STERIS CORP
Form 10-Q/A
June 23, 2011

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D. C. 20549

FORM 10-Q/A
Amendment No. 1
(Mark One)

x	QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
	For the quarterly period ended December 31, 2010
or	
o	TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
	For the transition period from _______ to _______

Commission File Number 1-14643

STERIS Corporation
(Exact name of registrant as specified in its charter)

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

440-354-2600
(Registrant's telephone number, including area code)

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes x No o

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

Large Accelerated Filer x	Accelerated Filer o
Non-Accelerated Filer o	Smaller Reporting Company o

(Do not check if a smaller reporting company)
Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes o No x

The number of common shares outstanding as of January 31, 2011: 59,341,368
This Amendment No. 1 on Form 10-Q/A to the Quarterly Report on Form 10-Q for the quarter ended December 31, 2010 of STERIS Corporation (the "Company"), originally filed with the Securities and Exchange Commission on February 9, 2011, reformats the "Matters Affecting Comparability" and "Results of Operations" portions, and adds a new "Non-GAAP Financial Measures" portion, of Management's Discussion & Analysis contained in Item 2 of the previously filed Form 10-Q to present the reconciliation of GAAP and Non-GAAP numbers and the discussion thereof in a different manner, adds cross references and updates the dates of the certifications contained in Exhibits 31.1 and 31.2 of such Quarterly Report as of the filing date of this Amendment No. 1.
Except for the reformatted presentation of the reconciliations and discussion, cross references, and the referenced certification updates, this Amendment No. 1 to the Company's Quarterly Report on Form10-Q/A does not change any of the previously filed information or results for the quarter, and does not update any disclosure from, or reflect any event occurring subsequent to February 9, 2011, which is the filing date of the Quarterly Report on Form 10-Q as originally filed.

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PART 1—FINANCIAL INFORMATION

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

Introduction

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

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

As you read the MD&A, it may be helpful to refer to information in our consolidated financial statements, which present the results of our operations for the third quarter and first nine months of fiscal 2011 and fiscal 2010. It may also be helpful to read the MD&A in our Annual Report on Form 10-K for the year ended March 31, 2010, filed with the SEC on May 28, 2010. In the MD&A, we analyze and explain the period-over-period changes in the specific line items in the Consolidated Statements of Income. Our analysis may be important to you in making decisions about your investments in STERIS.

Financial Measures

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

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

Revenues – Defined

As required by Regulation S-X, we separately present revenues generated as either product revenues or service revenues on our Consolidated Statements of Income for each period presented. When we discuss revenues, we may, at times, refer to revenues summarized differently than the Regulation S-X requirements. The terminology, definitions, and applications of terms that we use to describe revenues may be different from terms used by other companies. We use the following terms to describe revenues:

- Revenues – Our revenues are presented net of sales returns and allowances.
- Product Revenues – We define product revenues as revenues generated from sales of capital equipment, which includes steam and low temperature liquid sterilizers, washing systems, VHP technology, water stills, and pure steam generators; integrated OR; surgical lights and tables; and the consumable family of products, which includes SYSTEM 1 and SYSTEM 1E consumables, sterility assurance products, skin care products, and cleaning consumables.
- Service Revenues – We define service revenues as revenues generated from parts and labor associated with the maintenance, repair, and installation of our capital equipment, as well as revenues generated from contract sterilization offered through our Isomedix segment.
- Capital Revenues – We define capital revenues as revenues generated from sales of capital equipment, which includes

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steam and low temperature liquid sterilizers, washing systems, VHP technology, water stills, and pure steam generators; surgical lights and tables; and integrated OR.

- Consumable Revenues – We define consumable revenues as revenues generated from sales of the consumable family of products, which includes SYSTEM 1 and SYSTEM 1E consumables, sterility assurance products, skin care products, and cleaning consumables.
- Recurring Revenues – We define recurring revenues as revenues generated from sales of consumable products and service revenues.
- Acquired Revenues – We define acquired revenues as base revenues generated from acquired businesses or assets and additional volumes driven through acquired businesses or assets. We will use such measure for up to a year after acquisition.

