lighting and Visualization System brings surgical lighting, high definition images and surgeon comfort to a new level. Our V-PRO low temperature sterilizers and the Reliance Vision Single-chamber Washers improve efficiencies in the sterile processing department by increasing the number and volume of instruments that can be reprocessed. Another recent introduction is the 5085 SRT Surgical Table, the first sliding, rotating and transporting table to be released in the United States as a single-driver transport device for the operating suite. The table is designed to enhance both patient and staff safety by reducing the transfer risk before and after surgery. Finally, the recent introduction of the SYSTEM 1E, our next generation liquid chemical sterilant processing system, provides an alternative for existing SYSTEM 1 Customers.

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

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

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

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

titled, “Risk Factors, We are subject to extensive regulatory requirements.”

We have received warning letters, paid civil penalties, conducted product recalls and field corrections, and been subject to other regulatory sanctions. At the beginning of fiscal 2011 a consent decree, the terms of which had been previously agreed to by the FDA and us, was approved by the Federal District Court for the Northern District of Ohio concerning our SYSTEM 1 processing system. See Part I, Item 1A of this Annual Report titled, “Risk Factors, We may be adversely affected by product liability claims or other legal actions or regulatory or compliance matters, including the Warning Letter and Consent Decree,” and “Risk Factors, Compliance with the Consent Decree may be more costly and burdensome than anticipated.” and see also

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Part I, Item 3, “Legal Proceedings”, for further information on SYSTEM 1 and other regulatory issues and their potential impact. We believe that we are currently compliant in all material respects with applicable regulatory requirements. However, we cannot assure you that future or current regulatory, governmental, or private action will not have a material adverse affect on us or on our performance, results, or financial condition.

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

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

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

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

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

Employees. As of March 31, 2012, we had approximately 5,000 employees throughout the world. We believe we have good relations with our employees.

Methods of Distribution. As of March 31, 2012, we employed approximately 1,150 direct field sales and service representatives within the United States and approximately 350 in international locations. Sales and service activities are supported by a staff of regionally based clinical specialists, system planners, corporate account managers, and in-house Customer service and field support departments. We also contract with distributors and dealers in select markets.

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

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

International Operations. We believe we have a large opportunity to expand internationally, as we currently only serve a small portion of the world that could benefit from our products. Through our subsidiaries, we operate in various international locations within the same business segments as in the United States. International revenues have recently represented approximately one-fourth of our total revenues. Revenues from Europe, Canada, and the Asia Pacific and Latin American regions were 46%, 22%, 19%, and 13%, respectively, of our total international revenues for the year ended March 31, 2012.

Also see note 12 to our Consolidated Financial Statements titled, “Business Segment Information,” and Item 7, “MD&A”,

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for a geographic presentation of our revenues for the three years ended March 31, 2012.

We conduct manufacturing in the United States, Canada, Mexico, Brazil and various European countries. International cost of revenues have represented approximately one-third of our total cost of revenues.There are, in varying degrees, a number of inherent risks to our international operations. We describe some of these risks in Part I, Item 1A of this Annual Report titled, “Risk Factors, We conduct manufacturing, sales, and distribution operations on a worldwide basis.”

Fluctuations in the exchange rate of the U.S. dollar relative to the currencies of foreign countries in which we operate can also increase or decrease our reported net assets and results of operations. During fiscal 2012, revenues were favorably impacted by $6.1 million and income before taxes was unfavorably impacted by $0.8 million, or 0.4%, as a result of foreign currency movements relative to the U.S. dollar. We cannot predict future changes in foreign currency exchange rates or the effect they will have on our operations.

Backlog. We define backlog as the amount of unfilled capital equipment purchase orders at a point in time. At March 31, 2012, we had a backlog of $152.6 million. Of this amount, $102.5 million and $50.1 million related to our Healthcare and Life Sciences segments, respectively. At March 31, 2011, we had backlog orders of $179.3 million. Of this amount $138.6 million and $40.7 million related to our Healthcare and Life Sciences segments, respectively. We believe that the decline in Healthcare backlog is more a matter of timing of orders than a reflection of current market trends. A significant portion of the backlog orders at March 31, 2012, is expected to ship in the next fiscal year.

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

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

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

Name	Age	Position
William L. Aamoth	58	Vice President and Corporate Treasurer
Dr. Peter A. Burke	63	Senior Vice President and Chief Technology Officer
Timothy L. Chapman	50	Senior Vice President and Group President, Healthcare
Mark D. McGinley	55	Senior Vice President, General Counsel, and Secretary
Robert E. Moss	67	Senior Vice President and Group President, STERIS Isomedix Services and Life Sciences
Walter M Rosebrough, Jr.	58	President and Chief Executive Officer
Michael J. Tokich	43	Senior Vice President and Chief Financial Officer

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

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

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

Timothy L. Chapman serves as Senior Vice President and Group President, Healthcare. He assumed this role in February 2008. He joined STERIS in January 2006 and served as Senior Vice President, Business Strategy until February 2008.

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

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

Walter M Rosebrough, Jr. serves as President and Chief Executive Officer. He assumed this role when he joined STERIS in October 2007. Mr. Rosebrough also joined our Board of Directors in October 2007. Prior to his employment with STERIS,

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Mr. Rosebrough served from February 2005 to September 2007 as President and Chief Executive Officer of Coastal Hydraulics, Inc., a hydraulic and pneumatic systems company that he purchased in 2005 and he continues to serve as non-executive Chairman. Previously, Mr. Rosebrough spent nearly 20 years in the healthcare industry in various roles as a senior executive with Hill-Rom Holdings, Inc. (at the time, Hillenbrand Industries, Inc.), a worldwide provider of medical equipment and related services, including President and CEO of Support Systems International and President and CEO of Hill-Rom.

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

ITEM 1A. RISK FACTORS

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

The economic climate may adversely affect us.

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

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

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

The current financial crisis and general economic downturn in certain European countries may adversely affect our business and financial condition.

The continuation or worsening of existing financial and economic conditions in Europe generally, and Southern Europe in particular, may have adverse effects on our business and financial condition. As a result of these conditions, Customers, including governmental entities or other entities that rely on government healthcare systems or government funding, in certain European countries in which we operate may be unable to pay their obligations on a timely basis or to make payment in full. In particular, there have been increased delays in collection of trade receivables due from Spanish hospitals, and to a lesser degree Italian hospitals, that are directly or indirectly

dependent upon government funding. Although we have been able to collect most of these types of receivables, it may become necessary to increase reserves. In addition, there can be no assurance that there will not be an increase in collection difficulties. Prospectively, additional adverse effects resulting from these conditions may include decreased healthcare utilization, further pricing pressure on our products, and/or weaker overall demand for our products and services, particularly capital products. Accounts receivable at March 31, 2012 related to Customers in Spain and Italy were less than 8% of our total accounts receivable. We do not have noteworthy accounts receivable balances related to Customers in Greece and Portugal. We continue to monitor conditions and the creditworthiness of our Customers and the need for additional reserves as well as sales trends and issues. Although we cannot predict at this

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time how this situation may develop, should the current condition continue or worsen our business, performance, prospects, value, financial condition or results of operations may be adversely affected.

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

We operate in a highly competitive global environment. Our businesses compete with other broad line manufacturers, as well as many smaller businesses specializing in particular products or services, primarily on the basis of brand, design, quality, safety, ease of use, serviceability, price, product features, warranty, delivery, service, and technical support. We face increased competition from new infection prevention, sterile processing, contamination control, surgical support, cleaning consumables, contract sterilization, and other products and services entering the market. Competitors and potential competitors also are attempting to develop alternate technologies and sterilizing agents, as well as disposable medical instruments and other devices designed to address the risk of contamination. If our products, services, support, distribution and/or cost structure do not enable us to compete successfully, our business, performance, prospects, value, financial condition, and results of operations may be adversely affected.

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

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

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

We have undertaken various cost reduction and restructuring activities over the last several years, including the restructuring primarily related to our European Healthcare manufacturing operations into two central locations within Europe and the transfer of the remaining operations in our Erie, Pennsylvania facility to our U.S. headquarters in Mentor, Ohio. These efforts may not produce the full efficiencies and cost reduction benefits we expect or efficiencies and benefits might be delayed or not realized. Implementation costs also might exceed expectations and further cost reduction measures might become necessary, resulting in additional future charges. If these cost reduction and restructuring efforts are not properly implemented or are unsuccessful, we might experience business disruptions or our business otherwise might be adversely affected.

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

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

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

Business continuity hazards and other risks include:

- explosions, fires, earthquakes, inclement weather, and other disasters;
- utility or other mechanical failures;

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- unscheduled downtime;
- labor difficulties;
- inability to obtain or maintain any required licenses or permits;
- disruption of communications;
- data security, preservation and redundancy disruptions;
- inability to hire or retain key management or employees;
- disruption of supply or distribution; and
- regulation of the safety, security or other aspects of our operations.

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

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

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

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

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

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

allegation of these types of events may adversely affect our business, performance, prospects, value, financial condition, and results of operations.

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

A number of our Customers have consolidated. These consolidations are due in part to healthcare cost reduction measures

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

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

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

In addition, the U.S. Patient Protection and Affordable Care Act, as amended by the Health Care and Education Affordability Reconciliation Act, contains provisions that could have a material impact on our business. Among other provisions, this legislation imposes an excise tax on medical devices manufactured or offered for sale in the United States beginning January 1, 2013 and we believe this excise tax may have a material impact on our profitability. Various health care reform proposals have also emerged at the state level, and we are unable to predict which, if any, of those proposals will be enacted. However, the ultimate effect of health care reform legislation or any future legislation or regulation could have a material adverse affect on our business, performance, value, prospects, financial condition or results of operation.

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

Our operations are subject to extensive regulation in both the United States and in other countries where we do business. In the U.S, our products and services are regulated by the FDA and other regulatory authorities. In many foreign countries, sales of our products are subject to extensive regulations that may or may not be comparable to those of the FDA. In Europe, our products are regulated primarily by country and community regulations of those countries within the European Economic Area and must conform to the requirements of those authorities. Government regulation applies to nearly all aspects of testing, manufacturing, safety, labeling, storing, recordkeeping, reporting, promoting, distributing, and importing or exporting of medical devices, products, and services. In general, unless an exemption applies, a sterilization, decontamination or medical device or product or service must receive regulatory approval or clearance before it can be marketed or sold. Modifications to existing products or the marketing of new uses for existing products also may require regulatory approvals, approval supplements or clearances. If we are unable to obtain any required approvals, approval supplements or clearances for any modification to a previously cleared or approved device, we may be required to cease manufacturing and sale, or recall or restrict the use of such modified device, pay fines, or take other action until such time as appropriate clearance or approval is obtained. Regulatory agencies may refuse to grant approval or clearance, or review and disagree with our interpretation of approvals or clearances, or with our decision that regulatory approval is not required or has been maintained.

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

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in the receipt of, relevant United States or international qualifications could have a material adverse affect on our business, performance, prospects, value, financial condition or results of operations.

Refer also for further information to the "Risk Factor" below titled, "We may be adversely affected by product liability claims or other legal actions or regulatory or compliance matters, including the Warning Letter and Consent Decree" and the "Risk Factor" below titled "Compliance with the Consent Decree may be more costly and burdensome than anticipated." and to Part I, Item 3, "Legal Proceedings".

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

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

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

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

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

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

- redesign, re-label, restrict, or recall products;
- cease manufacturing and selling products;
- seizure of product inventory;
- comply with a court injunction restricting or prohibiting further marketing and sale of products or services;
- comply with a consent decree, which could result in further regulatory constraints;
- dedication of significant internal and external resources and costs to respond to and comply with legal and regulatory issues and constraints;
- respond to claims, litigation, and other proceedings brought by Customers, users, governmental agencies, and others;
- disruption of product improvements and product launches;
- discontinuation of certain product lines or services; or
- other restrictions or limitations on product sales, use or operation, or other activities or business practices.

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

Examples of the types of matters described above are the warning letter we received from the FDA on May 16, 2008 regarding our SYSTEM 1 sterile processing system, and the Consent Decree entered into on April 20, 2010. In summary, the warning letter outlined the FDA's assertion that significant changes or modifications had been made in the design, components, method of manufacture or intended use of the device, beyond the FDA's 1988 clearance of the device, such that the FDA asserted a new premarket notification submission was required. After extensive discussion, negotiation and interaction between FDA and us, a consent decree was agreed upon and approved by the Federal District Court for the Northern District of Ohio on

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April 20, 2010 (the "Consent Decree"). As a consequence of these interactions and the Consent Decree, there are numerous restrictions on us with respect to SYSTEM 1 and other liquid chemical sterilizing and disinfecting devices, components and accessories. For example, we have discontinued all sales of our SYSTEM 1 processor to U.S. Customers and will discontinue the provision of service, parts, accessories and sterilant for SYSTEM 1 units in the U.S. no later than August 2, 2012. As a result of these current and future restrictions and commitments, our revenues, earnings, business, performance, prospects or value may be negatively impacted. The Consent Decree also prohibits the sale of liquid chemical sterilizing or disinfecting products that do not have FDA clearance, describes various process and compliance issues, and defines penalties for non-compliance. (For more information regarding this warning letter and the Consent Decree, see the "Risk Factor" titled "Compliance with the Consent Decree may be more costly and burdensome than anticipated" and "Legal Proceedings" in Item 3 of Part I.) The Consent Decree, claims by Customers and other parties, and other events or impact associated with these matters could materially affect our business, performance, prospects, value, financial condition, or results of operations.

