

STERIS CORP  
Form 10-Q/A  
November 18, 2004  
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**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

WASHINGTON, D. C. 20549

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**Form 10-Q/A**  
**Amendment No. 1**

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

For the quarter ended September 30, 2004

Commission file number 0-20165

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**STERIS Corporation**

(Exact name of registrant as specified in its charter)

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Ohio  
(State or other jurisdiction of  
incorporation or organization)

34-1482024  
(IRS Employer  
Identification No.)

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**5960 Heisley Road,**

**Mentor, Ohio 44060-1834**  
(Address of principal executive offices)

**440-354-2600**  
(Registrant's telephone number,

including area code)

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

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act). Yes  No

The number of Common Shares outstanding as of October 29, 2004: 69,117,208

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**Explanatory Note**

This Form 10-Q/A is being filed solely to correct certain inadvertent errors in STERIS Corporation's Form 10-Q for the quarter ended September 30, 2004 that were made during the Edgarization process. These errors appeared solely in the table of Interest Expense, Net (on page 20 of the Form 10-Q as originally filed).

In addition, in light of the filing of this Form 10Q/A, we have changed the Exhibit Index in Item 6 to reflect the fact that Exhibits 3.2 and 15.1 were previously filed with the Form 10-Q as originally filed. We have also amended Exhibits 31.1, 31.2, and 32.1 to refer to the filing of this Form 10-Q/A.

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**Form 10-Q/A**

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**Table of Contents****PART I - FINANCIAL INFORMATION****ITEM 1. FINANCIAL STATEMENTS****STERIS CORPORATION****CONSOLIDATED BALANCE SHEETS**

(in thousands)

|   | September 30,<br>2004 | March 31,<br>2004   |
|---|-----------------------|---------------------|
|   | (Unaudited)           |                     |
| <b>Assets</b>   |                       |                     |
| <b>Current assets:</b>  |                       |                     |
| Cash and cash equivalents   | \$ 32,785             | \$ 80,408           |
| Accounts receivable (net of allowances of \$8,597 and \$8,623, respectively)  | 238,924               | 255,437             |
| Inventories   | 103,714               | 98,249              |
| Current portion of deferred income taxes  | 18,551                | 18,246              |
| Prepaid expenses and other current assets   | 11,913                | 10,338              |
| <b>Total current assets</b>   | <b>405,887</b>        | <b>462,678</b>      |
| Property, plant, and equipment, net   | 382,015               | 374,102             |
| Goodwill and intangibles, net   | 278,948               | 230,993             |
| Other assets  | 2,089                 | 2,037               |
| <b>Total assets</b>   | <b>\$ 1,068,939</b>   | <b>\$ 1,069,810</b> |
| <b>Liabilities and shareholders equity</b>  |                       |                     |
| <b>Current liabilities:</b>   |                       |                     |
| Current portion of long-term indebtedness   | \$ 2,186              | \$ 4,049            |
| Accounts payable  | 63,079                | 67,988              |
| Accrued income taxes  | 1,183                 | 2,277               |
| Accrued payroll and other related liabilities   | 37,641                | 41,972              |
| Accrued expenses and other  | 62,949                | 74,142              |
| <b>Total current liabilities</b>  | <b>167,038</b>        | <b>190,428</b>      |
| Long-term indebtedness  | 106,771               | 109,090             |
| Deferred income taxes   | 34,067                | 29,568              |
| Other liabilities   | 61,751                | 60,025              |
| <b>Total liabilities</b>  | <b>369,627</b>        | <b>389,111</b>      |
| Serial preferred shares, without par value; 3,000 shares authorized; no shares issued or outstanding                          |                       |                     |
| Common Shares, without par value; 300,000 shares authorized; issued and outstanding shares of 69,117 and 69,946, respectively | 201,368               | 224,999             |
| Retained earnings   | 488,056               | 451,546             |

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|  |                     |                     |
|--|---------------------|---------------------|
| Accumulated other comprehensive (loss) income:     |                     |                     |
| Minimum pension liability                          | (4,582)             | (4,582)             |
| Cumulative foreign currency translation adjustment | 14,470              | 8,736               |
|  | <u>          </u>   | <u>          </u>   |
| <b>Total shareholders' equity</b>                  | <b>699,312</b>      | <b>680,699</b>      |
|  | <u>          </u>   | <u>          </u>   |
| <b>Total liabilities and shareholders' equity</b>  | <b>\$ 1,068,939</b> | <b>\$ 1,069,810</b> |
|  | <u>          </u>   | <u>          </u>   |

See notes to consolidated financial statements.

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## STERIS CORPORATION

## CONSOLIDATED STATEMENTS OF INCOME

(in thousands, except per share amounts)

(Unaudited)

|   | Three Months Ended<br>September 30, |                  | Six Months Ended<br>September 30, |                  |
|---|-------------------------------------|------------------|-----------------------------------|------------------|
|   | 2004                                | 2003             | 2004                              | 2003             |
| <b>Revenues:</b>                        |                                     |                  |                                   |                  |
| Product                                 | \$ 176,612                          | \$ 177,476       | \$ 345,037                        | \$ 358,118       |
| Service                                 | 88,234                              | 79,913           | 174,606                           | 158,551          |
| <b>Total revenues</b>                   | <b>264,846</b>                      | <b>257,389</b>   | <b>519,643</b>                    | <b>516,669</b>   |
| <b>Cost of revenues:</b>                |                                     |                  |                                   |                  |
| Product                                 | 102,588                             | 101,924          | 197,782                           | 207,887          |
| Service                                 | 50,770                              | 44,851           | 100,481                           | 91,597           |
| <b>Total cost of revenues</b>           | <b>153,358</b>                      | <b>146,775</b>   | <b>298,263</b>                    | <b>299,484</b>   |
| <b>Gross profit</b>                     | <b>111,488</b>                      | <b>110,614</b>   | <b>221,380</b>                    | <b>217,185</b>   |
| <b>Operating expenses:</b>              |                                     |                  |                                   |                  |
| Selling, general, and administrative    | 71,944                              | 71,879           | 144,510                           | 144,559          |
| Research and development                | 8,677                               | 6,411            | 17,988                            | 14,078           |
| <b>Total operating expenses</b>         | <b>80,621</b>                       | <b>78,290</b>    | <b>162,498</b>                    | <b>158,637</b>   |
| <b>Income from operations</b>           | <b>30,867</b>                       | <b>32,324</b>    | <b>58,882</b>                     | <b>58,548</b>    |
| Interest expense, net                   | 685                                 | 499              | 1,386                             | 984              |
| <b>Income before income tax expense</b> | <b>30,182</b>                       | <b>31,825</b>    | <b>57,496</b>                     | <b>57,564</b>    |
| Income tax expense                      | 11,289                              | 11,456           | 20,986                            | 20,723           |
| <b>Net income</b>                       | <b>\$ 18,893</b>                    | <b>\$ 20,369</b> | <b>\$ 36,510</b>                  | <b>\$ 36,841</b> |
| <b>Net income per share - basic</b>     | <b>\$ 0.27</b>                      | <b>\$ 0.29</b>   | <b>\$ 0.53</b>                    | <b>\$ 0.53</b>   |
| <b>Net income per share - diluted</b>   | <b>\$ 0.27</b>                      | <b>\$ 0.29</b>   | <b>\$ 0.52</b>                    | <b>\$ 0.52</b>   |

See notes to consolidated financial statements.

**Table of Contents****STERIS CORPORATION****CONSOLIDATED STATEMENTS OF CASH FLOWS****(in thousands)****(Unaudited)**

|  | <b>Six Months Ended</b> |                  |
|--|-------------------------|------------------|
|  | <b>September 30,</b>    |                  |
|  | <b>2004</b>             | <b>2003</b>      |
| <b>Operating activities:</b>   |                         |                  |
| Net income   | \$ 36,510               | \$ 36,841        |
| Adjustments to reconcile net income to net cash provided by operating activities:            |                         |                  |
| Depreciation and amortization  | 24,322                  | 23,905           |
| Deferred income taxes  | 4,213                   | (27)             |
| Other items  | 5,214                   | 2,475            |
| Changes in operating assets and liabilities, excluding the effects of business acquisitions: |                         |                  |
| Accounts receivable  | 18,289                  | 11,488           |
| Inventories  | (3,241)                 | (23,521)         |
| Other current assets   | (1,542)                 | 440              |
| Accounts payable, net  | (8,028)                 | (23,985)         |
| Accruals and other, net  | (14,361)                | 1,872            |
| <b>Net cash provided by operating activities</b>   | <b>61,376</b>           | <b>29,488</b>    |
| <b>Investing activities:</b>   |                         |                  |
| Purchases of property, plant, equipment, and intangibles                                     | (25,535)                | (27,836)         |
| Purchase of business related assets  |                         | (2,900)          |
| Investments in businesses, net of cash acquired  | (52,923)                | (36,814)         |
| <b>Net cash used in investing activities</b>   | <b>(78,458)</b>         | <b>(67,550)</b>  |
| <b>Financing activities:</b>   |                         |                  |
| Net (payments) proceeds under credit facilities  | (2,158)                 | 33,900           |
| Payments on long-term obligations and capital leases   | (2,104)                 | (367)            |
| Repurchases of Common Shares   | (33,868)                | (14,139)         |
| Stock option and other equity transactions, net  | 7,589                   | 5,807            |
| <b>Net cash (used in) provided by financing activities</b>                                   | <b>(30,541)</b>         | <b>25,201</b>    |
| Effect of exchange rate changes on cash and cash equivalents                                 |                         | (742)            |
| Decrease in cash and cash equivalents  | (47,623)                | (13,603)         |
| Cash and cash equivalents at beginning of period   | 80,408                  | 25,941           |
| Cash and cash equivalents at end of period   | <b>\$ 32,785</b>        | <b>\$ 12,338</b> |

See notes to consolidated financial statements.





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**STERIS CORPORATION**

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

**For the Three and Six Months Ended**

**September 30, 2004 and 2003**

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

**1. Basis of Presentation**

Throughout this document, references to STERIS Corporation, STERIS, or the Company, are references to STERIS Corporation and its subsidiaries.

The Company's fiscal year ends on March 31. Reference to a particular year or year-end refers to the Company's fiscal year.

***Nature of Operations***

The Company develops, manufactures, and markets infection prevention, contamination control, microbial reduction, and surgical and critical care support products and services for healthcare, scientific, research, industrial, and governmental customers throughout the world. The Company operates in three business segments: Healthcare, Life Sciences, and STERIS Isomedix Services.

***Interim Financial Statements***

The accompanying unaudited consolidated financial statements of the Company have been prepared in accordance with U.S. generally accepted accounting principles for interim financial information and the instructions to Form 10-Q and Rule 10-01 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by U.S. generally accepted accounting principles for complete financial statements. In the opinion of management, the accompanying unaudited consolidated financial statements contain all material adjustments (consisting of normal recurring accruals and adjustments) necessary to present fairly the financial condition, results of operations, and cash flows of the Company for the periods presented.

The information included in this Quarterly Report should be read in conjunction with Management's Discussion and Analysis of Financial Condition and Results of Operations, Quantitative and Qualitative Disclosures About Market Risk, and the consolidated financial statements and notes thereto included in Items 7, 7A, and 8, respectively, of the Company's Annual Report on Form 10-K for the year ended March 31, 2004, filed with the Securities and Exchange Commission on June 14, 2004. The consolidated balance sheet at March 31, 2004 has been derived from the audited consolidated financial statements at that date, but does not include all of the information and footnotes required by U.S. generally accepted accounting principles for complete financial statements.

*Principles of Consolidation*

The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries. Intercompany accounts and transactions have been eliminated upon consolidation.

*Use of Estimates*

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions in certain circumstances that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting periods. Actual results could differ from these estimates and, therefore, operating results for the three and six month periods ended September 30, 2004 are not necessarily indicative of results that may be expected for the fiscal year ending March 31, 2005.

