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

FORM 10-K
x Annual Report Pursuant to Section 13 OR 15(d) of The Securities Exchange Act of 1934
For the fiscal year ended March 31, 2013
OR
o Transition Report Pursuant to Section 13 OR 15(d) of The Securities Exchange Act of 1934
For the transition period from to
Commission file number 1-14643
STERIS Corporation
(Exact name of registrant as specified in its charter)

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

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

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

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

SECURITIES REGISTERED PURSUANT TO SECTION 12(G) OF THE ACT:
None
Indicate by check mark if the Registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.
Yes x No o
Indicate by check mark if the Registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes o No x
Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.
Yes x No o
Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 229.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes x No o
Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of the Registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. o
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer," and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

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

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

The aggregate market value of the voting stock held by non-affiliates of the Registrant, computed by reference to the closing price of such stock as of September 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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STERIS Corporation and Subsidiaries

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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®, Reliance®, Finn-Aqua®, VHP®, and the CIP® Products.

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

Customer Concentration. Our Life Sciences segment sells capital equipment, consumables, and services to Customers in the United States and many other countries throughout the world. For the year ended March 31, 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® workflow management software, the AMSCO® 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 |

| | | |
|---|---|---|
| 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;

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

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

| Quarters Ended | March 31 | December 31 | September 30 | June 30 |
|---|---|---|---|---|
| Fiscal 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 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) | — | (2) | $111,630 |

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

(2) On March 14, 2008 we announced that, the Board of Directors had authorized the repurchase of up to $300.0 million of our common shares. As of March 31, 2013, $111.6 million remained authorized for repurchase of our common shares under the current share repurchase authorization. This authorization does not have a stated maturity date. We provide information about our full year fiscal 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

| | Years Ended March 31, | | | | |
|---|---|---|---|---|---|
| (in thousands, except per share data) | 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:

| | Years Ended March 31, | | |
|---|---|---|---|
| (dollars in thousands) | 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.

| | Years Ended March 31, | | |
|---|---|---|---|
| (dollars in thousands) | 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 | (40,422) | (17,403) | 129,800 |
| Adjusted Healthcare operating income | $112,921 | $124,339 | $151,117 |
| | | | |
| Reported income tax expense | $67,121 | $74,993 | $22,554 |
| Impact of the SYSTEM 1 Rebate Program and class action settlement | (15,765) | (6,780) | 50,183 |
| Adjusted income tax expense | $51,356 | $68,213 | $72,737 |
| | | | |
| Reported selling, general and administrative | $337,694 | $309,552 | $325,468 |
| Impact of the SYSTEM 1 class action settlement | 16,782 | — | (19,800) |
| Adjusted selling, general and administrative | $354,476 | $309,552 | $305,668 |
| | | | |
| Reported effective income tax rate | 29.6 % | 35.5 % | 30.6 % |
| Impact of the SYSTEM 1 Rebate Program and class action settlement | (2.1)% | (0.3)% | 5.1 % |
| Adjusted effective income tax rate | 27.5 % | 35.2 % | 35.7 % |

RESULTS OF OPERATIONS

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

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FISCAL 2013 AS COMPARED TO FISCAL 2012

Revenues. The following table compares our revenues, in total and by type and geography, for the year ended March 31, 2013 to the year ended March 31, 2012:

| | Years Ended March 31, | | | Percent |
|---|---|---|---|---|
| (dollars in thousands) | 2013 | 2012 | Change | Change |
| Total revenues | $1,501,902 | $1,406,810 | $95,092 | 6.8 % |
| Revenues by type: | | | | |
| Capital equipment revenues | 613,378 | 626,959 | (13,581) | (2.2)% |
| Consumable revenues | 353,984 | 301,171 | 52,813 | 17.5 % |
| Service revenues | 534,540 | 478,680 | 55,860 | 11.7 % |
| Revenues by geography: | | | | |
| United States revenues | 1,141,633 | 1,057,460 | 84,173 | 8.0 % |
| International revenues | 360,269 | 349,350 | 10,919 | 3.1 % |

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 the year ended March 31, 2013, excluding the impact of the adjustment related to the SYSTEM 1 Rebate Program, were $1,479.5 million, a 6.3% increase over adjusted revenues 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 increase reflects growth in all three business segments.
Capital equipment revenues decreased by $13.6 million, or 2.2%, to $613.4 million, during fiscal 2013 as compared to fiscal 2012. Capital equipment revenues for the fiscal years ended 2013 and 2012 were favorably impacted by adjustments related to the SYSTEM 1 Rebate Program of $22.4 million and $15.3 million, respectively. Adjusted capital equipment revenues for fiscal 2013 were $591.0 million, a 3.4% decrease over adjusted capital equipment revenues for fiscal 2012. This decrease was primarily driven by the expected post-transition decline in SYSTEM 1E unit sales (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). Consumable revenues increased $52.8 million, or 17.5%, during 2013 from fiscal 2012, as increases within the Healthcare segment, driven largely by recent acquisitions, and the Life Sciences business segment more than offset the anticipated decline in SYSTEM 1 consumable volume. Service revenues for fiscal 2013 increased $55.9 million, or 11.7%, over fiscal 2012 primarily driven by the recent acquisition of the instrument repair businesses and other service offerings.
United States revenues for fiscal 2013 were $1,141.6 million, an increase of $84.2 million, or 8.0%, over fiscal 2012 revenues of $1,057.5 million. The fiscal 2013 and 2012 periods were impacted by the SYSTEM 1 Rebate Program adjustments of $22.4 million and $15.3 million, respectively. Adjusted United States revenues for fiscal 2013 were $1,119.3 million, an increase of $77.1 million, or 7.4%, over adjusted United States revenues 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 increase is driven by higher consumable and service revenues attributable, in part, to our recent acquisitions but also attributable to increased revenues from other products. These increases were partially offset by the decline in capital equipment revenues driven primarily by the expected post-transition decline in SYSTEM 1E unit sales.
International revenues for fiscal 2013 were $360.3 million, an increase of 3.1% over the fiscal 2012 revenues of $349.4 million. This increase reflects revenue growth in the Asia Pacific and Latin American regions and Canada, partially offset by declines in Europe.

Gross Profit. The following table compares our gross profit for the year ended March 31, 2013 to the year ended March 31, 2012:

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| (dollars in thousands) | Years Ended March 31, 2013 | 2012 | Change | Percent Change |
|---|---|---|---|---|
| Gross profit: | | | | |
| Product | $416,463 | $376,134 | $40,329 | 10.7 % |
| Service | 204,800 | 192,331 | 12,469 | 6.5 % |
| Total gross profit | $621,263 | $568,465 | $52,798 | 9.3 % |
| Gross profit percentage: | | | | |
| Product | 43.1 % | 40.5 % | | |
| Service | 38.3 % | 40.2 % | | |
| Total gross profit percentage | 41.4 % | 40.4 % | | |

Our gross profit is affected by the volume, pricing and mix of sales of our products and services, as well as the costs associated with the products and services that are sold. Our gross profit increased $52.8 million and gross profit percentage increased to 41.4% for fiscal 2013 as compared to 40.4% for fiscal 2012. The most significant driver of this increase results from the change brought about by SYSTEM 1 Rebate Program which had a $23.6 million positive impact in fiscal 2013 as compared to a $17.4 million positive impact in fiscal 2012. Excluding the impact of the SYSTEM 1 Rebate Program, fiscal 2013 adjusted gross profit and gross profit percentage were $597.6 million and 40.4%, respectively, while fiscal 2012 adjusted gross profit and gross profit percentage were $551.1 million and 39.6%, respectively (see subsection of MD&A titled "Non-GAAP Financial Measures" for additional information and related reconciliation of non-GAAP financial measures to the most comparable GAAP measures). Other key factors impacting gross margin and the gross margin percentage of fiscal 2013 include the negative impact of the loss of sterliant and capital equipment revenues due to the SYSTEM 1 and SYSTEM 1E transition (70 basis points) and the Medical Device Excise Tax (20 basis points) and the positive impact of the following; acquisitions (80 basis points), pricing (60 basis points), volume from other products (30 basis points) and foreign currency fluctuations (30 basis points).

Operating Expenses. The following table compares our operating expenses for the year ended March 31, 2013 to the year ended March 31, 2012:

| (dollars in thousands) | Years Ended March 31, 2013 | 2012 | Change | Percent Change |
|---|---|---|---|---|
| Operating expenses: | | | | |
| Selling, general, and administrative | $337,694 | $309,552 | $28,142 | 9.1 % |
| Research and development | 41,305 | 35,953 | 5,352 | 14.9 % |
| Restructuring expenses | (565 ) | 644 | (1,209 ) | NM |
| Total operating expenses | $378,434 | $346,149 | $32,285 | 9.3 % |

NM - Not meaningful

Significant components of total selling, general, and administrative expenses (“SG&A”) are compensation and benefit costs, fees for professional services, travel and entertainment, facilities costs, and other general and administrative expenses. SG&A increased 9.1% during fiscal 2013 over fiscal 2012. During fiscal 2013, we adjusted the liability related to the SYSTEM 1 class action settlement. The pre-tax adjustment of $16.8 million was recorded as a reduction to operating expenses. Adjusted SG&A expenses, excluding the impact of the SYSTEM 1 class action settlement for fiscal 2013 were $354.5 million (see subsection of MD&A titled, "Non-GAAP Financial Measures" for additional information and related reconciliation of non-GAAP financial measures to the most comparable GAAP measures). Fiscal 2012 operating expenses reflect lower costs for our annual incentive compensation plan since fiscal 2012 bonuses were not paid as performance targets for fiscal 2012 were not met. Fiscal 2013 SG&A includes transaction costs and incremental amortization of acquired intangible assets associated with the recent acquisitions. SG&A also increased due to the operating expenses incurred within the operations of recently acquired businesses.

Research and development expenses increased $5.4 million during fiscal 2013, as compared to fiscal 2012. The majority of the increase is attributable to expenses for research and development incurred by the recently acquired US Endoscopy. Research and development expenses are influenced by the number and timing of in-process projects and labor hours and other costs associated with these projects. Our research and development initiatives continue to emphasize new product development, product improvements, and the development of new technological platform innovations. During fiscal 2013, our investments in research and development continued to be focused on, but were not limited to, enhancing capabilities of sterile processing

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combination technologies, surgical products and accessories, and the areas of emerging infectious agents such as Prions and Nanobacteria.

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

During the fourth quarter of fiscal 2010, we adopted a restructuring plan primarily related to the transfer of the remaining operations in our Erie, Pennsylvania facility to the U.S. headquarters in Mentor, Ohio and the consolidation of our European Healthcare manufacturing operations into two central locations within Europe (the “Fiscal 2010 Restructuring Plan”). In addition, we rationalized certain products and eliminated certain positions. We do not expect to incur any significant additional restructuring expenses related to this plan.