The ongoing impact of the Consent Decree, or the impact of any legal, regulatory, or compliance claims, proceeding, investigation, or litigation, is difficult to predict. The occurrence of any new legal, regulatory or compliance claim or problem respecting any of our significant products, particularly should such events occur in the near term, could adversely affect our reputation with current and prospective Customers and could otherwise materially and adversely affect our business, performance, prospects, value, financial condition, or results of operations. Additionally, some U.S. Customers may be reluctant to satisfy their payment obligations until rebate or SYSTEM 1E obligations have been resolved.

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

Customers may not purchase or use consumables related to our new SYSTEM 1E liquid chemical sterilant processing system at planned levels.

There currently are fewer SYSTEM 1E Liquid Chemical Sterilant Processing System units in use than the SYSTEM 1 units they replaced, and FDA approved uses for SYSTEM 1E are narrower than the SYSTEM 1 uses. Nonetheless, the S-40 sterilant used in connection with SYSTEM 1E units provides an additional element of profitability with respect to our SYSTEM 1E units. If fewer additional SYSTEM 1E units are sold than planned or usage of S-40 sterilant in SYSTEM 1E units currently in operation or expected to be sold declines below planned levels, these reductions might have a material adverse effect on our business, prospects, performance, value, financial condition, or results of operation.

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

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

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

Our success depends, in part, on strategic acquisitions and joint ventures, which are intended to complement or expand our businesses, divestiture of non-strategic businesses, and other actions to optimize our portfolio of businesses. This strategy depends upon our ability to identify, appropriately price, and complete these types of

business development transactions or arrangements and to obtain any necessary financing. Our success will also depend on our ability to integrate the businesses acquired or to develop satisfactory working arrangements with our strategic partners in joint ventures or other affiliations, or to divest or realign businesses. Competition for strategic business candidates may result in increases in costs and price for acquisition candidates and market valuation issues may reduce the value available for divestiture of non-strategic businesses. These types of transactions are also subject to a number of other risks and uncertainties, including:

- delays in realizing the benefits of the transactions;

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- diversion of management's time and attention from other business concerns;
- difficulties in retaining key employees, Customers, or suppliers of the acquired or divested businesses;
- difficulties in maintaining uniform standards, controls, procedures and policies, or other integration or divestiture difficulties;
- adverse effects on existing business relationships with suppliers or Customers;
- other events contributing to difficulties in generating future cash flows;
- risks associated with the assumption of contingent or other liabilities of acquisition targets or retention of liabilities for divested businesses; and
- difficulties in obtaining or satisfying financing.

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

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

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

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

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

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

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

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ITEM 2. PROPERTIES

The following table sets forth the principal plants and other materially important properties of the Company and its subsidiaries as of March 31, 2012. The Company believes that its facilities are adequate for operations and are maintained in good condition. The Company is confident that, if needed, it will be able to acquire additional facilities at commercially reasonable rates.

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

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

Location	U.S./INTL	Use	Owned/Leased
Montgomery, AL	U.S.	Manufacturing	Owned
Ontario, CA	U.S.	Contract Sterilization	Owned
San Diego, CA	U.S.	Contract Sterilization	Owned
Temecula, CA	U.S.	Contract Sterilization	Owned
Libertyville, IL (2 locations)	U.S.	Contract Sterilization	Owned
Northborough, MA	U.S.	Contract Sterilization	Owned
Brooklyn Park, MN	U.S.	Contract Sterilization	Owned
St. Louis, MO	U.S.	Manufacturing	Owned
South Plainfield, NJ	U.S.	Contract Sterilization	Owned
Whippany, NJ	U.S.	Contract Sterilization	Owned
Chester, NY	U.S.	Contract Sterilization	Owned
Groveport, OH	U.S.	Contract Sterilization	Owned
Mentor, OH (7 locations)	U.S.	Corporate Headquarters	Owned
	U.S.	Sales/Marketing Offices	Owned
	U.S.	Administrative Offices	Owned
	U.S.	Manufacturing/Warehousing	Owned
	U.S.	Manufacturing/Operations	Owned
Vega Alta, PR	U.S.	Contract Sterilization	Owned
Spartanburg, SC	U.S.	Contract Sterilization	Owned
El Paso, TX (2 locations)	U.S.	Contract Sterilization	Owned
Grand Prairie, TX	U.S.	Contract Sterilization	Owned
Sandy, UT	U.S.	Contract Sterilization	Owned
Bordeaux, France	INTL	Manufacturing/Sales Office/Showroom	Owned
Quebec City, Canada	INTL	Manufacturing	Owned
Whitby, Canada	INTL	Contract Sterilization	Owned
Leicester, England	INTL	Manufacturing	Owned
Mogi das Cruzes, Brazil	INTL	Manufacturing/Sales Office	Owned
Tuusula, Finland	INTL	Manufacturing/Sales Office	Owned
Pieterlen, Switzerland	INTL	Sales Office	Owned
Minneapolis, MN	U.S.	Contract Sterilization	Leased
St. Louis, MO	U.S.	Warehousing/Distribution	Leased
Reno, NV	U.S.	Warehousing	Leased
Mentor, OH	U.S.	Administrative Offices	Leased
Erie, PA	U.S.	Administrative Offices	Leased
Pittsburgh, PA	U.S.	Sales Office	Leased
Berchem, Belgium	INTL	Sales Office	Leased

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

Location	U.S./INTL	Use	Owned/Leased
Sao Paulo, Brazil	INTL	Sales Office	Leased
Mississauga, Canada	INTL	Sales Office/Warehousing	Leased
Beijing, China	INTL	Sales Office	Leased
Shanghai, China	INTL	Sales Office	Leased
Basingstoke, England	INTL	Sales Office	Leased
Leicester, England	INTL	Warehousing	Leased
La Chapelle St. Mesmin, France	INTL	Sales Office	Leased
Cologne, Germany	INTL	Sales Office	Leased
Calcutta, India	INTL	Sales Office	Leased
Segrate, Italy	INTL	Sales Office	Leased
Tokyo, Japan	INTL	Sales Office	Leased
Petaling Jaya, Malaysia	INTL	Sales Office	Leased
Guadalupe, Mexico	INTL	Manufacturing	Leased
Moscow, Russia	INTL	Sales Office	Leased
Singapore	INTL	Sales Office	Leased
Madrid, Spain	INTL	Sales Office	Leased
United Arab Emirates	INTL	Sales Office	Leased

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ITEM 3. LEGAL PROCEEDINGS

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

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

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

On December 3, 2009, the FDA provided a notice (“notice”) to healthcare facility administrators and infection control practitioners describing FDA's “concerns about the SYSTEM 1 Processor, components and accessories, and FDA recommendations.” In the notice, among other things, FDA stated its belief that the SYSTEM 1 device had been significantly modified, that FDA had not cleared or approved the modified device, and that FDA had not determined whether the SYSTEM 1 was safe or effective for its labeled claims. The notice further stated that use of a device that does not properly sterilize or disinfect a medical or surgical device poses risks to patients and users, including the transmission of pathogens, exposure to hazardous chemicals and may affect the quality and functionality of

reprocessed instruments. The notice stated that FDA was aware of reports of malfunctions of the SYSTEM 1 that had the potential to cause or contribute to serious injuries to patients, such as infections, or injuries to healthcare staff, such as burns. Included in FDA's December 3, 2009 notice was a recommendation from FDA that if users had acceptable alternatives to meet sterilization and disinfection needs, they should transition to that alternative as soon as possible. After its December 3, 2009 notice, we engaged in extensive discussions with the FDA regarding a comprehensive resolution of this matter. On February 2, 2010, the FDA notified healthcare facility administrators and infection control practitioners that FDA's total recommended time period for transitioning from SYSTEM 1 in the U.S. was 18 months from that date.

On April 5, 2010, we received FDA clearance of the new liquid chemical sterilant processing system (SYSTEM 1E). Also in April 2010 we reached agreement with the FDA on the terms of a consent decree (“Consent Decree”). On April 19, 2010, a Complaint and Consent Decree were filed in the U.S. District Court for the Northern District of Ohio, and on April 20, 2010,

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

The Consent Decree also provides that we may continue to support our Customers' use of SYSTEM 1 in the U.S., including the sale of consumables, parts and accessories and service for a transition period, not to extend beyond August 2, 2011, subject to compliance with requirements for documentation of the Customer's need for continued support and other conditions and limitations (the “Transition Plan”). This transition period has since been extended by the FDA until August 2, 2012. Our Transition Plan includes the “SYSTEM 1 Rebate Program” (the “Rebate Program”). In April 2010, we began to offer rebates to qualifying Customers. Generally, U.S. Customers that purchased SYSTEM 1 processors directly from us or who were users of SYSTEM 1 at the time the Rebate Program was introduced and who return their units have the option of either a pro-rated cash rebate or rebate toward the future purchase of new STERIS capital equipment (including SYSTEM 1E) or consumable products. In addition, we provide credits for the return of SYSTEM 1 consumables in unbroken packaging and within shelf life and for the unused portion of SYSTEM 1 service contracts.

The Consent Decree has defined the resolution of a number of issues regarding SYSTEM 1, and we believe our actions with respect to SYSTEM 1, including the Transition Plan, were and are not recalls, corrections or removals under FDA regulations. However, there is no assurance that these or other claims will not be brought or that judicial, regulatory, administrative or other legal or enforcement actions, notices or remedies will not be pursued, or that action will not be taken in respect of the Consent Decree, the Transition Plan, SYSTEM 1, or otherwise with respect to regulatory or compliance matters, as described in this Item 1 or in various portions of Item 1A.

In December of 2010, we began shipping SYSTEM 1E units after having received FDA clearance for the SYSTEM 1E chemical indicator, which is used in conjunction with the SYSTEM 1E. We also submitted a 510(k) to FDA for an optional spore-based indicator strip for use with SYSTEM 1E. Thereafter, as a result of discussions with FDA, we filed a de novo submission requesting classification of this strip in accordance with Section 513(f)(2) of the Federal Food Drug & Cosmetic Act. The de novo process is part of the initial classification for new devices. This spore-based monitoring strip received FDA clearance on March 30, 2012. This new clearance does not affect the prior clearance of the SYSTEM 1E processor or the SYSTEM 1E chemical indicator.

On February 5, 2010, a complaint was filed by a Customer that claimed to have purchased two SYSTEM 1 devices from STERIS, Physicians of Winter Haven LLC d/b/a Day Surgery Center v. STERIS Corp., Case No. 1:1-cv-00264-CAB (N.D. Ohio). The complaint alleged statutory violations, breaches of various warranties, negligence, failure to warn, and unjust enrichment and Plaintiff sought class certification, damages, and other legal and equitable relief including, without limitation, attorneys' fees and an order requiring STERIS to replace, recall or adequately repair the product and/or to take appropriate regulatory action. On February 7, 2011 we entered into a settlement agreement in which we agreed, among other things, to provide various categories of economic relief for members of the settlement class and not object to plaintiff's counsel's application to the court for attorneys' fees and expenses up to a specified amount. Certification of a settlement class was approved and final approval of the settlement was given by the court in the first quarter of fiscal 2012. During the third quarter of fiscal 2011, we recorded in operating expenses a pre-tax charge of approximately $19.8 million related to the settlement of these proceedings.

Other civil, criminal, regulatory or other proceedings involving our products or services also could possibly result in judgments, settlements or administrative or judicial decrees requiring us, among other actions, to pay damages or fines or effect recalls, or be subject to other governmental, Customer or other third party claims or remedies, which could

materially affect our business, performance, prospects, value, financial condition, and results of operations.

For additional information regarding these matters, see the following portions of this Annual Report on Form 10-K for the fiscal year ended March 31, 2012: “Business - Information with respect to our Business in General - Government Regulation”, and the “Risk Factor” titled: “We may be adversely affected by product liability claims or other legal actions or regulatory or compliance matters, including the Warning Letter and Consent Decree” and the “Risk Factor” titled “Compliance with the Consent Decree may be more costly and burdensome than anticipated.”

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

Additional information regarding our commitments and contingencies is included in Item 7, "MD&A" and in note 11 to

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

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ITEM 4. MINE SAFETY DISCLOSURES

None.

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PART II

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

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

Quarters Ended	March 31	December 31	September 30	June 30
Fiscal 2012				
High	$32.38	$ 32.68	$ 36.76	$36.57
Low	27.70	27.08	27.66	33.14
Fiscal 2011				
High	$37.38	$ 38.00	$ 33.65	$38.16
Low	31.86	32.66	28.07	29.84

Holders. As of March 31, 2012, there were approximately 1,293 holders of record of our common shares. However, we believe that we have a significantly larger number of beneficial holders of common shares.

Dividend Policy. The Company's Board of Directors decides the timing and amount of any dividends we may pay. During fiscal 2012, we paid cash dividends totaling $0.66 per outstanding common share ($0.15 per outstanding common share to common shareholders of record on June 28, 2011 and $0.17 per outstanding common share to common shareholders of record on each of the following record dates: September 20, 2011, December 21, 2011, and March 27, 2012). During fiscal 2011, we paid cash dividends totaling $0.56 per outstanding common share ($0.11 per outstanding common share to common shareholders of record on May 27, 2010 and $0.15 per outstanding common share to common shareholders of record on each of the following record dates: August 24, 2010, November 24, 2010, and March 1, 2011).

Recent Sales of Unregistered Securities. None.

Purchases of Equity Securities by the Issuer and Affiliated Purchasers. The following table presents information with respect to purchases STERIS made of its shares of common stock during the fourth quarter of the 2012 fiscal year:

	(a) Total Number of Shares Purchased	(b) Average Price Paid Per Share	(c) Total Number of Shares Purchased as Part of Publicly Announced Plans	(d) Maximum Dollar Value of Shares that May Yet Be Purchased Under the Plans at Period End
January 1-31	—	$ —	—	$118,460
February 1-29	—	—	—	118,460
March 1-31	—	—	—	118,460
Total	— (1)	$ — (1)	—	$118,460

(1) Does not include 89 shares purchased during the quarter at an average price of $30.71 per share by the STERIS Corporation 401(k) Plan on behalf of certain executive officers of the Company who may be deemed to be affiliated purchasers.

