

STERIS CORP  
Form 10-K  
May 30, 2013  
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United States Securities and Exchange Commission  
Washington, D. C. 20549

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FORM 10-K

Annual Report Pursuant to Section 13 OR 15(d) of The Securities Exchange Act of 1934  
For the fiscal year ended March 31, 2013

OR

Transition Report Pursuant to Section 13 OR 15(d) of The Securities Exchange Act of 1934

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission file number 1-14643

STERIS Corporation

(Exact name of registrant as specified in its charter)

Ohio 34-1482024  
(State or other jurisdiction of incorporation or organization) (IRS Employer Identification No.)

5960 Heisley Road, 44060-1834 440-354-2600  
Mentor, Ohio (Zip Code) (Registrant's telephone number including area code)  
(Address of principal executive offices)

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  No

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  No

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted 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  No

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.

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.

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Large Accelerated Filer

Accelerated Filer

Non-Accelerated Filer

Smaller Reporting Company

(Do not check if a smaller reporting company)

Indicate by check mark whether the Registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes  No

The 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 28, 2012: 1,995,804,643

The number of Common Shares outstanding as of May 24, 2013: 58,945,494

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Proxy Statement for the 2013 Annual Meeting – Part III

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### PART I

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 2013 ended on March 31, 2013.

### ITEM 1. BUSINESS

#### INTRODUCTION

STERIS Corporation is a leading provider of infection prevention and other procedural 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, and connectivity solutions such as operating room (“OR”) integration; consumable products, such as detergents and skin care products, gastrointestinal (“GI”) endoscopy accessories, and other products; services, including equipment installation and maintenance; and microbial reduction of medical devices, instrument and scope repair solutions, and laboratory testing services.

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 6,000 employees worldwide and operate in more than 60 countries. We have a direct sales force of approximately 600 and a service organization of approximately 1,350 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 make a difference for our Customers and their patients by providing innovative surgical, sterile processing, infection prevention and gastrointestinal solutions. 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 gamma 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 2013, 2012, and 2011 is presented in note 12 to our Consolidated Financial Statements titled, “Business Segment

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Information” and in Item 7 titled, “Management’s Discussion and Analysis of Financial Condition and Results of Operations” (“MD&A”), of this Annual Report.

### HEALTHCARE SEGMENT

**Description of Business.** Our Healthcare segment manufactures and sells capital equipment, accessory, consumable, information support and service solutions to healthcare providers, including acute care hospitals and surgery and gastrointestinal (“GI”) 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 perioperative 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.

• Gastrointestinal endoscopy accessories for a variety of GI procedure areas including bleed management and procedure irrigation, foreign body retrieval, polypectomy, and tissue acquisition.

• Connectivity solutions such as operating room (“OR”) integration, OR and sterile processing department (“SPD”) 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 1E®, Amsco®, Hamo®, Reliance®, Cmax®, Harmony®, Kindest Kare®, Alcare®, Verify®, Cal Stat®, and Roth Net®.

**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 offer remote equipment monitoring technology to anticipate potential failure modes and take corrective action thereby improving Customers’ equipment uptime. We offer comprehensive instrument and scope repair solutions to Customers, either on site or at one of our dedicated repair facilities. These solutions extend instrument and scope life and reduce Customer’s replacement costs. Finally, 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. These solutions also include 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, 2013, 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 3M, Belimed, Berchtold, Cantel Medical, Ecolab, Getinge, Go Jo, Johnson & Johnson, Kimberly-Clark, Skytron, and Stryker.



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### 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, 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<sup>®</sup>, Reliance<sup>®</sup>, Finn-Aqua<sup>®</sup>, VHP<sup>®</sup>, and the CIP<sup>®</sup> 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, 2013, 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 19 facilities located in North America. We sell a comprehensive array of contract processing services using gamma irradiation (“Gamma”) and ethylene oxide (“EO”) technologies as well as an array of laboratory testing services. 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 provide a wide range of processing services at our facilities. Gamma is an irradiation process which utilizes cobalt-60. EO is a gaseous process. In addition, we offer an array of laboratory testing services that complements the manufacturing of terminally sterilized products. 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 surgical 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's services are offered to Customers throughout the footprint of its North American network. For the year ended March 31, 2013, 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.