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

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

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

The following tables summarize our total restructuring charges for fiscal 2013, and 2012:

| (dollars in thousands) | Year Ended March 31, 2013 Fiscal 2010 Restructuring Plan |
|---|---|
| Severance and other compensation related costs | $(918) |
| Lease termination obligation and other | 353 |
| Total restructuring charges | $(565) |

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

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

| | Fiscal 2010 Restructuring Plan | | | |
|---|---|---|---|---|
| | | Fiscal 2013 | | |
| (dollars in thousands) | March 31, 2012 | Provision (1) | Payments/ Impairments (2) | March 31, 2013 |
| Severance and termination benefits | $659 | $(918) | $730 | $471 |
| Lease termination obligations | 947 | — | (791) | 156 |
| Other | 76 | 353 | (429) | — |
| Total | $1,682 | $(565) | $(490) | $627 |

(1) Includes curtailment benefit of $0.9 million related to International defined benefit plan. Additional information is included in note 10, "Benefit Plans."
(2) Certain amounts reported include the impact of foreign currency movements relative to the U.S. dollar.

| | Fiscal 2010 Restructuring Plan | | | |
|---|---|---|---|---|
| | | Fiscal 2012 | | |
| (dollars in thousands) | March 31, 2011 | Provision (1) | Payments/ Impairments (2) | March 31, 2012 |
| Severance and termination benefits | $1,993 | $(776) | $(558) | $659 |
| Product rationalization | — | 335 | (335) | — |
| Asset impairments and accelerated depreciation | — | 1,103 | (1,103) | — |
| Lease termination obligations | 1,790 | 139 | (982) | 947 |
| Other | 193 | 4 | (121) | 76 |
| Total | $3,976 | $805 | $(3,099) | $1,682 |

(1) Includes curtailment benefit of $1.3 million related to International defined benefit plan. Additional information is included in note 10, "Benefit Plans."
(2) Certain amounts reported include the impact of foreign currency movements relative to the U.S. dollar.

Non-Operating Expenses, Net. Non-operating expense (income), net consists of interest expense on debt, offset by interest earned on cash, cash equivalents, short-term investment balances, and other miscellaneous expense. The following table compares our non-operating expense (income), net for the year ended March 31, 2013 to the year ended March 31, 2012:

| | Years Ended March 31, | | |
|---|---|---|---|
| (dollars in thousands) | 2013 | 2012 | Change |
| Non-operating expenses, net: | | | |
| Interest expense | $15,675 | $12,065 | $3,610 |
| Interest income and miscellaneous expense | 56 | (857) | 913 |
| Non-operating expenses, net | $15,731 | $11,208 | $4,523 |

Interest expense during fiscal 2013 periods increased due to higher outstanding borrowings due to acquisitions.
Interest income and miscellaneous expense is immaterial.
Additional information regarding our outstanding debt is included in note 7 to our consolidated financial statements titled, "Debt," and in the subsection of MD&A titled, "Liquidity and Capital Resources."

Income Tax Expense. The following table compares our income tax expense and effective income tax rates for the years ended March 31, 2013 and March 31, 2012:

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| (dollars in thousands) | Years Ended March 31, 2013 | 2012 | Change | Percent Change |
|---|---|---|---|---|
| Income tax expense | $67,121 | $74,993 | $(7,872) | (10.5)% |
| Effective income tax rate | 29.6 % | 35.5 % | | |

The effective income tax rate for fiscal 2013 was 29.6% as compared to 35.5% for fiscal 2012. The effective tax rate in fiscal 2013 was impacted by a U.S. tax benefit resulting from European restructuring. Specifically, a U.S. tax deduction was taken relating to the rationalization of operations in Switzerland. Additional information regarding our income tax expense is included in note 9 to our consolidated financial statements titled, “Income Taxes.”

Business Segment Results of Operations. We operate in three reportable business segments: Healthcare, Life Sciences, and Isomedix. Corporate and other, which is presented separately, contains the Defense and Industrial business unit plus costs that are associated with being a publicly traded company and certain other corporate costs. These costs include executive office costs, Board of Directors compensation, shareholder services and investor relations, external audit fees, and legacy pension and post-retirement benefit costs. Note 12 to our consolidated financial statements titled “Business Segment Information,” and Item 1, “Business,” provide detailed information regarding each business segment. The following table compares business segment and Corporate and other revenues for the year ended March 31, 2013 to the year ended March 31, 2012:

| (dollars in thousands) | Years Ended March 31, 2013 | 2012 | Change | Percent Change |
|---|---|---|---|---|
| Revenues: | | | | |
| Healthcare | $1,074,790 | $1,013,102 | $61,688 | 6.1 % |
| Life Sciences | 244,421 | 226,658 | 17,763 | 7.8 % |
| Isomedix | 179,550 | 164,257 | 15,293 | 9.3 % |
| Total reportable segments | 1,498,761 | 1,404,017 | 94,744 | 6.7 % |
| Corporate and other | 3,141 | 2,793 | 348 | 12.5 % |
| Total Revenues | $1,501,902 | $1,406,810 | $95,092 | 6.8 % |

Healthcare segment revenues increased $61.7 million, or 6.1% to $1,074.8 million for the year ended March 31, 2013, as compared to $1,013.1 million for the prior fiscal year. Adjusted Healthcare revenues, excluding the impact of the adjustments in each fiscal year related to the SYSTEM 1 Rebate Program, were $1,052.4 million, representing an increase of 5.5% compared to $997.8 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 increase in adjusted Healthcare revenues are attributable to the addition of consumable and service revenues from our recent acquisitions as well as organic growth in capital equipment, consumable and service revenues. These increases were partially offset by the expected post-transition decline in SYSTEM 1E unit sales and the decline in SYSTEM 1 consumable volumes. At March 31, 2013, the Healthcare segment’s backlog amounted to $105.2 million, increasing $2.7 million, or 2.6%, compared to the backlog of $102.5 million at March 31, 2012.

Life Science segment revenues increased $17.8 million or 7.8% to $244.4 million for the year ended March 31, 2013, as compared to prior fiscal year, driven by growth in capital equipment, consumable and service revenues of 12.7%, 5.8% and 4.5%, respectively. The demand for capital equipment reflects replacement product purchases by our pharmaceutical Customers. At March 31, 2013, the Life Sciences segment’s backlog amounted to $48.4 million, decreasing $1.7 million, or 3.4%, compared to the backlog of $50.1 million at March 31, 2012.

Isomedix segment revenues increased $15.3 million or 9.3% to $179.6 million for the year ended March 31, 2013, as compared to prior fiscal year. Revenues were favorably impacted by increased demand from our medical device Customers, as well as the acquisition of Biotest in March 2012. With lab operations in Minneapolis, Minnesota, Biotest provides validation services to our Customers.

The following tables compare our business segment and Corporate and other operating results for the year ended March 31, 2013 to the year ended March 31, 2012:

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| (dollars in thousands) | Years Ended March 31, 2013 | 2012 | Change | Percent Change |
|---|---|---|---|---|
| Operating Income (loss): | | | | |
| Healthcare | $153,343 | $141,742 | $11,601 | 8.2 % |
| Life Sciences | 47,453 | 41,633 | 5,820 | 14.0 % |
| Isomedix | 51,455 | 47,596 | 3,859 | 8.1 % |
| Total reportable segments | 252,251 | 230,971 | 21,280 | 9.2 % |
| Corporate and other | (9,422) | (8,655) | (767) | 8.9 % |
| Total Operating Income (loss) | $242,829 | $222,316 | $20,513 | 9.2 % |

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

The Healthcare segment's operating income increased $11.6 million, or 8.2% to $153.3 million for the year ended March 31, 2013, as compared to $141.7 million for the prior fiscal year. Adjusted Healthcare operating income, excluding the impact of the SYSTEM 1 Rebate Program and class action settlement, was $112.9 million as compared to adjusted $124.3 million during the prior fiscal year (see subsection of MD&A titled, "Non-GAAP Financial Measures" for additional information and related reconciliation of non-GAAP financial measures to the most comparable GAAP measures). The decline in adjusted Healthcare operating income reflects the impact of the expected post-transition decline in SYSTEM 1E unit sales, decline in SYSTEM 1 consumable volumes, the negative impact of the Medical Device Excise Tax, and expenses related to the recent acquisitions. Also, fiscal 2012 operating expenses reflect lower costs for our annual compensation plan since fiscal 2012 bonuses were not paid as performance targets for fiscal 2012 were not met.

The Life Science segment's operating income increased $5.8 million, or 14.0% to $47.5 million for the year ended March 31, 2013, as compared to $41.6 million for the prior fiscal year. The segment's operating margins were 19.4% and 18.4%, respectively, for the years ended March 31, 2013 and March 31, 2012. The improvement was primarily attributable to higher revenues.

The Isomedix segment's operating income increased $3.9 million or 8.1% to $51.5 million for the year ended March 31, 2013, as compared to $47.6 million for the prior fiscal year, reflecting the benefits of increased revenues and improved operating efficiencies. The segment's operating margins were 28.7% and 29.0%, respectively, for the years ended March 31, 2013 and March 31, 2012.

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FISCAL 2012 AS COMPARED TO FISCAL 2011

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

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

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

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

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

United States revenues for fiscal 2012 were $1,057.5 million, an increase of $175.2 million, or 19.9%, as compared to fiscal 2011. Adjusted United States revenues for fiscal 2012 were $1,042.2 million, an increase of $57.6 million or 5.8% as compared to adjusted fiscal 2011 revenues (see subsection of MD&A titled "Non-GAAP Financial Measures" for additional information and related reconciliation of non-GAAP financial measures to the most comparable GAAP measures). Increases include revenues derived from SYSTEM 1E products as well as increases in other Healthcare infection prevention and surgical equipment products and Life Sciences capital equipment revenues. United States consumable and service revenues were negatively impacted by the SYSTEM 1 transition with a decrease in consumable revenues of 6.7%, primarily driven by the decline in SYSTEM 1 sterilant volumes, offset by an increase in service revenues of 2.5%.

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International revenues for fiscal 2012 were $349.4 million, an increase of $24.2 million, or 7.4%, as compared to fiscal 2011. The increase in year-over-year international revenues was driven by increases in capital, consumable and service revenues of 6.5%, 9.8%, 7.5%, respectively. The most significant gains were in the Healthcare business segment. The Healthcare international revenue increase includes the benefit of a fiscal 2012 acquisition in Brazil but also reflects increases in all our international regions including Canada, Europe, Asia Pacific and Latin America.
Gross Profit. The following table compares our gross profit for the year ended March 31, 2012 to the year ended March 31, 2011:

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

Our gross profit is affected by the volume, pricing, and mix of sales of our products and services, as well as the costs associated with the products and services that are sold. Our gross profit increased $122.3 million and gross profit percentage increased to 40.4% for fiscal 2012 as compared to 37.0% for fiscal 2011. The most significant driver of this increase results from the change brought about by SYSTEM 1 Rebate Program which had a $110.0 million negative impact in fiscal 2011 and a $17.4 million positive impact in fiscal 2012. Excluding the impact of the SYSTEM 1 Rebate Program, fiscal 2012 gross profit and gross profit percentage were $551.1 million and 39.6%, respectively, while fiscal 2011 gross profit and gross profit percentage were $556.2 million and 42.5%, respectively (see subsection of MD&A titled "Non-GAAP Financial Measures" for additional information and related reconciliation of non-GAAP financial measures to the most comparable GAAP measures). Changes in volume are the secondary driver resulting in a net reduction of approximately 130 basis points in the gross profit percentage as the decline in SYSTEM 1 sterilant volume more than offset the benefits of SYSTEM 1E units and higher volumes in the Isomedix segment and the continued growth in Life Sciences consumables volume. The gross profit percentage was also negatively impacted by approximately 60 basis points as a result of increased labor costs and by approximately 50 basis points by increases in inventory reserves, including the reserves associated with certain SYSTEM 1E components made obsolete by a recent special FDA 510(k) clearance which contained a modification of the UV light intensity threshold.
Operating Expenses. The following table compares our operating expenses for the year ended March 31, 2012 to the year ended March 31, 2011:

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

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

Research and development expenses increased $1.7 million for fiscal 2012 as compared to fiscal 2011. Research and development expenses are influenced by the number and timing of in-process projects and labor hours and other costs

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associated with these projects. Our research and development initiatives continually emphasize new product development, product improvements, and the development of new technological platform innovations. During fiscal 2012, our investments in research and development focused on, but were not limited to, enhancing capabilities of new chemistries and delivery systems for disinfection and sterilization, sterile processing combination technologies, surgical equipment and accessories, and the area of emerging infectious agents such as Prions and Nanobacteria.