(2) On March 14, 2008 we announced that, the Board of Directors had authorized the repurchase of up to $300.0 million of our common shares. As of March 31, 2012, $118.5 million remained authorized for repurchase of our common shares under the current share repurchase authorization. This authorization does not have a stated maturity date. We provide information about our full year fiscal 2012 share repurchase activity in note 14 to our consolidated financial statements titled, "Repurchases of Common Shares."

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ITEM 6. SELECTED FINANCIAL DATA

	Years Ended March 31,				
(in thousands, except per share data)	2012(1)(2)	2011(1)(2)	2010(1)	2009(1)	2008(1)
Statements of Income Data:					
Revenues	$1,406,810	$1,207,448	$1,257,733	$1,298,525	$1,265,090
Gross profit	568,465	446,162	539,181	526,742	510,603
Restructuring expenses	644	1,202	4,848	3,554	15,461
Income from continuing operations	222,316	85,212	203,712	175,445	123,545
Income taxes	74,993	22,554	63,349	55,800	42,693
Gain on the sale of discontinued operations, net of tax	—	—	—	—	—
Net income	136,115	51,265	128,467	110,685	77,106
Basic income per common share:					
Net income	$2.33	$0.86	$2.18	$1.88	$1.22
Shares used in computing net income per common share – basic	58,367	59,306	58,826	58,778	63,300
Diluted income per common share:					
Net income	$2.31	$0.85	$2.16	$1.86	$1.20
Shares used in computing net income per common share – diluted	58,963	60,148	59,423	59,448	64,077
Dividends per common share	$0.66	$0.56	$2.44	$0.30	0.23
Balance Sheets Data:					
Working capital	$373,488	$361,060	$379,328	$351,104	$283,017
Total assets	1,405,696	1,426,685	1,238,402	1,216,939	1,239,292
Long-term indebtedness	210,000	210,000	210,000	210,000	179,280
Total liabilities	583,032	638,020	483,908	498,774	532,817
Total shareholders' equity	821,401	787,569	753,714	717,736	706,152

(1) See "Management's Discussion and Analysis of Financial Condition and Results of Operations."

(2) Presented amounts include the impact of the SYSTEM 1 Rebate Program and the SYSTEM 1 class action settlement.

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

INTRODUCTION

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

- what factors affect our business;
- what our earnings and costs were;
- why those earnings and costs were different from the year before;
- where our earnings came from;
- how this affects our overall financial condition;
- what our expenditures for capital projects were; and
- where cash will come from to fund future debt principal repayments, growth outside of core operations, repurchase common shares, pay cash dividends and fund future working capital needs.

The MD&A also analyzes and explains the annual changes in the specific line items in the Consolidated Statements of Income. As you read the MD&A, it may be helpful to refer to information in Item 1, "Business," Item 6, "Selected Financial Data," and our consolidated financial statements, which present the results of our operations for fiscal 2012, 2011 and 2010, as well as Part I, Item 1A, "Risk Factors" and Part I, Item 3, "Legal Proceedings", for a discussion of some of the matters that can adversely affect our business and results of operations. This information, discussion, and disclosure may be important to you in making decisions about your investments in STERIS.

FINANCIAL MEASURES

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

- Backlog – We define backlog as the amount of unfilled capital equipment purchase orders at a point in time. We use this figure as a measure to assist in the projection of short-term financial results and inventory requirements.
- Debt-to-total capital – We define debt-to-total capital as total debt divided by the sum of total debt and shareholders' equity. We use this figure as a financial liquidity measure to gauge our ability to borrow and fund growth.
- Net debt-to-total capital – We define net debt-to-total capital as total debt less cash ("net debt") divided by the sum of net debt and shareholders' equity. We also use this figure as a financial liquidity measure to gauge our ability to borrow and fund growth.
- Days sales outstanding ("DSO") – We define DSO as the average collection period for accounts receivable. It is calculated as net accounts receivable divided by the trailing four quarters' revenues, multiplied by 365 days. We use this figure to help gauge the quality of accounts receivable and expected time to collect.

We, at times, may also refer to financial measures which are considered to be "non-GAAP financial measures" under SEC rules. We have presented these financial measures because we believe that meaningful analysis of our financial performance is enhanced by an understanding of certain additional factors underlying that performance. These financial measures should not be considered an alternative to measures required by accounting principles generally accepted in the United States. Our calculations of these measures may differ from calculations of similar measures used by other companies and you should be careful when comparing these financial measures to those of other companies. Additional information regarding these financial measures, including reconciliations of each non-GAAP financial measure, is available in the subsection of MD&A titled, "Non-GAAP Financial Measures."

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:

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- Revenues – Our revenues are presented net of sales returns and allowances.
- Product Revenues – We define product revenues as revenues generated from sales of capital equipment, which includes steam sterilizers, low temperature liquid chemical sterilant processing systems, washing systems, VHP® technology, water stills, and pure steam generators; integrated OR; surgical lights and tables; and the consumable family of products, which includes SYSTEM 1 and SYSTEM 1E consumables, V-Pro consumables, sterility assurance products, skin care products, and cleaning consumables.
- Service Revenues – We define service revenues as revenues generated from parts and labor associated with the maintenance, repair, and installation of our capital equipment, as well as revenues generated from contract sterilization offered through our Isomedix segment.
- Capital Equipment Revenues – We define capital equipment revenues as revenues generated from sales of capital equipment, which includes steam sterilizers, low temperature liquid chemical sterilant processing systems, including SYSTEM 1® and SYSTEM 1E®, washing systems, VHP® technology, water stills, and pure steam generators; surgical lights and tables; and integrated OR.
- Consumable Revenues – We define consumable revenues as revenues generated from sales of the consumable family of products, which includes SYSTEM 1 and SYSTEM 1E consumables, V-Pro consumables, sterility assurance products, skin care products, and cleaning consumables.
- Recurring Revenues – We define recurring revenues as revenues generated from sales of consumable products and service revenues.
- Acquired Revenues – We define acquired revenues as base revenues generated from acquired businesses or assets and additional volumes driven through acquired businesses or assets. We will use such measure for up to a year after acquisition.

GENERAL COMPANY OVERVIEW AND OUTLOOK

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

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

Beyond our core markets, infection-control issues are becoming a global concern, and emerging threats are prominent in the news. We are actively pursuing new opportunities to adapt our proven technologies to meet the changing needs of the global marketplace.

Highlights. Heading into fiscal 2012, we anticipated growth in both revenue and earnings. Revenues in fiscal 2012 increased by $199.4 million, or 16.5%, to $1,406.8 million. Revenue growth was driven by increased demand for our products including SYSTEM 1E, international growth and the SYSTEM 1 Rebate Program. Adjusted revenues, excluding the impact of the SYSTEM 1 Rebate Program, increased $81.7 million, or 6.2%, to $1,391.5 million (see subsection of MD&A titled "Non-GAAP Financial Measures" for additional information and related reconciliation of non-GAAP financial measures to the most comparable GAAP measures). However, we experienced some unanticipated events that challenged our bottom line. These challenges included an extension of the SYSTEM 1 transition, as well as the unanticipated expenses related to SYSTEM 1E uptime reliability, both of which hindered our profitability in fiscal 2012.

For fiscal 2012, our financial position and cash flows remained strong, affording us financial flexibility. Cash flows from operations were $149.4 million and free cash flow was $82.7 million (see subsection of MD&A titled, "Non-GAAP Financial Measures" for additional information and related reconciliation of non-GAAP financial measures to the most comparable GAAP measures). We continue to maintain low debt levels with debt-to-total capital of 20.4% at March 31, 2012. The operating cash flow increase resulted primarily from higher net earnings adjusted for non-cash items and a lower use of cash to fund operating asset and liability changes. These increases in cash were partially offset by the use of cash to fund settlements of liabilities arising from the SYSTEM 1 Rebate Program and class action settlement. The increase in free cash flow also reflects lower capital spending levels as capital costs associated with radioisotope purchases for the Isomedix segment declined and the consolidation projects in Europe and North America were completed.

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A detailed discussion of our fiscal 2012 performance is included in the subsection of MD&A titled, “Results of Operations.”

Outlook. We anticipate that fiscal 2013 will be a pivot year for the Company, as we complete the SYSTEM 1 transition in the U.S., and establish a new baseline of revenue and profitability from which we will grow in the future. We will continue to experience a decline in revenues associated with SYSTEM 1 parts, accessories, sterilant and services, which we will discontinue in the United States no later than August 2, 2012. See Part I, Item 3, “Legal Proceedings.” We anticipate moderate increases in raw material costs in fiscal 2013, primarily related to metals and chemicals. In addition, fluctuations in foreign currency rates can impact revenues and costs outside of the United States creating uncertainty for our results for fiscal 2013 and beyond.

In fiscal 2013 and beyond, we expect to continue to manage our costs, grow our business with internal product development, invest in greater capacity, and augment these value creating methods with acquisitions of adjacent products and services. We have a strong balance sheet and reliable cash flow, and will use both to grow the business. One of the ways we will plan to create value going forward is to in-source much of the production that we have traditionally out-sourced. We have come far enough with our Lean approach that we can utilize the capacity we have created to shorten the supply chain and produce many of our purchased components in-house. Our planned increase in capital expenditures in fiscal 2013 reflects this plan and will provide the opportunity to create better quality, enhanced delivery capability, and lower costs.

MATTERS AFFECTING COMPARABILITY

SYSTEM 1 Rebate Program and proposed class action settlement. In April 2010, we introduced the SYSTEM 1 Rebate Program ("Rebate Program") to Customers as a component of our Transition Plan for SYSTEM 1. Generally, U.S. Customers that purchased SYSTEM 1 processors directly from us or who are current users of SYSTEM 1 and who return their units will have the option of either a pro-rated cash value or rebate toward the future purchase of new STERIS capital equipment or consumable products. In addition, we will provide credits for SYSTEM 1 services contracts.

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

In addition, fiscal 2011 operating expenses include a pre-tax charge of $19.8 million related to the settlement of SYSTEM 1 class action litigation. The impact of the charge was a reduction in net income of $13.1 million (after tax of $6.7 million).

During the fourth quarter of fiscal 2012, based on actual experience to date, we adjusted a portion of the original estimated liability related to the SYSTEM 1 Rebate Program. The total pre-tax adjustment was $17.4 million, of which $15.3 million was recorded as an increase to revenue for the Customer rebate portion, and $2.1 million was recorded as a reduction in cost of revenues related to the disposal liability. This adjustment results primarily from a decrease in the estimated number of eligible Customers that will ultimately participate in the Rebate Program.

Restructuring. In fiscal 2012, 2011 and 2010 we recorded pre-tax expenses totaling $0.7 million, $1.4 million, and $4.4 million, respectively, related to previously announced restructuring actions. These actions are intended to enhance profitability and increase operating efficiencies. We continue to evaluate all of our operations for additional opportunities to improve performance, but we have not committed to any additional specific actions.

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

International Operations. Since we conduct operations outside of the United States using various foreign currencies, fluctuations in the exchange rate of the U.S. dollar relative to the currencies of foreign countries in which we operate can also increase or decrease our reported net assets and results of operations. During fiscal 2012, our revenues were favorably impacted by $6.1 million and income before taxes was unfavorably impacted by $0.8 million, or 0.4%, as a result of foreign currency movements relative to the U.S. dollar.

NON-GAAP FINANCIAL MEASURES

We, at times, refer to financial measures which are considered to be “non-GAAP financial measures” under SEC rules. We, at times, also refer to our results of operations excluding certain transactions or amounts that are non-recurring or are not indicative of future results, in order to provide meaningful comparisons between the periods presented. These non-GAAP financial measures are not intended to be, and should not be, considered separately from or as an alternative to the most directly comparable GAAP financial measures.

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These non-GAAP financial measures are presented with the intent of providing greater transparency to supplemental financial information used by management and the Board of Directors in their financial analysis and operational decision-making. These amounts are disclosed so that the reader has the same financial data that management uses with the belief that it will assist financial statement users in making comparisons to our historical operating results and analyzing the underlying performance of our operations for the periods presented.

We believe that the presentation of these non-GAAP financial measures, when considered along with our GAAP financial measures and the reconciliation to the corresponding GAAP financial measures, provide the reader with a more complete understanding of the factors and trends affecting our business than could be obtained absent this disclosure. It is important for the reader to note that the non-GAAP financial measure used may be calculated differently from, and therefore may not be comparable to, a similarly titled measure used by other companies.

We define free cash flow as net cash provided by operating activities as presented in the Consolidated Statements of Cash Flows less purchases of property, plant, equipment, and intangibles plus proceeds from the sale of property, plant, equipment, and intangibles, which are also presented in the Consolidated Statements of Cash Flows. We use this as a measure to gauge our ability to fund future debt principal repayments, growth outside of core operations, repurchase common shares, and pay cash dividends. The following table summarizes the calculation of our free cash flow for the years ended March 31, 2012, 2011 and 2010:

(dollars in thousands)	2012	2011	2010
Net cash flows provided by operating activities	$149,372	$117,744	$224,954
Purchases of property, plant, equipment and intangibles, net	(66,682)	(77,442)	(44,087)
Proceeds from the sale of property, plant, equipment and intangibles	42	1,301	3,105
Free cash flow	$82,732	$41,603	$183,972

To supplement our financial results presented in accordance with U.S. GAAP, we have sometimes referred to certain measures of revenues, gross profit, income tax expense, and the Healthcare segment results of operations in the section of MD&A titled, "Results of Operations" excluding the impact of adjustments recorded in connection with the SYSTEM 1 Rebate Program in the first quarter of fiscal 2011 and in the fourth quarter of fiscal 2012, and the SYSTEM 1 class action settlement recorded in the third quarter of fiscal 2011. These items had a significant impact on the fiscal 2011 and fiscal 2012 measures and the corresponding trend in each of these measures. We provide adjusted measures to give the reader a more complete understanding of the factors and trends affecting our business than could be obtained absent this disclosure. These measures are used by management and the Board of Directors in making comparisons to our historical operating results and analyzing the underlying performance of our operations. The tables below provide a reconciliation of each of these measures to its most directly comparable GAAP financial measure.