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Competition. Isomedix operates in a highly regulated industry and competes in North America with Sterigenics International, Inc., and 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 problems in fiscal 2014. 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, 2013, we held 328 United States patents and 823 foreign patents and had 82 United States patent applications and 282 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, 2013, we had a total of 1,123 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, 2013, 2012, and 2011, research and development expenses were \$41.3 million, \$36.0 million, and \$34.3 million, respectively. We incurred these expenses primarily for the research and development of commercial products.

We are focused on introducing products that increase efficiencies for our Customers, and in fact recently launched several new products. Those include our iQ 3600 OR integration system, a new line of steam sterilizers, CS-iQ<sup>®</sup> workflow management software, the AMSCO<sup>®</sup> 2500 washer, the OT 1000 series orthopedic surgical table, and an ultraviolet surface disinfection system.

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."

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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 Consent Decree,” and “Risk Factors, Compliance with the Consent Decree may be more costly and burdensome than anticipated.” and see also 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, there can be no assurance 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. Please refer to 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 continued 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, 2013, we had approximately 6,000 employees throughout the world. We believe we have good relations with our employees.

**Methods of Distribution.** As of March 31, 2013, we employed approximately 1,500 direct field sales and service representatives within the United States and approximately 450 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.

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International Operations. We believe we have opportunity to expand internationally, as we currently 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 43%, 22%, 22%, and 13%, respectively, of our total international revenues for the year ended March 31, 2013.

Also see note 12 to our Consolidated Financial Statements titled, “Business Segment Information,” and Item 7, “MD&A”, for a geographic presentation of our revenues for the three years ended March 31, 2013, 2012 and 2011.

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 2013, revenues were unfavorably impacted by \$8.2 million, or 0.5%, and income before taxes was favorably impacted by \$4.3 million, or 1.9%, 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, 2013, we had a backlog of \$153.6 million. Of this amount, \$105.2 million and \$48.4 million related to our Healthcare and Life Sciences segments, respectively. At March 31, 2012, we had backlog orders of \$152.6 million. Of this amount \$102.5 million and \$50.1 million related to our Healthcare and Life Sciences segments, respectively. A significant portion of the backlog orders at March 31, 2013, 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, as well as other SEC filings related to the Company, 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 Committee, the Compensation Committee, the Nominating and 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	59	Vice President and Corporate Treasurer
Dr. Peter A. Burke	64	Senior Vice President and Chief Technology Officer
Timothy L. Chapman	51	Senior Vice President and Group President, Healthcare
Suzanne V. Forsythe	59	Vice President-Human Resources
David A. Johnson	51	Senior Vice President, Global Operations and Quality
Mark D. McGinley	56	Senior Vice President, General Counsel, and Secretary
Robert E. Moss	68	Senior Vice President and Group President, STERIS Isomedix Services and Life Sciences

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Walter M Rosebrough, Jr.      59      President and Chief Executive Officer  
Michael J. Tokich              44      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.

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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.

Suzanne V. Forsythe serves as Vice President-Human Resources. She assumed this role in August 2011. She served as Senior Director, Human Resources from April 2008 through August 2011.

David A. Johnson serves as Senior Vice President, Global Operations and Quality. He assumed this role in July 2012. From April 2010 to July 2012 he served as Vice President, Global Operations and Continuous Improvement. From 2007 to April 2010 he served as Vice President Global Operations and Supply Chain at ConMed Corp., a global medical technology company specializing in the development and sale of surgical and patient monitoring products and services.

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, 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 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, any 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 and the values of liabilities are determined on the basis of interest rates, 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.

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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 and 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. 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 time how this situation may develop, should the current conditions continue or worsen our business, performance, prospects, value, financial condition, bad debt expense 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.

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-60, 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-60 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;

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- utility or other mechanical failures;
- 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 tax 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 initiated by competitive pressures as well as legislators, regulators and third-party payors. In an effort to attract Customers,

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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 also may occur as a result of recent healthcare legislation and economic conditions. A loss of Customers or more significant pricing pressure also 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 will have a material impact on our profitability in the range of \$8.0 million to \$10.0 million. 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 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 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

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FDA and us, a consent decree was agreed upon and approved by the Federal District Court for the Northern District of Ohio on 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 and the provision of service, parts, accessories and sterilant for the processor to U.S. Customers. 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.