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

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

In fiscal 2012, in connection with the Fiscal 2010 Restructuring Plan, we recorded pre-tax expense totaling totaling $0.8 million related to these actions. In fiscal 2011, we recorded pre-tax expenses totaling $1.6 million related to these actions, of which $1.4 million was recorded as restructuring expenses and $0.2 million was recorded in cost of revenues. Since the inception of the Fiscal 2010 Restructuring Plan, we have incurred $8.7 million of pre-tax expenses. These actions are intended to enhance profitability and increase operating efficiencies. Production has ceased in our Switzerland manufacturing facility. Included in restructuring expenses are an impairment loss with regard to this facility based on a sale agreement and a pension curtailment benefit as a result of the reduction in workforce. We do not expect to incur any significant additional restructuring expenses related to this plan.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Healthcare segment revenues increased $177.3 million or 21.2%, to $1,013.1 million for the year ended March 31, 2012, as compared to $835.8 million for the prior fiscal year. Adjusted Healthcare segment revenues, excluding the impact of the SYSTEM 1 Rebate Program, were $997.8 million for the year ended March 31, 2012 representing an increase of 6.4% over the prior year (see subsection of MD&A titled "Non-GAAP Financial Measures" for additional information and related reconciliation of non-GAAP financial measures to the most comparable GAAP measures). The increase in adjusted Healthcare revenues reflected growth in capital equipment revenues, including revenue associated with SYSTEM 1E products in the United Sates, as well as increases in other Healthcare infection prevention and surgical equipment products. Healthcare service revenues also increased with growth of 1.7%. These increases were partially offset by a decrease in Healthcare consumable revenues of 6.1% as a result of the SYSTEM 1 transition. At March 31, 2012, our Healthcare segment's backlog amounted to $102.5 million, as compared to $138.6 million at March 31, 2011. We believe that the decline in backlog was more a matter of timing of orders than a reflection of current market trends. SYSTEM 1E related backlog was $11.7 million as of March 31, 2012, as compared to $21.3 million as of March 31, 2011.

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

Isomedix segment revenues increased $12.0 million, or 7.9%, during fiscal 2012, as compared to fiscal 2011. The growth in revenues during fiscal 2012 was attributable to increased demand from our core medical device Customers and market share gains made possible by capacity expansion investments.

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

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

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

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

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

Our Isomedix segment's operating income increased $7.8 million, or 19.5% to $47.6 million for the year ended March 31, 2012 as compared to $39.8 million in fiscal 2011. Isomedix segment's operating margins were 29.0% and

26.2%, respectively, for the years ended March 31, 2012 and March 31, 2011. The improvement was primarily driven by the increased volume. Restructuring expenses of $0.1 million are included in this segment's fiscal 2011 operating income.

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LIQUIDITY AND CAPITAL RESOURCES

The following table summarizes significant components of our cash flows for the years ended March 31, 2013, 2012 and 2011:

| (dollars in thousands) | Years Ended March 31, 2013 | 2012 | 2011 |
|---|---|---|---|
| Operating activities: | | | |
| Net income | $159,977 | $136,115 | $51,265 |
| Non-cash items | 97,877 | 88,854 | 31,433 |
| Change in Accrued SYSTEM 1 Rebate Program and class action settlement | (68,812) | (58,618) | 127,683 |
| Changes in operating assets and liabilities | 38,773 | (16,979) | (92,637) |
| Net cash provided by operating activities | $227,815 | $149,372 | $117,744 |
| Investing activities: | | | |
| 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 |
| Equity Investments | — | — | (16,900) |
| Investments in businesses, net of cash acquired | (399,676) | (34,635) | (4,000) |
| Net cash used in investing activities | $(487,054) | $(101,275) | $(97,041) |
| Financing activities: | | | |
| Proceeds from the issuance of long-term obligations | $200,000 | $— | $— |
| Proceeds under credit facilities, net | 82,290 | — | — |
| Repurchases of common shares | (8,002) | (56,751) | (29,965) |
| Deferred financing fees and debt issuance costs | (1,924) | — | — |
| Cash dividends paid to common shareholders | (43,195) | (38,560) | (33,228) |
| Stock option and other equity transactions, net | 23,019 | 5,723 | 12,730 |
| Tax benefit from stock options exercised | 2,058 | 1,514 | 2,525 |
| Net cash provided by (used in ) in financing activities | $254,246 | $(88,074) | $(47,938) |
| Debt-to-total capital ratio | 34.3% | 20.4% | 21.1% |
| Free cash flow | $140,437 | $82,732 | $41,603 |

Net Cash Provided By Operating Activities –The net cash provided by our operating activities was $227.8 million for the year ended March 31, 2013 compared to $149.4 million for the year ended March 31, 2012 and $117.7 million for the year ended March 31, 2011. The following discussion summarizes the significant changes in our operating cash flows for the years ended March 31, 2013, 2012 and 2011:

- Net cash provided by operating activities increased 52.5% in fiscal 2013 compared to fiscal 2012. The increase is attributable to lower accounts receivable and inventory levels, and the cash benefit from a tax deduction related to the closure of our Swiss manufacturing operations.

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

Net Cash Used In Investing Activities – The net cash used in our investing activities was $487.1 million for the year ended March 31, 2013, compared to $101.3 million for the year ended March 31, 2012 and $97.0 million for the year ended March 31, 2011. The following discussion summarizes the significant changes in our investing cash flows for the years ended March 31, 2013, 2012 and 2011:

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- Purchases of property, plant, equipment, and intangibles, net – Capital expenditures totaled $87.4 million during fiscal 2013, $66.7 million during fiscal 2012 and $77.4 million during fiscal 2011. Fiscal 2013 capital expenditures were higher than fiscal 2012 and fiscal 2011 as a result of investments in our manufacturing centers and higher purchases of radioisotope (cobalt-60). Fiscal 2012 capital expenditures were lower than fiscal 2011 as consolidation projects in the United States and Europe were completed. Fiscal 2011 capital expenditures include higher radioisotope purchases, the purchase of two previously leased Isomedix facilities totaling $8.4 million, and capital costs associated with the consolidation projects in the United States and Europe.
- Proceeds from the sale of property, plant, equipment, and intangibles – Fiscal 2013, 2012 and 2011 proceeds relate to minor disposals.
- Equity investments – During fiscal 2011, we invested $16.9 million in VTS Medical Systems, LLC ("VTS") designed to bring the latest high-definition video, touch-screen integration, and communication technology into hospital operating rooms.
- Investments in business, net of cash acquired – During fiscal 2013, we used $399.7 million of cash for the acquisitions of US Endoscopy, Spectrum, TRE and the remaining VTS interests not already owned by us. For more information on these acquisitions refer to note 4 to our consolidated financial statements titled, "Business Acquisitions". During fiscal 2012, we used $34.6 million of cash to acquire two businesses. We acquired the stock of a privately held company with operations located near Sao Paulo, Brazil which designs and manufactures small, medium, and large sterilizers used by public hospitals, clinics, dental offices and industrial companies (e.g., research laboratories and pharmaceutical research and production companies). We also acquired the stock of a privately held company with lab operations in Minneapolis, Minnesota which provides validation services to our Customers and is a natural extension of our Isomedix segment. During fiscal 2011, we used $4.0 million of cash to acquire a company which provides management technology solutions designed to improve a hospital's perioperative process.

Net Cash Provided By (Used In) Financing Activities – Net cash provided by financing activities was $254.2 million for the year ended March 31, 2013, compared to net cash used in financing activities of $88.1 million and $47.9 million for the years ended March 31, 2012 and March 31, 2011, respectively. The following discussion summarizes the significant changes in our financing cash flows for the years ended March 31, 2013, 2012 and 2011:

- Proceeds from the issuance of long-term obligations – During fiscal year 2013 we issued $200 million of senior notes in a private placement, which are long-term obligations. We provide additional information about our debt structure in note 7 to our consolidated financial statements titled, “Debt,” and in this section of the MD&A titled, “Liquidity and Capital Resources” in the subsection titled, “Sources of Credit.”
- Proceeds under credit facility, net – At the end of fiscal 2013, $82.3 million of debt, was outstanding under our revolving credit facility.
- Repurchases of common shares – During fiscal 2013, we paid for the repurchase of 204,349 commons shares at an average purchase price of $33.42 and obtained common shares in connection with our stock-based compensation award programs in the amount $1.2 million. During fiscal 2012, we paid for the repurchase of 1,851,510 common shares at an average purchase price of $30.21 and obtained common shares in connection with our stock-based compensation award programs in the amount of $0.8 million. During fiscal 2011, we paid for the repurchase of 925,848 common shares at an average purchase price of $31.82 and obtained common shares in connection with our stock-based compensation award programs in the amount of $0.5 million. We provide additional information about our common share repurchases in note 14 to our consolidated financial statements titled, “Repurchases of Common Shares.”
- Cash dividends paid to common shareholders – During fiscal 2013, we paid cash dividends totaling $43.2 million or $0.74 per outstanding common share. During fiscal 2012, we paid cash dividends totaling $38.6 million or $0.66 per outstanding common share. During fiscal 2011, we paid cash dividends totaling $33.2 million, or $0.56 per outstanding common share.
- Stock option and other equity transactions, net – We receive cash for issuing common shares under our various employee stock option programs. During fiscal 2013, fiscal 2012 and fiscal 2011, we received cash proceeds totaling $23.0 million $5.7 million, and $12.7 million, respectively, under these programs.

- Tax benefit from stock options exercised – For the years ended March 31, 2013, 2012 and 2011, our income taxes were reduced by $2.1 million, $1.5 million, and $2.5 million, respectively, as a result of deductions allowed for stock options exercised.

Cash Flow Measures. Free cash flow was $140.4 million in fiscal 2013 compared to $82.7 million in fiscal 2012. Our free cash flow increased in fiscal 2013 as a result of a decrease in cash needed to fund operating assets and liabilities and the cash benefit from a tax deduction related to the closure of our Swiss manufacturing operations (see subsection of MD&A titled,

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"Non-GAAP Financial Measures", for additional information and related reconciliation of non-GAAP financial measures to the most comparable GAAP measures). Our debt-to-total capital ratio was 34.3% at March 31, 2013 and 20.4% at March 31, 2012.

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

At March 31, 2013, approximately 96% of our consolidated cash and cash equivalents were held in locations outside of the United States. These funds are considered indefinitely reinvested to be used to expand operations either organically or through acquisitions outside the United States. We do not intend to repatriate any significant amounts of cash in the foreseeable future.