	Years Ended March 31,	
(dollars in thousands)	2012	2011
Reported revenues	$1,406,810	$1,207,448
Impact of the SYSTEM 1 Rebate Program	(15,306)	102,313
Adjusted revenues	$1,391,504	$1,309,761
Reported capital revenues	$626,959	$433,944
Impact of the SYSTEM 1 Rebate Program	(15,306)	102,313
Adjusted capital revenues	$611,653	$536,257
Reported United States revenues	$1,057,460	$882,281
Impact of the SYSTEM 1 Rebate Program	(15,306)	102,313
Adjusted United States Revenues	$1,042,154	$984,594
Reported Healthcare revenues	$1,013,102	$835,832

Impact of the SYSTEM 1 Rebate Program	(15,306	) 102,313

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Adjusted Healthcare revenues	$997,796		$938,145		
Healthcare capital revenues	545,596		357,465		
Impact of SYSTEM 1 Rebate Program	(15,306	)	102,313		
Adjusted Healthcare capital revenues	$530,290		$459,778		
Reported gross profit	$568,465		$446,162		
Impact of the SYSTEM 1 Rebate Program	(17,403	)	110,004		
Adjusted gross profit	$551,062		$556,166		
Reported gross profit percentage	40.4	%	37.0	%	
Impact of the SYSTEM 1 Rebate Program	(0.8	)%	5.5	%	
Adjusted gross profit percentage	39.6	%	42.5	%	
Reported operating income	$222,316		$85,212		
Impact of the SYSTEM 1 Rebate Program and class action settlement	(17,403	)	129,800		
Adjusted operating income	$204,913		$215,012		
Reported Healthcare operating income	$141,742		$21,317		
Impact of the SYSTEM 1 Rebate Program and class action settlement	(17,403	)	129,800		
Adjusted Healthcare operating income	$124,339		$151,117		
Reported income tax expense	$74,993		$22,554		
Impact of the SYSTEM 1 Rebate Program and class action settlement	(6,780	)	50,183		
Adjusted income tax expense	$68,213		$72,737		
Reported effective income tax rate	35.5	%	30.6	%	
Impact of the SYSTEM 1 Rebate Program and class action settlement	(0.3	)%	5.1	%	
Adjusted effective income tax rate	35.2	%	35.7	%	

RESULTS OF OPERATIONS

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

FISCAL 2012 AS COMPARED TO FISCAL 2011

Revenues. The following table compares our revenues, in total and by type and geography, for the year ended March 31, 2012 to the year ended March 31, 2011:

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(dollars in thousands)	Years Ended March 31, 2012	2011	Change	Percent Change
Total revenues	$1,406,810	$1,207,448	$199,362	16.5 %
Revenues by type:				
Capital revenues	626,959	433,944	193,015	44.5 %
Consumable revenues	301,171	309,894	(8,723)	(2.8)%
Service revenues	478,680	463,610	15,070	3.3 %
Revenues by geography:				
United States revenues	1,057,460	882,281	175,179	19.9 %
International revenues	349,350	325,167	24,183	7.4 %

Revenues increased $199.4 million, or 16.5%, to $1,406.8 million for the year ended March 31, 2012, as compared to $1,207.4 million for the year ended March 31, 2011. The increase reflects growth in capital and service revenues and the negative impact of the SYSTEM 1 Rebate Program in fiscal 2011. Adjusted revenues, excluding the impact of the SYSTEM 1 Rebate Program in both periods, increased $81.7 million, or 6.2%, to $1,391.5 million (see subsection of MD&A titled "Non-GAAP Financial Measures" for additional information and related reconciliation of non-GAAP financial measures to the most comparable GAAP measures). We analyze our revenues in two ways, by type and geography, in the discussion that follows. Revenues by segment are further discussed in the section of MD&A titled, “Business Segment Results of Operations.”

Capital revenues increased $193.0 million or 44.5% during fiscal 2012 as compared to fiscal 2011. The increase in capital revenues was driven by the positive impact of the $15.3 million adjustment to Healthcare capital revenues related to the SYSTEM 1 Rebate Program in fiscal 2012 and the negative impact of the $102.3 million adjustment to Healthcare capital revenues related to the SYSTEM 1 Rebate Program in fiscal 2011. Adjusted capital revenues increased $75.4 million or 14.1% to $611.7 million during fiscal 2012 (see subsection of MD&A titled "Non-GAAP Financial Measures" for additional information and related reconciliation of non-GAAP financial measures to the most comparable GAAP measures). Excluding the impact of the SYSTEM 1 Rebate Program in both periods, Healthcare capital revenues increased $70.5 million during fiscal 2012 from fiscal 2011, reflecting revenues derived from shipments of SYSTEM 1E products as well as increases in other Healthcare infection prevention and surgical equipment products. Capital revenues within the Life Sciences segment increased $4.8 million or 6.3% to $81.3 million.

During fiscal 2012, recurring revenues increased $6.3 million or 0.8% as compared to fiscal 2011. The recurring revenues increase was generated by a 3.3% increase in service revenues, which was partially offset by a 2.8% decrease in consumable revenues during fiscal 2012 as compared to fiscal 2011. The increase in service revenues of $15.1 million in fiscal 2012 compared to fiscal 2011, was driven primarily by the Isomedix business segment but also reflects growth in both the Healthcare and Life Science business segments. Consumable revenues decreased $8.7 million or 2.8% during fiscal 2012 from fiscal 2011 as Healthcare consumable revenues decreased by 6.1% driven mainly by the continued decline in SYSTEM 1 sterilant volumes, and Life Science consumable revenues increased by 9.4%.

United States revenues for fiscal 2012 were $1,057.5 million, an increase of $175.2 million, or 19.9%, as compared to fiscal 2011. Adjusted United States revenues for fiscal 2012 were $1,042.2 million, an increase of $57.6 million or 5.8% as compared to adjusted fiscal 2011 revenues (see subsection of MD&A titled "Non-GAAP Financial Measures" for additional information and related reconciliation of non-GAAP financial measures to the most comparable GAAP measures). Increases include revenues derived from SYSTEM 1E products as well as increases in other Healthcare infection prevention and surgical equipment products and Life Sciences capital equipment revenues. United States consumable and service revenues were negatively impacted by the SYSTEM 1 transition with a decrease in consumable revenues of 6.7%, primarily driven by the decline in SYSTEM 1 sterilant volumes offset by

an increase in service revenues of 2.5%.

International revenues for fiscal 2012 were $349.4 million, an increase of $24.2 million, or 7.4%, as compared to fiscal 2011. The increase in year-over-year international revenues was driven by increases in capital, consumable and service revenues of 6.5%, 9.8%, 7.5%, respectively. The most significant gains were in the Healthcare business segment. The Healthcare international revenue increase includes the benefit of a fiscal 2012 acquisition in Brazil but also reflects increases in all our international regions including Canada, Europe, Asia Pacific and Latin America.

Gross Profit. The following table compares our gross profit for the year ended March 31, 2012 to the year ended March 31,

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2011:

(dollars in thousands)	Years Ended March 31, 2012	2011	Change	Percent Change
Gross Profit:				
Product	$376,134	$249,374	$126,760	50.8 %
Service	192,331	196,788	(4,457)	(2.3)%
Total Gross Profit	$568,465	$446,162	$122,303	27.4 %
Gross Profit Percentage:				
Product	40.5 %	33.5 %		
Service	40.2 %	42.4 %		
Total Gross Profit Percentage	40.4 %	37.0 %		

Our gross profit is affected by the volume, pricing, and mix of sales of our products and services, as well as the costs associated with the products and services that are sold. Our gross profit increased $122.3 million and gross profit percentage increased to 40.4% for fiscal 2012 as compared to 37.0% for fiscal 2011. The most significant driver of this increase results from the change brought about by SYSTEM 1 Rebate Program which had a $110.0 million negative impact in fiscal 2011 and a $17.4 million positive impact in fiscal 2012. Excluding the impact of the SYSTEM 1 Rebate Program, fiscal 2012 gross profit and gross profit percentage were $551.1 million and 39.6% respectively, while fiscal 2011 gross profit and gross profit percentage were $556.2 million and 42.5%, respectively (see subsection of MD&A titled "Non-GAAP Financial Measures" for additional information and related reconciliation of non-GAAP financial measures to the most comparable GAAP measures). Changes in volume are the secondary driver resulting in a net reduction of approximately 130 basis points in the gross profit percentage as the decline in SYSTEM 1 sterilant volume more than offset the benefits of SYSTEM 1E units and higher volumes in the Isomedix segment and the continued growth in Life Sciences consumables volume. The gross profit percentage was also negatively impacted by approximately 60 basis points as a result of increased labor costs and by approximately 50 basis points by increases in inventory reserves, including the reserves associated with certain SYSTEM 1E components made obsolete by the recent special 510(k) clearance which contained a modification of the UV light intensity threshold.

Operating Expenses. The following table compares our operating expenses for the year ended March 31, 2012 to the year ended March 31, 2011:

(dollars in thousands)	Years Ended March 31, 2012	2011	Change	Percent Change
Operating Expenses:				
Selling, general, and administrative	$309,552	$325,468	$(15,916)	(4.9)%
Research and development	35,953	34,280	1,673	4.9 %
Restructuring expenses	644	1,202	(558)	(46.4)%
Total Operating Expenses	$346,149	$360,950	$(14,801)	(4.1)%

Compensation and benefit costs, fees for professional services, travel and entertainment, facilities costs, and other general and administrative expenses are significant components of selling, general, and administrative expenses (“SG&A”). SG&A decreased $15.9 million in fiscal 2012 as compared to fiscal 2011. Fiscal 2011 SG&A was negatively impacted by the estimated $19.8 million expense associated with the proposed SYSTEM 1 class action settlement. Excluding the SYSTEM 1 class action settlement, SG&A increased 1.3% during fiscal 2012 primarily attributable to higher spending with regard to product uptime reliability and sales related costs offset by decreases in professional fees and insurance as well as the lower cost of our annual incentive compensation plan since bonuses will not be paid as performance targets for fiscal 2012 were not met.

Research and development expenses increased $1.7 million for fiscal 2012 as compared to fiscal 2011. Research and development expenses are influenced by the number and timing of in-process projects and labor hours and other costs associated with these projects. Our research and development initiatives continually emphasize new product development, product improvements, and the development of new technological platform innovations. During fiscal 2012, our investments in research and development focused on, but were not limited to, enhancing capabilities of new chemistries and delivery systems for disinfection and sterilization, sterile processing combination technologies, surgical equipment and accessories, and the area of emerging infectious agents such as Prions and Nanobacteria.
Restructuring Expenses. We recognize restructuring expenses as they are incurred. We also evaluate the inventory and

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

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

In fiscal 2012, in connection with the Fiscal 2010 Restructuring Plan, we recorded pre-tax expense totaling totaling $0.8 million related to these actions. In fiscal 2011, we recorded pre-tax expenses totaling $1.6 million related to these actions, of which $1.4 million was recorded as restructuring expenses and $0.2 million was recorded in cost of revenues. Since the inception of the Fiscal 2010 Restructuring Plan, we have incurred $8.7 million of pre-tax expenses. These actions are intended to enhance profitability and increase operating efficiencies. Production has ceased in our Switzerland manufacturing facility. Included in restructuring expenses are an impairment loss with regard to this facility based on a sale agreement and a pension curtailment benefit as a result of the reduction in workforce.

We do not expect to incur any significant additional restructuring expenses related to this plan.

During the fourth quarter of fiscal 2008, we adopted a restructuring plan primarily focused on our North American operations (the "Fiscal 2008 Restructuring Plan"). As part of this plan, we announced the closure of two sales offices, reduced the workforce in certain support functions, and rationalized certain products. These actions are intended to enhance profitability and improve efficiency by reducing ongoing operating costs. Across all of our reporting segments, approximately 90 employees, primarily located in North America, were directly impacted. We do not expect to incur any significant additional restructuring expenses related to this plan.

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

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

The following tables summarize our total restructuring charges for fiscal 2012, and 2011:

	Year Ended March 31, 2012		
(dollars in thousands)	Fiscal 2010 Restructuring Plan	Fiscal 2008 Restructuring Plan	Total
Severance and other compensation related costs	$(776)	$—	$(776)
Product rationalization	335	—	335
Asset impairment and accelerated depreciation	1,103	—	1,103
Lease termination obligation and other	143	(152)	(9)
Total restructuring charges	$805	$(152)	$653

	Year Ended March 31, 2011		
(dollars in thousands)	Fiscal 2010 Restructuring Plan(1)	Fiscal 2008 Restructuring Plan	Total
Severance and other compensation related costs	$454	$—	$454
Asset impairment and accelerated depreciation	559	(289)	270
Lease termination costs	595	—	595
Other	33	—	33

Total Restructuring Charges	$1,641	$(289)	$1,352

(1) Includes $0.2 million in charges recorded in cost of revenues on the Consolidated Statements of Income.