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**STERIS CORPORATION**

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

**For the Three and Six Months Ended**

**September 30, 2004 and 2003**

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

***Reclassifications***

Certain prior period amounts have been reclassified to conform to the current period's presentation.

***Significant Accounting Policies***

A detailed description of the Company's significant and critical accounting policies, estimates, and assumptions is included in the Company's Annual Report on Form 10-K for the year ended March 31, 2004 filed with the Securities and Exchange Commission on June 14, 2004 in the section of Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operations, titled, Critical Accounting Policies, Estimates, and Assumptions, and in Note 1 to the consolidated financial statements, Accounting Policies. The Company's significant and critical accounting policies, estimates, and assumptions have not changed materially from March 31, 2004.

***Stock-based Compensation***

The Company has granted nonqualified stock options to certain employees to purchase the Company's Common Shares at the market price on the date of grant. Stock options granted generally become exercisable to the extent of one-fourth of the optioned shares for each full year of employment following the date of grant and expire approximately 10 years after the date of grant, or earlier if an option holder ceases to be employed by the Company. Certain option agreements have provisions that provide for an adjustment to the normal vesting schedule, whereby, options vest on a prorated basis as defined by specific option agreements in the event of employment termination. The Company accounts for stock-based compensation under the provisions of Accounting Principles Board Opinion No. 25, Accounting for Stock Issued to Employees, as permitted by Statement of Financial Accounting Standards No. 123 (SFAS No. 123), Accounting for Stock-Based Compensation, as amended by Statement of Financial Accounting Standards No. 148, Accounting for Stock-Based Compensation - Transition and Disclosure, and accordingly recognizes no compensation expense when the exercise price equals the market price of the stock on the date of grant.

The following table illustrates the effect on the Company's net income, earnings per basic Common Share, and earnings per diluted Common Share, had compensation cost for all options been determined based upon the fair market value recognition provisions of SFAS No. 123:

**Three Months Ended      Six Months Ended**

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|   | September 30, |           | September 30, |           |
|---|---------------|-----------|---------------|-----------|
|   | 2004          | 2003      | 2004          | 2003      |
| <b>Net income:</b>  |               |           |               |           |
| As reported   | \$ 18,893     | \$ 20,369 | \$ 36,510     | \$ 36,841 |
| Less: Stock-based compensation expense, net of income taxes, assuming the fair value method | 1,270         | 1,509     | 2,727         | 2,872     |
| Pro forma   | \$ 17,623     | \$ 18,860 | \$ 33,783     | \$ 33,969 |
| <b>Earnings per share:</b>  |               |           |               |           |
| Basic:  |               |           |               |           |
| As reported   | \$ 0.27       | \$ 0.29   | \$ 0.53       | \$ 0.53   |
| Pro forma   | 0.25          | 0.27      | 0.49          | 0.49      |
| Diluted:  |               |           |               |           |
| As reported   | 0.27          | 0.29      | 0.52          | 0.52      |
| Pro forma   | 0.25          | 0.27      | 0.48          | 0.48      |

**Table of Contents****STERIS CORPORATION****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)****For the Three and Six Months Ended****September 30, 2004 and 2003****(dollars in thousands, except per share amounts)**

For the purpose of computing pro forma net income, the fair value of option grants was estimated at their grant date using the Black-Scholes option pricing model and the following assumptions for the three and six months ended September 30, 2004 and 2003:

|                         | Three Months Ended |             | Six Months Ended |             |
|-------------------------|--------------------|-------------|------------------|-------------|
|                         | September 30,      |             | September 30,    |             |
|                         | 2004               | 2003        | 2004             | 2003        |
| Risk free interest rate | 3.54%-5.50%        | 3.54%-6.46% | 3.54%-5.50%      | 3.54%-6.46% |
| Dividend yield          | 0%                 | 0%          | 0%               | 0%          |
| Expected volatility     | 45%                | 45%         | 45%              | 45%         |
| Option life (in years)  | 5                  | 5           | 5                | 5           |

The Black-Scholes option pricing model was developed for use in estimating the fair value of traded options that have no vesting restrictions and are fully transferable, characteristics that are not present in the Company's option grants. If the model permitted consideration of the unique characteristics of employee stock options, the resulting estimate of the fair value of the stock options could be different.

***Recently Issued Accounting Standards and Accounting Standards Pending Adoption***

In December 2003, the Medicare Prescription Drug, Improvement and Modernization Act of 2003 (the Act) was signed into law. The Act expands Medicare benefits, primarily adding a prescription drug benefit for Medicare-eligible retirees beginning in 2006. The law provides a federal subsidy to companies that sponsor post-retirement healthcare plans that provide prescription drug coverage. In May 2004, the Financial Accounting Standards Board issued FASB Staff Position No. 106-2 ( FSP No. 106-2 ), Accounting and Disclosure Requirements Related to the Medicare Prescription Drug, Improvement and Modernization Act of 2003, that provides guidance on the accounting for the effects of the Act for employers that sponsor post-retirement healthcare plans with prescription drug benefits. FSP No. 106-2 also requires those employers to provide certain disclosures regarding the effect of the federal subsidy provided by the Act. FSP No. 106-2 is generally effective for the first interim or annual reporting period beginning after June 15, 2004. The Company has adopted FSP No. 106-2 as of July 1, 2004. The Company has elected under the provisions of FSP No. 106-2, to defer recognizing any potential subsidy from the Act, until the final regulations necessary to fully implement the Act are issued. The reported post-retirement benefit cost for the three and six months ended September 30, 2004, presented in Note 7, Benefit Plans, does not reflect the effects of the Act on the Company's post-retirement benefit plan.

In December 2003, the FASB revised Statement of Financial Accounting Standards No. 132 ( SFAS No. 132 ), Employers' Disclosures about Pension and Other Post-retirement Benefits. As revised, SFAS No. 132 requires additional disclosures for defined benefit pension and other

post-retirement benefit plans including quarterly disclosure of the various components of net periodic benefit costs and expanded annual disclosures about plan assets, obligations, cash flows, net periodic benefit cost, and investment strategies. Note 7, Benefit Plans, includes the additional pension and other post-retirement benefit plan disclosures required by SFAS No. 132.

## **2. Business Acquisition**

On September 15, 2004, the Company announced that it had acquired Albert Browne Limited and its subsidiaries ( Browne ), a privately-held manufacturer of chemical indicators, headquartered in Leicester, England for 28.9 million British pounds sterling (\$52,132), net of 3.2 million British pounds sterling (\$5,807) of cash acquired at the close of the transaction. Browne is a leading provider of chemical indicators to healthcare facilities in over 70 countries. The acquisition provides the Company with an established European distribution channel and expands the Company's offering of consumable products used with its broad line of capital equipment for infection control and decontamination.

The purchase price is subject to the final settlement of certain working capital adjustments as guaranteed by the seller. The purchase price of \$58,730, which includes costs associated with the transaction, has been preliminarily allocated to net assets and goodwill and is subject to further adjustment as the Company finalizes costs associated with the acquisition and the valuation of identified intangible assets and certain tangible assets acquired and liabilities assumed.

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## STERIS CORPORATION

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

For the Three and Six Months Ended

September 30, 2004 and 2003

(dollars in thousands, except per share amounts)

The consolidated financial statements include the operating results of Browne from the date of acquisition. Pro forma results of operations have not been presented because the effect of this acquisition is not deemed significant. Goodwill created as a result of this acquisition has been allocated to the Company's Healthcare segment.

**3. Common Shares**

Basic earnings per share is calculated based upon the weighted average number of Common Shares outstanding. Diluted earnings per share is calculated based upon the weighted average number of Common Shares outstanding plus the dilutive effect of Common Share equivalents determined using the treasury stock method. The following is a summary of Common Shares and Common Share equivalents outstanding used in the calculations of basic and diluted earnings per share:

|  | Three Months Ended    |        | Six Months Ended |        |
|--|-----------------------|--------|------------------|--------|
|  | September 30,         |        | September 30,    |        |
|  | 2004                  | 2003   | 2004             | 2003   |
|  | (shares in thousands) |        |                  |        |
| Weighted average Common Shares outstanding - basic       | 69,010                | 69,347 | 69,243           | 69,403 |
| Dilutive effect of Common Share equivalents              | 734                   | 1,223  | 850              | 1,264  |
| Weighted average Common Shares and equivalents - diluted | 69,744                | 70,570 | 70,093           | 70,667 |

Options to purchase the following number of Common Shares at the following weighted average exercise prices were outstanding but excluded from the computation of diluted earnings per share because the exercise prices were greater than the average market price for the Common Shares during the period:

|                                | Three Months Ended    |      | Six Months Ended |      |
|--------------------------------|-----------------------|------|------------------|------|
|                                | September 30,         |      | September 30,    |      |
|                                | 2004                  | 2003 | 2004             | 2003 |
|                                | (shares in thousands) |      |                  |      |
| Number of Common Share options | 2,566                 | 617  | 1,568            | 617  |



Weighted average exercise price \$ 25.06 \$ 30.45 \$ 28.27 \$ 30.45

#### 4. Comprehensive Income

Statement of Financial Accounting Standards No. 130, Reporting Comprehensive Income, establishes standards for reporting comprehensive income. Comprehensive income includes net income as currently reported under U.S. generally accepted accounting principles and other comprehensive income. Other comprehensive income considers the effect of additional economic events that are not required to be recorded in determining net income, but rather are reported as a separate component of shareholders' equity. The following table illustrates the components of the Company's comprehensive income for the three and six month periods ended September 30, 2004 and 2003:

|  | Three Months Ended |                  | Six Months Ended |                  |
|--|--------------------|------------------|------------------|------------------|
|  | September 30,      |                  | September 30,    |                  |
|  | 2004               | 2003             | 2004             | 2003             |
| Net income                               | \$ 18,893          | \$ 20,369        | \$ 36,510        | \$ 36,841        |
| Foreign currency translation adjustments | 7,194              | (142)            | 5,734            | 5,311            |
| <b>Total comprehensive income</b>        | <b>\$ 26,087</b>   | <b>\$ 20,227</b> | <b>\$ 42,244</b> | <b>\$ 42,152</b> |

**Table of Contents****STERIS CORPORATION****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)****For the Three and Six Months Ended****September 30, 2004 and 2003****(dollars in thousands, except per share amounts)****5. Inventories**

Inventories are stated at the lower of cost or market. The Company uses the last-in, first-out (LIFO) and first-in, first-out (FIFO) cost methods. An actual valuation of inventory under the LIFO method is made only at the end of the fiscal year based on the inventory levels and costs at that time. Accordingly, interim LIFO calculations are based on management's estimates of expected year-end inventory levels and are subject to the final year-end LIFO inventory valuation. Inventory costs include material, labor, and overhead. Inventories consisted of the following:

|                          | <b>September 30,</b> | <b>March 31,</b> |
|--------------------------|----------------------|------------------|
|                          | <b>2004</b>          | <b>2004</b>      |
|                          | <b>_____</b>         | <b>_____</b>     |
| Raw materials            | \$ 26,556            | \$ 27,916        |
| Work in process          | 18,946               | 24,420           |
| Finished goods           | 58,212               | 45,913           |
|                          | <b>_____</b>         | <b>_____</b>     |
| <b>Total inventories</b> | <b>\$103,714</b>     | <b>\$ 98,249</b> |
|                          | <b>_____</b>         | <b>_____</b>     |

**6. Income Taxes**

Income tax expense includes U.S. federal, state and local, and foreign income taxes, and is based on reported pre-tax income. Income tax expense is provided on an interim basis based upon the Company's estimate of the annual effective income tax rate. In determining the estimated annual effective income tax rate, the Company analyzes various factors, including projections of the Company's annual earnings and taxing jurisdictions that the earnings will be generated in, the impact of state and local income taxes, the Company's ability to utilize tax credits and net operating loss carryforwards, and available tax planning alternatives. The effective income tax rates for the three month periods ended September 30, 2004 and 2003 were 37.4% and 36.0%, respectively. For the six month periods ended September 30, 2004 and 2003, the effective income tax rates were 36.5% and 36.0%, respectively.