Sources of Credit. Our sources of credit as of March 31, 2013 are summarized in the following table:

| (dollars in thousands) | Maximum Amounts Available | Reductions in Available Credit Facility for Other Financial Instruments | March 31, 2013 Amounts Outstanding | March 31, 2013 Amounts Available |
|---|---|---|---|---|
| Sources of Credit | | | | |
| Private placement | $410,000 | $ — | $410,000 | $— |
| Credit facility(1) | 400,000 | — | 82,290 | 317,710 |
| Total Sources of Credit | 810,000 | $ — | $492,290 | $317,710 |

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

Our sources of funding from credit are summarized below:

- In December 2003, we issued $100.0 million of senior notes, of which $60.0 million are still outstanding, to certain institutional investors in a private placement that was not required to be registered with the SEC. The agreements related to these notes require us to maintain certain financial covenants, including limitations on debt and a minimum consolidated net worth requirement. Of the $60.0 million in outstanding notes, $40.0 million have a maturity of 10 years at an annual interest rate of 5.25%, and the remaining $20.0 million have a maturity of 12 years at an annual interest rate of 5.38%.
- On August 15, 2008, we issued $150.0 million in senior notes to certain institutional investors in a private placement that was not required to be registered with the SEC. We have used and will use the proceeds for general corporate purposes, including repayment of debt, capital expenditures, acquisitions, dividends, and share repurchases. The agreements related to these notes require us to maintain certain financial covenants, including limitations on debt and a minimum consolidated net worth requirement. Of the $150.0 million in outstanding notes, $30.0 million have a maturity of five years at an annual interest rate of 5.63%, another $85.0 million have a maturity of 10 years at an annual interest rate of 6.33%, and the remaining $35.0 million have a maturity of 12 years at an annual interest rate of 6.43%.
- In December 2012, we issued $100.0 million in senior notes to certain institutional investors in a private placement that was not required to be registered with the SEC. Of the $100.0 million of notes, $47.5 million

have a maturity of 10 years at an annual interest rate of 3.20%, an additional $40.0 million have a maturity of 12 years at an annual interest rate of 3.35%, and the remaining $12.5 million have a maturity of 15 years at an annual interest rate of 3.55%. These borrowings were used primarily for the repayment of existing credit facility debt. The agreements related to these notes contain a financial covenant, including limitations on debt.

- In February 2013, we issued $100.0 million of senior notes to certain institutional investors in a private placement that was not required to be registered with the SEC. Of the $100.0 million of notes, $47.5 million have a maturity of nine years and 10 months at an annual interest rate of 3.20%, an additional $40.0 million have a maturity of 11 years and 10 months at an annual interest rate of 3.35%, and the remaining $12.5 million have a maturity of 14 years and 10 months at an annual interest rate of 3.55%. These borrowings were used primarily for the repayment of existing credit facility debt. The agreements related to these notes contain a financial covenant, including limitations on debt.

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On April 13, 2012 we signed a Third Amended and Restated Credit Agreement (the "Credit Agreement") with KeyBank National Association, as administrative agent (“Agent”) for the lenders from time to time party thereto ("Lenders") and such Lenders. The Credit Agreement amended, restated and replaced our previous credit agreement. The Credit Agreement initially provided a $300.0 million credit facility and was amended in October 2012, to increase the credit facility to $400.0 million (which may be increased by up to an additional $100.0 million in specified circumstances, and subject to certain Lender consent requirements) for borrowings and letters of credit, and will mature April 13, 2017. The aggregate unpaid principal amount of all borrowings, to the extent not previously repaid, is repayable on that date. Borrowings also are repayable at such other earlier times as may be required under or permitted by the terms of the Credit Agreement. Borrowings bear interest at floating rates based upon the Base Rate (as defined) or fixed rates based upon the Eurodollar Rate or Alternate Currency Rate (as defined), plus the Applicable Margin (as defined) in effect from time to time under the Credit Agreement based upon the Company's Leverage Ratio (as defined). Interest on floating rate loans is payable quarterly in arrears and interest on fixed rate loans is payable at the end of the relevant interest period therefor, but in no event less frequently than every three months. The Credit Agreement also requires the payment of a facility fee on the total facility commitment amount, which fee is determined based on the Company's Leverage Ratio. There is no premium or penalty for prepayment of floating rate loans but prepayments of fixed rate loans may be subject to a prepayment fee. The Credit Agreement also permits the Company to make short term "Swing Loan" borrowings from the Agent in an aggregate amount not to exceed $35.0 million outstanding at any time. Swing Loans bear interest at the Agent's cost of funds plus the applicable margin in effect from time to time. The Credit Agreement requires the Company to maintain compliance with certain financial covenants, including a maximum Leverage Ratio and a minimum Interest Coverage Ratio. The Company's obligations under the Credit Agreement are unsecured but guaranteed by its material domestic subsidiaries.

At March 31, 2013, we had $317.7 million of funding available under the Credit Agreement. The Credit Agreement includes a sub-limit that reduces the maximum amount available to us by letters of credit outstanding. At March 31, 2013, there were no letters of credit outstanding under the Credit Agreement.

At March 31, 2013, we were in compliance with all financial covenants associated with our indebtedness. We provide additional information regarding our debt structure and payment obligations in the section of the MD&A titled, “Liquidity and Capital Resources” in the subsection titled, “Contractual and Commercial Commitments” and in note 7 to our consolidated financial statements titled, “Debt.”

## CAPITAL EXPENDITURES

Our capital expenditure program is a component of our long-term strategy. This program includes, among other things, investments in new and existing facilities, business expansion projects, radioisotope (cobalt-60) and information technology enhancements. During fiscal 2013, our capital expenditures amounted to $87.4 million. We use cash provided by operating activities and our cash and cash equivalent balances to fund capital expenditures. We expect fiscal 2014 capital expenditures to be comparable to fiscal 2013 levels with continued investment in projects intended to improve quality, reduce operating costs and add value to the current product offering.

## CONTRACTUAL AND COMMERICAL COMMITMENTS

At March 31, 2013, we had commitments under non-cancelable operating leases totaling $45.2 million.

Our contractual obligations and commercial commitments as of March 31, 2013 are presented in the following tables. Commercial commitments include standby letters of credit, letters of credit required as security under our self-insured risk retention policies, and other potential cash outflows resulting from events that require us to fulfill commitments.

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| (in thousands) | Payments due by March 31, 2014 | 2015 | 2016 | 2017 | 2018 and thereafter | Total |
|---|---|---|---|---|---|---|
| Contractual Obligations: | | | | | | |
| Debt | $70,000 | $— | $20,000 | $— | $402,290 | $492,290 |
| Operating leases | 14,621 | 12,802 | 8,934 | 4,803 | 4,018 | 45,178 |
| Purchase obligations | 15,403 | 11,246 | 11,598 | 11,950 | 9,161 | 59,358 |
| Contributions to defined benefit pension plans | — | — | — | — | — | — |
| Benefit payments under defined benefit plans | 4,101 | 4,017 | 3,943 | 3,858 | 21,126 | 37,045 |
| Trust assets available for benefit payments under defined benefit plans | (4,101) | (4,017) | (3,943) | (3,858) | (21,126) | (37,045) |
| Benefit payments under other post-retirement welfare benefit plans | 3,271 | 3,043 | 2,840 | 2,467 | 9,699 | 21,320 |
| Unrecognized tax benefits | — | — | — | — | — | 118 |
| Other obligations | 299 | 165 | 167 | — | — | 631 |
| Total Contractual Obligations | $103,594 | $27,256 | $43,539 | $19,220 | $425,168 | $618,895 |

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

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

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

The table above includes total unrecognized tax benefits of $0.1 million. The actual amount of unrecognized tax benefits is $9.4 million. Of this amount, we anticipate non-cash settlement of $9.3 million within the next 12 months. Due to the high degree of uncertainty regarding the timing of future cash outflows associated with these remaining tax positions, we are unable to estimate when cash settlements may occur. Related to the unrecognized tax benefits included in the table above, we have also recorded a liability for potential interest and penalties of $0.01 million.

| (in thousands) | Amount of Commitment Expiring March 31, 2014 | 2015 | 2016 | 2017 | 2018 and thereafter | Totals |
|---|---|---|---|---|---|---|
| Commercial Commitments: | | | | | | |
| Performance and surety bonds | $32,104 | $6,187 | $67 | $35 | $1,450 | $39,843 |
| Letters of credit as security for self-insured risk retention policies | 5,961 | — | — | — | — | 5,961 |
| Total Commercial Commitments | $38,065 | $6,187 | $67 | $35 | $1,450 | $45,804 |

CRITICAL ACCOUNTING POLICIES, ESTIMATES, AND ASSUMPTIONS

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

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

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

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

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

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

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

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

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

Inventories and Reserves. Inventories are stated at the lower of their cost or market value. We determine cost based upon a combination of the last-in, first-out ("LIFO") and first-in, first-out ("FIFO") cost methods. We determine the LIFO inventory value at the end of the year based on inventory levels and costs at that time. For inventories valued using the LIFO method, we believe that the use of the LIFO method results in a matching of current costs and revenues. Inventories valued using the LIFO method represented approximately 38.6% and 37.7% of total inventories at March 31, 2013 and 2012, respectively. Inventory costs include material, labor, and overhead. If we had used only the FIFO method of inventory costing, inventories would have been $18.9 million and $18.2 million higher than those reported at March 31, 2013 and 2012, respectively.

We review the net realizable value of inventory on an ongoing basis, considering factors such as deterioration, obsolescence, and other items. We record an allowance for estimated losses when the facts and circumstances indicate that particular inventories will not be usable. If future market conditions vary from those projected, and our estimates prove to be inaccurate, we may be required to write-down inventory values and record an adjustment to cost of revenues.

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

When we evaluate assets for impairment, we make certain judgments and estimates, including interpreting current economic indicators and market valuations, evaluating our strategic plans with regards to operations, historical and anticipated performance of operations, and other factors. If we incorrectly anticipate these factors, or unexpected events occur, our operating results could be materially affected.

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

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

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

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

We performed our annual goodwill impairment evaluation as of October 31, 2012. Based on this evaluation, we determined that there was no impairment of the recorded goodwill amounts and we do not believe that any of our reporting units are at a significant risk of failing goodwill impairment testing.

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

We evaluate our tax positions using the recognition threshold and measurement attribute in accordance with current accounting guidance. We determine whether it is more-likely-than-not that a tax position will be sustained upon examination, including resolution of related appeals or litigation processes, based on the technical merits of the position. In evaluating whether a tax position has met the more-likely-than-not recognition threshold, we presume that the position will be examined by the appropriate taxing authority and that the taxing authority will have full knowledge of all relevant information. A tax position that meets the more-likely-than-not recognition threshold is measured at the largest amount of benefit that is greater than 50 percent likely of being realized upon ultimate settlement. The appropriate unit of account for determining what constitutes an individual tax position, and whether the more-likely-than-not recognition threshold is met for a tax position, is a matter of judgment based on the individual facts and circumstances of that position evaluated in light of all available evidence. We review and adjust our tax estimates periodically because of ongoing examinations by and settlements with the various taxing authorities, as well as changes in tax laws, regulations and precedent.

We recognize deferred tax assets and liabilities based on the differences between the financial statement carrying amounts and the tax basis of assets and liabilities. We regularly review our deferred tax assets for recoverability and establish a valuation allowance based on historical taxable income, projected future taxable income, the expected timing of the reversals of existing temporary differences, and the implementation of tax planning strategies. If we are unable to generate sufficient future taxable income in certain tax jurisdictions, or if there is a material change in the effective income tax rates or time period within which the underlying temporary differences become taxable or deductible, we could be required to increase our valuation allowance, which would increase our effective income tax rate and could result in an adverse impact on our consolidated financial position, results of operations, or cash flows. We believe that adequate accruals have been made for income taxes. Differences between the estimated and actual amounts determined upon ultimate resolution, individually or in the aggregate, are not expected to have a material adverse effect on our consolidated financial position, but could possibly be material to our consolidated results of operations or cash flow for any one period.