Liabilities related to restructuring activities are recorded as current liabilities on the accompanying Consolidated Balance

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Sheets within “Accrued payroll and other related liabilities” and “Accrued expenses and other.” The following tables summarize the liabilities related to our restructuring activities:

	Fiscal 2010 Restructuring Plan			
		Fiscal 2012		
	March 31, 2011	Provision	Payments/ Impairments	March 31, 2012
Severance and other compensation related costs	$1,993	$(776)	$(558)	$659
Product rationalization	—	335	(335)	—
Asset impairments	—	1,103	(1,103)	—
Lease termination obligations	1,790	139	(982)	947
Other	193	4	(121)	76
Total	$3,976	$805	$(3,099)	$1,682

	Fiscal 2010 Restructuring Plan			
		Fiscal 2011		
	March 31, 2010	Provision	Payments/ Impairments	March 31, 2011
Severance and other compensation related costs	$1,894	$454	$(355)	$1,993
Asset impairments	—	559	(559)	—
Lease termination obligations	1,200	595	(5)	1,790
Other	509	33	(349)	193
Total	$3,603	$1,641	$(1,268)	$3,976

	Fiscal 2008 Restructuring Plan			
		Fiscal 2011		
	March 31, 2010	Provision	Payments/ Impairments	March 31, 2011
Severance and other compensation related costs	$102	$—	$(102)	$—
Asset impairments	289	(289)	—	—
Lease termination obligations	411	—	(254)	157
Total	$802	$(289)	$(356)	$157

Non-Operating Expenses, Net. Non-operating expense (income), net consists primarily of interest expense on debt, offset by interest earned on cash, cash equivalents, and short-term investment balances, and other miscellaneous income. The following table compares our non-operating expense (income), net for the year ended March 31, 2012 to the year ended March 31, 2011:

	Years Ended March 31,		
(dollars in thousands)	2012	2011	Change
Non-Operating Expenses:			
Interest expense	$12,065	$12,000	$65
Interest and miscellaneous income	(857)	(607)	(250)
Non-Operating Expenses, Net	$11,208	$11,393	$(185)

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

Income Tax Expense. The following table compares our income tax expense and effective income tax rates for the years ended March 31, 2012 and 2011:

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(dollars in thousands)	Years Ended March 31, 2012	2011	Change	Percent Change
Income tax expense	$74,993	$22,554	$52,439	232.5 %
Effective income tax rate	35.5 %	30.6 %		

The effective income tax rate for fiscal 2012 was 35.5% as compared to 30.6% for fiscal 2011. The effective tax rate in fiscal 2012 was impacted by the increase in United States income as a result of the impact of the SYSTEM 1 Rebate Program. The adjusted effective income tax rate for fiscal 2012, excluding the impact of this item was 35.2% (see subsection of MD&A titled "Non-GAAP Financial Measures" for additional information and related reconciliation of non-GAAP financial measures to the most comparable GAAP measures). The effective tax rate in fiscal 2011 was impacted by the reduction in United States income as a result of the impact of the SYSTEM 1 Rebate Program and proposed SYSTEM 1 class action settlement. The adjusted effective income tax rate for fiscal 2011, excluding the impact of these two items was 35.7% (see subsection of MD&A titled "Non-GAAP Financial Measures" for additional information and related reconciliation of non-GAAP financial measures to the most comparable GAAP measures). Additional information regarding our income tax expense is included in note 9 to our consolidated financial statements titled, “Income Taxes.”

Business Segment Results of Operations. We operate in three reportable business segments: Healthcare, Life Sciences, and Isomedix. Corporate and other, which is presented separately, contains the Defense and Industrial business unit plus costs that are associated with being a publicly traded company and certain other corporate costs. These costs include executive office costs, Board of Directors compensation, shareholder services and investor relations, external audit fees, and legacy pension and post-retirement benefit costs. Note 12 to our consolidated financial statements titled, “Business Segment Information,” and Item 1, “Business”, provide detailed information regarding each business segment. The following table compares business segment revenues and Corporate and other for the year ended March 31, 2012 to the year ended March 31, 2011:

(dollars in thousands)	Years Ended March 31, 2012	2011	Change	Percent Change
Revenues:				
Healthcare	$1,013,102	$835,832	$177,270	21.2 %
Life Sciences	226,658	215,437	11,221	5.2 %
Isomedix	164,257	152,242	12,015	7.9 %
Total Reportable Segments	1,404,017	1,203,511	200,506	16.7 %
Corporate and other	2,793	3,937	(1,144)	(29.1)%
Total Revenues	$1,406,810	$1,207,448	$199,362	16.5 %

Healthcare segment revenues increased $177.3 million or 21.2%, to $1,013.1 million for the year ended March 31, 2012, as compared to $835.8 million for the prior fiscal year. Adjusted Healthcare segment revenues, excluding the impact of the SYSTEM 1 Rebate Program, were $997.8 million for the year ended March 31, 2012 representing an increase of 6.4% over the prior year (see subsection of MD&A titled "Non-GAAP Financial Measures" for additional information and related reconciliation of non-GAAP financial measures to the most comparable GAAP measures). The increase in adjusted Healthcare revenues reflects growth in capital equipment revenues, including revenue associated with SYSTEM 1E products in the United Sates, as well as increases in other Healthcare infection prevention and surgical equipment products. Healthcare service revenues also increased with growth of 1.7%. These increases were partially offset by a decrease in Healthcare consumable revenues of 6.1% as a result of the SYSTEM 1 transition. At March 31, 2012, our Healthcare segment’s backlog amounted to $102.5 million, as compared to $138.6 million at March 31, 2011. We believe that the decline in backlog is more a matter of timing of orders than a reflection of current market trends. SYSTEM 1E related backlog was $11.7 million as of March 31, 2012, as

compared to $21.3 million as of March 31, 2011.

Life Sciences segment revenues increased $11.2 million, or 5.2%, to $226.7 million for the year ended March 31, 2012, as compared to $215.4 million for the prior fiscal year. Our Life Sciences segment fiscal 2012 revenues were favorably impacted by strong demand for our capital and consumable products which grew at 6.3% and 9.4%, respectively. The demand for capital equipment reflects replacement product purchases by our pharmaceutical Customers. At March 31, 2012, our Life Sciences segment's backlog amounted to $50.1 million as compared to $40.7 million at March 31, 2011.

Isomedix segment revenues increased $12.0 million, or 7.9%, during fiscal 2012, as compared to fiscal 2011. The growth in revenues during fiscal 2012 is attributable to increased demand from our core medical device Customers and market share

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gains made possible by capacity expansion investments.

The following table compares our business segments and Corporate and other operating results for the year ended March 31, 2012 to the year ended March 31, 2011:

(dollars in thousands)	Years Ended March 31, 2012	2011	Change	Percent Change
Operating Income:				
Healthcare	$141,742	$21,317	$120,425	564.9 %
Life Sciences	41,633	33,069	8,564	25.9 %
Isomedix	47,596	39,833	7,763	19.5 %
Total Reportable Segments	230,971	94,219	136,752	145.1 %
Corporate and other	(8,655)	(9,007)	352	(3.9)%
Total Operating Income	$222,316	$85,212	$137,104	160.9 %

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

Our Healthcare segment's operating income increased $120.4 million, or 564.9% to $141.7 million for the year ended March 31, 2012 from $21.3 million during the prior fiscal year. Adjusted fiscal 2012 Healthcare operating income, excluding the impact of the SYSTEM 1 Rebate Program and class action settlement, was $124.3 million as compared to adjusted $151.1 million during the prior fiscal period (see subsection of MD&A titled "Non-GAAP Financial Measures" for additional information and related reconciliation of non-GAAP financial measures to the most comparable GAAP measures). The segment was negatively impacted by the decline in SYSTEM 1 sterilant volumes as well as higher spending with regard to product uptime reliability and sales related costs. The Healthcare segment's fiscal 2012 and fiscal 2011 operating margins include restructuring expenses of $0.6 million and $0.9 million, respectively.

Our Life Sciences segment's operating income increased $8.6 million, or 25.9% to $41.6 million in fiscal 2012 from $33.1 million in fiscal 2011. Our Life Sciences segment's operating margins were 18.4% and 15.3%, respectively, for the years ended March 31, 2012 and March 31, 2011. The improvement was primarily driven by product mix and operating efficiencies. In fiscal 2011, Life Sciences segment's operating income includes $0.2 million in restructuring expenses.

Our Isomedix segment's operating income increased $7.8 million, or 19.5% to $47.6 million for the year ended March 31, 2012 as compared to $39.8 million in fiscal 2011. Isomedix segment's operating margins were 29.0% and 26.2%, respectively, for the years ended March 31, 2012 and March 31, 2011. The improvement was primarily driven by the increased volume. Restructuring expenses of $0.1 million are included in this segment's fiscal 2011 operating income.

FISCAL 2011 AS COMPARED TO FISCAL 2010

Revenues. The following table compares our revenues, in total and by type and geography, for the year ended March 31, 2011 to the year ended March 31, 2010:

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(dollars in thousands)	Years Ended March 31, 2011	2010	Change	Percent Change
Total revenues	$1,207,448	$1,257,733	$(50,285)	(4.0)%
Revenues by type:				
Capital revenues	433,944	481,527	(47,583)	(9.9)%
Consumable revenues	309,894	317,475	(7,581)	(2.4)%
Service revenues	463,610	458,731	4,879	1.1 %
Revenues by geography:				
United States revenues	882,281	949,637	(67,356)	(7.1)%
International revenues	325,167	308,096	17,071	5.5 %

Revenues decreased $50.3 million, or 4.0%, to $1,207.4 million for the year ended March 31, 2011, as compared to $1,257.7 million for the year ended March 31, 2010. The decline reflects the $102.3 million negative impact of the SYSTEM 1 Rebate Program. Adjusted revenues, excluding the impact of the SYSTEM 1 Rebate Program, increased $52.0 million, or 4.1%, to $1,309.8 million (see subsection of MD&A titled "Non-GAAP Financial Measures" for additional information and related reconciliation of non-GAAP financial measures to the most comparable GAAP measures.) We analyze our revenues in two ways, by type and geography, in the discussion that follows.

For fiscal 2011, recurring revenues decreased $2.7 million or 0.3% as compared to fiscal 2010. The recurring revenues decrease was generated by a 2.4% decrease in consumable revenues, which was partially offset by a 1.1% increase in service revenues during fiscal 2011 as compared to fiscal 2010. Consumable revenues increased in the Life Sciences segment by 7.6% and decreased in the Healthcare segment by 4.8%, respectively. Service revenues increased $4.9 million or 1.1% resulting from an increase in revenues from our Isomedix segment partially offset by a declines in the Healthcare segment during fiscal 2011 as compared to fiscal 2010. Capital revenues decreased $47.6 million or 9.9% during fiscal 2011 as compared to fiscal 2010. The decrease in capital revenues was driven by the $102.3 million negative impact of the SYSTEM 1 Rebate Program on Healthcare capital revenues. Adjusted capital revenues increased $54.7 million or 11.4%, to $536.3 million (see subsection of MD&A titled "Non-GAAP Financial Measures" for additional information and related reconciliation of non-GAAP financial measures to the most comparable GAAP measures). Healthcare revenues decreased $56.6 million in fiscal 2011 compared to fiscal 2010. Healthcare capital revenues, excluding the impact of the SYSTEM 1 Rebate Program, increased $63.6 million reflecting revenues derived from shipments of SYSTEM 1E products as well as increases in other Healthcare infection prevention and surgical equipment. Capital revenues within the Life Sciences segment decreased 9.6%. The Life Sciences segment capital equipment revenues have been affected by the economic downturn and consolidations within the industry limiting the order levels from our pharmaceutical Customers.

United States revenues for fiscal 2011 were $882.3 million, a decrease of $67.4 million, or 7.1%, as compared to fiscal 2010. Adjusted United States revenues for fiscal 2011 were $984.6 million, an increase of $35.0 million, or 3.7%, as compared to fiscal 2010 (see subsection of MD&A titled "Non-GAAP Financial Measures" for additional information and related reconciliation of non-GAAP financial measures to the most comparable GAAP measures). Increases include revenues derived from SYSTEM 1E products as well as increases in other Healthcare infection prevention and surgical equipment. United States consumable and service revenues were negatively impacted by the SYSTEM 1 transition with a decrease in consumable revenues of 4.0%, primarily driven by the decline in SYSTEM 1 sterilant volumes offset by an increase in service revenues of 0.2%. Life Sciences consumable revenues continued to demonstrate growth with an increase within the United States of 6.9% in fiscal 2011 compared to fiscal 2010.

International revenues for fiscal 2011 were $325.2 million, an increase of $17.1 million, or 5.5%, as compared to fiscal 2010. The increase in year-over-year international revenues was driven by increases in capital, consumable and service revenues of 6.4%, 3.4% and 5.7%, respectively. The most significant gains were in Healthcare capital revenues, with growth in Europe, Asia Pacific and Latin America, and service revenues in Canada within the Life

Science segment.