**7. Benefit Plans**

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The Company provides defined benefit pension plans for certain manufacturing and plant administrative personnel throughout the world as determined by collective bargaining agreements or employee benefit standards set at the time of acquisition of certain businesses. In addition to providing pension benefits to certain employees, the Company sponsors an unfunded post-retirement medical benefit plan for a group of U.S. employees comprised substantially of the same employees who receive pension benefits under the U.S. defined benefit plans. Benefits under this plan include retiree life insurance and retiree medical insurance, including prescription drug coverage and Medicare supplemental coverage. Additional information regarding the Company's defined benefit pension plans and post-retirement medical benefit plan, including detailed information regarding employees covered and assumptions used to determine the benefit obligation and net periodic benefit cost is included in Note 9, Benefit Plans, to the Company's consolidated financial statements included in the Company's Annual Report on Form 10-K filed with the Securities and Exchange Commission on June 14, 2004.

**Table of Contents****STERIS CORPORATION****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)****For the Three and Six Months Ended****September 30, 2004 and 2003****(dollars in thousands, except per share amounts)**

The components of net periodic benefit cost for the Company's defined benefit pension plans and other post-retirement benefit plan were as follows:

|   | <b>Defined Benefit Pension Plans</b> |                 | <b>Other Post-Retirement Plan</b> |                 |
|---|--------------------------------------|-----------------|-----------------------------------|-----------------|
|   | <b>2004</b>                          | <b>2003</b>     | <b>2004</b>                       | <b>2003</b>     |
| <b>Three-Months Ended September 30,</b> |                                      |                 |                                   |                 |
| Service cost                            | \$ 377                               | \$ 374          | \$ 235                            | \$ 235          |
| Interest cost                           | 793                                  | 776             | 1,172                             | 1,158           |
| Expected return on plan assets          | (822)                                | (720)           |                                   |                 |
| Net amortization and deferral           | 144                                  | 256             | 476                               | 422             |
| <b>Net periodic benefit cost</b>        | <b>\$ 492</b>                        | <b>\$ 686</b>   | <b>\$ 1,883</b>                   | <b>\$ 1,815</b> |
|   |                                      |                 |                                   |                 |
|   |                                      |                 |                                   |                 |
|   | <b>Defined Benefit Pension Plans</b> |                 | <b>Other Post-Retirement Plan</b> |                 |
|   | <b>2004</b>                          | <b>2003</b>     | <b>2004</b>                       | <b>2003</b>     |
| <b>Six-Months Ended September 30,</b>   |                                      |                 |                                   |                 |
| Service cost                            | \$ 754                               | \$ 748          | \$ 470                            | \$ 470          |
| Interest cost                           | 1,586                                | 1,552           | 2,344                             | 2,316           |
| Expected return on plan assets          | (1,644)                              | (1,440)         |                                   |                 |
| Net amortization and deferral           | 288                                  | 512             | 952                               | 844             |
| <b>Net periodic benefit cost</b>        | <b>\$ 984</b>                        | <b>\$ 1,372</b> | <b>\$ 3,766</b>                   | <b>\$ 3,630</b> |

**8. Contingencies**

The Company is involved in various patent, product liability, consumer, commercial, environmental, tax proceedings and claims, government investigations, and other legal proceedings that arise from time to time in the ordinary course of business. In accordance with Statement of Financial Accounting Standards No. 5, Accounting for Contingencies, the Company records accruals for such contingencies to the extent that the Company concludes that their occurrence is both probable and estimable. The Company considers many factors in making these assessments, including the professional judgment of experienced members of management and the Company's legal counsel. The Company has made estimates as to the likelihood of unfavorable outcomes and the amounts of such potential losses. In the opinion of management, the ultimate outcome of these proceedings and claims is not anticipated to have a material adverse effect on the Company's consolidated financial position,

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results of operations, or cash flows. Litigation is inherently unpredictable and actual results could differ from the Company's estimates. The Company records anticipated recoveries under applicable insurance contracts when assured of recovery.

To the extent that management of the Company believes it is probable that a taxing authority will take a sustainable position on a matter contrary to the position taken by the Company, the Company provides tax accruals. If the Company prevails in matters for which accruals have been established or is required to pay amounts in excess of established accruals, the Company's effective income tax rate in a given financial statement period may be materially impacted.

Refer to Part II, Item I, Legal Proceedings, on page 29 of this Form 10-Q/A.

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## STERIS CORPORATION

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

For the Three and Six Months Ended

September 30, 2004 and 2003

(dollars in thousands, except per share amounts)

**9. Business Segment Information**

The Company operates and reports in three business segments: Healthcare, Life Sciences, and STERIS Isomedix Services. Note 12, Business Segment Information, to the Company's consolidated financial statements included in the Company's Annual Report on Form 10-K filed with the Securities and Exchange Commission on June 14, 2004 provides detailed information regarding each business segment. Operating income (loss) for each business segment reflects the full allocation of all distribution, corporate, and research and development expenses to the reporting segment. The accounting policies for reportable segments are the same as those for the consolidated Company. Financial information for each of the Company's reportable business segments is presented in the following table:

|                                 | Three Months Ended |                   | Six Months Ended  |                   |
|---------------------------------|--------------------|-------------------|-------------------|-------------------|
|                                 | September 30,      |                   | September 30,     |                   |
|                                 | 2004               | 2003              | 2004              | 2003              |
| <b>Revenues:</b>                |                    |                   |                   |                   |
| Healthcare                      | \$ 187,071         | \$ 179,672        | \$ 363,715        | \$ 359,241        |
| Life Sciences                   | 53,529             | 56,875            | 107,247           | 115,300           |
| STERIS Isomedix Services        | 24,246             | 20,842            | 48,681            | 42,128            |
| <b>Total revenues</b>           | <b>\$ 264,846</b>  | <b>\$ 257,389</b> | <b>\$ 519,643</b> | <b>\$ 516,669</b> |
| <b>Operating income (loss):</b> |                    |                   |                   |                   |
| Healthcare                      | \$ 28,970          | \$ 28,855         | \$ 56,449         | \$ 52,499         |
| Life Sciences                   | (2,755)            | 462               | (7,463)           | (128)             |
| STERIS Isomedix Services        | 4,652              | 3,007             | 9,896             | 6,177             |
| <b>Total operating income</b>   | <b>\$ 30,867</b>   | <b>\$ 32,324</b>  | <b>\$ 58,882</b>  | <b>\$ 58,548</b>  |

Financial information for each of the Company's geographic areas is presented in the following table. Revenues are based on the location of these operations and their customers. Long-lived assets are those assets that are identified within the operations in each geographic area, including property, plant, equipment, goodwill, intangibles, and other assets.

|  | Three Months Ended | Six Months Ended |
|--|--------------------|------------------|
|--|--------------------|------------------|

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|                       | September 30,     |                   | September 30,     |                   |
|-----------------------|-------------------|-------------------|-------------------|-------------------|
|                       | 2004              | 2003              | 2004              | 2003              |
| <b>Revenues:</b>      |                   |                   |                   |                   |
| United States         | \$ 210,324        | \$ 204,074        | \$ 414,361        | \$ 402,975        |
| International         | 54,522            | 53,315            | 105,282           | 113,694           |
| <b>Total revenues</b> | <b>\$ 264,846</b> | <b>\$ 257,389</b> | <b>\$ 519,643</b> | <b>\$ 516,669</b> |

|                                | September 30,    | March 31,         |
|--------------------------------|------------------|-------------------|
|                                | 2004             | 2004              |
| <b>Long-lived assets:</b>      |                  |                   |
| United States                  | \$529,574        | \$ 525,980        |
| International (1)              | 133,478          | 81,152            |
| <b>Total long-lived assets</b> | <b>\$663,052</b> | <b>\$ 607,132</b> |

(1) Long-lived tangible assets and goodwill related to the acquisition of Browne have been included as international assets at September 30, 2004 in the above table. Refer to Note 2, Business Acquisition, for further information.

#### 10. Repurchases of Common Shares

On July 28, 2004, the Company announced that its Board of Directors had authorized the repurchase of up to 3.0 million STERIS Common Shares. This Common Share repurchase authorization replaced the Common Share repurchase authorization of July 24, 2002. During the first half of fiscal 2005, the Company repurchased 1,539,100 of its Common Shares for \$33,868, representing an average price of \$22.01 per Common Share. During the second quarter of fiscal 2005, the Company repurchased 274,000 of its Common Shares for \$5,719, representing an average price of \$20.87 per Common Share. At September 30, 2004, 2,726,000 Common Shares remained authorized for repurchase and 884,284 Common Shares were held in treasury.

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## STERIS CORPORATION

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

For the Three and Six Months Ended

September 30, 2004 and 2003

(dollars in thousands, except per share amounts)

**11. Financial and Other Guarantees**

The Company generally offers a limited one-year parts and labor warranty on its capital equipment. The specific terms and conditions of those warranties vary depending on the product sold and the country where the Company conducts business. The Company provides for the estimated cost of product warranties at the time product revenue is recognized. Amounts due to customers for the Company's future performance under these warranties are recorded as a current liability on the accompanying consolidated balance sheets. Factors that affect the Company's warranty liability include the number and type of installed units, historical and anticipated rates of product failures, and material and service costs per claim. The Company periodically assesses the adequacy of its recorded warranty liabilities and adjusts the amounts as necessary.

Changes to the Company's warranty liability during the first half of fiscal 2005 were as follows:

|                                     |                 |
|-------------------------------------|-----------------|
| Balance, March 31, 2004             | \$ 5,914        |
| Warranties issued during the period | 3,325           |
| Settlements made during the period  | (3,850)         |
|                                     | <hr/>           |
| <b>Balance, September 30, 2004</b>  | <b>\$ 5,389</b> |
|                                     | <hr/>           |

The Company also issues product maintenance contracts to its customers that are accounted for in accordance with the requirements of FASB Technical Bulletin No. 90-1, Accounting for Separately Priced Extended Warranty and Product Maintenance Contracts. Such contracts generally range in terms from 1 to 5 years and require the Company to maintain and repair the Company's product over the maintenance contract term. Amounts received from customers under these contracts are initially recorded as a liability for deferred service contract revenue on the accompanying consolidated balance sheets. The liability recorded for deferred service contract revenue was \$13,363 and \$12,342 as of September 30, 2004 and March 31, 2004, respectively. Such deferred service contract revenue is then amortized on a straight-line basis over the contract term and recognized as service revenue on the accompanying consolidated statements of income. The activity related to the liability for deferred service contract revenue has been excluded from the table presented above.

**12. Foreign Currency Forward Contracts**

The Company has entered into foreign currency forward contracts with notional values of 8.0 million euro and 3.0 million British pounds sterling to reduce its transactional foreign currency exposures. The estimated fair value of these forward contracts was \$8 at September 30, 2004 and is included in Accrued expenses and other on the accompanying consolidated balance sheets. The contracts are marked to market, with gains



and losses recognized in the consolidated statements of income.

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**Report of Independent Registered Public Accounting Firm**

Board of Directors and Shareholders

STERIS Corporation

We have reviewed the consolidated balance sheet of STERIS Corporation and subsidiaries as of September 30, 2004, and the related consolidated statements of income for the three and six month periods ended September 30, 2004 and 2003, and the consolidated statements of cash flows for the six month periods ended September 30, 2004 and 2003. These financial statements are the responsibility of the Company's management.