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

SYSTEM 1 Rebate Program and Class Action Settlement. The SYSTEM 1 Rebate Program (the “Rebate Program”) was initially recognized during the first quarter of fiscal 2011. The rebate portion of the Rebate Program was recognized as contra-revenue consistent with other returns and allowances offered to Customers. The estimated costs to facilitate the disposal of the returned SYSTEM 1 processors portion of the Rebate Program were recognized as cost of revenues. Both components were recorded as current liabilities. The key assumptions involved in the estimates associated with the Rebate Program included: the number and age of SYSTEM 1 processors eligible for rebates under the Rebate Program, the number of Customers that would elect to participate in the Rebate Program, the proportion of Customers that would choose each rebate option, and the estimated per unit costs of disposal.

The Rebate Program ended August 2, 2012. Customers utilized rebates totaling approximately $66.6 million on orders placed since the initiation of the Rebate Program. 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 remaining recorded accrual is $0.2 million as of March 31, 2013.

The SYSTEM 1 class action settlement was initially recognized during the third quarter of fiscal 2011. The claim submission deadline was December 31, 2012. As a result, during fiscal 2013 we adjusted the liability related to the SYSTEM 1 class action settlement. The pretax adjustments amounted to $16.8 million, and were recorded as reductions to operating expenses.

Self-Insurance Liabilities. We record a liability for self-insured risks that we retain for general and product liabilities, workers' compensation, and automobile liabilities based on actuarial calculations. We use our historical loss experience and actuarial methods to calculate the estimated liability. This liability includes estimated amounts for both losses and incurred but not reported claims. We review the assumptions used to calculate the estimated liability at least annually to evaluate the adequacy of the amount recorded. We maintain insurance policies to cover losses greater than our estimated liability, which are subject to the terms and conditions of those policies. The obligation covered by insurance contracts will remain on the balance sheet as we remain liable to the extent insurance carriers do not meet their obligation. Estimated amounts receivable under the contracts are included in Part II, Item 8. titled, "Financial Data and Supplementary Data", in our consolidated balance sheets. Our accrual for self-insured risk retention as of March 31, 2013 and 2012 was $14.1 million and $10.8 million, respectively.

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

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

Warranty Reserves. We generally offer a limited one-year parts and labor warranty on our capital equipment. The specific terms and conditions of warranties may vary depending on the product sold and the country where we conduct business. We record a liability for the estimated cost of product warranties in the period revenues are recognized. We estimate warranty expenses based primarily on historical warranty claim experience. While we have extensive quality programs and processes and actively monitor and evaluate the quality of suppliers, actual warranty experience could be different from our estimates. If actual product failure rates, material usage, or service costs are different from our estimates, we may have to record an adjustment to the estimated warranty liability. As of March 31, 2013 and 2012, we had accrued $12.7 million and $11.2 million, respectively, for warranty exposures.

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

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

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We are subject to taxation from United States federal, state and local, and foreign jurisdictions. Tax positions are settled primarily through the completion of audits within each individual tax jurisdiction or the closing of a statute of limitation. Changes in applicable tax law or other events may also require us to revise past estimates. The IRS routinely conducts audits of our federal income tax returns.

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

Benefit Plans. We provide defined benefit pension plans for certain former manufacturing and plant administrative personnel as determined by collective bargaining agreements or employee benefit standards set at the time of acquisition of certain businesses. As of March 31, 2013, we sponsored defined benefit pension plans for eligible participants in the United States. In addition, as of March 31, 2013, we sponsored an unfunded post-retirement welfare benefits plan for two groups of United States retirees, including the same retirees who receive pension benefits under the United States defined benefit pension plan. Benefits under this plan include retiree life insurance and retiree medical insurance, including prescription drug coverage.

Employee pension and post-retirement welfare benefits plans are a cost of conducting business and represent obligations that will be settled far in the future and therefore, require us to use estimates and make certain assumptions to calculate the expense and liabilities related to the plans. Changes to these estimates and assumptions can result in different expense and liability amounts. Future actual experience may be significantly different from our current expectations. We believe that the most critical assumptions used to determine net periodic benefit costs and projected benefit obligations are the expected long-term rate of return on plan assets and the discount rate. A summary of significant assumptions used to determine the March 31, 2013 projected benefit obligations and the fiscal 2013 net periodic benefit costs is as follows:

| | U.S. Defined Benefit Pension Plan | | Other Post-Retirement Plan | |
|---|---|---|---|---|
| Funding Status | Funded | | Unfunded | |
| Assumptions used to determine March 31, 2013 benefit obligations: | | | | |
| Discount rate | 3.50 | % | 3.00 | % |
| Assumptions used to determine fiscal 2013 net periodic benefit costs: | | | | |
| Discount rate | 4.25 | % | 3.75 | % |
| Expected return on plan assets | 8.00 | % | n/a | |

NA – Not applicable.

We develop our expected long-term rate of return on plan assets assumptions by evaluating input from third-party professional advisors, taking into consideration the asset allocation of the portfolios, and the long-term asset class return expectations. Generally, net periodic benefit costs and projected benefit obligations both increase as the expected long-term rate of return on plan assets assumption decreases. Holding all other assumptions constant, lowering the expected long-term rate of return on plan assets assumption for our funded defined benefit pension plans by 50 basis points would have increased the fiscal 2013 benefit costs by $0.2 million. The projected benefit obligations at March 31, 2013 would remain approximately the same.

We develop our discount rate assumptions by evaluating input from third-party professional advisors, taking into consideration the current yield on country specific investment grade long-term bonds which provide for similar cash flow streams as our projected benefit obligations. Generally, the projected benefit obligations and the net periodic benefit costs both increase as the discount rate assumption decreases. Holding all other assumptions constant, lowering the discount rate assumption for our defined benefit pension plans and for the other post-retirement plan by 50 basis points would have increased the fiscal 2013 net periodic benefit costs by approximately $0.05 million and would have increased the projected benefit obligations by approximately $3.4 million at March 31, 2013.

We have made assumptions regarding healthcare costs in computing our other post-retirement benefit obligation. The assumed rates of increase generally decline ratably over a five year-period from the assumed current year healthcare cost trend rate of 8% to the assumed long-term healthcare cost trend rate. A 100 basis point change in the assumed healthcare cost trend rate (including medical, prescription drug, and long-term rates) would have had the following effect at March 31, 2013:

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| | 100 Basis Point | |
|---|---|---|
| (dollars in thousands) | Increase | Decrease |
| Effect on total service and interest cost components | $6 | $(6 ) |
| Effect on postretirement benefit obligation | 152 | (145 ) |

We recognize an asset for the overfunded status or a liability for the underfunded status of defined benefit pension and post-retirement benefit plans in our balance sheets. This amount is measured as the difference between the fair value of plan assets and the benefit obligation (the projected benefit obligation for pension plans and the accumulated post-retirement benefit obligation for other post-retirement benefit plans). Changes in the funded status of the plans are recorded in other comprehensive income in the year they occur. We measure plan assets and obligations as of the balance sheet date. Note 10 to our consolidated financial statements titled, “Benefit Plans,” contains additional information about our pension and other post-retirement welfare benefits plans.

Share-Based Compensation. We measure the estimated fair value for share-based compensation awards, including grants of employee stock options at the grant date and recognize the related compensation expense over the period in which the share-based compensation vests. We selected the Black-Scholes-Merton option pricing model as the most appropriate method for determining the estimated fair value of our share-based compensation awards. This model involves assumptions that are judgmental and affect share-based compensation expense.

Share-based compensation expense was $8.9 million in fiscal 2013, $7.9 million in fiscal 2012 and $10.2 million in fiscal 2011. Note 15 to our consolidated financial statements titled, “Share-Based Compensation,” contains additional information about our share-based compensation plans.

## RECENTLY ISSUED ACCOUNTING STANDARDS IMPACTING THE COMPANY

Recently issued accounting standards that are relevant to us are presented in note 1 to our consolidated financial statements titled, “Nature of Operations and Summary of Significant Accounting Policies.”

## INFLATION

Our business has not been significantly impacted by the overall effects of inflation. We monitor the prices we charge for our products and services on an ongoing basis and plan to adjust those prices to take into account future changes in the rate of inflation. However, we may not be able to completely offset the impact of inflation.

## FORWARD-LOOKING STATEMENTS

This Form 10-K may contain statements concerning certain trends, expectations, forecasts, estimates, or other forward-looking information affecting or relating to the Company or its industry, products or activities that are intended to qualify for the protections afforded "forward-looking statements" under the Private Securities Litigation Reform Act of 1995 and other laws and regulations. Forward-looking statements speak only as to the date of this report, and may be identified by the use of forward-looking terms such as "may," "will," "expects," "believes," "anticipates," "plans," "estimates," "projects," "targets," "forecasts," "outlook," "impact," "potential," "confidence," "improve," "optimistic," "deliver," "comfortable," "trend", and "seeks," or the negative of such terms or other variations on such terms or comparable terminology. Many important factors could cause actual results to differ materially from those in the forward-looking statements including, without limitation, disruption of production or supplies, changes in market conditions, political events, pending or future claims or litigation, competitive factors, technology advances, actions of regulatory agencies, and changes in laws, government regulations, labeling or product approvals or the application or interpretation thereof. Other risk factors are described herein and in the Company's other securities filings. Many of these important factors are outside STERIS's control. No assurances can be provided as to any result or the timing of any outcome regarding matters described herein or otherwise with respect to any regulatory action, administrative proceedings, government investigations, litigation, warning letters, consent decree, transition, cost reductions, business strategies, earnings or revenue trends or future financial results (including without limitation regulatory matters related to SYSTEM 1E or its accessories). References to products, the consent decree, the transition or rebate program, or the class action settlement, are summaries only and should not be considered the specific terms of the decree, settlement, program or product clearance or literature. Unless legally required, the Company does not undertake to update or revise any forward-looking statements even if events make clear that any projected results, express or implied, will not be realized. Other potential risks and uncertainties that could cause actual results to differ materially from those in the forward-looking statements include, without limitation, (a) the potential for increased pressure on pricing or costs that leads to erosion of profit margins, (b) the possibility that market demand will not develop for new technologies, products or applications, or business initiatives will take longer, cost more or produce lower benefits than anticipated, (c) the possibility that application of or compliance with laws, court rulings, certifications, regulations, regulatory actions, including without

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limitation those relating to FDA warning notices or letters, government investigations, the SYSTEM 1E device, the outcome of any pending FDA requests, inspections or submissions, or other requirements or standards may delay, limit or prevent new product introductions, affect the production and marketing of existing products or services or otherwise affect Company performance, results, prospects or value, (d) the potential of international unrest, economic downturn or effects of currencies, tax assessments, adjustments or anticipated rates, raw material costs or availability, benefit or retirement plan costs, or other regulatory compliance costs, (e) the possibility of reduced demand, or reductions in the rate of growth in demand, for the Company's products and services, (f) the possibility that anticipated growth, cost savings, new product acceptance, performance or approvals, including without limitation SYSTEM 1E and accessories thereto, or other results may not be achieved, or that transition, labor, competition, timing, execution, regulatory, governmental, or other issues or risks associated with our business, industry or initiatives including, without limitation, the consent decree, and the transition from the SYSTEM 1 processing system and adjustments to related reserves or those matters described in this Form 10-K for the year ended March 31, 2013 and other securities filings, may adversely impact Company performance, results, prospects or value, (g) the possibility that anticipated financial results or benefits of recent acquisitions will not be realized or will be other than anticipated, (h) the effect of the contraction in credit availability, as well as the ability of our Customers and suppliers to adequately access the credit markets when needed, and (i) those risks described in our securities filings including this Annual Report on Form 10-K for the year ended March 31, 2013.

## ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

In the ordinary course of business, we are exposed to various risks, including, but not limited to, interest rate, foreign currency, and commodity risks. These risks are described in the sections that follow.

### INTEREST RATE RISK

As of March 31, 2013, we had $410.0 million in fixed rate senior notes outstanding. As of March 31, 2013, we had $82.3 million in outstanding borrowings under our revolving credit facility. Borrowings under the revolving credit facility are exposed to changes in interest rates in the case of floating rate revolving credit facility borrowings. We monitor our interest rate risk, but do not engage in any hedging activities using derivative financial instruments. For additional information regarding our debt structure, refer to note 7 to our Consolidated Financial Statements titled, "Debt."

### FOREIGN CURRENCY RISK

We are exposed to the impact of foreign currency exchange fluctuations. This foreign currency exchange risk arises when we conduct business in a currency other than the U.S. dollar. For most international operations, local currencies have been determined to be the functional currencies. The financial statements of international subsidiaries are translated to their U.S. dollar equivalents at end-of-period exchange rates for assets and liabilities and at average currency exchange rates for revenues and expenses. Translation adjustments for international subsidiaries whose local currency is their functional currency are recorded as a component of accumulated other comprehensive income (loss) within shareholders' equity. Note 19 to our consolidated financial statements titled, "Accumulated Other Comprehensive Income (Loss)," contains additional information about the impact of translation on accumulated other comprehensive income (loss) and shareholders' equity. Transaction gains and losses arising from fluctuations in currency exchange rates on transactions denominated in currencies other than the functional currency are recognized in the Consolidated Statements of Income. Since we operate internationally and approximately one-fourth of our revenues and one-third of our cost of revenues are generated outside the United States, foreign currency exchange rate fluctuations can significantly impact our financial position, results of operations, and competitive position.

We enter into foreign currency forward contracts to hedge assets and liabilities denominated in foreign currencies, including inter-company transactions. We do not use derivative financial instruments for speculative purposes. At March 31, 2013, we held foreign currency forward contracts to buy 79.7 million Mexican pesos and 12.5 million Canadian dollars. At March 31, 2013, we held commodity swap contracts to buy 103 thousand pounds of nickel.

### COMMODITY RISK

We are dependent on basic raw materials, sub-assemblies, components, and other supplies used in our operations. Our financial results could be affected by the availability and changes in prices of these materials. Some of these materials are sourced from a limited number of suppliers. These materials are also key source materials for our competitors. Therefore, if demand for these materials rises, we may experience increased costs and/or limited supplies. As a result, we may not be able to acquire key production materials on a timely basis, which could impact our ability to produce products and satisfy incoming sales orders on a timely basis. In addition, the costs of these materials can rise suddenly and result in significantly higher costs of production. We believe that we have adequate primary and secondary sources of supply in each of our key materials and energy sources. Where appropriate, we enter into long-term supply contracts as a basis to guarantee a reliable supply. We also enter into commodity swap contracts to hedge price changes in a certain commodity that impacts raw materials included in our cost of revenues.

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ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

INDEX TO FINANCIAL STATEMENTS AND FINANCIAL STATEMENT SCHEDULE

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Board of Directors and Shareholders
STERIS Corporation

We have audited the accompanying consolidated balance sheets of STERIS Corporation and subsidiaries as of March 31, 2013 and 2012, and the related consolidated statements of income, comprehensive income, shareholders' equity, and cash flows for each of the three years in the period ended March 31, 2013. Our audits also included the financial statement schedule listed in the Index at Item 15(a). These financial statements and schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and schedule based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of STERIS Corporation and subsidiaries at March 31, 2013 and 2012, and the consolidated results of their operations and their cash flows for each of the three years in the period ended March 31, 2013, in conformity with U.S. generally accepted accounting principles. Also, in our opinion, the related financial statement schedule, when considered in relation to the basic financial statements taken as a whole, presents fairly in all material respects the information set forth therein.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), STERIS Corporation and subsidiaries' internal control over financial reporting as of March 31, 2013, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission, and our report dated May 30, 2013 expressed an unqualified opinion thereon.

/s/ ERNST & YOUNG LLP

Cleveland, Ohio
May 30, 2013

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STERIS CORPORATION AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(in thousands)

| March 31, | 2013 | 2012 |
|---|---|---|
| Assets | | |
| Current assets: | | |
| Cash and cash equivalents | $142,008 | $150,821 |
| Accounts receivable (net of allowances of $10,043 and $11,428, respectively) | 275,937 | 280,324 |
| Inventories, net | 144,443 | 157,712 |
| Deferred income taxes, net | 21,195 | 43,211 |
| Prepaid expenses and other current assets | 30,357 | 19,815 |
| Total current assets | 613,940 | 651,883 |
| Property, plant, and equipment, net | 431,952 | 386,409 |
| Goodwill and intangibles, net | 704,424 | 337,784 |
| Other assets | 10,793 | 29,620 |
| Total assets | $1,761,109 | $1,405,696 |
| Liabilities and equity | | |
| Current liabilities: | | |
| Accounts payable | $79,374 | $83,188 |
| Accrued payroll and other related liabilities | 54,316 | 29,899 |
| Accrued SYSTEM 1 Rebate Program and class action settlement | 253 | 69,065 |
| Accrued expenses and other | 84,894 | 96,243 |
| Total current liabilities | 218,837 | 278,395 |
| Long-term indebtedness | 492,290 | 210,000 |
| Deferred income taxes, net | 44,924 | 42,703 |
| Other liabilities | 58,078 | 51,934 |
| Total liabilities | $814,129 | $583,032 |
| Commitments and contingencies (see note 11) | | |
| Serial preferred shares, without par value; 3,000 shares authorized; no shares issued or outstanding | — | — |
| Common shares, without par value; 300,000 shares authorized; 70,040 shares issued; 58,759 and 57,733 shares outstanding, respectively | 239,648 | 244,091 |
| Common shares held in treasury, 11,281 and 12,307 shares, respectively | (321,801) | (350,718) |
| Retained earnings | 1,031,183 | 914,401 |
| Accumulated other comprehensive income | (4,088) | 13,627 |
| Total shareholders' equity | 944,942 | 821,401 |
| Noncontrolling interest | 2,038 | 1,263 |
| Total equity | 946,980 | 822,664 |
| Total liabilities and equity | $1,761,109 | $1,405,696 |

See notes to consolidated financial statements.

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

| Years Ended March 31, | 2013 | 2012 | 2011 |
|---|---|---|---|
| Revenues: | | | |
| Product | $967,362 | $928,129 | $743,838 |
| Service | 534,540 | 478,681 | 463,610 |
| Total revenues | 1,501,902 | 1,406,810 | 1,207,448 |
| Cost of revenues: | | | |
| Product | 550,899 | 551,995 | 494,463 |
| Service | 329,740 | 286,350 | 266,823 |
| Total cost of revenues | 880,639 | 838,345 | 761,286 |
| Gross profit | 621,263 | 568,465 | 446,162 |
| Operating expenses: | | | |
| Selling, general, and administrative | 337,694 | 309,552 | 325,468 |
| Research and development | 41,305 | 35,953 | 34,280 |
| Restructuring expenses | (565) | 644 | 1,202 |
| Total operating expenses | 378,434 | 346,149 | 360,950 |
| Income from operations | 242,829 | 222,316 | 85,212 |
| Non-operating expenses, net: | | | |
| Interest expense | 15,675 | 12,065 | 12,000 |
| Interest income and miscellaneous expense | 56 | (857) | (607) |
| Total non-operating expenses, net | 15,731 | 11,208 | 11,393 |
| Income before income tax expense | 227,098 | 211,108 | 73,819 |
| Income tax expense | 67,121 | 74,993 | 22,554 |
| Net income | $159,977 | $136,115 | $51,265 |
| Net income per common share | | | |
| Basic | $2.74 | $2.33 | $0.86 |
| Diluted | $2.72 | $2.31 | $0.85 |
| Cash dividends declared per common share outstanding | $0.74 | $0.66 | $0.56 |

See notes to consolidated financial statements.

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STERIS CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(in thousands)

| Years Ended March 31, | 2013 | 2012 | 2011 |
|---|---|---|---|
| Net income | $159,977 | $136,115 | 51,265 |
| Unrealized gain on available for sale securities | 112 | 70 | 192 |
| Amortization of pension and postretirement benefit plans costs, net of taxes of $2,706, $4,102 and $1,473, respectively) | (4,082) | (7,279) | (1,024) |
| Change in cumulative foreign currency translation adjustment | (13,745) | (14,352) | 23,029 |
| Total other comprehensive income (loss) | (17,715) | (21,561) | 22,197 |
| Comprehensive income | $142,262 | $114,554 | $73,462 |

See notes to consolidated financial statements.

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

| Years Ended March 31, | 2013 | 2012 | 2011 |
|---|---|---|---|
| Operating activities: | | | |
| Net income | $159,977 | $136,115 | $51,265 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | | |
| Depreciation, depletion, and amortization | 69,035 | 62,906 | 54,389 |
| Deferred income taxes | 23,751 | 22,093 | (43,071) |
| Share-based compensation expense | 8,917 | 7,858 | 10,186 |
| Loss on the disposal of property, plant, equipment, and intangibles, net | 294 | 664 | 1,800 |
| Other items | (4,120) | (4,667) | 8,129 |
| Changes in operating assets and liabilities, net of effects of acquisitions: | | | |
| Accounts receivable, net | 21,866 | (6,517) | (54,517) |
| Inventories, net | 28,015 | 11,833 | (42,233) |
| Other current assets | (8,889) | 385 | 2,227 |
| Accounts payable | (12,536) | (9,120) | 23,714 |
| Accrued SYSTEM 1 Rebate Program and class action settlement | (68,812) | (58,618) | 127,683 |
| Accruals and other, net | 10,317 | (13,560) | (21,828) |
| Net cash provided by operating activities | 227,815 | 149,372 | 117,744 |
| Investing activities: | | | |
| 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 |
| Equity Investments | — | — | (16,900) |
| Acquisition of business, net of cash acquired | (399,676) | (34,635) | (4,000) |
| Net cash used in investing activities | (487,054) | (101,275) | (97,041) |
| Financing activities: | | | |
| Proceeds from the issuance of long-term obligations | 200,000 | — | — |
| Proceeds under credit facilities, net | 82,290 | — | — |
| Deferred financing fees and debt issuance costs | (1,924) | — | — |
| Repurchases of common shares | (8,002) | (56,751) | (29,965) |
| Cash dividends paid to common shareholders | (43,195) | (38,560) | (33,228) |
| Stock option and other equity transactions, net | 23,019 | 5,723 | 12,730 |
| Tax benefit from stock options exercised | 2,058 | 1,514 | 2,525 |
| Net cash provided by (used in) financing activities | 254,246 | (88,074) | (47,938) |
| Effect of exchange rate changes on cash and cash equivalents | (3,820) | (2,218) | 5,280 |
| Decrease in cash and cash equivalents | (8,813) | (42,195) | (21,955) |
| Cash and cash equivalents at beginning of period | 150,821 | 193,016 | 214,971 |
| Cash and cash equivalents at end of period | $142,008 | $150,821 | $193,016 |

See notes to consolidated financial statements.