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

Gross Profit. The following table compares our gross profit for the year ended March 31, 2011 to the year ended March 31, 2010:

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(dollars in thousands)	Years Ended March 31, 2011	2010	Change	Percent Change
Gross Profit:				
Product	$249,374	$344,014	$(94,640)	(27.5)%
Service	196,788	195,167	1,621	0.8 %
Total Gross Profit	$446,162	$539,181	$(93,019)	(17.3)%
Gross Profit Percentage:				
Product	33.5 %	43.1 %		
Service	42.4 %	42.5 %		
Total Gross Profit Percentage	37.0 %	42.9 %		

Our gross profit is affected by the volume, pricing, and mix of sales of our products and services, as well as the costs associated with the products and services that are sold. Our gross profit decreased $93.0 million and our gross profit percentage decreased to 37.0% for fiscal 2011 as compared to 42.9% for fiscal 2010. The most significant driver of this decrease is the $110.0 million negative impact of the SYSTEM 1 Rebate Program. Excluding the impact of the SYSTEM 1 Rebate Program, fiscal 2011 gross profit and gross profit percentage were $556.2 million and 42.5%, respectively (see subsection of MD&A titled "Non-GAAP Financial Measures" for additional information and related reconciliation of non-GAAP financial measures to the most comparable GAAP measures). Changes in volume are the secondary driver resulting in a net reduction of approximately 40 basis points in the gross profit percentage as the decline in SYSTEM 1 sterilant volume more than offset the benefits of higher volumes in the Isomedix segment and the continued growth in Life Sciences consumables volume.

Operating Expenses. The following table compares our operating expenses for the year ended March 31, 2011 to the year ended March 31, 2010:

(dollars in thousands)	Years Ended March 31, 2011	2010	Change	Percent Change
Operating Expenses:				
Selling, general, and administrative	$325,468	$296,613	$28,855	9.7 %
Research and development	34,280	34,008	272	0.8 %
Restructuring expenses	1,202	4,848	(3,646)	(75.2)%
Total Operating Expenses	$360,950	$335,469	$25,481	7.6 %

Compensation and benefit costs, fees for professional services, travel and entertainment, facilities costs, and other general and administrative expenses are significant components of selling, general, and administrative expenses (“SG&A”). SG&A increased $28.9 million, in fiscal 2011 as compared to fiscal 2010. Fiscal 2011 SG&A was negatively impacted by the estimated $19.8 million expense associated with the SYSTEM 1 class action settlement. The remaining increase of 3.1% in SG&A during fiscal 2011 reflects higher sales related fees and commissions, increased legal, regulatory, and quality spending and higher insurance costs.

Research and development expenses increased $0.3 million for fiscal 2011 as compared to fiscal 2010. Research and development expenses are influenced by the number and timing of in-process projects and labor hours and other costs associated with these projects. Our research and development initiatives continually emphasize new product development, product improvements, and the development of new technological platform innovations. During fiscal 2011, our investments in research and development focused on, but were not limited to, enhancing capabilities of new chemistries and delivery systems for disinfection and sterilization, sterile processing combination technologies, surgical equipment and accessories, and the area of emerging infectious agents such as Prions and Nanobacteria.

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

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

During the fourth quarter of fiscal 2010, we adopted a restructuring plan primarily related to the transfer of the remaining operations in our Erie, Pennsylvania facility to the U.S. headquarters in Mentor, Ohio and the consolidation of our European

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Healthcare manufacturing operations into two central locations within Europe (the "Fiscal 2010 Restructuring Plan"). In addition, we rationalized certain products and eliminated certain positions.

In fiscal 2011, in connection with the Fiscal 2010 Restructuring Plan, we recorded pre-tax expense totaling totaling $1.6 million related to these actions, of which, $1.4 million was recorded as restructuring expenses and $0.2 million was recorded in cost of revenues. In fiscal 2010, we recorded pre-tax expenses totaling $6.3 million related to these actions, of which, $5.4 million was recorded as restructuring expenses and $0.9 million was recorded in cost of revenues. These actions are intended to enhance profitability and increase operating efficiencies.

During the third quarter of fiscal 2009, we adopted a restructuring plan primarily focused on our international operations (the "Fiscal 2009 Restructuring Plan"). As part of this plan, we took actions to improve operations at our former Pieterlen, Switzerland manufacturing facility, rationalized certain products, recorded impairment charges for certain assets no longer used, and made targeted workforce reductions. We also consolidated our operations in Japan. These actions directly impacted approximately 100 employees worldwide. In fiscal 2010, we settled certain obligations related to the Fiscal 2009 Restructuring Plan for less then anticipated resulting in a reversal of $1.9 million in restructuring expenses, primarily due to the settlement of vendor supply and warehouse lease contracts for less than anticipated. We do not expect to incur significant additional expenses related to this plan.

During the fourth quarter of fiscal 2008, we adopted a restructuring plan primarily focused on our North American operations (the "Fiscal 2008 Restructuring Plan"). As part of this plan, we announced the closure of two sales offices, reduced the workforce in certain support functions, and rationalized certain products. These actions are intended to enhance profitability and improve efficiency by reducing ongoing operating costs. Across all of our reporting segments, approximately 90 employees, primarily located in North America, were directly impacted. We do not expect to incur any significant additional restructuring expenses related to this plan.

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

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

The following tables summarize our total restructuring charges for fiscal 2011 and fiscal 2010:

	Year Ended March 31, 2011		
(dollars in thousands)	Fiscal 2010 Restructuring Plan(1)	Fiscal 2008 Restructuring Plan	Total
Severance, payroll and other related costs	$454	$—	$454
Asset impairment and accelerated depreciation	559	(289)	270
Lease termination costs	595	—	595
Other	33	—	33
Total Restructuring Charges	$1,641	$(289)	$1,352

(1) Includes $0.2 million in charges recorded in cost of revenues on the Consolidated Statements of Income.

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

Other	426	138	564
Total Restructuring Charges	$6,295	$(1,901)	$4,394

(1) Includes $0.9 million in charges recorded in cost of revenues on the Consolidated Statements of Income.
(2) Includes a negative $1.4 million in charges recorded in cost of revenues on the Consolidated Statements of

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Income.

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

	Fiscal 2010 Restructuring Plan			
	March 31, 2010	Fiscal 2011 Provision	Payments/ Impairments	March 31, 2011
Severance and termination benefits	$1,894	$454	$(355)	$1,993
Asset impairments	—	559	(559)	—
Lease termination obligations	1,200	595	(5)	1,790
Other	509	33	(349)	193
Total	$3,603	$1,641	$(1,268)	$3,976

	Fiscal 2008 Restructuring Plan			
	March 31, 2010	Fiscal 2011 Provision	Payments/ Impairments	March 31, 2011
Severance and termination benefits	$102	$—	$(102)	$—
Asset impairments	289	(289)	—	—
Lease termination obligations	411	—	(254)	157
Total	$802	$(289)	$(356)	$157

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

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

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

Non-Operating Expenses, Net. Non-operating expense (income), net consists primarily of interest expense on debt, offset by interest earned on cash, cash equivalents, and short-term investment balances, and other miscellaneous income. The following table compares our non-operating expense (income), net for the year ended March 31, 2011 to the year ended March 31, 2010:

	Years Ended March 31,		
(dollars in thousands)	2011	2010	Change
Non-Operating Expenses:			
Interest expense	$12,000	$13,171	$(1,171)
Interest and miscellaneous income	(607)	(1,275)	668
Non-Operating Expenses, Net	$11,393	$11,896	$(503)

During fiscal 2011, interest expense decreased as compared to fiscal 2010 as a result of repayment of borrowings and higher capitalized interest. Interest and miscellaneous income decreased as compared to the same prior year period due to changes in net miscellaneous (income) expense that are not individually significant.
Additional information regarding our outstanding debt is included in note 7 to our consolidated financial statements titled, “Debt,” and in the subsection of MD&A titled, “Liquidity and Capital Resources.”
Income Tax Expense. The following table compares our income tax expense and effective income tax rates for the years ended March 31, 2011 and March 31, 2010:

	Years Ended March 31,		Change	Percent Change
(dollars in thousands)	2011	2010		
Income tax expense	$22,554	$63,349	$(40,795)	(64.4)%
Effective income tax rate	30.6 %	33.0 %		

The effective income tax rate for fiscal 2011 was 30.6% as compared to 33.0% for fiscal 2010. The effective tax rate in fiscal 2011 was impacted by the reduction in United States income as a result of the impact of the SYSTEM 1 Rebate Program and SYSTEM 1 class action settlement. The adjusted effective income tax rate for fiscal 2011, excluding the impact of these two items was 35.7% (see subsection of MD&A titled "Non-GAAP Financial Measures" for additional information and related reconciliation of non-GAAP financial measures to the most comparable GAAP measures.) The lower effective income tax rate for fiscal 2010 resulted principally from a favorable change in valuation allowances. Additional information regarding our income tax expense is included in note 9 to our consolidated financial statements titled, “Income Taxes.”

Business Segment Results of Operations. We operate in three reportable business segments: Healthcare, Life Sciences, and Isomedix. Corporate and other, which is presented separately, contains the Defense and Industrial business unit plus costs that are associated with being a publicly traded company and certain other corporate costs. These costs include executive office costs, Board of Directors compensation, shareholder services and investor relations, external audit fees, and legacy pension and post-retirement benefit costs. Note 12 to our consolidated financial statements titled “Business Segment Information,” and Item 1, “Business,” provide detailed information

regarding each business segment. The following table compares business segment revenues and Corporate and other for the year ended March 31, 2011 to the year ended March 31, 2010:

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(dollars in thousands)	Years Ended March 31, 2011	2010	Change	Percent Change
Revenues:				
Healthcare	$835,832	$892,474	$(56,642)	(6.3)%
Life Sciences	215,437	218,209	(2,772)	(1.3)%
Isomedix	152,242	140,871	11,371	8.1 %
Total Reportable Segments	1,203,511	1,251,554	(48,043)	(3.8)%
Corporate and other	3,937	6,179	(2,242)	(36.3)%
Total Revenues	$1,207,448	$1,257,733	$(50,285)	(4.0)%

Healthcare segment revenues decreased $56.6 million or 6.3%, to $835.8 million for the year ended March 31, 2011, as compared to $892.5 million for the prior fiscal year. Adjusted Healthcare segment revenues, excluding the impact of the SYSTEM 1 Rebate Program, were $938.1 million representing an increase of 5.1% over the prior year (see subsection of MD&A titled "Non-GAAP Financial Measures" for additional information and related reconciliation of non-GAAP financial measures to the most comparable GAAP measures.) The 5.1% increase in adjusted Healthcare revenues reflects growth in capital equipment revenues in the United States as well as in the European, Asia Pacific and Latin American regions. Approximately one-third of the increase is attributable to SYSTEM 1E shipments that occurred during the fourth quarter of fiscal 2011. Consumable and service revenues declined 4.8% and 2.4%, respectively, as a result of the impact of the SYSTEM 1 transition. At March 31, 2011, our Healthcare segment's backlog amounted to $138.6 million, as compared to $127.8 million at March 31, 2010. SYSTEM 1E related backlog was $21.3 million as of March 31, 2011.

Life Sciences segment revenues decreased $2.8 million, or 1.3%, to $215.4 million for the year ended March 31, 2011, as compared to $218.2 million for the prior fiscal year. Our Life Sciences segment fiscal 2011 revenues were favorably impacted by strong demand for our consumable products which grew 7.6%. The increase in consumable revenues combined with a 1.0% increase in service revenues was not enough to offset the decline in capital equipment revenues of 9.6%. The decline in Life Sciences capital equipment revenues occurred throughout key geographies but was most notable in the United States, reflecting low order levels during the first half of the fiscal year. The Asia Pacific region was the exception with growth of 75.7%. Revenues have been unfavorably impacted by consolidations within the industry limiting the order levels from our pharmaceutical Customers. At March 31, 2011, our Life Sciences segment's backlog amounted to $40.7 million, as compared to $41.8 million at March 31, 2010.

Isomedix segment revenues increased $11.4 million, or 8.1%, during fiscal 2011, as compared to fiscal 2010. The growth in revenues during fiscal 2011 is attributable to increased demand from our core medical device Customers.

The following table compares our business segments and Corporate and other operating results for the year ended March 31, 2011 to the year ended March 31, 2010:

(dollars in thousands)	Years Ended March 31, 2011	2010	Change	Percent Change
Operating Income:				
Healthcare	$21,317	$151,520	$(130,203)	(85.9)%
Life Sciences	33,069	30,952	2,117	6.8 %
Isomedix	39,833	31,103	8,730	28.1 %
Total Reportable Segments	94,219	213,575	(119,356)	(55.9)%
Corporate and other	(9,007)	(9,863)	856	(8.7)%
Total Operating Income	$85,212	$203,712	$(118,500)	(58.2)%

Segment operating income is calculated as the segment's gross profit less direct expenses and indirect cost allocations, which results in the full allocation of all distribution and research and development expenses, and the partial allocation of corporate costs. Corporate cost allocations are based on each segment's percentage of revenues, headcount, or other variables in relation to those of the total Company. In addition, the Healthcare segment is responsible for the

management of all but one manufacturing facility and uses standard cost to sell products to the Life Sciences segment. Corporate and other includes the gross profit and direct expenses of the Defense and Industrial business unit, as well as certain unallocated corporate costs related to being a publicly traded company and legacy pension and post-retirement benefits, as previously discussed.

Our Healthcare segment's operating income decreased $130.2 million, or 85.9%, to $21.3 million for the year ended

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March 31, 2011 from $151.5 million during the prior fiscal year. Adjusted fiscal 2011 Healthcare operating income, excluding the impact of the SYSTEM 1 Rebate Program and class action settlement, was $151.1 million reflecting a slight reduction from the prior year (see subsection of MD&A titled "Non-GAAP Financial Measures" for additional information and related reconciliation of non-GAAP financial measures to the most comparable GAAP measures.) The segment was negatively impacted by the decline in SYSTEM 1 sterilant volumes as well as higher sales related fees and commissions, increased legal, regulatory, and quality spending and higher insurance costs. The Healthcare segment's fiscal 2011 and fiscal 2010 operating margins include restructuring expenses of $1.0 million and $3.8 million, respectively. The fiscal 2010 operating margin includes $3.2 million in product modification expenses primarily associated with corrections made to certain of our surgical tables in the field.