We conducted our review in accordance with the standards of the Public Company Accounting Oversight Board (United States). A review of interim financial information consists principally of applying analytical procedures and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with the standards of the Public Company Accounting Oversight Board, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

Based on our reviews, we are not aware of any material modifications that should be made to the consolidated financial statements referred to above for them to be in conformity with U.S. generally accepted accounting principles.

We have previously audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheet of STERIS Corporation and subsidiaries as of March 31, 2004 and the related consolidated statements of income, shareholders' equity and cash flows for the year then ended, not presented herein, and in our report dated June 4, 2004, we expressed an unqualified opinion on those consolidated financial statements. In our opinion, the information set forth in the accompanying consolidated balance sheet as of March 31, 2004, is fairly stated, in all material respects, in relation to the consolidated balance sheet from which it has been derived.

/s/ Ernst & Young LLP

Cleveland, Ohio

October 25, 2004

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**ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

*Non-GAAP Financial Measures*

In the following sections of Management's Discussion and Analysis of Financial Condition and Results of Operations, the Company, at times, may refer to information extracted from the Company's consolidated financial statements, but not required to be presented in the financial statements under U.S. generally accepted accounting principles. Certain of this information is considered to be non-GAAP financial measures under the Securities and Exchange Commission rules. The Company has used the following non-GAAP financial measures in the context of this Report: Backlog, debt to capital, and days sales outstanding. The Company defines these non-GAAP financial measures as follows:

Backlog- is defined by the Company as the amount of unfilled purchase orders at a point in time. At September 30, 2004, June 30, 2004, and September 30, 2003, the Company's backlog amounted to \$133.5 million, \$133.4 million, and \$152.6 million, respectively. Backlog at September 30, 2004 was comprised of \$72.4 million related to the Company's Healthcare segment and \$61.1 million related to the Company's Life Sciences segment. Management uses this figure as a measure to assist in the projection of short-term financial results and inventory requirements.

Debt to capital- is defined by the Company as total long-term debt divided by the sum of long-term debt and shareholders' equity. At September 30, 2004 and March 31, 2004, the Company's debt to capital amounted to 13.2% and 13.8%, respectively. Management uses this figure as a financial liquidity measure to gauge the Company's ability to borrow, provide strength/protection against creditors, fund growth, develop outside of current business operations, and measure the risk of the Company's financial structure.

Days sales outstanding- is defined by the Company as the average collection period for sales revenue. It is calculated as net accounts receivable divided by the trailing four quarters revenues, multiplied by 365. At September 30, 2004 and March 31, 2004, the Company's days sales outstanding amounted to 80 days and 86 days, respectively. Management uses this figure to help gauge the quality of accounts receivable.

The Company has presented these measures because it believes that meaningful analysis of the Company's financial performance is enhanced by an understanding of certain additional factors underlying that performance and management's judgments about those particular factors.

*Executive Overview*

The Company recognized net income of \$18.9 million, or \$0.27 per diluted share, during the second quarter of fiscal 2005, representing a decrease of 7.2% from the comparable prior year period's net income of \$20.4 million, or \$0.29 per diluted share. For the first six months of fiscal 2005, net income was flat as compared to the same prior year period. Net income for both periods was negatively impacted by weakness in the Company's Life Sciences segment, which experienced ongoing volume declines.

Revenues for the second quarter of fiscal 2005 were \$264.8 million, an increase of \$7.5 million, or 2.9%, as compared to \$257.4 million during the prior year second quarter. For the first six months of fiscal 2005, revenues were \$519.6 million as compared to \$516.7 million for the same period of fiscal 2004, representing an increase of \$3.0 million, or 0.6%. Increased revenues in the Company's Healthcare segment, where capital equipment demand continued to improve, and mid-teen percentage revenue growth in the Company's Isomedix Services segment, were the main drivers of improved overall revenues. These factors were partially offset by a decline in revenues in the Company's Life Sciences segment, which

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was impacted by a number of consolidations within the European pharmaceutical industry that led to the cancellation or delay of several new facility construction projects. The Life Sciences segment also experienced softness in demand from North American customers reflecting cautiousness regarding capital spending.

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The Company's gross profit percentage was 42.1% for the second quarter of fiscal 2005 as compared to 43.0% for the second quarter of fiscal 2004. The 90 basis point decline in the gross profit percentage quarter over quarter was a result of lower margins in the Life Sciences segment driven by lower volumes and a slight decline in the Healthcare segment reflecting a change in revenue mix. The quarter's gross profit percentage was also negatively impacted by changes in foreign currency exchange rates in relation to the U.S. dollar. The Company's gross profit percentage was 42.6% for the first half of fiscal 2005 as compared to 42.0% for the first half of fiscal 2004. The fiscal 2005 year to date gross profit percentage exceeded the prior year levels as a result of the generation of a higher margin revenue mix during the first quarter of fiscal 2005 as compared to the first quarter of fiscal 2004.

The Company continues to focus its capital spending on investments in new and existing facilities, business expansion projects, and information technology improvements. In the first half of fiscal 2005, capital expenditures amounted to \$25.5 million, of which \$15.0 million related to second quarter spending. The Company also continued to step up its investment in research and development to strengthen its competitive position in global marketplaces. The increase in research and development expenditures during the first six months of fiscal 2005 reflects an increased emphasis on new product development, product improvements, development of new technological innovations, and the focus of research and development efforts on the streamlining of manufacturing processes and the standardization of products.

During the second quarter of fiscal 2005, the Company announced that it had acquired Albert Browne Limited, a manufacturer of chemical indicators based in the United Kingdom. This acquisition provides the Company with an established European distribution channel that fits the Company's strategic goal of expanding its offering of consumable products used with its broad line of capital equipment for infection control and decontamination.

## ***Results of Operations***

In the following subsections, the Company has presented its fiscal 2005 second quarter and fiscal 2005 year to date results of operations, and has compared these results to the corresponding periods of the prior fiscal year.

## **Revenues**

As prescribed by Regulation S-X, the Company has presented separately on its Consolidated Statements of Income for each period presented, revenues generated as either product revenues or service revenues. In discussing revenues, the Company, at times, may refer to revenues in differing detail than that which is prescribed by Regulation S-X. Although the terminology that the Company employs to describe revenues may be similar to the terms used by other companies, the definitions and uses of these terms may differ significantly among companies. The Company uses the following terms to describe revenues:

Revenues- The Company's revenues are presented net of sales returns and allowances.

Product Revenues- Product revenues are defined by the Company as revenues generated from sales of capital equipment, which includes steam and low temperature liquid sterilizers, washing systems, freeze dryers, VHP technology, water stills, and pure steam generators; surgical lights and tables; and the consumable family of products, which includes STERIS SYSTEM 1® consumables, sterility assurance products, skin care products, and cleaning consumables.

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Service Revenues- Service revenues are defined by the Company as revenues generated from parts and labor associated with the maintenance, repair, and installation of the Company's capital equipment, as well as revenues generated from contract sterilization offered through the Company's Isomedix Services segment.

Capital Revenues- Capital revenues are defined by the Company as revenues generated from sales of capital equipment, which includes steam and low temperature liquid sterilizers, washing systems, freeze dryers, VHP technology, water stills, and pure steam generators; and surgical lights and tables.

Consumable Revenues- Consumable revenues are defined by the Company as revenues generated from sales of the consumable family of products which includes STERIS SYSTEM 1® consumables, sterility assurance products, skin care products, and cleaning consumables.

Recurring Revenues- Recurring revenues are defined by the Company as revenues generated from sales of consumable products and service revenues.

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The following table illustrates the changes in the Company's revenues for the three and six month periods ended September 30, 2004 as compared to the same periods in the prior year:

| <i>(dollars in thousands)</i> | Three Months Ended |                   |                 | Percent     | Percent of Total |               |
|-------------------------------|--------------------|-------------------|-----------------|-------------|------------------|---------------|
|                               | September 30,      |                   | Change          |             | Revenues         |               |
|                               | 2004               | 2003              |                 |             | 2004 (1)         | 2003 (1)      |
| Capital Revenues              | \$ 119,722         | \$ 122,794        | \$ (3,072)      | -2.5%       | 45.2%            | 47.7%         |
| Consumable Revenues           | 56,890             | 54,682            | 2,208           | 4.0%        | 21.5%            | 21.2%         |
| Product Revenues              | 176,612            | 177,476           | (864)           | -0.5%       | 66.7%            | 68.9%         |
| Service Revenues              | 88,234             | 79,913            | 8,321           | 10.4%       | 33.3%            | 31.1%         |
| <b>Total Revenues</b>         | <b>\$ 264,846</b>  | <b>\$ 257,389</b> | <b>\$ 7,457</b> | <b>2.9%</b> | <b>100.0%</b>    | <b>100.0%</b> |
| Service Revenues              | \$ 88,234          | \$ 79,913         | \$ 8,321        | 10.4%       | 33.3%            | 31.1%         |
| Consumable Revenues           | 56,890             | 54,682            | 2,208           | 4.0%        | 21.5%            | 21.2%         |
| Recurring Revenues            | 145,124            | 134,595           | 10,529          | 7.8%        | 54.8%            | 52.3%         |
| Capital Revenues              | 119,722            | 122,794           | (3,072)         | -2.5%       | 45.2%            | 47.7%         |
| <b>Total Revenues</b>         | <b>\$ 264,846</b>  | <b>\$ 257,389</b> | <b>\$ 7,457</b> | <b>2.9%</b> | <b>100.0%</b>    | <b>100.0%</b> |
| United States                 | \$ 210,324         | \$ 204,074        | \$ 6,250        | 3.1%        | 79.4%            | 79.3%         |
| International                 | 54,522             | 53,315            | 1,207           | 2.3%        | 20.6%            | 20.7%         |
| <b>Total Revenues</b>         | <b>\$ 264,846</b>  | <b>\$ 257,389</b> | <b>\$ 7,457</b> | <b>2.9%</b> | <b>100.0%</b>    | <b>100.0%</b> |
|                               | Six Months Ended   |                   |                 |             | Percent of Total |               |
|                               | September 30,      |                   |                 | Percent     | Revenues         |               |
|                               | 2004               | 2003              | Change          | Change      | 2004 (1)         | 2003 (1)      |
| Capital Revenues              | \$ 230,483         | \$ 246,294        | \$ (15,811)     | -6.4%       | 44.4%            | 47.7%         |
| Consumable Revenues           | 114,554            | 111,824           | 2,730           | 2.4%        | 22.0%            | 21.6%         |
| Product Revenues              | 345,037            | 358,118           | (13,081)        | -3.7%       | 66.4%            | 69.3%         |
| Service Revenues              | 174,606            | 158,551           | 16,055          | 10.1%       | 33.6%            | 30.7%         |
| <b>Total Revenues</b>         | <b>\$ 519,643</b>  | <b>\$ 516,669</b> | <b>\$ 2,974</b> | <b>0.6%</b> | <b>100.0%</b>    | <b>100.0%</b> |
| Service Revenues              | \$ 174,606         | \$ 158,551        | \$ 16,055       | 10.1%       | 33.6%            | 30.7%         |
| Consumable Revenues           | 114,554            | 111,824           | 2,730           | 2.4%        | 22.0%            | 21.6%         |
| Recurring Revenues            | 289,160            | 270,375           | 18,785          | 6.9%        | 55.6%            | 52.3%         |

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|                       |                   |                   |                 |             |               |               |
|-----------------------|-------------------|-------------------|-----------------|-------------|---------------|---------------|
| Capital Revenues      | 230,483           | 246,294           | (15,811)        | -6.4%       | 44.4%         | 47.7%         |
| <b>Total Revenues</b> | <b>\$ 519,643</b> | <b>\$ 516,669</b> | <b>\$ 2,974</b> | <b>0.6%</b> | <b>100.0%</b> | <b>100.0%</b> |
| United States         | \$ 414,361        | \$ 402,975        | \$ 11,386       | 2.8%        | 79.7%         | 78.0%         |
| International         | 105,282           | 113,694           | (8,412)         | -7.4%       | 20.3%         | 22.0%         |
| <b>Total Revenues</b> | <b>\$ 519,643</b> | <b>\$ 516,669</b> | <b>\$ 2,974</b> | <b>0.6%</b> | <b>100.0%</b> | <b>100.0%</b> |