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.

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 at a minimum through April, 2015, 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. In fiscal 2013 we consummated three such acquisitions: United States Endoscopy Group, Inc., Spectrum Surgical Instruments Corp., and Total Repair Express, as well as buying out the interest of our joint venture partner in VTS Medical Systems, LLC. Our success will also depend on our ability to integrate the businesses acquired, retain key personnel and otherwise execute our strategies. Our success will also depend on our ability 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;

- 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;

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risks associated with the assumption of contingent or other liabilities of acquisition targets or retention of liabilities for divested businesses; and  
•difficulties in obtaining 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.

If our continuing efforts to create a Lean business and in-source production to reduce costs are not successful, our profitability may be hurt or our business otherwise might be adversely affected.

We have undertaken various activities to create a Lean business. One of those activities is in-sourcing. We have major projects underway to in-source production that is currently provided by third parties. We have made capital investments during fiscal 2013 on these projects, and anticipate additional investments in fiscal 2014. We expect to begin seeing meaningful savings in aggregate in fiscal 2015. However, these activities may not produce the full efficiencies and cost reduction benefits that we expect or efficiencies and benefits might be delayed. Implementation costs also might exceed expectations. If these in-sourcing or other Lean activities are not properly implemented or are unsuccessful, we might experience business disruptions or our business might be adversely affected.

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. 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.

### 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, 2013. 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.

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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 (10 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	
	U.S.	Research and Development	Owned	
	U.S.	Lobby, Showroom and Customer Service	Owned	
	U.S.	Education Center	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	
Minneapolis, MN (2 locations)	U.S.	Contract Sterilization	Leased	
St. Louis, MO	U.S.	Warehousing/Distribution	Leased	
Reno, NV	U.S.	Warehousing	Leased	
Mentor, OH (2 locations)	U.S.	Administrative Offices	Leased	
Pittsburgh, PA	U.S.	Sales Office	Leased	
Stow, OH (2 locations)	U.S.	Sales/Administration Offices	Leased	
Hillsborough, NJ	U.S.	Sales/Administration Offices	Leased	
Lake Orion, MI	U.S.	Sales/Administration Offices	Leased	
Keller, TX	U.S.	Sales/Administration Offices	Leased	
Haywood, CA	U.S.	Sales/Administration Offices	Leased	
Houston, TX	U.S.	Sales/Administration Offices	Leased	





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

Location	U.S./INTL	Use	Owned/Leased
Costa Mesa, CA	U.S.	Sales/Administration Offices	Leased
Timonium, MD	U.S.	Sales/Administration Offices	Leased
Montgomery Village, MD	U.S.	Sales/Administration Offices	Leased
Melville, NY	U.S.	Sales/Administration Offices	Leased
Santa Clara, CA	U.S.	Sales Office	Leased
Berchem, Belgium	INTL	Sales Office	Leased
Brussels, Belgium	INTL	Sales/Administration Offices	Leased
Sao Paulo, Brazil	INTL	Sales Office	Leased
Mississauga, Canada	INTL	Sales Office/Warehousing	Leased
Beijing, China	INTL	Sales Office	Leased
Guangzhou, China	INTL	Sales/Administration Offices/ Assembly	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
Orleans, France	INTL	Showroom	Leased
Saint Jean d'illac, France	INTL	Warehousing	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

## 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.

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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.

After ongoing discussions with the FDA, in April 2010 we reached agreement with the FDA on the terms of a consent decree (“Consent Decree”). On April 19, 2010, a Complaint and Consent Decree were filed in the U.S. District Court for the Northern District of Ohio, and on April 20, 2010, the Court approved the Consent Decree. In general, the Consent Decree addresses regulatory matters regarding SYSTEM 1, restricts further sales of SYSTEM 1 processors in the U.S., defines certain documentation and 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 provided the terms under which we temporarily continued 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 (the “Transition Plan”), which included the “SYSTEM 1 Rebate Program” (the “Rebate Program”). In April 2010, we began to offer rebates in the form of cash or future purchase credits to 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 returned their units. In addition, we provided 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 Rebate Program ended August 2, 2012. The costs associated with the Rebate Program were lower than originally estimated because fewer Customers elected to participate in the Rebate Program than anticipated.

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 3 and in various portions of Item 1A.

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.