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STERIS CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY
(in thousands)

| | Common Shares | | Treasury Shares | | Retained Earnings | Accumulated Other Comprehensive Income (Loss) | Non-controlling Interest | Total Equity |
|---|---|---|---|---|---|---|---|---|
| | Number | Amount | Number | Amount | | | | |
| Balance at March 31, 2010 | 59,227 | $237,165 | 10,813 | $(295,251) | $798,809 | $ 12,991 | $ 780 | $754,494 |
| Comprehensive income: | | | | | | | | |
| Net income | — | — | — | — | 51,265 | — | — | 51,265 |
| Other comprehensive income | — | — | — | — | — | 22,197 | — | 22,197 |
| Repurchases of common shares | (952) | — | 952 | (29,965) | — | — | — | (29,965) |
| Equity compensation programs | 847 | 1,653 | (847) | 19,408 | — | — | — | 21,061 |
| Tax benefit of stock options exercised | — | 2,525 | — | — | — | — | — | 2,525 |
| Cash dividends – $.56 per common share | — | — | — | — | (33,228) | — | — | (33,228) |
| Change in noncontrolling interest | — | — | — | — | — | — | 316 | 316 |
| Balance at March 31, 2011 | 59,122 | $241,343 | 10,918 | $(305,808) | $816,846 | $ 35,188 | $ 1,096 | $788,665 |
| Comprehensive income: | | | | | | | | |
| Net income | — | — | — | — | 136,115 | — | — | 136,115 |
| Other comprehensive loss | — | — | — | — | — | (21,561) | — | (21,561) |
| Repurchases of common shares | (1,887) | — | 1,887 | (56,751) | — | — | — | (56,751) |
| Equity compensation programs | 498 | 1,234 | (498) | 11,841 | — | — | — | 13,075 |
| Tax benefit of stock options exercised | — | 1,514 | — | — | — | — | — | 1,514 |
| | — | — | — | — | (38,560) | — | — | (38,560) |

| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| Cash dividends – $0.66 per common share | | | | | | | | |
| Change in noncontrolling interest | — | — | — | — | — | — | 167 | 167 |
| Balance at March 31, 2012 | 57,733 | $244,091 | 12,307 | $(350,718) | $914,401 | $ 13,627 | $ 1,263 | $822,664 |
| Comprehensive income: | | | | | | | | |
| Net income | — | — | — | — | 159,977 | — | — | 159,977 |
| Other comprehensive loss | — | — | — | — | — | (17,715) | — | (17,715) |
| Repurchases of common shares | (257) | — | 257 | (8,002) | — | — | — | (8,002) |
| Equity compensation programs | 1,283 | (6,501) | (1,283) | 36,919 | — | — | — | 30,418 |
| Tax benefit of stock options exercised | — | 2,058 | — | — | — | — | — | 2,058 |
| Cash dividends – $0.74 per common share | — | — | — | — | (43,195) | — | — | (43,195) |
| Change in noncontrolling interest | — | — | — | — | — | — | 775 | 775 |
| Balance at March 31, 2013 | 58,759 | $239,648 | 11,281 | $(321,801) | $1,031,183 | $ (4,088) | $ 2,038 | $946,980 |

See notes to consolidated financial statements.

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STERIS CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(dollars in thousands, except per share amounts)

1. NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations. STERIS Corporation, an Ohio corporation, together with its subsidiaries, develops, manufactures, and markets infection prevention, contamination control, microbial reduction, and procedural support products and services for healthcare, pharmaceutical, scientific, research, industrial, and governmental Customers throughout the world. As used in this annual report, STERIS Corporation and its subsidiaries together are called "STERIS," the "Company," "we," "us," or "our," unless otherwise noted.

We operate in three reportable business segments: Healthcare, Life Sciences, and STERIS Isomedix Services ("Isomedix"). We describe our operating segments in note 12 titled, "Business Segment Information". Our fiscal year ends on March 31. References in this Annual Report to a particular "year" or "year-end" mean our fiscal year. The significant accounting policies applied in preparing the accompanying consolidated financial statements of the Company are summarized below:

Principles of Consolidation. The accompanying consolidated financial statements include the accounts of the Company and its wholly-owned and majority-owned subsidiaries. We eliminate inter-company accounts and transactions when we consolidate these accounts.

Use of Estimates. The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and related notes to financial statements. Actual results could differ from those estimates. On an ongoing basis, we revise the estimates and assumptions as new information becomes available.

Cash Equivalents and Supplemental Cash Flow Information. Cash equivalents are all highly liquid investments with a maturity of three months or less when purchased. We invest our excess cash in short-term instruments including money market funds and time deposits with major banks and financial institutions. We select investments in accordance with the criteria established in our investment policy. Our investment policy specifies, among other things, maturity, credit quality and concentration restrictions with the objective of preserving capital and maintaining adequate liquidity.

Information supplementing our Consolidated Statements of Cash Flows is as follows:

| Years Ended March 31, | 2013 | 2012 | 2011 |
|---|---|---|---|
| Cash paid during the year for: | | | |
| Interest | $14,115 | $12,496 | $12,496 |
| Income taxes | 38,475 | 52,213 | 64,372 |
| Cash received during the year for income tax refunds | 1,096 | 408 | 3,067 |

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

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

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

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

STERIS CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(dollars in thousands, except per share amounts)

Accounts Receivable. Accounts receivable are presented at their face amount, less allowances for sales returns and uncollectible accounts. Accounts receivable consist of amounts billed and currently due from Customers and amounts earned but unbilled. We generally obtain and perfect security interest in products sold in the United States when we have a concern with the Customer's risk profile.

We maintain an allowance for uncollectible accounts receivable for estimated losses in the collection of amounts owed by Customers. We estimate the allowance based on analyzing a number of factors, including amounts written off historically, Customer payment practices, and general economic conditions. We also analyze significant Customer accounts on a regular basis and record a specific allowance when we become aware of a specific Customer's inability to pay. As a result, the related accounts receivable are reduced to an amount that we reasonably believe is collectible.

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

Inventories, net. Inventories are stated at the lower of their cost or market value. We determine cost based upon a combination of the last-in, first-out ("LIFO") and first-in, first-out ("FIFO") cost methods. For inventories valued using the LIFO method, we believe that the use of the LIFO method results in a matching of current costs and revenues. Inventories valued using the LIFO method represented approximately 38.6% and 37.7% of total inventories at March 31, 2013 and 2012, respectively. Inventory costs include material, labor, and overhead. If we had used only the FIFO method of inventory costing, inventories would have been $18,944 and $18,158 higher than those reported at March 31, 2013 and 2012, respectively.

We review the net realizable value of inventory on an ongoing basis, considering factors such as deterioration, obsolescence, and other items. We record an allowance for estimated losses when the facts and circumstances indicate that particular inventories will not be usable. If future market conditions vary from those projected, and our estimates prove to be inaccurate, we may be required to write-down inventory values and record an adjustment to cost of revenues.

Property, Plant, and Equipment. Our property, plant, and equipment consists of land and land improvements, buildings and leasehold improvements, machinery and equipment, information systems, radioisotope (cobalt-60), and construction in progress. Property, plant, and equipment are presented at cost less accumulated depreciation and depletion. We capitalize additions and improvements. Repairs and maintenance are charged to expense as they are incurred.

Land is not depreciated and construction in progress is not depreciated until placed in service. Depreciation of most assets is computed on the cost less the estimated salvage value by using the straight-line method over the estimated remaining useful lives. Depletion of radioisotope is computed using the annual decay factor of the material, which is similar to the sum-of-the-years-digits method.

We generally depreciate or deplete property, plant, and equipment over the useful lives presented in the following table:

| Asset Type | Useful Life (years) |
|---|---|
| Land improvements | 3-40 |
| Buildings and leasehold improvements | 2-50 |
| Machinery and equipment | 2-20 |
| Information Systems | 2-20 |
| Radioisotope (cobalt-60) | 20 |

When we sell, retire, or dispose of property, plant, and equipment, we remove the asset's cost and accumulated depreciation from our Consolidated Balance Sheets. We recognize the net gain or loss on the sale or disposition in the

Consolidated Statements of Income in the period when the transaction occurs.

Interest. We capitalize interest costs incurred during the construction of long-lived assets. We capitalized interest costs of $585 and $705 for the years ended March 31, 2013 and 2012, respectively.

Total interest expense for the years ended March 31, 2013, 2012, and 2011 was $15,675, $12,065, and $12,000, respectively.

Identifiable Intangible Assets. Our identifiable intangible assets include product technology rights, trademarks, licenses, and Customer relationships. We record these assets at cost, or when acquired as part of a business acquisition, at estimated fair value. We generally amortize identifiable intangible assets over periods ranging from 5 to 20 years using the straight-line method. Our intangible assets also include indefinite-lived assets including certain trademarks and tradenames that were acquired in fiscal 2013. These assets will be tested periodically for impairment.

Investments. Investments in marketable securities are stated at fair value and are included in "Other assets" on the Consolidated Balance Sheets. Unrealized gains and losses on marketable securities classified as available-for-sale are recorded in Accumulated Other Comprehensive Income (Loss).

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

Acquisitions of Business. Assets acquired and liabilities assumed in a business combination are accounted for at fair value on the date of acquisition. Costs related to the acquisition are expensed as incurred.

Goodwill. We perform our annual impairment test for goodwill in the third quarter of each year. We may consider qualitative indicators of the fair value of a reporting unit when it is unlikely that a reporting unit has impaired goodwill. We may also utilize a discounted cash flow analysis that requires certain assumptions and estimates be made regarding market conditions and our future profitability. In those circumstances we test goodwill for impairment by reviewing the book value compared to the fair value at the reporting unit level. We calculate the fair value of our reporting units based on the present value of estimated future cash flows. Considerable management judgment is necessary to evaluate the impact of operating and macroeconomic changes and to estimate future cash flows to measure fair value. Assumptions used in our impairment evaluations, such as forecasted growth rates and cost of capital, are consistent with internal projections and operating plans. We believe such assumptions and estimates are also comparable to those that would be used by other marketplace participants.

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

The Rebate Program ended August 2, 2012. Customers utilized rebates totaling approximately $66,600 on orders placed since the initiation of the Rebate Program. 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 remaining recorded accrual is $210 as of March 31, 2013.

Self-Insurance Liabilities. We record a liability for self-insured risks that we retain for general and product liabilities, workers’ compensation, and automobile liabilities based on actuarial calculations. We use our historical loss experience and actuarial methods to calculate the liability. This liability includes estimates for both losses and incurred but not reported claims. We review the assumptions used to calculate the estimated liability at least annually to evaluate the adequacy of the amount recorded. We maintain insurance policies to cover losses greater than our estimated liability, which are subject to the terms and conditions of those policies.

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

Benefit Plans. We sponsor defined benefit pension and other post-retirement welfare benefit plans for certain former employees. We determine our costs and obligations related to these plans by evaluating input from third-party professional advisors. These costs and obligations are affected by assumptions including the discount rate, expected long-term rate of return on plan assets, the annual rate of change in compensation for eligible employees, estimated changes in costs of healthcare benefits, and other factors. We review the assumptions used on an annual basis.

We recognize an asset for the overfunded status or a liability for the underfunded status of defined benefit pension and post-retirement benefit plans in our consolidated balance sheets. This amount is measured as the difference between the fair value of plan assets and the benefit obligation (the projected benefit obligation for pension plans and the accumulated post-retirement benefit obligation for other post-retirement benefit plans). Changes in the funded status of the plans are recorded in other comprehensive income in the year they occur. We measure plan assets and obligations as of the balance sheet date.