Our Life Sciences segment's operating income increased $2.1 million, or 6.8%, to $33.1 million in fiscal 2011 from $31.0 million in fiscal 2010. Our Life Sciences segment's operating margins were 15.3% and 14.2%, respectively, for the years ended March 31, 2011 and March 31, 2010. The improvement was primarily driven by product mix and operating efficiencies. In fiscal 2011 and fiscal 2010, Life Sciences segment's operating income includes $0.2 million and $0.6 million, respectively, in restructuring expenses.

Our Isomedix segment's operating income increased $8.7 million, or 28.1%, to $39.8 million for the year ended March 31, 2011 as compared to $31.1 million during the prior fiscal year. Isomedix segment's operating margins were 26.2% and 22.1%, respectively, for the years ended March 31, 2011 and March 31, 2010. Restructuring expenses of $0.1 million are included in this segment's fiscal 2011 operating income.

LIQUIDITY AND CAPITAL RESOURCES

The following table summarizes significant components of our cash flows for the years ended March 31, 2012, 2011 and 2010:

	Years Ended March 31,		
(dollars in thousands)	2012	2011	2010
Operating Activities:			
Net income	$136,115	$51,265	$128,467
Non-cash items	88,854	31,433	69,414
Accrued SYSTEM 1 Rebate Program and class action settlement	(58,618)	127,683	—
Changes in operating assets and liabilities	(16,979)	(92,637)	27,073
Net Cash Provided by Operating Activities	$149,372	$117,744	$224,954
Investing Activities:			
Purchases of property, plant, equipment, and intangibles, net	$(66,682)	$(77,442)	$(44,087)
Proceeds from the sale of property, plant and equipment, and intangibles	42	1,301	3,105
Equity investments	—	(16,900)	(1,500)
Investments in business, net of cash acquired	$(34,635)	$(4,000)	$—
Net Cash Used in Investing Activities	$(101,275)	$(97,041)	$(42,482)
Financing Activities:			
Repurchases of common shares	(56,751)	(29,965)	(310)
Cash dividends paid to common shareholders	(38,560)	(33,228)	(144,017)
Stock option and other equity transactions, net	5,723	12,730	14,047
Tax benefit from stock options exercised	1,514	2,525	2,467
Net Cash Used in Financing Activities	$(88,074)	$(47,938)	$(127,813)
Debt-to-capital ratio	20.4%	21.1%	21.8%
Free cash flow	$82,732	$41,603	$183,972

Net Cash Provided by Operating Activities. The net cash provided by our operating activities was $149.4 million for the year ended March 31, 2012 compared to $117.7 million for the year ended March 31, 2011 and $225.0 million for the year ended March 31, 2010. The following discussion summarizes the significant changes in our operating cash flows:

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- Net cash provided by operating activities increased 26.9% in fiscal 2012 compared to fiscal 2011. The operating cash flow increase resulted primarily from higher net earnings adjusted for non-cash items (deprecation, depletion, and amortization, share-based compensation, deferred income taxes, the adjustment to the accrual for the SYSTEM 1 Rebate Program, and other non-cash items) and a lower use of cash to fund operating asset and liability changes. These increases in cash were partially offset by the use of cash to fund settlements of liabilities arising from the SYSTEM 1 Rebate Program and class action settlement.

- Net cash provided by operating activities decreased 47.7% in fiscal 2011 compared to fiscal 2010. Higher net earnings adjusted for non-cash items (deprecation, depletion, and amortization, share-based compensation, deferred income taxes, the establishment of accruals for the SYSTEM 1 Rebate Program and class action settlement, and other non-cash items) in fiscal 2011 were more than offset by a higher use of cash to fund operating asset and liability changes. Increases in accounts receivable and inventory in fiscal 2011 of $54.5 million and $42.2 million, respectively, consumed operating cash flow. Accounts receivable balances change from period to period due to the timing of revenues and Customer payments. The increase in inventory levels in fiscal 2011 primarily resulted from the increase in inventories associated with the SYSTEM 1E product.

Net Cash Used in Investing Activities. The net cash we used in investing activities totaled $101.3 million during fiscal 2012 compared to $97.0 million during fiscal 2011 and $42.5 million during fiscal 2010. The following discussion summarizes the significant changes in our investing cash flows for the years ended March 31, 2012, 2011 and 2010:

- Purchases of property, plant, equipment, and intangibles, net – Capital expenditures totaled $66.7 million during fiscal 2012, $77.4 million during fiscal 2011 and $44.1 million during fiscal 2010. Fiscal 2012 capital expenditures were lower than fiscal 2011 as consolidation projects in the United States and Europe were completed. Fiscal 2011 capital expenditures were higher than fiscal 2010 as a result of higher radioisotope purchases, the purchase of two previously leased Isomedix facilities totaling $8.4 million, and capital costs associated with the consolidation projects in the United States and Europe.

- Proceeds from the sale of property, plant, equipment, and intangibles – Fiscal 2012 and fiscal 2011 proceeds relate to minor disposals. Fiscal 2010 proceeds received were $3.1 million, including $2.2 million we received from the sale of assets associated with the Hausted product line within the Healthcare segment.

- Equity investments – During fiscal 2011, we invested $16.9 million in VTS Medical Systems Inc. designed to bring the latest high-definition video, touch-screen integration, and communication technology into hospital operating rooms. We invested $1.5 million in the same joint venture during fiscal 2010. We currently own just under 50% of this venture.

- Investment in business, net of cash acquired – During fiscal 2012, we used $34.6 million of cash to acquire two businesses. We acquired the stock of a privately held company with operations located near Sao Paulo, Brazil which designs and manufactures small, medium, and large sterilizers used by public hospitals, clinics, dental offices and industrial companies (e.g., research laboratories and pharmaceutical research and production companies). We also acquired the stock of a privately held company with lab operations in Minneapolis, Minnesota which provides validation services to our Customers and is a natural extension of our Isomedix segment. During fiscal 2011, we used $4.0 million of cash to acquire a company which provides management technology solutions designed to improve a hospital's perioperative process.

Net Cash Used in Financing Activities. The net cash we used in financing activities totaled $88.1 million in fiscal 2012, $47.9 million in fiscal 2011, and $127.8 million in fiscal in fiscal 2010. The following discussion summarizes the significant changes in our financing cash flows for the years ended March 31, 2012, 2011 and 2010:

- Proceeds from the issuance of long-term obligations – We issued no new debt during fiscal years 2012, 2011 and 2010. We provide additional information about our debt structure in note 7 to our consolidated financial statements titled, “Debt,” and in this section of the MD&A titled, “Liquidity and Capital Resources” in the subsection titled, “Sources of Credit.”

- Payments on long-term obligations and capital leases – We made no payments on long-term obligations or capital leases in fiscal years 2012, 2011, and 2010.
- (Payments) proceeds under credit facility, net – We made no payments or borrowed from our revolving credit facility during fiscal years 2012 and 2011. During fiscal 2010, we borrowed and repaid $100.0 million of debt under our revolving credit facility.
- Repurchases of common shares – During fiscal 2012, we paid for the repurchase of 1,851,510 common shares at an average purchase price of $30.21 and obtained common shares in connection with our stock-based compensation award programs in the amount of $0.8 million. During fiscal 2011, we paid for the repurchase of 925,848 common shares at an average purchase price of $31.82 and obtained common shares in connection with our stock-based compensation award programs in the amount of $0.5 million. During fiscal 2010, we obtained common shares in connection with our stock-

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based compensation award programs in the amount of $0.3 million. We did not repurchase any shares during fiscal 2010 under the authorization provided by our Board of Directors. We provide additional information about our common share repurchases in note 14 to our consolidated financial statements titled, “Repurchases of Common Shares.”

- Cash dividends paid to common shareholders – During fiscal 2012, we paid cash dividends totaling $38.6 million or $0.66 per outstanding common share. During fiscal 2011, we paid cash dividends totaling $33.2 million, or $0.56 per outstanding common share. During fiscal year 2010, we paid cash dividends of $144.0 million, or $2.44 per outstanding common share, including a special dividend of $2.00 per outstanding common share.
- Stock option and other equity transactions, net – We receive cash for issuing common shares under our various employee stock option programs. During fiscal 2012, fiscal 2011 and fiscal 2010, we received cash proceeds totaling $5.7 million $12.7 million, and $14.0 million, respectively, under these programs.
- Tax benefit from stock options exercised – For the years ended March 31, 2012, 2011 and 2010, our income taxes were reduced by $1.5 million, $2.5 million, and $2.5 million, respectively, as a result of deductions allowed for stock options exercised.

Cash Flow Measures. Free cash flow was $82.7 million and $41.6 million in fiscal 2012 and 2011, respectively (see subsection of MD&A titled "Non-GAAP Financial Measures" for additional information and related reconciliation of non-GAAP financial measures to the most comparable GAAP measures). Our free cash flow increased in fiscal 2012 as cash used to fund changes in operating assets and liabilities decreased compared to fiscal 2011. Lower capital expenditures in fiscal 2012 as compared to fiscal 2011 also contributed to the increase in free cash flow during fiscal 2012. Our debt-to-capital ratio was 20.4% at March 31, 2012 and 21.1% at March 31, 2011.

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

At March 31, 2012, approximately 71% of our consolidated cash and cash equivalents were held in locations outside of the United States. These funds are considered indefinitely reinvested to be used to expand operations either organically or through acquisitions outside the United States. We do not intend to repatriate any significant amounts of cash in the foreseeable future.

Sources of Credit. Our sources of credit as of March 31, 2012 are summarized in the following table:

(dollars in thousands)	Maximum Amounts Available	Reductions in Available Credit Facility for Other Financial Instruments	March 31, 2012 Amounts Outstanding	March 31, 2012 Amounts Available
Sources of Credit				
Private placement	$210,000	$—	$210,000	$—
Credit facility(1)	400,000	—	—	400,000
Total Sources of Credit	$610,000	$—	$210,000	$400,000

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

Our sources of funding from credit are summarized below:

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

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- On August 15, 2008, we issued $150.0 million in senior notes to certain institutional investors in a private placement that was not required to be registered with the SEC. We have used and will use the proceeds for general corporate purposes, including repayment of debt, capital expenditures, acquisitions, dividends, and share repurchases. The agreements related to these notes require us to maintain certain financial covenants, including limitations on debt and a minimum consolidated net worth requirement. Of the $150.0 million in outstanding notes, $30.0 million has a maturity of five years at an annual interest rate of 5.63%, another $85.0 million has a maturity of 10 years at an annual interest rate of 6.33%, and the remaining $35.0 million has a maturity of 12 years at an annual interest rate of 6.43%.

On September 13, 2007, we signed the Second Amended and Restated Credit Agreement (the “Former Credit Agreement”) with KeyBank National Association, as administrative agent for the lending institutions that are parties to the Former Credit Agreement (the “Former Agent”), and the lenders party to the Former Credit Agreement. This Former 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 Former Credit Agreement was to mature on September 13, 2012 and provided $400.0 million of credit, which could be increased by up to an additional $100.0 million in specified circumstances, for borrowings and letters of credit. The Former Credit Agreement provided a multi-currency borrowing option and could be used for general corporate purposes. At our option, loans could be borrowed on a floating or fixed rate basis. Floating rate loans bore interest at the greater of (1) the Prime Rate established by the

- Former Agent, or (2) the Federal Funds effective rate plus 0.50%, plus in each case a margin based on our leverage ratio. Fixed rate loans bore interest at the Eurodollar Rate or other defined currency rate, plus, in each case, a margin based on our leverage ratio. Interest was payable quarterly or at the end of the interest period, if shorter. The Former Credit Agreement also required the payment of a facility fee on the total facility commitment amount, which was determined based on our leverage ratio. We could prepay floating rate loans without paying a penalty, but we could be required to pay a penalty for prepaying fixed rate loans. The Former Credit Agreement also allowed us to make short-term swing loan borrowings not to exceed $35.0 million, with an interest rate equal to the Former Agent’s cost of funds plus a margin based on our leverage ratio. The Former Credit Agreement required us to maintain compliance with certain financial covenants, including a maximum leverage ratio and a minimum interest coverage ratio. Our obligations under the Former Credit Agreement were unsecured but guaranteed by our material domestic subsidiaries.

On April 13, 2012 we signed a Third Amended and Restated Credit Agreement (the "Credit Agreement") with KeyBank National Association, as administrative agent (“Agent”) for the lenders from time to time party thereto ("Lenders") and such Lenders. The Credit Agreement amended, restated and replaced the Former Credit Agreement. The Credit Agreement provides a $300.0 million credit facility (which may be increased by up to an additional $100.0 million in specified circumstances, and subject to certain Lender consent requirements) for borrowings and letters of credit, and will mature April 13, 2017. The aggregate unpaid principal amount of all borrowings, to the extent not previously repaid, is repayable on that date. Borrowings also are repayable at such other earlier times as may be required under or permitted by the terms of the Credit Agreement. Borrowings bear interest at floating rates based upon the Base Rate (as defined) or fixed rates based upon the Eurodollar Rate or Alternate Currency Rate (as defined), plus the Applicable Margin (as defined) in effect from time to time under the Credit Agreement based upon

- the Company's Leverage Ratio (as defined). Interest on floating rate loans is payable quarterly in arrears and interest on fixed rate loans is payable at the end of the relevant interest period therefor, but in no event less frequently than every three months. The Credit Agreement also requires the payment of a facility fee on the total facility commitment amount, which fee is determined based on the Company's Leverage Ratio. There is no premium or penalty for prepayment of floating rate loans but prepayments of fixed rate loans may be subject to a prepayment fee. The Credit Agreement also permits the Company to make short term "Swing Loan" borrowings from the Agent in an aggregate amount not to exceed $35.0 million outstanding at any time. Swing Loans bear interest at the Agent's cost of funds plus the applicable margin in effect from time to time. The Credit Agreement requires the Company to maintain compliance with certain financial covenants, including a maximum Leverage Ratio and a minimum Interest Coverage Ratio. The Company's obligations under the Credit Agreement are unsecured but guaranteed by its material domestic subsidiaries.