On May 31, 2012, our Albert Browne Limited subsidiary received a warning letter from the FDA regarding chemical indicators manufactured in the United Kingdom. These devices are intended for the monitoring of certain sterilization and other processes. The FDA warning letter states that the agency has concerns regarding operational business processes. We do not believe that the FDA's concerns are related to product performance, or that they result from Customer complaints. We have reviewed our processes with the agency and finalized our remediation measures, and are awaiting FDA reinspection. We do not currently believe that the impact of this event will have a material adverse effect on our financial results.

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 our Annual Report on Form 10-K for the fiscal year ended March 31, 2013: “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 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.

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Additional information regarding our commitments and contingencies is included in Item 7, "MD&A" and in note 11 to our consolidated financial statements titled, "Commitments and Contingencies".

ITEM 4. MINE SAFETY DISCLOSURES

None.

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## PART II

ITEM MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED SHAREHOLDER MATTERS AND  
5. 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 2013				
High	\$41.76	\$ 37.18	\$ 36.33	\$31.83
Low	34.80	32.23	29.91	28.77
Fiscal 2012				
High	\$32.38	\$ 32.68	\$ 36.76	\$36.57
Low	27.70	27.08	27.66	33.14

Holders. As of March 31, 2013, there were approximately 1,302 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 2013, we paid cash dividends totaling \$0.74 per outstanding common share (\$0.17 per outstanding common share to common shareholders of record on June 5, 2012, and \$0.19 per outstanding common share to common shareholders of record on the following dates: August 23, 2012, November 21, 2012 and February 27, 2013). 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 07, 2011 and \$0.17 per outstanding common share to common shareholders of record on each of the following record dates: August 23, 2011, November 23, 2011, and February 28, 2012).

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 2013 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 (2) Shares that May Yet Be Purchased Under the Plans at Period End
January 1-31	—	\$ —	—	\$111,630
February 1-28	—	—	—	111,630
March 1-31	—	—	—	111,630
Total	—	(1) \$ —	(1) —	\$111,630

Does not include 76 shares purchased during the quarter at an average price of \$38.55 per share by the STERIS (1) Corporation 401(k) Plan on behalf of certain executive officers of the Company who may be deemed to be affiliated purchasers.

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, 2013, \$111.6 million remained authorized for repurchase of our (2) 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 2013 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

(in thousands, except per share data)	Years Ended March 31,				
	2013(1)(2)	2012(1)(2)	2011(1)(2)	2010(1)	2009(1)
Statements of Income Data:					
Revenues	\$1,501,902	\$1,406,810	\$1,207,448	\$1,257,733	\$1,298,525
Gross profit	621,263	568,465	446,162	539,181	526,742
Restructuring expenses	(565	) 644	1,202	4,848	3,554
Income from continuing operations	242,829	222,316	85,212	203,712	175,445
Income taxes	67,121	74,993	22,554	63,349	55,800
Net income	\$159,977	\$136,115	\$51,265	\$128,467	\$110,685
Basic income per common share:					
Net income	\$2.74	\$2.33	\$0.86	\$2.18	\$1.88
Shares used in computing net income per common share – basic	58,305	58,367	59,306	58,826	58,778
Diluted income per common share:					
Net income	\$2.72	\$2.31	\$0.85	\$2.16	\$1.86
Shares used in computing net income per common share – diluted	58,844	58,963	60,148	59,423	59,448
Dividends per common share	\$0.74	\$0.66	\$0.56	\$2.44	\$0.30
Balance Sheets Data:					
Working capital	\$395,103	\$373,488	\$361,060	\$379,328	\$351,104
Total assets	1,761,109	1,405,696	1,426,685	1,238,402	1,216,939
Long-term indebtedness	492,290	210,000	210,000	210,000	210,000
Total liabilities	814,129	583,032	638,020	483,908	498,774
Total shareholders' equity	944,942	821,401	787,569	753,714	717,736

(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 2013, 2012 and 2011, 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 consumable and capital equipment products.

Service Revenues – We define service revenues as revenues generated from parts and labor associated with the maintenance, repair, and installation of our capital equipment, instrument repair services, and revenues generated from contract sterilization offered through our Isomedix segment.