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



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**Table of Contents****Quarter over Quarter Comparison**

Revenues for the second quarter of fiscal 2005 were \$264.8 million, an increase of \$7.5 million, or 2.9%, as compared to \$257.4 million during the prior year second quarter. Improved overall revenues, quarter over quarter, were driven by a 10.4% increase in service revenues, primarily the result of increased demand and higher utilization of recently expanded facilities capacity in the Company's Isomedix Services segment. Overall revenues were further positively impacted by a 4.0% increase in consumable revenues, primarily the result of increased sales of consumable products within the Company's Life Sciences segment. Overall revenues for the quarter were negatively impacted by a net decrease of \$3.1 million, or 2.5%, in capital revenues as compared to the second quarter of fiscal 2004. The net decrease in capital revenues was attributable to weakness in demand within the Company's Life Sciences segment, where revenues generated from sales of capital equipment decreased 20.8% from the comparable prior year period. Weak demand for capital equipment within the Life Sciences segment resulted from the cancellation or delay of several new facility construction projects, particularly in Europe where there have been numerous consolidations, and more prevalent cautiousness in the North American market regarding capital spending. An increase in revenues throughout the Company's Canadian and Asia Pacific markets partially offset the aforementioned revenue declines in Europe and North America. Capital revenues within the Company's Healthcare segment improved 7.2%, as compared to the second quarter of fiscal 2004, as a result of increased demand generated from recent hospital facility expansions and renovations which have shifted the segment's revenues from smaller orders, typically associated with the replacement of aging equipment, to large-order, project-related capital equipment. This demand within the Healthcare segment served to partially offset weaknesses in Life Sciences capital revenues.

International revenues for the quarter amounted to \$54.5 million, representing an increase of \$1.2 million, or 2.3%, as compared to the second quarter of fiscal 2004. International revenues were positively impacted by an increase in recurring revenues of \$6.5 million, or 42.7%, as compared to the second quarter of fiscal 2004. International revenues were negatively impacted by a decrease in capital revenues of \$5.3 million, or 14.0%, as compared to the second quarter of fiscal 2004, primarily a result of weaknesses in the Life Sciences segment throughout Europe. The decline in European capital equipment sales was partially offset by increased demand in the Company's Canadian and Asia Pacific markets.

United States revenues for the quarter amounted to \$210.3 million, representing an increase of \$6.3 million, or 3.1%, as compared to the second quarter of fiscal 2004. United States revenues were positively impacted by an increase in recurring revenues of \$4.0 million, or 3.3%, primarily attributable to increased service revenues within the Company's Isomedix Services segment. United States revenues were also positively impacted during the quarter by a net increase in capital revenues of \$2.3 million, or 2.7%, as compared to the second quarter of fiscal 2004, reflecting increased demand generated from recent hospital facility expansions and renovations.

**Year over Year Comparison**

Revenues for the first half of fiscal 2005 were \$519.6 million, an increase of \$3.0 million, or 0.6%, as compared to \$516.7 million during the first half of fiscal 2004. Improved overall revenues, year over year, were driven by a 10.1% increase in service revenues, primarily as a result of increased demand and higher utilization of recently expanded facilities capacity within the Company's Isomedix Services segment and growth in the Life Sciences segment. Overall revenues for the year to date period were favorably impacted by a 2.4% increase in sales of consumable products, primarily within the Company's Life Sciences segment. Capital revenues declined \$15.8 million, or 6.4%, as compared to the first half of fiscal 2004. The net decrease in capital revenues, year over year, was attributable to weakness in demand within the Company's Life Sciences segment, where revenues generated from capital equipment decreased 18.2%. Year over year, capital revenues generated within the Company's Healthcare segment remained flat, as a result of a surge in large-order, project-related capital equipment sales during the second quarter of fiscal 2005, which served to offset lower levels of capital equipment sales in the first quarter of fiscal 2005.

International revenues for the first half of fiscal 2005 amounted to \$105.3 million, a decrease of \$8.4 million, or 7.4%, as compared to the first half of fiscal 2004. The decline in year over year international revenues was attributable to lower levels of international capital equipment sales

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in Europe. The reduced capital equipment sales were prevalent in the Company's Life Sciences and Healthcare segments, where international capital equipment sales declined 23.0% and 15.5%, respectively. The declines in European capital equipment sales were partially offset by increased demand in the Company's Canadian and Asia Pacific markets.

United States revenues for the first half of fiscal 2005 amounted to \$414.4 million, an increase of \$11.4 million, or 2.8%, as compared to the first half of fiscal 2004. United States revenues were positively impacted by an increase in recurring revenues of \$11.1 million, or 4.7%, primarily attributable to service revenues within the Company's Isomedix Services segment. Year over year, capital revenues generated in the United States remained flat as a result of a surge in large-order, project-related capital equipment sales during the second quarter of fiscal 2005, which served to offset lower levels of capital equipment sales during the first quarter of fiscal 2005.

**Table of Contents****Gross Profit**

The following table illustrates the changes in gross profit for the three and six month periods ended September 30, 2004 and 2003:

| <i>(dollars in thousands)</i>        | Three Months Ended |                   |                 | Percent<br>Change |
|--------------------------------------|--------------------|-------------------|-----------------|-------------------|
|                                      | September 30,      |                   | Change          |                   |
|                                      | 2004               | 2003              |                 |                   |
| <b>Gross Profit:</b>                 |                    |                   |                 |                   |
| Product                              | \$ 74,024          | \$ 75,552         | \$ (1,528)      | -2.0%             |
| Service                              | 37,464             | 35,062            | 2,402           | 6.9%              |
| <b>Total Gross Profit</b>            | <b>\$ 111,488</b>  | <b>\$ 110,614</b> | <b>\$ 874</b>   | <b>0.8%</b>       |
| <b>Gross Profit Percentage:</b>      |                    |                   |                 |                   |
| Product                              | 41.9%              | 42.6%             |                 |                   |
| Service                              | 42.5%              | 43.9%             |                 |                   |
| <b>Total Gross Profit Percentage</b> | <b>42.1%</b>       | <b>43.0%</b>      |                 |                   |
|                                      |                    |                   |                 |                   |
|                                      | Six Months Ended   |                   |                 | Percent<br>Change |
|                                      | September 30,      |                   | Change          |                   |
|                                      | 2004               | 2003              |                 |                   |
| <b>Gross Profit:</b>                 |                    |                   |                 |                   |
| Product                              | \$ 147,255         | \$ 150,231        | \$ (2,976)      | -2.0%             |
| Service                              | 74,125             | 66,954            | 7,171           | 10.7%             |
| <b>Total Gross Profit</b>            | <b>\$ 221,380</b>  | <b>\$ 217,185</b> | <b>\$ 4,195</b> | <b>1.9%</b>       |
| <b>Gross Profit Percentage:</b>      |                    |                   |                 |                   |
| Product                              | 42.7%              | 42.0%             |                 |                   |
| Service                              | 42.5%              | 42.2%             |                 |                   |
| <b>Total Gross Profit Percentage</b> | <b>42.6%</b>       | <b>42.0%</b>      |                 |                   |

Gross profit is impacted by the volume, pricing, and mix of sales of the Company's products and services, as well as the costs associated with the products and services that are sold. The Company's gross profit percentage was 42.1% for the second quarter of fiscal 2005, as compared to 43.0% for the second quarter of fiscal 2004. The 90 basis point decline in the gross profit percentage, quarter over quarter, was a result of lower margins in the Life Sciences segment driven by lower volumes and a slight decline in the Healthcare segment reflecting a change in revenue mix. The quarter's gross profit percentage was also negatively impacted by changes in foreign currency exchange rates in relation to the U.S. dollar. The Company's gross profit percent was 42.6% for the first half of fiscal 2005 as compared to 42.0% for the first half of fiscal 2004. The

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fiscal 2005 year to date gross profit percentage exceeded the prior year levels as a result of the generation of a higher margin revenue mix during the first quarter of fiscal 2005 as compared to the first quarter of fiscal 2004. Gross profit percentage for the first half of fiscal 2004 was negatively impacted by costs associated with the closing of an Australian manufacturing facility during the first quarter.

**Table of Contents****Operating Expenses**

The following table illustrates the changes in operating expenses for the three and six month periods ended September 30, 2004 and 2003:

| <i>(dollars in thousands)</i>        | <b>Three Months Ended</b> |                  |                 |                |
|--------------------------------------|---------------------------|------------------|-----------------|----------------|
|                                      | <b>September 30,</b>      |                  |                 | <b>Percent</b> |
|                                      | <b>2004</b>               | <b>2003</b>      | <b>Change</b>   | <b>Change</b>  |
| <b>Operating Expenses:</b>           |                           |                  |                 |                |
| Selling, General, and Administrative | \$ 71,944                 | \$ 71,879        | \$ 65           | 0.1%           |
| Research and Development             | 8,677                     | 6,411            | 2,266           | 35.3%          |
| <b>Total Operating Expenses</b>      | <b>\$ 80,621</b>          | <b>\$ 78,290</b> | <b>\$ 2,331</b> | <b>3.0%</b>    |
|                                      |                           |                  |                 |                |
|                                      | <b>Six Months Ended</b>   |                  |                 |                |
|                                      | <b>September 30,</b>      |                  |                 | <b>Percent</b> |
|                                      | <b>2004</b>               | <b>2003</b>      | <b>Change</b>   | <b>Change</b>  |
| <b>Operating Expenses:</b>           |                           |                  |                 |                |
| Selling, General, and Administrative | \$144,510                 | \$144,559        | \$ (49)         | 0.0%           |
| Research and Development             | 17,988                    | 14,078           | 3,910           | 27.8%          |
| <b>Total Operating Expenses</b>      | <b>\$162,498</b>          | <b>\$158,637</b> | <b>\$ 3,861</b> | <b>2.4%</b>    |

Significant components of total selling, general, and administrative expenses are compensation and associated costs, fees for professional services, travel and entertainment, and other general and administrative expenses. As a percentage of total revenues, selling, general, and administrative expenses were 27.2% and 27.8% for the three and six month periods ended September 30, 2004, respectively, as compared to 27.9% and 28.0%, respectively, for the comparable prior year periods. Selling, general, and administrative expenses remained relatively flat for the three and six month periods ended September 30, 2004, as compared to the same prior year periods.

As a percentage of total revenues, research and development expenses were 3.3% and 3.5% for the three and six month periods ended September 30, 2004, respectively, as compared to 2.5% and 2.7%, respectively, for the same prior year periods. For the three and six month periods ended September 30, 2004, research and development expenses increased 35.3% and 27.8% to \$8.7 million and \$18.0 million, respectively, as compared to \$6.4 million and \$14.1 million during the same prior year periods. The increase in research and development expenses during both periods is attributable to an increased emphasis on new product development, product improvements, development of new technological innovations, and the focus of research and development efforts on the streamlining of manufacturing processes and standardization of products.