General Company Overview and Executive Summary

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

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

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

During the first nine months of fiscal 2011, we recorded a pre-tax liability related to the SYSTEM 1 Rebate Program. The Rebate Program reduced Healthcare revenues by $102.3 million, increased Healthcare cost of revenues by $7.7 million, decreased gross margin and operating margin by $110.0 million. The accrual of these estimated rebates and costs increased current liabilities by $110.0 million and did not have a material impact on free cash flow during the period.

Fiscal 2011 third quarter revenues were $328.3 million representing an increase of 0.1% over prior year period reflecting increases in the Healthcare and Isomedix business segments offset by a decrease in the Life Science business segment. Our gross margin percentage for the fiscal 2011 third quarter was 41.7%, representing a 80 basis point decrease over the prior year period, driven primarily by unfavorable product mix and lower SYSTEM 1 consumable volume. Revenues for the first nine months of fiscal 2011 were $829.7 million and gross margin percentage was 35.0%. Adjusted revenues for the first nine months of fiscal 2011, excluding the impact of the Rebate Program, were $932.0 million (see subsection of MD&A titled "Non-GAAP Financial measures" for additional information and related reconciliation of non-GAAP financial measures to the most comparable GAAP measures) compared to $925.6 million in the first nine months of fiscal 2010, representing an increase of $6.4 million, or 0.7%. Increases in the Healthcare and Isomedix business segments were offset by a decrease in the Life Science business segment. Our adjusted gross profit percentage, excluding the impact of the Rebate Program, for the first nine months of fiscal 2011 was 42.9% (see subsection of MD&A titled "Non-GAAP Financial measures" for additional information and related reconciliation of non-GAAP financial measures to the most comparable GAAP measures), consistent with the first nine months of the prior fiscal year. The benefits of productivity improvements and price increases were offset by unfavorable impacts of a shift in product mix and reductions in SYSTEM 1 consumable volumes.

Fiscal 2011 third quarter operating expenses include a pre-tax charge of $19.8 million related to the proposed settlement of SYSTEM 1 class action litigation. This settlement is subject to, among other things, certification of the class and approval of the settlement by the court. After tax, the impact of the charge was a reduction in net income of $13.1 million, or $0.22 per diluted share.

Free cash flow was $28.3 million in the first nine months of fiscal 2011 compared to $129.4 million in the prior year first nine months, reflecting higher capital spending levels and a higher use of cash to fund changes in operating assets and

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liabilities. Our debt-to-total capital ratio was 21.9% at December 31, 2010 and 21.8% at March 31, 2010. During the first nine months of fiscal 2011, we declared and paid quarterly cash dividends of $0.41 per common share.

Additional information regarding our fiscal 2011 third quarter financial performance is included in the subsection below titled “Results of Operations.”

Matters Affecting Comparability

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

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

Fiscal 2011 third quarter operating expenses include a pre-tax charge of $19.8 million related to the proposed settlement of SYSTEM 1 class action litigation. This settlement is subject to, among other things, certification of the class and approval of the settlement by the court. After tax, the impact of the charge was a reduction in net income of $13.1 million, or $0.22 per diluted share.

Restructuring. During the first nine months of fiscal 2011, we did not incur any significant additional expenses related to previously announced restructuring actions.

Additional information regarding our restructuring actions is included in our Annual Report on Form 10-K for the year ended March 31, 2010, filed with the SEC on May 28, 2010.

International Operations. Since we conduct operations outside of the United States using various foreign currencies, our operating results are impacted by foreign currency movements relative to the U.S. dollar. During the third quarter of fiscal 2011, our revenues were unfavorably impacted by $1.4 million, or 0.4%, and income before taxes was unfavorably impacted by $0.4 million, or 1.3%, as a result of foreign currency movements relative to the U.S. dollar. During the first nine months of fiscal 2011, our revenues were unfavorably impacted by $2.0 million, or 0.2%, and income before income taxes was unfavorably impacted by $0.2 million, or 1.1% as compared to the same prior year period.