Capital Revenues – We define capital revenues as revenues generated from sales of capital equipment, which includes steam sterilizers, low temperature liquid chemical sterilant processing systems, including SYSTEM 1 and 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 1E consumables, V-Pro consumables, gastrointestinal endoscopy accessories, sterility assurance products, skin care products, cleaning consumables, and surgical instruments.

Recurring Revenues – We define recurring revenues as revenues generated from sales of consumable products and service revenues.

## GENERAL OVERVIEW AND EXECUTIVE SUMMARY

**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. The aging population increases the demand for medical procedures, which increases the consumption of single use medical devices and surgical kits processed by our Isomedix segment.

We are actively pursuing opportunities to meet the changing needs of the global marketplace.

**Highlights.** We completed the transition from SYSTEM 1 and continued to invest in new products and in quality processes to defend and grow our core business. Simultaneously, we continued the execution of our strategy to expand into adjacent markets with acquisitions in the Healthcare segment. In August 2012, we purchased United States Endoscopy Group (“US Endoscopy”), a leader in the design, manufacture and sale of therapeutic and diagnostic medical devices and support accessories used in the gastrointestinal (GI) endoscopy markets worldwide. In October 2012, we acquired Spectrum Surgical Instruments Corp (“Spectrum”) and Total Repair Express (“TRE”), providers of surgical instrument repair services and instrument care products to hospitals and surgery centers in the United States. And in December 2012, we purchased the remaining interest in our OR integration joint venture, VTS Medical Systems, LLC.

Revenues increased \$95.1 million, or 6.8%, to \$1,501.9 million for the year ended March 31, 2013, as compared to \$1,406.8 million for the year ended March 31, 2012. The fiscal 2013 and fiscal 2012 periods were impacted by the SYSTEM 1 Rebate Program adjustments of \$22.4 million and \$15.3 million, respectively. Adjusted revenues for fiscal 2013, excluding the impact of the SYSTEM 1 Rebate Program, increased \$88.0 million, or 6.3%, to \$1,479.5 million reflecting growth in all three business segments (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). Reported and adjusted revenues for fiscal 2013 include \$86.5 million from acquisitions.

Fiscal 2013 operating income was \$242.8 million, an increase of 9.2% over the fiscal 2012 operating income of \$222.3 million. The primary drivers of the increase in operating income were the positive impact of the \$23.6 million SYSTEM 1 Rebate Program adjustments recorded during fiscal 2013 and the \$16.8 million SYSTEM 1 class action settlement adjustments recorded during fiscal 2013. Excluding the SYSTEM 1 Rebate Program and class action settlement adjustments made in fiscal 2013, adjusted operating income during fiscal 2013 was \$202.4 million, a decrease of 1.2% compared to \$204.9 million for 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). The slight decline from last year was due primarily to the cost associated with our annual incentive compensation plan and the negative impact of the Medical Device Excise Tax.

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Cash flows from operations were \$227.8 million and free cash flow was \$140.4 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). As a result of the acquisition activity, we increased our leverage, issuing \$200 million in private placement debt towards the end of the year, as well as borrowing on our revolving credit facility. Even with this additional leverage, we continue to maintain comfortable debt levels with debt-to-total capital of 34.3% at March 31, 2013. We substantially improved our working capital management, resulting in free cash flow in excess of our expectations for the year. In addition, we increased our dividend double digits for the seventh consecutive year to \$0.19 per share per quarter.

Outlook. Since the first of our fiscal 2013 acquisitions did not close until the middle of the second quarter in fiscal 2013, we will naturally have stronger top-line growth rates in the first half of fiscal 2014. Fluctuations in foreign currency rates can impact revenues and costs outside of the United States, creating variability in our results for fiscal 2014 and beyond.

In fiscal 2014 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 free cash flow, and will use both to grow the business. We plan to continue our efforts to in-source some of the production that we have traditionally out-sourced. We have come far enough with our Lean approach that we expect to utilize the capacity we have created to shorten the supply chain and produce components in-house.

## 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 were current users of SYSTEM 1 and who returned their units had 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 provided credits for SYSTEM 1 service contracts and consumables in unbroken packaging.

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 was attributable to the Customer Rebate portion of the Program and was recorded as a reduction to revenue, and \$7.7 million was attributable to the disposal liability of the SYSTEM 1 units to be returned and was recorded in cost of revenues.