**Interest Expense, Net**

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The following table illustrates the changes in interest expense, net for the three and six month periods ended September 30, 2004 and 2003:

| <i>(dollars in thousands)</i>     | <b>Three Months Ended</b> |               |               |
|-----------------------------------|---------------------------|---------------|---------------|
|                                   | <b>September 30,</b>      |               |               |
|                                   | <b>2004</b>               | <b>2003</b>   | <b>Change</b> |
| <b>Interest Expense, Net:</b>     |                           |               |               |
| Interest Expense                  | \$903                     | \$522         | \$381         |
| Interest and Miscellaneous Income | (218)                     | (23)          | (195)         |
| <b>Interest Expense, Net</b>      | <b>\$685</b>              | <b>\$499</b>  | <b>\$186</b>  |
|                                   |                           |               |               |
|                                   | <b>Six Months Ended</b>   |               |               |
|                                   | <b>September 30,</b>      |               |               |
|                                   | <b>2004</b>               | <b>2003</b>   | <b>Change</b> |
| <b>Interest Expense, Net:</b>     |                           |               |               |
| Interest Expense                  | \$1,890                   | \$1,046       | \$844         |
| Interest and Miscellaneous Income | (504)                     | (62)          | (442)         |
| <b>Interest Expense, Net</b>      | <b>\$1,386</b>            | <b>\$ 984</b> | <b>\$402</b>  |

Interest expense, net, consists of interest expense on debt, offset by interest earned on cash, cash equivalents, short-term investment balances, and other miscellaneous income. The most significant driver of the increase in interest expense, net in both fiscal 2005 periods related to an increase in interest expense, which resulted from higher interest rates on the Company's outstanding debt during fiscal 2005 as compared to the prior year. A detailed discussion of the Company's outstanding debt is included in the Company's Annual Report on Form 10-K for the year ended March 31, 2004 filed with the Securities and Exchange Commission on June 14, 2004 in the section of Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operations, titled, Sources of Credit, and in Note 6 to the Company's consolidated financial statements, Long-Term Debt.

**Table of Contents****Income Tax Expense**

The following table illustrates the changes in income tax expense for the three and six month periods ended September 30, 2004 and 2003, and provides a comparison of the effective income tax rates for the aforementioned periods:

| <i>(dollars in thousands)</i> | <b>Three Months Ended</b> |             |               | <b>Percent</b> |
|-------------------------------|---------------------------|-------------|---------------|----------------|
|                               | <b>September 30,</b>      |             |               |                |
|                               | <b>2004</b>               | <b>2003</b> | <b>Change</b> | <b>Change</b>  |
| Income Tax Expense            | \$ 11,289                 | \$ 11,456   | \$ (167)      | -1.5%          |
| Effective Income Tax Rate     | 37.4%                     | 36.0%       |               |                |
|                               | <b>Six Months Ended</b>   |             |               | <b>Percent</b> |
|                               | <b>September 30,</b>      |             |               |                |
|                               | <b>2004</b>               | <b>2003</b> | <b>Change</b> | <b>Change</b>  |
| Income Tax Expense            | \$ 20,986                 | \$ 20,723   | \$ 263        | 1.3%           |
| Effective Income Tax Rate     | 36.5%                     | 36.0%       |               |                |

The Company provides for income tax expense on an interim basis based upon the Company's estimate of the annual effective income tax rate. In determining the estimated annual effective income tax rate, the Company analyzes various factors, including projections of the Company's annual earnings and the taxing jurisdictions in which the earnings will be generated, the impact of state and local income taxes, the Company's ability to use tax credits and net operating loss carryforwards, and available tax planning alternatives. The effective income tax rates for the second quarters of fiscal 2005 and fiscal 2004 were 37.4% and 36.0%, respectively. For the first six months of fiscal 2005 and 2004, the effective income tax rates were 36.5% and 36.0%, respectively. The higher effective income tax rates during both periods resulted primarily from a reduction of operating profits generated in international tax jurisdictions and the resulting inability of the Company to fully utilize a portion of foreign tax credits against foreign profits taxed in the United States.

**Business Segment Results of Operations**

The Company operates and reports in three business segments: Healthcare, Life Sciences, and STERIS Isomedix Services. Note 12, Business Segment Information, to the Company's consolidated financial statements included in the Company's Annual Report on Form 10-K filed with the Securities and Exchange Commission on June 14, 2004, provides detailed information regarding each business segment. The following table provides a summary of the Company's revenues by business segment for the three and six month periods ended September 30, 2004 and 2003:

| <i>(dollars in thousands)</i> | <b>Three Months Ended</b> |             | <b>Change</b> | <b>Percent</b> |
|-------------------------------|---------------------------|-------------|---------------|----------------|
|                               | <b>September 30,</b>      |             |               |                |
|                               | <b>2004</b>               | <b>2003</b> | <b>Change</b> | <b>Change</b>  |

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| <b>Revenues:</b>         |                   |                   |                 |             |
|--------------------------|-------------------|-------------------|-----------------|-------------|
| Healthcare               | \$ 187,071        | \$ 179,672        | \$ 7,399        | 4.1%        |
| Life Sciences            | 53,529            | 56,875            | (3,346)         | -5.9%       |
| STERIS Isomedix Services | 24,246            | 20,842            | 3,404           | 16.3%       |
| <b>Total Revenues</b>    | <b>\$ 264,846</b> | <b>\$ 257,389</b> | <b>\$ 7,457</b> | <b>2.9%</b> |

Six Months Ended

|                          | September 30,     |                   |                 | Percent     |
|--------------------------|-------------------|-------------------|-----------------|-------------|
|                          | 2004              | 2003              | Change          | Change      |
| <b>Revenues:</b>         |                   |                   |                 |             |
| Healthcare               | \$ 363,715        | \$ 359,241        | \$ 4,474        | 1.2%        |
| Life Sciences            | 107,247           | 115,300           | (8,053)         | -7.0%       |
| STERIS Isomedix Services | 48,681            | 42,128            | 6,553           | 15.6%       |
| <b>Total Revenues</b>    | <b>\$ 519,643</b> | <b>\$ 516,669</b> | <b>\$ 2,974</b> | <b>0.6%</b> |



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**Table of Contents****Healthcare Segment**

Healthcare segment revenues represented 70.6% of total revenues for the second quarter of fiscal 2005 as compared to 69.8% of total revenues for the second quarter of fiscal 2004. Healthcare revenues increased \$7.4 million, or 4.1%, to \$187.1 million for the second quarter of fiscal 2005 as compared to \$179.7 million for the second quarter of fiscal 2004. The increase in Healthcare revenues for the quarter was primarily driven by a 7.2% increase in capital revenues, which resulted from increased demand generated from recent hospital facility expansions and renovations which have shifted the segment's revenues from smaller orders typically associated with the replacement of aging equipment to large-order, project-related capital equipment. At September 30, 2004, the Healthcare segment's backlog amounted to \$72.4 million, representing increases of \$8.1 million, or 12.6%, and \$15.0 million, or 26.0%, over the June 30, 2004 and September 30, 2003 levels, respectively. The Healthcare segment's fiscal 2005 second quarter revenues also were positively impacted by a 2.4% increase in service revenues.

Healthcare segment revenues represented 69.9% of total revenues for the first half of fiscal 2005 as compared to 69.4% of total revenues for the first half of fiscal 2004. Healthcare revenues increased \$4.5 million, or 1.2%, to \$363.7 million for the first half of fiscal 2005 as compared to \$359.2 million for the first half of fiscal 2004. Healthcare capital revenues remained flat for the six month period ended September 30, 2004 as compared to the same prior year period. Service revenues within the Healthcare segment increased 4.7%, year over year, and contributed to the overall increase in segment revenues.

**Life Sciences Segment**

Life Sciences segment revenues represented 20.2% of total revenues for the second quarter of fiscal 2005 as compared to 22.1% of total revenues for the second quarter of fiscal 2004. Life Sciences revenues decreased \$3.3 million, or 5.9%, to \$53.5 million for the second quarter of fiscal 2005 as compared to \$56.9 million for the second quarter of fiscal 2004. The decrease in Life Sciences revenue for the quarter was driven by a 20.8% decrease in capital revenues. The decline was caused by a round of consolidations in the European pharmaceutical industry that led to the cancellation or delay of several new facility construction projects and more prevalent cautiousness in the North American market regarding capital spending. An increase in revenues throughout the Company's Canadian and Asia Pacific markets partially offset the aforementioned revenue declines in Europe and North America. At September 30, 2004, backlog for the segment was \$61.1 million, compared to backlogs of \$69.1 million at June 30, 2004 and \$95.2 million at September 30, 2003, indicating that weakness in capital sales may continue in the short term. An increase of \$5.5 million, or 38.8%, in recurring revenue partially offset the segment's quarter over quarter decline in capital revenues.

Life Sciences segment revenues represented 20.7% of total revenues for the first half of fiscal 2005 as compared to 22.4% of total revenues for the first half of fiscal 2004. Life Sciences revenues decreased \$8.1 million, or 7.0%, to \$107.2 million for the first half of fiscal 2005 as compared to \$115.3 million for the first half of fiscal 2004. The decrease in Life Sciences revenues for the quarter was driven by an 18.2% decline in capital revenues, the reasons for which were presented in the previous paragraph. An increase of 23.2% in recurring revenues partially offset the segment's year over year decline in capital revenues.

**STERIS Isomedix Services Segment**

STERIS Isomedix Services segment revenues represented 9.2% and 9.4% of total revenues for the three and six month periods ended September 30, 2004 as compared to 8.1% and 8.2% during the comparable prior year periods. The segment experienced revenue growth of 16.3% and 15.6%, respectively, for the three and six month periods ended September 30, 2004, as compared to the same periods in the prior year. The revenue growth in both periods presented is the result of increased demand and higher utilization of recently expanded facilities capacity in the

segment.

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The following table provides a summary of the Company's operating results by business segment for the three and six month periods ended September 30, 2004 and 2003:

|                                 | Three Months Ended |                  |                   |              |
|---------------------------------|--------------------|------------------|-------------------|--------------|
|                                 | September 30,      |                  |                   | Percent      |
|                                 | 2004               | 2003             | Change            | Change       |
| <i>(dollars in thousands)</i>   |                    |                  |                   |              |
| <b>Operating Income (Loss):</b> |                    |                  |                   |              |
| Healthcare                      | \$ 28,970          | \$ 28,855        | \$ 115            | 0.4%         |
| Life Sciences                   | (2,755)            | 462              | (3,217)           | NM           |
| STERIS Isomedix Services        | 4,652              | 3,007            | 1,645             | 54.7%        |
| <b>Total Operating Income</b>   | <b>\$ 30,867</b>   | <b>\$ 32,324</b> | <b>\$ (1,457)</b> | <b>-4.5%</b> |
|                                 |                    |                  |                   |              |
|                                 | Six Months Ended   |                  |                   |              |
|                                 | September 30,      |                  |                   | Percent      |
|                                 | 2004               | 2003             | Change            | Change       |
| <b>Operating Income (Loss):</b> |                    |                  |                   |              |
| Healthcare                      | \$ 56,449          | \$ 52,499        | \$ 3,950          | 7.5%         |
| Life Sciences                   | (7,463)            | (128)            | (7,335)           | NM           |
| STERIS Isomedix Services        | 9,896              | 6,177            | 3,719             | 60.2%        |
| <b>Total Operating Income</b>   | <b>\$ 58,882</b>   | <b>\$ 58,548</b> | <b>\$ 334</b>     | <b>0.6%</b>  |

NM - Not meaningful

To determine segment operating income (loss), the Company reduces the respective segment's revenues by direct expenses and indirect cost allocations, which reflect the full allocation of all distribution, corporate, and research and development expenses. Corporate cost allocations are typically based on each segment's portion of revenues, headcount, or other variables in relation to the total Company.

**Healthcare Segment**

Healthcare- Operating income for the second quarter of fiscal 2005 was flat, as compared to the same prior year period. Healthcare gross margins were 47.2% for the second quarter of fiscal 2005 as compared to 48.4% during the comparable prior year period, and were impacted by a shift in the mix of revenues toward capital equipment sales which carry lower margins. For the first half of fiscal 2005, the segment's operating income was \$56.4 million, representing an increase of \$4.0 million, or 7.5%, as compared to the first half of fiscal 2004. The drivers of the increase in operating income for the first half of fiscal 2005, as compared to the first half of fiscal 2004 were more favorable gross margins and reduced operating expenses. Gross margin percentages in this business segment amounted to 47.9% and 47.5% for the first half of fiscal 2005 and 2004, respectively. Gross margins for the first half of fiscal 2005 reflect a greater proportion of higher margin service and consumable sales.