Non-GAAP Financial Measures

We, at times, refer to financial measures which are considered to be “non-GAAP financial measures” under SEC rules. We, may refer to our results of operations excluding certain transactions or amounts that are non-recurring or are not indicative of future results, in order to provide meaningful comparisons between the periods presented.

These non-GAAP financial measures are not intended to be, and should not be, considered separately from or as an alternative to the most directly comparable GAAP financial measures.

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

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

We define free cash flow as net cash flows provided by operating activities as presented in the Consolidated Statements of Cash Flows less purchases of property, plant, equipment, and intangibles plus proceeds from the sale of property, plant,

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equipment, and intangibles, which are also presented in the Consolidated Statements of Cash Flows. We use this as a measure to gauge our ability to fund future debt principal repayments, growth outside of core operations, repurchase common shares, and pay cash dividends. The following table summarizes the calculation of our free cash flow for the nine months ended December 31, 2010 and 2009:

	Nine Months Ended December 31,	
(dollars in thousands)	2010	2009
Net cash flows provided by operating activities	$83,397	$158,668
Purchases of property, plant, equipment and intangibles, net	(56,390)	(29,839)
Proceeds from the sale of property, plant, equipment and intangibles	1,298	574
Free cash flow	$28,305	$129,403

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

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(dollars in thousands)	Nine months ended December 31, 2010	
Reported revenues	$829,688	
Impact of the SYSTEM 1 Rebate Program	102,313	
Adjusted revenues	$932,001	
Reported capital revenues	$256,368	
Impact of the SYSTEM 1 Rebate Program	102,313	
Adjusted capital revenues	$358,681	
Reported United States revenues	$601,703	
Impact of the SYSTEM 1 Rebate Program	102,313	
Adjusted United States Revenues	$704,016	
Reported Healthcare revenues	$561,723	
Impact of the SYSTEM 1 Rebate Program	102,313	
Adjusted Healthcare revenues	$664,036	
Reported gross profit	$290,135	
Impact of the SYSTEM 1 Rebate Program	110,004	
Adjusted gross profit	$400,139	
Reported gross profit percentage	35.0	%
Impact of the SYSTEM 1 Rebate Program	7.9	%
Adjusted gross profit percentage	42.9	%
Reported Healthcare operating income	$(19,460	)
Impact of the SYSTEM 1 Rebate Program and proposed class action settlement	129,800	
Adjusted Healthcare operating income	$110,340	

	Three months ended December 31, 2010
Reported Healthcare operating income	$20,389
Impact of the proposed SYSTEM 1 class action settlement	19,796
Adjusted Healthcare operating income	$40,185

Results of Operations

In the following subsections, we discuss our earnings and the factors affecting them for the third quarter and first nine months of fiscal 2011 compared with the same fiscal 2010 periods. We begin with a general overview of our operating results and then separately discuss earnings for our operating segments.

Revenues. The following table compares our revenues for the three and nine months ended December 31, 2010 to the revenues for the three and nine months ended December 31, 2009:

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(dollars in thousands)	Three Months Ended December 31, 2010	2009	Change	Percent Change
Total Revenues	$328,283	$327,832	$451	0.1 %
Revenues by type:				
Capital Revenues	135,121	132,541	2,580	1.9 %
Consumable Revenues	77,501	81,531	(4,030)	(4.9)%
Service Revenues	115,661	113,760	1,901	1.7 %
Revenues by geography:				
United States	239,975	244,067	(4,092)	(1.7)%
International	88,308	83,765	4,543	5.4 %

(dollars in thousands)	Nine Months Ended December 31, 2010	2009	Change	Percent Change
Total Revenues	$829,688	$925,604	$(95,916)	(10.4)%
Revenues by type:				
Capital Revenues	256,368	344,391	(88,023)	(25.6)%
Consumable Revenues	230,618	242,315	(11,697)	(4.8)%
Service Revenues	342,702	338,898	3,804	1.1 %
Revenues by geography:				
United States	601,703	706,165	(104,462)	(14.8)%
International	227,985	219,439	8,546	3.9 %

Quarter over Quarter Comparison

Revenues increased $0.5 million, or 0.1%, to $328.3 million for the quarter ended December 31, 2010, as compared to $327.8 million for the same prior year quarter. Capital revenues increased $2.6 million in the third quarter of fiscal 2011, driven by higher demand from Healthcare Customers. Service revenues increased $1.9 million in the third quarter of fiscal 2011 due to an increase in Isomedix segment revenues, although this increase was largely offset by decreases within the Healthcare and Life Sciences business segments. Consumable revenues decreased $4.0 million for the quarter ended December 31, 2010, primarily driven by decreases within the Healthcare segment attributable to reductions in SYSTEM 1 consumables and lower H1N1 related product sales as compared to the prior year quarter.

