

STERIS CORP
Form 10-Q
November 08, 2007
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D. C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2007

or

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

For the transition period from _____ to _____

Commission File Number 1-14643

STERIS Corporation

(Exact name of registrant as specified in its charter)

Ohio
(State or other jurisdiction of

incorporation or organization)

5960 Heisley Road,

34-1482024
(IRS Employer

Identification No.)

44060-1834

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Mentor, Ohio
(Address of principal executive offices)

440-354-2600

(Zip code)

(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 No

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

Large Accelerated Filer Accelerated Filer Non-Accelerated Filer

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

The number of common shares outstanding as of October 31, 2007: 63,416,782

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(in thousands)

| | September 30, 2007 (Unaudited) | March 31, 2007 |
|---|--------------------------------------|---------------------|
| Assets | | |
| Current assets: | | |
| Cash and cash equivalents | \$ 61,563 | \$ 52,296 |
| Accounts receivable (net of allowances of \$8,574 and \$9,911, respectively) | 211,774 | 251,207 |
| Inventories, net | 157,693 | 131,997 |
| Current portion of deferred income taxes, net | 14,687 | 14,560 |
| Prepaid expenses and other current assets | 35,647 | 34,660 |
| Total current assets | 481,364 | 484,720 |
| Property, plant, and equipment, net | 384,947 | 388,899 |
| Goodwill and intangibles, net | 334,384 | 332,947 |
| Other assets | 3,335 | 2,604 |
| Total assets | \$ 1,204,030 | \$ 1,209,170 |
| Liabilities and shareholders equity | | |
| Current liabilities: | | |
| Current portion of long-term indebtedness | \$ 700 | \$ 777 |
| Accounts payable | 61,605 | 76,184 |
| Accrued income taxes | 11,075 | 18,761 |
| Accrued payroll and other related liabilities | 50,309 | 59,003 |
| Accrued expenses and other | 66,020 | 62,674 |
| Total current liabilities | 189,709 | 217,399 |
| Long-term indebtedness | 124,890 | 100,800 |
| Deferred income taxes, net | 24,150 | 17,826 |
| Other liabilities | 96,781 | 98,853 |
| Total liabilities | 435,530 | 434,878 |
| Serial preferred shares, without par value; 3,000 shares authorized; no shares issued or outstanding | | |
| Common shares, without par value; 300,000 shares authorized; 70,040 shares issued; 63,739 and 64,982 shares outstanding, respectively | 65,167 | 102,466 |
| Retained earnings | 680,943 | 667,267 |
| Accumulated other comprehensive income | 22,390 | 4,559 |
| Total shareholders equity | 768,500 | 774,292 |
| Total liabilities and shareholders equity | \$ 1,204,030 | \$ 1,209,170 |

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See notes to consolidated financial statements.

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(in thousands, except per share amounts)

(Unaudited)

| | Three Months Ended September 30, | | Six Months Ended September 30, | |
|--|---|------------------|---|------------------|
| | 2007 | 2006 | 2007 | 2006 |
| Revenues: | | | | |
| Product | \$ 182,451 | \$ 179,375 | \$ 354,820 | \$ 345,134 |
| Service | 112,551 | 104,161 | 221,126 | 203,469 |
| Total revenues | 295,002 | 283,536 | 575,946 | 548,603 |
| Cost of revenues: | | | | |
| Product | 108,246 | 106,347 | 210,121 | 201,640 |
| Service | 63,086 | 58,428 | 123,443 | 114,827 |
| Total cost of revenues | 171,332 | 164,775 | 333,564 | 316,467 |
| Gross profit | 123,670 | 118,761 | 242,382 | 232,136 |
| Operating expenses: | | | | |
| Selling, general, and administrative | 87,993 | 82,786 | 174,488 | 161,200 |
| Research and development | 8,531 | 8,283 | 17,790 | 16,678 |
| Restructuring expenses | 698 | 1,158 | 2,089 | 2,263 |
| Total operating expenses | 97,222 | 92,227 | 194,367 | 180,141 |
| Income from continuing operations | 26,448 | 26,534 | 48,015 | 51,995 |
| Non-operating expenses (income): | | | | |
| Interest expense | 1,478 | 2,376 | 2,713 | 4,145 |
| Interest and miscellaneous income | (614) | (801) | (1,076) | (1,480) |
| Total non-operating expense, net | 864 | 1,575 | 1,637 | 2,665 |
| Income from continuing operations before income tax expense | 25,584 | 24,959 | 46,378 | 49,330 |
| Income tax expense | 9,566 | 8,599 | 17,157 | 18,913 |
| Net income from continuing operations | 16,018 | 16,360 | 29,221 | 30,417 |
| Discontinued operations: | | | | |
| Gain on the sale of discontinued operations, net of tax | | | | 627 |
| Net income | \$ 16,018 | \$ 16,360 | \$ 29,221 | \$ 31,044 |
| Basic earnings per common share: | | | | |
| Income from continuing operations, net of tax | \$ 0.25 | \$ 0.25 | \$ 0.45 | \$ 0.46 |
| Income from discontinued operations, net of tax. | \$ | \$ | \$ | \$ 0.01 |
| Net income | \$ 0.25 | \$ 0.25 | \$ 0.45 | \$ 0.47 |