**Life Sciences Segment**

Life Sciences- Operating loss was \$2.8 million and \$7.5 million for the second quarter and first half of fiscal 2005, respectively. Although gross margins were relatively flat during both periods, as compared to the same prior year periods, the segment's operating results were negatively impacted by reduced volumes and the resulting lower fixed cost absorption during the first two quarters of fiscal 2005 as compared to the prior year.

**STERIS Isomedix Services Segment**

STERIS Isomedix Services- Operating income increased \$1.6 million, or 54.7%, to \$4.7 million for the second quarter of fiscal 2005, as compared to \$3.0 million during the second quarter of fiscal 2004. For the six month period ended September 30, 2004, the segment's operating income was \$9.9 million, representing an increase of \$3.7 million, or 60.2%, over the comparable prior year period's operating income of \$6.2 million. The drivers of the increase in both periods were more favorable gross margins. Gross margins benefited from increased volume and improvements in processing efficiencies as a result of capital investments made during the past year.

**Table of Contents****Liquidity and Capital Resources**

The following table summarizes significant components of the Company's cash flow for the six months ended September 30, 2004 and 2003:

**Cash Flows**

|   | Six Months Ended<br>September 30, |                    |                    | Percent        |
|---|-----------------------------------|--------------------|--------------------|----------------|
|   | 2004                              | 2003               | Change             | Change         |
| <i>(dollars in thousands)</i>   |                                   |                    |                    |                |
| <b>Operating activities:</b>  |                                   |                    |                    |                |
| Net income  | \$ 36,510                         | \$ 36,841          | \$ (331)           | -0.9%          |
| Non-cash items  | 33,749                            | 26,353             | 7,396              | 28.1%          |
| Changes in operating assets and liabilities, excluding the effects of business acquisitions | (8,883)                           | (33,706)           | 24,823             | 73.6%          |
| <b>Net cash provided by operating activities</b>  | <b>\$ 61,376</b>                  | <b>\$ 29,488</b>   | <b>\$ 31,888</b>   | <b>108.1%</b>  |
| <b>Investing activities:</b>  |                                   |                    |                    |                |
| Purchases of property, plant, equipment, and intangibles                                    | \$ (25,535)                       | \$ (27,836)        | \$ 2,301           | 8.3%           |
| Purchase of business related assets   |                                   | (2,900)            | 2,900              | NM             |
| Investments in businesses, net of cash acquired   | (52,923)                          | (36,814)           | (16,109)           | -43.8%         |
| <b>Net cash used in investing activities</b>  | <b>\$ (78,458)</b>                | <b>\$ (67,550)</b> | <b>\$ (10,908)</b> | <b>-16.1%</b>  |
| <b>Financing activities:</b>  |                                   |                    |                    |                |
| Net (payments) proceeds under credit facilities   | \$ (2,158)                        | \$ 33,900          | \$ (36,058)        | NM             |
| Payments of long-term obligations and capital leases  | (2,104)                           | (367)              | (1,737)            | -473.3%        |
| Repurchases of Common Shares  | (33,868)                          | (14,139)           | (19,729)           | -139.5%        |
| Stock option and other equity transactions, net   | 7,589                             | 5,807              | 1,782              | 30.7%          |
| <b>Net cash (used in) provided by financing activities</b>                                  | <b>\$ (30,541)</b>                | <b>\$ 25,201</b>   | <b>\$ (55,742)</b> | <b>-221.2%</b> |

NM Not Meaningful

**Net Cash Provided by Operating Activities**

Net cash provided by operating activities was \$61.4 million for the first six months of fiscal 2005 as compared to \$29.5 million for the same prior year period. Significant components of the Company's operating cash flows for the six months ended September 30, 2004 and 2003 driving the increase in net cash inflow from operating activities of \$31.9 million include:

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Accounts receivables, net- Excluding the impact of foreign currency translation adjustments and businesses acquired, accounts receivable, net decreased \$18.3 million and \$11.5 million during the first half of fiscal 2005 and 2004, respectively. Accounts receivable balances are influenced by the timing of revenues and customer payments. For the first half of fiscal 2005, revenues were \$519.6 million as compared to revenues of \$570.3 million for the second half of fiscal 2004, resulting in an 8.9% decline. This decline, coupled with a 6 day reduction in days sales outstanding from 86 days at March 31, 2004 to 80 days at September 30, 2004, resulted in lower accounts receivable levels at September 30, 2004.

Inventories- Excluding the impact of foreign currency translation adjustments and businesses acquired, inventories increased \$3.2 million and \$23.5 million during the first half of fiscal 2005 and 2004, respectively. The Company has typically established targeted inventory production levels at manufacturing facilities in a process called modified level-loading, whereby a relatively constant stream of inventory production occurs, which may result in varying inventory levels during the year as a result of customer demand fluctuations. During the second quarter of fiscal 2004, the Company's inventory levels were impacted by stepped up production levels at certain manufacturing facilities in anticipation of increased third and fourth quarter demand, thus resulting in higher inventory levels.

Accounts payable, net- Excluding the impact of foreign currency translation adjustments and businesses acquired, accounts payable decreased \$8.0 million and \$24.0 million during the first half of fiscal 2005 and 2004, respectively. Based upon varying payment due dates of accounts payable obligations and the Company's cash management strategies, accounts payable balances may fluctuate from period to period.

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Accruals and other, net- Excluding the impact of foreign currency translation adjustments and businesses acquired, accruals and other, net decreased \$14.4 million and increased \$1.9 million during the first half of fiscal 2005 and 2004, respectively. Accruals and other, net decreased significantly during the first half of fiscal 2005 due to decreased accrued payroll and related liabilities that resulted from the timing of compensation related payments and reduced projected bonus payouts under the Company's profit sharing plan. The decrease in accruals and other, net was further impacted by reduced employee and dealer commissions and deferred revenues as a result of changes in revenue mix and sales volumes.

**Net Cash Used In Investing Activities**

For the first six months of fiscal 2005, net cash used in investing activities amounted to \$78.5 million as compared to \$67.6 million during the same prior year period. The following discussion summarizes the significant components of the Company's investing cash flows for the six months ended September 30, 2004 and 2003:

Purchases of property, plant, equipment, and intangibles- During the first six months of fiscal 2005, the Company's capital expenditures amounted to \$25.5 million as compared to \$27.8 million during the comparable prior year period. The Company continues to make investments in business expansion projects and information technology improvements.

Investments in businesses, net of cash acquired- During the second quarter of fiscal 2005, the Company announced that it had acquired Albert Browne Limited ( Browne ). Investment in this business, net of cash acquired and other preliminary purchase accounting adjustments, amounted to \$52.9 million. Further discussion of the Company's acquisition of Browne is included in Note 2, Business Acquisition. Net cash flows used in investing activities for the first six months of fiscal 2004 reflect the acquisition of Hamo Holdings AG ( Hamo ) of \$36.8 million. The Company announced this acquisition during the first quarter of fiscal 2004.

Purchases of business related assets- During the first quarter of fiscal 2004, the Company acquired certain assets related to the sterilization container business from Sterion Incorporated for \$2.9 million. The purchase of these assets is presented as cash used in investing activities for the six month period ended September 30, 2003.

**Net Cash (Used In) Provided By Financing Activities**

For the first six months of fiscal 2005, net cash used in financing activities amounted to \$30.5 million as compared to net cash provided by financing activities of \$25.2 million during the same prior year period. The following discussion summarizes the significant components of the Company's financing cash flows for the six months ended September 30, 2004 and 2003:

Net (payments) proceeds under credit facilities- During the first six months of fiscal 2005, net payments under credit facilities amounted to \$2.2 million. During the first six months of fiscal 2004, net proceeds under the Company's unsecured revolving credit facility amounted to \$33.9 million. These borrowings were used by the Company to complete the acquisition of Hamo. A detailed description of the Company's sources of credit is included in the Company's Annual Report on Form 10-K for the year ended March 31, 2004 filed with the Securities and Exchange Commission on June 14, 2004 in the section of Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operations, titled, Sources of Credit, and in Note 6, Long-Term Debt, to the consolidated financial statements. There have been no significant changes in the Company's sources of credit since March 31, 2004.

Repurchases of Common Shares- As discussed in Note 10, Repurchases of Common Shares, the Company's Board of Directors has authorized the periodic repurchase of the Company's Common Shares. From time to time, the Company engages in open market transactions to repurchase its Common Shares. During the first six months of fiscal 2005, the Company repurchased 1.5 million of its

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Common Shares for \$33.9 million, representing an average purchase price of \$22.01. During the first six months of fiscal 2004, the Company repurchased 0.6 million of its Common Shares for \$14.1 million, representing an average purchase price of \$22.08.



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Stock option and other equity transactions- Cash flows from stock option and other equity transactions are primarily derived from the issuance of the Company's Common Shares under various employee stock compensation programs. During the first six months of fiscal 2005, cash proceeds, net of tax benefits, from the issuance of Common Shares under these programs totaled \$4.3 million, as compared to \$2.9 million during the comparable prior year period.

### ***Cash Requirements***

The Company believes that its available cash, cash flow from operations, and sources of credit will be adequate to satisfy its operating and capital needs for the next twelve months. The Company's management and Board of Directors continually review the operating and capital requirements, as well as the overall capital structure of the Company.

### ***Sources of Credit and Contractual and Commercial Commitments***

A discussion of the Company's sources of credit and contractual and commercial commitments is included in Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operations, included in the Company's Annual Report on Form 10-K for the year ended March 31, 2004, filed with the Securities and Exchange Commission on June 14, 2004. The Company's sources of credit and contractual and commercial commitments have not changed materially from March 31, 2004. At September 30, 2004 and March 31, 2004, debt to capital amounted to 13.2% and 13.8%, respectively.

### ***Critical Accounting Policies, Estimates, and Assumptions***

A discussion of the Company's critical accounting policies, estimates, and assumptions is included in Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operations, included in the Company's Annual Report on Form 10-K for the year ended March 31, 2004, filed with the Securities and Exchange Commission on June 14, 2004. The Company's critical accounting policies, estimates, and assumptions have not changed materially from March 31, 2004.

### ***Contingencies***

The Company is involved in various patent, product liability, consumer, commercial, environmental, tax proceedings and claims, government investigations, and other legal proceedings that arise from time to time in the ordinary course of business. In accordance with SFAS No. 5, Accounting for Contingencies, the Company records accruals for such contingencies to the extent that the Company concludes that their occurrence is both probable and estimable. The Company considers many factors in making these assessments, including the professional judgment of experienced members of management and the Company's legal counsel. The Company has made estimates as to the likelihood of unfavorable outcomes and the amounts of such potential losses. Litigation is inherently unpredictable and actual results could differ from the Company's estimates. The Company records anticipated recoveries under applicable insurance contracts when assured of recovery.

To the extent that management of the Company believes it is probable that a taxing authority will take a sustainable position on a matter contrary to the position taken by the Company, the Company provides tax accruals. If the Company prevails in matters for which accruals have been established or is required to pay amounts in excess of established accruals, the Company's effective income tax rate in a given financial statement

period may be materially impacted.

Refer to Part II, Item 1, Legal Proceedings, on page 29 of this Form 10-Q/A.