International revenues increased $4.5 million, or 5.4%, to $88.3 million for the quarter ended December 31, 2010, as compared to $83.8 million for the same prior year quarter. International revenues were favorably affected by increases in capital equipment revenues, which increased 6.3% primarily due to increases within Europe and Asia Pacific. International recurring revenues increased during the third quarter of fiscal 2011 by 4.3%, reflecting increases within Canada, and the Asia Pacific and Latin American regions partially offset by a decrease in Europe.

United States revenues decreased $4.1 million, or 1.7%, to $240.0 million for the quarter ended December 31, 2010, as compared to $244.1 million for the same prior year quarter. United States recurring revenues decreased 2.3% for the third quarter of fiscal 2011, and reflected a decrease of 7.0% in consumable revenues, partially offset by an increase of 0.8% in service revenues. The decrease in United States consumable revenues was driven by decreases in SYSTEM 1 consumables and H1N1 related products. Capital equipment revenues decreased 0.5% in the United States as the decline in Life Sciences capital equipment revenues of 36.8% more than offset the increase in Healthcare capital equipment revenues of 5.1%.

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First Nine Months over First Nine Months Comparison

Revenues decreased $95.9 million, or (10.4)%, to $829.7 million for the first nine months of fiscal 2011, as compared to revenues of $925.6 million during the first nine months of fiscal 2010. The decline reflects the $102.3 million negative impact of the Rebate Program. Adjusted revenues, excluding the impact of the Rebate Program, increased $6.4 million, or 0.7%, to $932.0 million for the first nine months of fiscal 2011 (see subsection of MD&A titled "Non-GAAP Financial Measures" for additional information and related reconciliation of non-GAAP financial measures to the most comparable GAAP measures) as compared to revenues for the first nine months of fiscal 2010. Capital equipment revenues decreased $88.0 million or 25.6%. The decrease in capital equipment revenues reflects the $102.3 million negative impact of the Rebate Program on Healthcare capital equipment revenues. Adjusted capital equipment revenues, excluding the impact of the Rebate Program (see subsection of MD&A titled "Non-GAAP Financial Measures" for additional information and related reconciliation of non-GAAP financial measures to the most comparable GAAP measures), increased $14.3 million or 4.1%, driven by improved demand within the United States and the Asia Pacific and Latin America regions partially offset by declines in Canada and Europe. Recurring revenues decreased $7.9 million or 1.4% driven by weaker demand in United States and Europe attributable to reductions in SYSTEM 1 consumables in the United States and lower H1N1 product sales.

International revenues for the first nine months of fiscal 2011 were $228.0 million, an increase of $8.5 million, or 3.9% , as compared to the first nine months of fiscal 2010. Fiscal 2011 year-to-date international revenues were favorably impacted by a 3.1% increase in capital equipment revenue and a 4.8% increase in recurring revenues, reflecting increases in both consumable and service revenues of 3.2% and 6.4%, respectively.

United States revenues for the first nine months of fiscal 2011 were $601.7 million, a decrease of $104.5 million, or 14.8%, as compared to the first nine months of fiscal 2010. The fiscal 2011 year-to-date decrease in United States revenues was primarily driven by the $102.3 million negative impact of the Rebate Program on capital equipment revenues within the Healthcare segment in the United States. The remaining decrease of $2.1 million was driven by a 7.0% decrease in consumable revenues as a result of reductions in SYSTEM 1 consumables and H1N1 related products, which was partially offset by an increase in capital equipment revenues and higher service revenues generated by our Isomedix segment.