At March 31, 2012, we had $400.0 million of funding available from our $400.0 million Former Credit Agreement. The Former Credit Agreement included a sub-limit that reduced the maximum amount available to us by letters of credit outstanding. At March 31, 2012, there were no letters of credit outstanding.

At March 31, 2012, we were in compliance with all financial covenants associated with our indebtedness. We provide additional information regarding our debt structure and payment obligations in the section of the MD&A titled, “Liquidity and Capital Resources” in the subsection titled, “Contractual and Commercial Commitments” and in note 7 to our consolidated financial statements titled, “Debt.”

CAPITAL EXPENDITURES

Our capital expenditure program is a component of our long-term strategy. This program includes, among other things,

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investments in new and existing facilities, business expansion projects, radioisotope (cobalt-60) and information technology enhancements. During fiscal 2012, our capital expenditures amounted to $66.7 million. We use cash provided by operating activities and our cash and cash equivalent balances to fund capital expenditures. We expect fiscal 2013 capital expenditures to increase over fiscal 2012 levels due to increased investments in the Healthcare and Life Science businesses intended to improve efficiency and lower operating costs; and expansion projects in the Isomedix business.

CONTRACTUAL AND COMMERCIAL COMMITMENTS

At March 31, 2012, we had commitments under non-cancelable operating leases totaling $48.2 million.

Our contractual obligations and commercial commitments as of March 31, 2012 are presented in the following tables. Commercial commitments include standby letters of credit, letters of credit required as security under our self-insured risk retention policies, and other potential cash outflows resulting from events that require us to fulfill commitments.

	Payments due by March 31,					
(in thousands)	2013	2014	2015	2016	2017 and thereafter	Total
Contractual Obligations:						
Debt	$—	$70,000	$—	$20,000	$120,000	$210,000
Operating leases	15,044	12,172	9,840	6,354	4,778	48,188
Purchase obligations	14,677	12,763				27,440
Contributions to defined benefit pension plans	2,595	—	—	—	—	2,595
Benefit payments under defined benefit plans	4,345	4,347	4,148	4,132	23,519	40,491
Trust assets available for benefit payments under defined benefit plans	(4,345)	(4,347)	(4,148)	(4,132)	(23,519)	(40,491)
Benefit payments under other post-retirement welfare benefit plans	3,040	2,850	2,623	2,411	9,146	20,070
Unrecognized tax benefits	—	—	—	—	—	1,527
Other obligations	433	162	165	167	—	927
Total Contractual Obligations	$35,789	$97,947	$12,628	$28,932	$133,924	$310,747

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

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

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

The table above includes total unrecognized tax benefits of $1.5 million. Due to the high degree of uncertainty regarding the timing of future cash outflows associated with these tax positions, we are unable to estimate when cash settlements may occur.

	Amount of Commitment Expiring March 31,					
(in thousands)	2013	2014	2015	2016	2017 & Beyond	Totals
Commercial Commitments:						

Performance and surety bonds	$24,078	$6,050	$139	$11	$1,725	$32,003
Letters of credit as security for self-insured risk retention policies	6,261	—	—	—	—	6,261
Total Commercial Commitments	$30,339	$6,050	$139	$11	$1,725	$38,264

CRITICAL ACCOUNTING POLICIES, ESTIMATES, AND ASSUMPTIONS

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

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

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

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

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

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

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

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

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

Inventories and Reserves. Inventories are stated at the lower of their cost or market value. We determine cost based upon a combination of the last-in, first-out ("LIFO") and first-in, first-out ("FIFO") cost methods. We determine the LIFO inventory value at the end of the year based on inventory levels and costs at that time. For inventories valued using the LIFO method, we believe that the use of the LIFO method results in a matching of current costs and revenues. Inventories valued using the LIFO method represented approximately 37.7% and 37.3% of total inventories at March 31, 2012 and 2011, respectively. Inventory costs include material, labor, and overhead. If we had used only the FIFO method of inventory costing, inventories would have been $18.2 million and $17.6 million higher than those reported at March 31, 2012 and 2011, respectively.

We review the net realizable value of inventory on an ongoing basis, considering factors such as deterioration, obsolescence, and other items. We record an allowance for estimated losses when the facts and circumstances indicate

that particular inventories will not be usable. If future market conditions vary from those projected, and our estimates prove to be inaccurate, we may be required to write-down inventory values and record an adjustment to cost of revenues.

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

When we evaluate assets for impairment, we make certain judgments and estimates, including interpreting current

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economic indicators and market valuations, evaluating our strategic plans with regards to operations, historical and anticipated performance of operations, and other factors. If we incorrectly anticipate these factors, or unexpected events occur, our operating results could be materially affected.

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

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

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

We evaluate the recoverability of recorded goodwill amounts annually, or when evidence of potential impairment exists. We have early-adopted the provisions of accounting standards update titled "Intangibles - Goodwill and Other: Testing Goodwill for Impairment," which permits us to consider qualitative indicators of the fair value of a reporting unit when it is unlikely that a reporting unit has impaired goodwill. We may also utilize a discounted cash flow analysis that requires certain assumptions and estimates be made regarding market conditions and our future profitability. In those circumstances we test goodwill for impairment by reviewing the book value compared to the fair value at the reporting unit level. We calculate the fair value of our reporting units based on the present value of estimated future cash flows. Considerable management judgment is necessary to evaluate the impact of operating and macroeconomic changes and to estimate future cash flows to measure fair value. Assumptions used in our impairment evaluations, such as forecasted growth rates and cost of capital, are consistent with internal projections and operating plans. We believe such assumptions and estimates are also comparable to those that would be used by other marketplace participants.

We performed our annual goodwill impairment evaluation as of October 31, 2011. As a result of this evaluation, we determined that there was no impairment of the recorded goodwill amounts.

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

We evaluate our tax positions using the recognition threshold and measurement attribute in accordance with current accounting guidance. We determine whether it is more-likely-than-not that a tax position will be sustained upon examination, including resolution of related appeals or litigation processes, based on the technical merits of the position. In evaluating whether a tax position has met the more-likely-than-not recognition threshold, we presume that the position will be examined by the appropriate taxing authority and that the taxing authority will have full knowledge of all relevant information. A tax position that meets the more-likely-than-not recognition threshold is measured at the largest amount of benefit that is greater than 50 percent likely of being realized upon ultimate settlement. The appropriate unit of account for determining what constitutes an individual tax position, and whether

the more-likely-than-not recognition threshold is met for a tax position, is a matter of judgment based on the individual facts and circumstances of that position evaluated in light of all available evidence. We review and adjust our tax estimates periodically because of ongoing examinations by and settlements with the various taxing authorities, as well as changes in tax laws, regulations and precedent.

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

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which would increase our effective income tax rate and could result in an adverse impact on our consolidated financial position, results of operations, or cash flows.

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

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

SYSTEM 1 Rebate Program. The Accrued SYSTEM 1 Rebate Program (the "Rebate Program"), initially recognized during the first quarter of fiscal 2011, is based upon the quantity of SYSTEM 1 processors eligible for rebates and the estimated value of rebates to be provided upon their return. The rebate portion of the Rebate Program is recognized as contra-revenue consistent with other returns and allowances offered to Customers. The estimated costs to facilitate the disposal of the returned SYSTEM 1 processors is recognized as cost of revenues. Both components are recorded as current liabilities. The key assumptions involved in the estimates associated with the Rebate Program included: the number and age of SYSTEM 1 processors eligible for rebates under the Rebate Program, the number of Customers that would elect to participate in the Rebate Program, the proportion of Customers that would choose each rebate option, and the estimated per unit costs of disposal.

The number and age of SYSTEM 1 processors was estimated based on our historical sales and service records and we initially assumed that 100% of eligible Customers would elect to participate in the Rebate Program. As of March 31, 2012, based upon actual experience to date, we estimate that approximately 83% of eligible Customers will ultimately elect to participate in the Rebate Program. In order to estimate the portion of Customers that will choose each available rebate option, we first assessed trends in sales of the proprietary consumable products utilized in the SYSTEM 1 processor. Order and quote data for fiscal 2011 and fiscal 2012 provide indications of the proportion of Customers that are expected to choose each of the other rebate options. The per unit costs associated with disposal are estimated based on the service hours involved and existing freight and disposal contracts.

Self-Insurance Liabilities. We record a liability for self-insured risks that we retain for general and product liabilities, workers' compensation, and automobile liabilities based on actuarial calculations. We use our historical loss experience and actuarial methods to calculate the estimated liability. This liability includes estimated amounts for both losses and incurred but not reported claims. We review the assumptions used to calculate the estimated liability at least annually to evaluate the adequacy of the amount recorded. We maintain insurance policies to cover losses greater than our estimated liability, which are subject to the terms and conditions of those policies. Our accrual for self-insured risk retention as of March 31, 2012 and 2011 was $10.8 million and $13.0 million, respectively.

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

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

Warranty Reserves. We generally offer a limited one-year parts and labor warranty on our capital equipment. The specific terms and conditions of warranties may vary depending on the product sold and the country where we conduct business. We record a liability for the estimated cost of product warranties in the period revenues are recognized. We estimate warranty expenses based primarily on historical warranty claim experience. While we have extensive quality programs and processes and actively monitor and evaluate the quality of suppliers, actual warranty experience could be different from our estimates. If actual product failure rates, material usage, or service costs are different from our estimates, we may have to record an adjustment to the estimated warranty liability. As of March 31, 2012 and 2011, we had accrued $11.2 million and $7.5 million, respectively, for warranty exposures.

Contingencies. We are, and will likely continue to be, involved in a number of legal proceedings, government investigations, and claims, which we believe generally arise in the course of our business, given our size, history, complexity, and the nature of our business, products, Customers, regulatory environment, and industries in which we

participate. These legal proceedings, investigations and claims generally involve a variety of legal theories and allegations, including, without limitation, personal injury (e.g., slip and falls, burns, vehicle accidents), product liability or regulation (e.g., based on product operation or claimed malfunction, failure to warn, failure to meet specification, or failure to comply with regulatory requirements), product exposure (e.g., claimed exposure to chemicals, asbestos, contaminants, radiation), property damage (e.g., claimed damage due to leaking equipment, fire, vehicles, chemicals), commercial claims (e.g., breach of contract, economic loss, warranty, misrepresentation), financial (e.g., taxes, reporting), employment (e.g., wrongful termination, discrimination, benefits matters), and other claims for damage and relief.

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We record a liability for such contingencies to the extent we conclude that their occurrence is both probable and estimable. We consider many factors in making these assessments, including the professional judgment of experienced members of management and our legal counsel. We have made estimates as to the likelihood of unfavorable outcomes and the amounts of such potential losses. In our opinion, the ultimate outcome of these proceedings and claims is not anticipated to have a material adverse affect on our consolidated financial position, results of operations, or cash flows. However, the ultimate outcome of proceedings, government investigations, and claims is unpredictable and actual results could be materially different from our estimates. We record expected recoveries under applicable insurance contracts when we are assured of recovery. Refer to Part I, Item 3, “Legal Proceedings” for additional information.

We are subject to taxation from United States federal, state and local, and foreign jurisdictions. Tax positions are settled primarily through the completion of audits within each individual tax jurisdiction or the closing of a statute of limitation. Changes in applicable tax law or other events may also require us to revise past estimates. The IRS routinely conducts audits of our federal income tax returns. In the second quarter of fiscal 2012, we reached a settlement with the IRS on all material tax matters for fiscal 2008 through fiscal 2009. In the third quarter of fiscal 2012, the IRS began its audit of fiscal 2010 through fiscal 2011. In addition, we are participating in the Compliance Assurance Process (CAP) with the IRS for the fiscal 2012 and 2013 tax years. We remain subject to tax authority audits in various other jurisdictions in which we operate. If we prevail in matters for which accruals have been recorded, or are required to pay amounts in excess of recorded accruals, our effective income tax rate in a given financial statement period could be materially impacted.

Additional information regarding our commitments and contingencies is included in note 11 to our consolidated financial statements titled, “Commitments and Contingencies.”

Benefit Plans. We provide defined benefit pension plans for certain current and former manufacturing and plant administrative personnel throughout the world as determined by collective bargaining agreements or employee benefit standards set at the time of acquisition of certain businesses. As of March 31, 2012, we sponsored defined benefit pension plans for eligible participants in the United States and Switzerland. In addition, as of March 31, 2012, we sponsored an unfunded post-retirement welfare benefits plan for two groups of United States retirees, including the same retirees who receive pension benefits under the United States defined benefit pension plan. Benefits under this plan include retiree life insurance and retiree medical insurance, including prescription drug coverage.

Employee pension and post-retirement welfare benefits plans are a significant cost of conducting business and represent obligations that will be settled far in the future and therefore, require us to use estimates and make certain assumptions to calculate the expense and liabilities related to the plans. Changes to these estimates and assumptions can result in different expense and liability amounts. Future actual experience may be significantly different from our current expectations. We believe that the most critical assumptions used to determine net periodic benefit costs and projected benefit obligations are the expected long-term rate of return on plan assets and the discount rate. A summary of significant assumptions used to determine the March 31, 2012 projected benefit obligations and the fiscal 2012 net periodic benefit costs is as follows:

	Defined Benefit Pension Plans		
	U.S. Qualified	International	Other Post-Retirement Plan
Funding Status	Funded	Funded	Unfunded
Assumptions used to determine March 31, 2012			