We provide additional information about our pension and other post-retirement welfare benefits plans in note 10 to our consolidated financial statements titled, “Benefit Plans.”

Fair Value of Financial Instruments.  Except for long-term debt, our financial instruments are highly liquid or have short-term maturities.

We provide additional information about the fair value of our financial instruments in note 18 titled, “Fair Value Measurements.”

Foreign Currency Translation.  Most of our operations use their local currency as their functional currency. Financial statements of international subsidiaries are translated into U.S. dollars using the exchange rate at each balance sheet date for assets and liabilities and a weighted average exchange rate for each period for revenues, expenses, gains and losses. Translation adjustments for international subsidiaries whose local currency is their functional currency are recorded as a component of accumulated other comprehensive income (loss) within shareholders’ equity. Transaction gains and losses resulting from fluctuations in currency exchange rates on transactions denominated in currencies other than the functional currency are recognized as incurred in the accompanying Consolidated Statements of Income, except for certain inter-company balances designated as long-term investments.

Forward and Swap Contracts.  We enter into foreign currency forward contracts to hedge assets and liabilities denominated in foreign currencies, including inter-company transactions. We do not use derivative financial instruments for speculative purposes. These contracts are marked to market, with gains and losses recognized within “Selling, general, and administrative expenses” or "Cost of revenues" in the accompanying Consolidated Statements of Income.

Warranty.  Warranties are provided on the sale of certain of our products and services and an accrual for estimated future claims is recorded at the time revenue is recognized. We estimate warranty expense based primarily on historical warranty claim experience.

Shipping and Handling.  We record shipping and handling costs in costs of revenues. Shipping and handling costs charged to Customers are recorded as revenues in the period the product revenues are recognized.

Advertising Expenses.  Costs incurred for communicating, advertising and promoting our products are generally expensed when incurred as a component of Selling, General and Administrative Expense. We incurred $6,880, $5,857, and $6,013 of advertising costs during the years ended March 31, 2013, 2012, and 2011, respectively.

Research and Development.  We incur research and development costs associated with commercial products and expense these costs as incurred. If a Customer reimburses us for research and development costs, the costs are charged to the related contracts as costs of revenues.

Income Taxes.  Our income tax expense includes United States federal, state and local, and foreign income taxes, and is based on reported pre-tax income. We defer income taxes for all temporary differences between pre-tax financial and taxable income and between the book and tax basis of assets and liabilities. We record valuation allowances to reduce net deferred tax assets to an amount that we expect will more-likely-than-not be realized. In making such a determination, we consider all available information, including scheduled reversals of deferred tax liabilities, projected future taxable income, tax planning strategies, and recent financial operations. In the event we were to determine that we would be able to realize our deferred income tax assets in the future in excess of their net recorded amount, we would make an adjustment to the valuation allowance which would reduce the provision for income taxes and the effective tax rate.

We evaluate uncertain tax positions in accordance with a two-step process. The first step is recognition: The determination of whether or not it is more-likely-than-not that a tax position will be sustained upon examination, including resolution of any related appeals or litigation processes, based on the technical merits of the position. In evaluating whether a tax position has met the more-likely-than-not recognition threshold, we presume that the position will be examined by the appropriate tax authority and that the tax authority will have full knowledge of all relevant information. The second step is measurement: A tax position that meets the more-likely-than-not threshold is measured to determine the amount of benefit to recognize in the financial statements. The measurement process requires the determination of the range of possible settlement amounts and the probability of achieving each of the possible settlements. The tax position is measured at the largest amount of benefit that is greater than fifty percent likely of being realized upon ultimate settlement. No tax benefits are recognized for positions that do not meet the more-likely-than-not threshold. Tax positions that previously failed to meet the more-likely-than-not threshold should be recognized in the first subsequent financial reporting period in which that threshold is met. Previously recognized tax positions that no longer meet the more-likely-than-not recognition threshold should be derecognized in the first subsequent financial reporting period in which the threshold is no longer met.

We describe income taxes further in note 9 to our consolidated financial statements titled, "Income Taxes."

Medical Device Excise Tax. The Medical Device Excise Tax became effective January 1, 2013. The excise tax was mandated by the 2010 health care reform legislation and assesses a 2.3% tax on the sale or use of certain medical devices that are sold or manufactured in the United States. Many of our products are subject to the excise tax. The tax is included in cost of revenues in the period of sale.

Share-Based Compensation. We describe share-based compensation in note 15 to our consolidated financial statements titled, "Share-Based Compensation." We measure the cost of employee services received in exchange for an award of equity instruments based on the grant-date fair value of the award. We record liability awards at fair value each reporting period and the change in fair value is reflected as share-based compensation expense in our Consolidated Statements of Income. The expense is classified as cost of goods sold, selling, general and administrative expenses or research and development expenses in a manner consistent with the employee's compensation and benefits. These costs are recognized in the Consolidated Statement of Income over the period during which an employee is required to provide service in exchange for the award. Excess tax benefits realized from the exercise of stock options are reported as a financing cash inflow.

Restructuring. We have recognized restructuring expenses as incurred. In addition, the property, plant, and equipment associated with the related facilities were assessed for impairment as performed on an annual basis. Asset impairment and accelerated depreciation expenses primarily relate to inventory write-downs for rationalized products and adjustments in the carrying value of the closed facilities to their estimated fair value. In addition, the remaining useful lives of other property, plant, and equipment associated with the related operations were reevaluated based on the respective restructuring plan, resulting in the acceleration of depreciation and amortization of certain assets.

Recently Issued Accounting Standards Impacting the Company

In February 2013, the FASB issued an accounting standards update titled "Presentation of Comprehensive Income: Reclassification Out of Accumulated Other Comprehensive Income," amending Accounting Standards Codification ASC Topic 220, "Comprehensive Income". This amended guidance requires an entity to report information about the amounts reclassified out of accumulated other comprehensive income (AOCI) by component. In addition, for significant items reclassified from AOCI to net income in their entirety, during the same reporting period, entities are required to report the effect on the line items on the face of the statement where net income is presented, or in the notes. For significant items that are not classified to net income in their entirety, entities are required to cross-reference to other disclosures that provide additional information about those amounts. The standards update is effective prospectively for fiscal periods beginning after December 15, 2012, with early adoption permitted. We anticipate adoption of the new standard during the first quarter of our fiscal year 2014. The anticipated adoption of this standard is not expected to impact our consolidated financial position, results of operations or cash flows.

In July 2012, the FASB issued an accounting standards update titled "Testing Indefinite-Lived Intangible Assets" for Impairment," amending certain sections of Subtopic 350-30 Intangibles-Goodwill and Other-General Intangibles Other than Goodwill. This amended guidance allows an entity to first assess qualitative factors to determine if it is more likely than not that the fair value of an indefinite-lived intangible asset is less than its carrying amount. If based on its qualitative assessment an entity concludes it is more likely than not that the fair value of an indefinite-lived intangible asset is less than its carrying amount, quantitative impairment testing is required. However, if an entity concludes otherwise, quantitative impairment testing is not required. The standards update is effective for annual and interim impairment tests performed for fiscal years beginning after September 15, 2012, with early adoption permitted. The anticipated adoption of this standard is not expected to impact our consolidated financial position, results of operations or cash flows.

In June 2011, the FASB issued an accounting standard update titled "Presentation of Comprehensive Income," amending Accounting Standards Codification ASC Topic 220, "Comprehensive Income." This guidance requires that all non-owner changes in stockholders' equity be presented either in a single continuous statement of comprehensive income or in two separate but consecutive statements. This guidance became effective retrospectively for the interim periods and annual periods beginning after December 15, 2011. As required by the standard, Consolidated Statements of Comprehensive Income have been presented. The adoption of this standard did not have an impact on our consolidated financial position, results of operations or cash flows.

STERIS CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(dollars in thousands, except per share amounts)

## 2. RESTRUCTURING

The following summarizes our restructuring plans announced in prior fiscal years. We recognize restructuring expenses as incurred. In addition, we assess the property, plant and equipment associated with the related facilities for impairment.

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

Since the inception of the Fiscal 2010 Restructuring Plan, we have incurred pre-tax expenses totaling $8,176 related to these actions, of which $7,072 was recorded as restructuring expenses and $1,104 was recorded in cost of revenues. We do not expect to incur any significant additional restructuring expenses related to this plan. These actions are intended to enhance profitability and improve efficiencies.

Fiscal 2008 Restructuring Plan. During the fourth quarter of fiscal 2008, we adopted a restructuring plan primarily focused on our North American operations (the "Fiscal 2008 Restructuring Plan"). As part of this plan, we announced the closure of two sales offices and the rationalization of certain products. We also reduced the workforce in certain support functions. Across all of our reporting segments approximately 90 employees, primarily located in North America, were directly impacted. These restructuring actions were designed to enhance profitability and improve efficiency by reducing ongoing operating costs.

Since the inception of the Fiscal 2008 Restructuring Plan, we have recorded pre-tax expenses totaling $13,892 of which $10,233 was recorded as restructuring expenses and $3,659 was recorded in cost of revenues. We do not expect to incur any significant additional restructuring expenses related to the Fiscal 2008 Restructuring Plan.

The following tables summarize our total pre-tax restructuring expenses for fiscal 2013, fiscal 2012 and fiscal 2011:

| Year Ended March 31, 2013 | Fiscal 2010 Restructuring Plan |
|---|---|
| Severance and other compensation related costs | $(918) |
| Lease termination obligation and other | 353 |
| Total restructuring charges | $(565) |

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

(1) Includes $9 in charges recorded in cost of revenues on Consolidated Statements of Income.

STERIS CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(dollars in thousands, except per share amounts)

| Year Ended March 31, 2011 | Fiscal 2010 Restructuring Plan (1) | Fiscal 2008 Restructuring Plan | Total |
|---|---|---|---|
| Severance and other compensation related costs | $454 | $— | $454 |
| Asset impairment and accelerated depreciation | 559 | (289) | 270 |
| Lease termination obligation and other | 595 | — | 595 |
| Other | 33 | — | 33 |
| Total restructuring charges | $1,641 | $(289) | $1,352 |

(1) Includes $150 in charges recorded in cost of revenues on Consolidated Statements of Income.

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

| | Fiscal 2010 Restructuring Plan | | | |
|---|---|---|---|---|
| | | Fiscal 2013 | | |
| | March 31, 2012 | Provision (1) | Payments/ Impairments (2) | March 31, 2013 |
| Severance and termination benefits | $659 | $(918) | $730 | $471 |
| Lease termination obligations | 947 | — | (791) | 156 |
| Other | 76 | 353 | (429) | — |
| Total | $1,682 | $(565) | $(490) | $627 |

(1) Includes curtailment benefit of $922 related to International defined benefit plan. Additional information is included in note 10, "Benefit Plans."
(2) Certain amounts reported include the impact of foreign currency movements relative to the U.S. dollar.

| | Fiscal 2010 Restructuring Plan | | | |
|---|---|---|---|---|
| | | Fiscal 2012 | | |
| | March 31, 2011 | Provision (1) | Payments/ Impairments (2) | March 31, 2012 |
| Severance and termination benefits | $1,993 | $(776) | $(558) | $659 |
| Product rationalization | — | 335 | (335) | — |
| Asset impairments and accelerated depreciation | — | 1,103 | (1,103) | — |
| Lease termination obligations | 1,790 | 139 | (982) | 947 |
| Other | 193 | 4 | (121) | 76 |
| Total | $3,976 | $805 | $(3,099) | |