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

Gross Profit. The following table compares our gross profit for the three and nine months ended December 31, 2010 to the three and nine months ended December 31, 2009:

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(dollars in thousands)	Three Months Ended December 31, 2010	2009	Change	Percent Change
Gross Profit:				
Product	$89,241	$91,748	$(2,507)	(2.7)%
Service	47,773	47,735	38	0.1 %
Total Gross Profit	$137,014	$139,483	$(2,469)	(1.8)%
Gross Profit Percentage:				
Product	42.0 %	42.9 %		
Service	41.3 %	42.0 %		
Total Gross Profit Percentage	41.7 %	42.5 %		

(dollars in thousands)	Nine Months Ended December 31, 2010	2009	Change	Percent Change
Gross Profit:				
Product	$146,293	$254,148	$(107,855)	(42.4)%
Service	143,842	142,826	1,016	0.7 %
Total Gross Profit	$290,135	$396,974	$(106,839)	(26.9)%
Gross Profit Percentage:				
Product	30.0 %	43.3 %		
Service	42.0 %	42.1 %		
Total Gross Profit Percentage	35.0 %	42.9 %		

Our gross profit is affected by the volume, pricing, and mix of sales of our products and services, as well as the costs associated with the products and services that are sold. Gross profit percentage for the third quarter of fiscal 2011 amounted to 41.7%, representing a decrease of 80 basis points as compared to the same prior year period. The fiscal 2011 period was negatively impacted by a higher portion of revenues coming from lower margin capital equipment products and lower SYSTEM 1 consumable volume. For the first nine months of fiscal 2011, gross profit percentage amounted to 35.0%. The most significant driver of this decrease is the $110.0 million negative impact of the Rebate Program. On an adjusted basis, the gross profit percentage for the first nine months of fiscal 2011, gross margin amounted to 42.9% (see subsection of MD&A titled "Non-GAAP Financial Measures" for additional information and related reconciliation of non-GAAP financial measures to the most comparable GAAP measures), equal to the same prior year period. The negative impact of a higher portion of revenue coming from lower margin capital equipment products and lower SYSTEM 1 consumable volume offset the benefits of productivity improvements and price increases.

Operating Expenses. The following table compares our operating expenses for the three and nine months ended December 31, 2010 to the three and nine months ended December 31, 2009:

(dollars in thousands)	Three Months Ended December 31, 2010	2009	Change	Percent Change
Operating Expenses:				
Selling, General, and Administrative	$93,467	$71,776	$21,691	30.2 %
Research and Development	7,739	8,265	(526)	(6.4)%
Restructuring Expenses	(23)	14	(37)	NM
Total Operating Expenses	$101,183	$80,055	$21,128	26.4 %

NM - Not meaningful.

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(dollars in thousands)	Nine Months Ended December 31, 2010	2009	Change	Percent Change
Operating Expenses:				
Selling, General, and Administrative	$237,583	$220,897	$16,686	7.6 %
Research and Development	24,391	24,035	356	1.5 %
Restructuring Expenses	423	(313)	736	NM
Total Operating Expenses	$262,397	$244,619	$17,778	7.3 %

NM - Not meaningful.

Significant components of total selling, general, and administrative expenses (“SG&A”) are compensation and benefit costs, fees for professional services, travel and entertainment, facilities costs, and other general and administrative expenses. SG&A increased $21.7 million or 30.2% in the third quarter of fiscal 2011 compared to the same prior year period. SG&A increased $16.7 million or 7.6% during the first nine months of fiscal 2011 compared to the first nine months of fiscal 2010. The three and nine month periods in fiscal 2011 include $19.8 million associated with the proposed SYSTEM 1 class action settlement. The remaining change in SG&A in the third quarter of fiscal 2011 is an increase of $1.9 million is attributable to higher commissions associated with the increase in capital equipment revenues.The remaining change in SG&A in the first nine months of fiscal 2011 is a decrease of $3.1 million and is attributable to the benefits of cost reduction actions previously implemented as well as improved operating efficiencies.