Diluted earnings per common share:

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| | | | | |
|---|----------------|----------------|----------------|----------------|
| Income from continuing operations, net of tax | \$ 0.25 | \$ 0.25 | \$ 0.45 | \$ 0.46 |
| Income from discontinued operations, net of tax | \$ | \$ | \$ | \$ 0.01 |
| Net income | \$ 0.25 | \$ 0.25 | \$ 0.45 | \$ 0.47 |
| Cash dividends declared per common share outstanding | \$ 0.06 | \$ 0.04 | \$ 0.11 | \$ 0.08 |

See notes to consolidated financial statements.

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

| | Six Months Ended September 30, | |
|--|---|------------------|
| | 2007 | 2006 |
| Operating activities: | | |
| Net income | \$ 29,221 | \$ 31,044 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Depreciation, depletion, and amortization | 31,484 | 29,677 |
| Deferred income taxes | (2,571) | (7,158) |
| Share based compensation | 4,169 | 5,785 |
| Loss on the disposal of property, plant, equipment and intangibles, net | 723 | |
| Gain on the sale of discontinued operations, net of tax | | (627) |
| Other items | (14) | 856 |
| Changes in operating assets and liabilities, excluding the effects of business acquisitions: | | |
| Accounts receivable, net | 43,683 | 43,568 |
| Inventories, net | (20,755) | (27,123) |
| Other current assets | (593) | (19,382) |
| Accounts payable | (15,808) | (21,287) |
| Accruals and other, net | (16,814) | (17,093) |
| Net cash provided by operating activities | 52,725 | 18,260 |
| Investing activities: | | |
| Purchases of property, plant, equipment, and intangibles, net | (21,591) | (21,419) |
| Proceeds from the sale of property, plant, equipment, and intangibles | 31 | |
| Proceeds from the sale of discontinued operations | | 2,927 |
| Net cash used in investing activities | (21,560) | (18,492) |
| Financing activities: | | |
| Proceeds under credit facilities, net | 24,090 | 32,555 |
| Payments on long-term obligations and capital leases, net | | (361) |
| Repurchases of common shares | (54,476) | (59,628) |
| Cash dividends paid to common shareholders | (7,112) | (5,272) |
| Stock option and other equity transactions, net | 10,619 | 1,825 |
| Tax benefit from stock options exercised | 2,389 | 551 |
| Net cash used in financing activities | (24,490) | (30,330) |
| Effect of exchange rate changes on cash and cash equivalents | 2,592 | 2,737 |
| Increase (decrease) in cash and cash equivalents | 9,267 | (27,825) |
| Cash and cash equivalents at beginning of period | 52,296 | 72,732 |
| Cash and cash equivalents at end of period | \$ 61,563 | \$ 44,907 |

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, 2007 and 2006

(dollars in thousands, except per share amounts)

1. Nature of Operations and Summary of Significant Accounting Policies

Nature of Operations

STERIS Corporation, an Ohio corporation, develops, manufactures and markets infection prevention, contamination control, microbial reduction, and surgical and critical care support products and services for healthcare, pharmaceutical, scientific, research, industrial, and governmental customers throughout the world. As used in this Quarterly Report, STERIS Corporation and its subsidiaries together are called STERIS, the Company, we, us, or our, unless otherwise noted.

We operate in three business segments: Healthcare, Life Sc