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### ***International Operations***

The Company conducts operations outside of the United States through its subsidiaries in the same business segments as the Company's domestic operations. Depending on the direction of change relative to the U.S. dollar, foreign currency values can increase or reduce the reported dollar value of the Company's net assets and results of operations. Revenues were favorably impacted by \$3.3 million, or 1.2%, and net income was negatively impacted by 0.2% during the second quarter of fiscal 2005 as compared to a favorable impact to revenues and net income of \$4.3 million, or 1.7%, and \$0.4 million, or 2.1%, respectively, during the comparable prior year period. Foreign currency fluctuations favorably impacted revenues during the first six months of fiscal 2005 by \$5.1 million, or 1.0%, as compared to a favorable impact of \$10.8 million, or 2.1%, during the comparable prior year period. Foreign currency fluctuations negatively impacted net income during the first six months of fiscal 2005 by \$0.3 million, or 0.9%, as compared to a favorable impact of \$0.9 million, or 2.4%, during the comparable prior year period.

### ***Seasonality***

The Company's financial results have been subject to recurring seasonal fluctuations. A number of factors have contributed to the seasonal patterns, including sales promotion and compensation programs, customer capital equipment buying patterns, and international business practices. Sales and profitability of certain of the Company's product lines have historically been disproportionately weighted toward the latter part of each quarter and generally weighted toward the latter part of each fiscal year. However, there is no assurance that these patterns will continue.

### ***Forward-Looking Statements***

This discussion may contain statements and data concerning certain trends, expectations, forecasts, estimates, or other forward-looking information affecting or relating to the Company or its industries 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 or earlier if indicated by the context, and may be identified by the use of forward-looking terms such as may, will, expects, believes, anticipates, plans, estimates, projects, targets, forecasts, and seeks, or the negative of such terms or other various 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, and changes in government regulations or the application or interpretation thereof. Many of these important factors are outside STERIS's control. No assurances can be provided as to any future financial results. 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 that leads to erosion of profit margins, (b) the possibility that market demand will not develop for new technologies, products, or applications, or the Company's business initiatives will take longer, cost more, or produce lower benefits than anticipated, (c) the possibility that application of or compliance with laws, court rulings, regulations, certifications or other requirements or standards may delay or prevent new product introductions, affect the production and marketing of existing products, or otherwise affect Company performance, results, or value (d) the potential of international unrest or effects of fluctuations in foreign currencies of countries where the Company does a sizeable amount of business, and (e) the possibility of reduced demand, or reductions in the rate of growth in demand, for the Company's products and services.

### ***Availability of Securities and Exchange Commission Filings***

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The Company files annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, amendments to those reports, and other information with the Securities and Exchange Commission (the SEC). Copies of these materials can be obtained by visiting the SEC's Public Reference Room at 450 Fifth Street, NW, Washington, D.C. 20549 or by accessing the SEC's website at <http://www.sec.gov>. Information may be obtained by calling the SEC at 1-800-SEC-0330. In addition, as soon as reasonably practicable after such materials are filed with or furnished to the SEC, the Company makes copies available to the public, free of charge, on or through the investor relations section of its website at <http://www.steris.com>. Information on the Company's website is not incorporated by reference into this report.

### **ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

A discussion of market risk exposures is included in Part II, Item 7a, Quantitative and Qualitative Disclosures about Market Risk, of the Company's Annual Report on Form 10-K for the year ended March 31, 2004 filed with the Securities and Exchange Commission on June 14, 2004. The Company's exposures to market risk have not changed materially since March 31, 2004. During the second quarter of fiscal 2005, the Company began to manage its foreign currency risk by entering into forward contracts. These contracts are entered into in order to mitigate the impact of currency fluctuations on transactions and other exposures. The Company does not enter into forward contracts for speculative purposes.

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**ITEM 4. CONTROLS AND PROCEDURES**

The Company's management is responsible for establishing and maintaining effective disclosure controls and procedures, as defined under Rules 13a-15(e) and 15d-15(e) of the Securities and Exchange Act of 1934 (the Exchange Act). As of September 30, 2004, an evaluation was performed under the supervision and with the participation of the Company's management, including the Chief Executive Officer (CEO) and the Chief Financial Officer (CFO), of the effectiveness of the Company's disclosure controls and procedures. Based on that evaluation, the Company's management, including the CEO and the CFO, concluded that the Company's disclosure controls and procedures as of September 30, 2004 were effective in ensuring material information required to be disclosed in this Quarterly Report on Form 10-Q/A was recorded, processed, summarized, and reported on a timely basis. In addition, there were no changes in the Company's internal control over financial reporting as defined under Exchange Act Rules 13a-15(f) and 15d-15(f) that occurred during the quarter ended September 30, 2004 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

**Table of Contents****PART II - OTHER INFORMATION****ITEM 1. LEGAL PROCEEDINGS**

The Company is involved in a number of legal proceedings and claims which the Company believes arise from the ordinary course of its business, given its size, history, complexity, nature of its business, and industries in which it participates. These legal proceedings and claims generally involve a variety of legal theories and allegations, including without limitation, personal injury (e.g., slip and falls, automobile accidents), product liability (e.g., based on the operation or claimed malfunction of products), product exposure (e.g., claimed exposure to chemicals, asbestos, contaminants), property damage (e.g., claimed damage due to leaking equipment, fire), economic loss (e.g., breach of contract, other commercial claims), employment (e.g., wrongful termination), and other claims for damage and relief. In fiscal 2004, the Company settled a wrongful discharge lawsuit with a former employee. In connection with that settlement, the Company became aware of an investigation initiated based on discussions between the former employee and the FDA regarding the Company's SYSTEM<sup>®</sup> sterile processing system. The investigation is currently being conducted by the FDA and the U.S. Department of Justice and is ongoing. The Company has offered and intends to cooperate with the government agencies regarding this matter, if requested.

The Company believes it has adequately reserved for its current litigation and that the ultimate outcome of its pending lawsuits and claims will not have a material adverse effect on the Company's consolidated financial position or results of operations taken as a whole. Due to their inherent uncertainty, however, there can be no assurance of the ultimate outcome of current or future litigation, proceedings, investigations, or claims or their effect. The Company presently maintains product liability insurance coverage and other liability coverage in amounts and with deductibles that it believes are prudent.

From time to time, STERIS is also involved in legal proceedings as a plaintiff involving contract, patent protection, and other claims asserted by the Company. Gains, if any, from these proceedings are recognized when they are realized. The Company believes there have been no material recent developments concerning the Company's legal proceedings since March 31, 2004 and no new material pending legal proceedings required to be reported.

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

The following table summarizes the STERIS Common Shares repurchased by or on behalf of the Company for the second quarter of fiscal 2005:

| <u>Period</u>                      | <u>Total Number of<br/>Shares Purchased</u> | <u>Average Price<br/>Paid Per Share</u> | <u>Total Number of</u>     | <u>Maximum Number</u>     |
|------------------------------------|---|---|----------------------------|---------------------------|
|                                    |   |   | <u>Shares Purchased</u>    | <u>of Shares that May</u> |
|                                    |   |   | <u>As Part of Publicly</u> | <u>Yet Be Purchased</u>   |
|                                    |   |   | <u>Announced Plans</u>     | <u>Under the Plans</u>    |
|                                    |   |   | <u>or Programs (1)</u>     | <u>or Programs</u>        |
| July 1, 2004 through July 31, 2004 | 75,000                                      | \$ 20.63                                | 75,000                     | 2,925,000                 |

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|  |                |                 |                |                  |
|--|----------------|-----------------|----------------|------------------|
| August 1, 2004 through August 31, 2004       | 199,000        | 20.96           | 199,000        | 2,726,000        |
| September 1, 2004 through September 30, 2004 |                |                 |                |                  |
| <b>Total</b>                                 | <b>274,000</b> | <b>\$ 20.87</b> | <b>274,000</b> | <b>2,726,000</b> |

- (1) These repurchases were pursuant to a single repurchase program that was approved by the Company's Board of Directors and announced on July 28, 2004. This 3,000,000 repurchase authorization does not have a stated maturity date. There were no purchases by or on behalf of affiliated purchasers during the second quarter of fiscal 2005.

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**ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS**

The shareholders of the Company voted on the following items at the Annual Meeting of Shareholders held on July 28, 2004:

(a) Votes regarding the election of the persons named below as Directors of the Company for a term expiring at the Annual Meeting of Shareholders in 2006 were as follows:

|                    | <u>FOR</u> | <u>WITHHELD</u> |
|--------------------|------------|-----------------|
| Kevin M. McMullen  | 56,746,684 | 4,729,876       |
| Jerry E. Robertson | 61,060,594 | 415,966         |
| John P. Wareham    | 61,097,941 | 378,619         |
| Loyal W. Wilson    | 56,534,401 | 4,942,159       |

(b) Votes regarding the adoption of amendments to the existing amended and restated regulations of the Company relating to declassifying the Board of Directors of the Company and to change the minimum and maximum number of Directors of the Company:

| <u>FOR</u> | <u>AGAINST</u> | <u>ABSTAIN</u> | <u>BROKER-NON-VOTE</u> |
|------------|----------------|----------------|------------------------|
| 61,116,356 | 215,613        | 143,161        | 1,430                  |

(c) Votes regarding the adoption of amendments to the existing Amended and Restated Regulations of the Company to modernize the same and to take advantage of recent changes to Ohio Corporation laws and to effect the other changes included therein:

| <u>FOR</u> | <u>AGAINST</u> | <u>ABSTAIN</u> | <u>BROKER-NON-VOTE</u> |
|------------|----------------|----------------|------------------------|
| 60,668,774 | 678,086        | 128,017        | 1,683                  |

(d) Votes regarding the shareholder request to adopt an engagement process for shareholder proposal proponents:

| <u>FOR</u> | <u>AGAINST</u> | <u>ABSTAIN</u> | <u>BROKER-NON-VOTE</u> |
|------------|----------------|----------------|------------------------|
| 3,470,348  | 47,537,922     | 337,420        | 10,130,870             |

**ITEM 6. EXHIBITS**



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(a) Exhibits required by Item 601 of Regulation S-K

| <b>Exhibit Number</b> | <b>Exhibit Description</b>   |
|-----------------------|--|
| 3.1                   | 1992 Amended Articles of Incorporation of STERIS Corporation, as amended on May 14, 1996, November 6, 1996, and August 6, 1998 (filed as Exhibit 3.1 to Form 10-K for the fiscal year ended March 31, 2000, and incorporated herein by reference).                             |
| 3.2                   | Amended and Restated Regulations of STERIS Corporation effective July 28, 2004 (filed as Exhibit 3.2 to Form 10-Q for the fiscal quarter ended September 30, 2004 as originally filed, and incorporated herein by reference).  |
| 4.1                   | Specimen Form of Common Stock Certificate (filed as Exhibit 4.1 to Form 10-K for the fiscal year ended March 31, 2002, and incorporated herein by reference).  |
| 4.2                   | Amended and Restated Rights Agreement, dated as of January 21, 1999, between STERIS Corporation and National City Bank, as successor Rights Agent (filed as Exhibit 4.2 to the Registration Statement on Form 8-A filed April 16, 1999, and incorporated herein by reference). |

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- 4.3 Amendment No. 1, dated June 7, 2002, to Amended and Restated Rights Agreement, dated as of January 21, 1999, between STERIS Corporation and National City Bank, as successor Rights Agent (filed as Exhibit 4.1 to the Registration Statement on Form 8-A/A filed June 10, 2002, and incorporated by reference).
- 15.1 Letter Regarding Unaudited Interim Financial Information (filed as Exhibit 15.1 to Form 10-Q for the fiscal quarter ended September 30, 2004 as originally filed, and incorporated herein by reference).
- 31.1 Certification of the Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 31.2 Certification of the Chief Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 32.1 Certification of the Chief Executive Officer and Chief Financial Officer Pursuant to 18 U.S.C. Section 1350 as Adopted Pursuant Section 906 of the Sarbanes-Oxley Act of 2002.

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**SIGNATURE**

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

STERIS Corporation

/s/ Laurie Brlas

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Laurie Brlas  
Senior Vice President and  
Chief Financial Officer  
November 18, 2004