As a percentage of total revenues, research and development expenses were 2.4% and 2.5% for the three month periods ended December 31, 2010 and 2009, respectively. For the three month period ended December 31, 2010, research and development expenses decreased 6.4% to $7.7 million as compared to $8.3 million during the same prior year period. For the first nine months of fiscal 2011, research and development expenses increased 1.5% to $24.4 million, as compared to $24.0 million, during the same prior year period. Research and development expenses are influenced by the number and timing of in-process projects and labor hours and other costs associated with these projects. Our research and development initiatives continue to emphasize new product development, product improvements, and the development of new technological platform innovations. During the third quarter of fiscal 2011, our investments in research and development continued to be focused on, but were not limited to, enhancing capabilities of sterile processing combination technologies, surgical tables and accessories, and the areas of emerging infectious agents such as Prions and Nanobacteria.

Expenses incurred during the third quarter of fiscal 2011 related to our previously announced restructuring plans. In the third quarter of fiscal 2010, we settled certain obligations for less than originally expected. The following tables summarize our total pre-tax restructuring expenses for the third quarter and first nine months of fiscal 2011 and fiscal 2010:

Three months ended December 31, 2010	Fiscal 2010 Restructuring Plan (1)	Fiscal 2008 Restructuring Plan	Total
Severance, payroll and other related costs	$489	$—	$489
Asset impairment and accelerated depreciation	—	(289)	(289)
Other	7	—	7
Total restructuring charges	$496	$(289)	$207

(1) Includes $230 in charges recorded in cost of revenues on Consolidated Statements of Income.

Three Months Ended December 31, 2009	Fiscal 2009

	Restructuring Plan (1)
Severance, payroll and other related costs	$(23)
Product rationalization	(232)
Asset impairment	9
Lease termination obligations and other	18
Total restructuring charges	$(228)

(1) Includes $(242) in charges recorded in cost of revenues on Consolidated Statements of Income.

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Nine Months Ended December 31, 2010	Fiscal 2010 Restructuring Plan (1)	Fiscal 2008 Restructuring Plan	Total
Severance, payroll and other related costs	$498	—	498
Asset impairment and accelerated depreciation	356	(289)	67
Other	88	—	88
Total restructuring charges	$942	(289)	653

(1) Includes $230 in charges recorded in cost of revenues on Consolidated Statements of Income.

Nine Months Ended December 31, 2009	Fiscal 2009 Restructuring Plan (2)
Severance, payroll and other related costs	$(36)
Product rationalization	(466)
Asset impairment and accelerated depreciation	(5)
Lease termination obligations and other	(290)
Total restructuring charges	$(797)

(2) Includes $(484) in charges recorded in cost of revenues on Consolidated Statements of Income.

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

	Fiscal 2010 Restructuring Plan			
(dollars in thousands)	March 31, 2010	Fiscal 2011 Provision	Payments/ Impairments	December 31, 2010
Severance and termination benefits	$1,894	$498	$(325)	$2,067
Asset impairments	—	356	(356)	—
Lease termination obligations	1,200	—	—	1,200
Other	509	88	(125)	472
Total	$3,603	$942	$(806)	$3,739

	Fiscal 2008 Restructuring Plan			
(dollars in thousands)	March 31, 2010	Fiscal 2011 Provision	Payments/ Impairments	December 31, 2010
Severance and termination benefits	$102	$—	$(102)	$—
Asset impairments	289	(289)	—	—
Lease termination obligations	411	—	(228)	183
Total	$802	$(289)	$(330)	$183

Non-Operating Expenses, Net. Non-operating expense (income), net consists of interest expense on debt, offset by interest earned on cash, cash equivalents, short-term investment balances, and other miscellaneous income. The following table compares our net non-operating expense for the three and nine months ended December 31, 2010 and 2009:

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(dollars in thousands)	Three Months Ended December 31, 2010	2009	Change
Non-Operating Expenses, Net:			
Interest Expense	$3,049	$3,291	$(242)
Interest and Miscellaneous Income	(321)	(535)	214
Non-Operating Expenses, Net	$2,728	$2,756	$(28)

(dollars in thousands)	Nine Months Ended December 31, 2010	2009	Change