During fiscal 2012, based on the actual experience, we adjusted a portion of the original estimated liability related to the 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 resulted primarily from a decrease in the estimated number of eligible Customers that would ultimately participate in the Rebate Program.

During fiscal 2013, we further adjusted the liability related to the Rebate Program. The total pre-tax adjustments amounted to \$23.7 million, of which \$22.4 million was recorded as increases to revenue for the Customer rebate portion, and \$1.3 million was recorded as reductions to cost of revenues related to the disposal portion of the liability. These adjustments resulted primarily from a lower number of eligible Customers electing to participate in the Rebate Program than previously estimated. The remaining recorded accrual is \$0.2 million as of March 31, 2013.

Fiscal 2011 operating expenses include a pre-tax charge of \$19.8 million related to the initial recognition of 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). The claim submission deadline was December 31, 2012. As a result of the deadline passage during fiscal 2013, we adjusted the liability related to the SYSTEM 1 class action settlement based on actual claims submitted.

International Operations. Since we conduct operations outside of the United States using various foreign currencies, our operating results are impacted by foreign currency movements relative to the U.S. dollar. During fiscal 2013, our revenues were unfavorably impacted by \$8.2 million, or 0.5%, and income before taxes was favorably impacted by \$4.3 million, or 1.9%, 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.

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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.

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 investors and other readers 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, 2013, 2012 and 2011:

(dollars in thousands)	Years Ended March 31,		
	2013	2012	2011
Net cash flows provided by operating activities	\$227,815	\$149,372	\$117,744
Purchases of property, plant, equipment and intangibles, net	(87,412 )	(66,682 )	(77,442 )
Proceeds from the sale of property, plant, equipment and intangibles	34	42	1,301
Free cash flow	\$140,437	\$82,732	\$41,603

To supplement our financial results presented in accordance with U.S. GAAP, we have sometimes referred to certain measures of revenues, gross profit, gross profit percentage, 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 and the SYSTEM 1 class action settlement. These items had a significant impact on the fiscal 2013, 2012, and 2011 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.

(dollars in thousands)	Years Ended March 31,		
	2013	2012	2011
Reported revenues	\$1,501,902	\$1,406,810	\$1,207,448
Impact of the SYSTEM 1 Rebate Program	(22,367 )	(15,306 )	102,313
Adjusted revenues	\$1,479,535	\$1,391,504	\$1,309,761
Reported capital equipment revenues	\$613,378	\$626,959	\$433,944
Impact of the SYSTEM 1 Rebate Program	(22,367 )	(15,306 )	102,313
Adjusted capital equipment revenues	\$591,011	\$611,653	\$536,257
Reported United States revenues	\$1,141,633	\$1,057,460	\$882,281
Impact of the SYSTEM 1 Rebate Program	(22,367 )	(15,306 )	102,313
Adjusted United States Revenues	\$1,119,266	\$1,042,154	\$984,594





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Reported Healthcare revenues	\$1,074,790		\$1,013,102	\$835,832	
Impact of the SYSTEM 1 Rebate Program	(22,367	)	(15,306	)	102,313
Adjusted Healthcare revenues	\$1,052,423		\$997,796	\$938,145	
Healthcare capital revenues	\$521,806		\$545,596	\$357,465	
Impact of SYSTEM 1 Rebate Program	(22,367	)	(15,306	)	102,313
Adjusted Healthcare capital revenues	\$499,439		\$530,290	\$459,778	
Reported gross profit	\$621,263		\$568,465	\$446,162	
Impact of the SYSTEM 1 Rebate Program	(23,640	)	(17,403	)	110,004
Adjusted gross profit	\$597,623		\$551,062	\$556,166	
Reported gross profit percentage	41.4		% 40.4	% 37.0	%
Impact of the SYSTEM 1 Rebate Program	(1.0	)	% (0.8	)% 5.5	%
Adjusted gross profit percentage	40.4		% 39.6	% 42.5	%
Reported operating income	\$242,829		\$222,316	\$85,212	
Impact of the SYSTEM 1 Rebate Program and class action settlement	(40,422	)	(17,403	)	129,800
Adjusted operating income	\$202,407		\$204,913	\$215,012	
Reported Healthcare operating income	\$153,343		\$141,742	\$21,317	
Impact of the SYSTEM 1 Rebate Program and class action settlement					