STERIS CORP
Form 10-K
May 30, 2008
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United States Securities and Exchange Commission

Washington, D. C. 20549

FORM 10-K

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

For the fiscal year ended March 31, 2008

OR

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

For the transition period from to

Commission file number 1-14643

STERIS Corporation

(Exact name of registrant as specified in its charter)

Ohio		34-1482024
(State or other jurisdiction of incorporation or organization)		(IRS Employer Identification No.)
5960 Heisley Road, Mentor, Ohio	44060-1834	440-354-2600
(Address of principal executive offices)	(Zip Code)	(Registrant s telephone number including area code)

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

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

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

None

Indicate by check mark if the Registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.
Yes x No ¨

Indicate by check mark if the Registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.
Yes ¨ No x

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of the Registrant s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. x

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 ¨
Non-Accelerated Filer ¨
Smaller Reporting Company ¨

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

The aggregate market value of the voting stock held by non-affiliates of the Registrant, computed by reference to the closing price of such stock as of September 30, 2007: $1,727,445,834

The number of Common Shares outstanding as of May 14, 2008: 58,543,609

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Proxy Statement for the 2008 Annual Meeting Part III

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PART I

Throughout this Annual Report, STERIS Corporation and its subsidiaries together are called STERIS, the Company, we, us, or o unless otherwise noted. References in this Annual Report to a particular year or year-end mean our fiscal year, which ends on March 31. For example, fiscal year 2008 ended on March 31, 2008.

ITEM 1. BUSINESS

INTRODUCTION

STERIS Corporation is a leading provider of infection prevention and surgical products and services, focused primarily on the critical markets of healthcare, pharmaceutical and research. Our mission is to provide a healthier today and a safer tomorrow through knowledgeable people and innovative infection prevention, decontamination and health science technologies, products and services. We offer our Customers a unique mix of capital products, such as: sterilizers and surgical tables; consumable products, such as detergents and skin care products; and services, including equipment installation and maintenance; as well as the bulk sterilization of single-use medical devices.

We were founded as Innovative Medical Technologies in Ohio in 1985, and renamed STERIS Corporation in 1987. However, some of our businesses that have been acquired and integrated into STERIS, notably American Sterilizer Company, have much longer operating histories. With global headquarters in Mentor, Ohio, we have approximately 5,300 employees worldwide and operate in more than 60 countries. We have a direct sales force of approximately 500 and a service organization of over 1,000 who work diligently to ensure that we are meeting the increasingly complex needs of our Customers.

As a result of organizational changes within the Life Sciences segment announced in fiscal 2008, we changed our methodology for reporting segments. The Defense and Industrial business unit, which contains businesses in early development stages, is no longer a component of the Life Sciences segment. Corporate and other, which is presented separately, contains the Defense and Industrial business unit plus costs that are associated with being a publicly traded company and certain other corporate costs. These costs include executive office costs, Board of Directors compensation, shareholder services and investor relations, external audit fees, and legacy pension and post-retirement benefit costs from our former Erie manufacturing operation. Fiscal 2007 and fiscal 2006 amounts have been reclassified to reflect the fiscal 2008 presentation.

We operate in three reportable business segments: Healthcare, Life Sciences, and STERIS Isomedix Services. Healthcare is the largest piece of our business, contributing 70.1% of fiscal 2008 revenues and 83.7% of our fiscal 2008 operating income. In this segment, we serve Customers anywhere surgical procedures take place by providing support directly to the operating room, as well as to the sterile processing department where instruments are reprocessed in between surgeries. Our products and services enable Customers to reduce costs and improve outcomes in these critical environments.

Our second largest segment, Life Sciences, contributed 18.1% of fiscal 2008 revenues and 9.3% of our fiscal 2008 operating income. In this segment, we primarily serve pharmaceutical manufacturers and research organizations by providing decontamination and sterilization technologies, products and services that help ensure the safety of the products they produce.

STERIS Isomedix Services (Isomedix) performs sterilization services on a contract basis through 21 facilities in North America, where we sterilize single-use medical devices and other products in bulk prior to their delivery to the end user. This segment contributed 11.1% of fiscal 2008 revenues and 23.4% of our fiscal 2008 operating income.

Corporate and other contributed 0.7% of fiscal 2008 revenues and an operating loss of $20,401 to our fiscal 2008 operating income.

Many factors are driving an increased awareness of the importance of infection control throughout the world. In the United States, hospitals in 25 states and in Washington, D.C. are now required to report infection rates, providing patients with information that can help shape their decisions about where to receive care. On a more global basis, emerging threats such as Avian Bird Flu, Mad

Cow

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Disease, and the rise in drug-resistant strains of bacterial diseases have gained prominence in the news, raising awareness of the need for enhanced safety on a worldwide basis. We are uniquely positioned to help address these concerns in traditional and non-traditional settings with our combination of capital equipment, consumables and services.

INFORMATION RELATED TO BUSINESS SEGMENTS

Our chief operating decision maker is our President and Chief Executive Officer (CEO). The CEO is responsible for performance assessment and resource allocation. The CEO regularly receives discrete financial information about each reportable segment. The CEO uses this information to assess performance and allocate resources. The accounting policies of the reportable segments are the same as those described in Note 1 to the Consolidated Financial Statements titled, Nature of Operations and Summary of Significant Accounting Policies, of our Annual Report. Segment performance information for fiscal years 2008, 2007, and 2006 is presented in Note 12 to the Consolidated Financial Statements and in Item 7 titled, Management s Discussion and Analysis of Financial Condition and Results of Operations (MD&A), of this Annual Report.

HEALTHCARE SEGMENT

Description of Business. Our Healthcare segment manufactures and sells infrastructure capital equipment, accessory, consumable, and service solutions to healthcare providers, including acute care hospitals and surgery centers. These solutions aid our Customers in improving the safety, quality, and productivity of their surgical, sterile processing, gastrointestinal, and emergency environments.

Products Offered. These infrastructure and information technology solutions include:

- Sterilizers, including low temperature liquid, vaporized hydrogen peroxide, and Ethylene Oxide (EO) technologies, as well as steam sterilization, that allow Customers to meet rigorous sterility assurance standards and regulations and assist in the safe and effective re-use of medical equipment and devices.

- Automated washer/disinfector systems that clean and disinfect a wide range of items from rolling instrument carts and other large healthcare equipment to small surgical instruments.

- General and specialty surgical tables, surgical and examination lights, equipment management systems, operating room storage cabinets, warming cabinets, scrub sinks, and other complementary products and accessories for use in hospitals and other ambulatory surgery sites.

- Cleaning chemistries and sterility assurance products used in instrument cleaning and decontamination systems.

- Cleansing products, including hard surface disinfectants and skin care and hand hygiene solutions, for use by caregivers and patients.

- Connectivity solutions such as operating room (OR) integration and instrument management that allow for high quality transfer of information and images throughout the hospital and between hospitals throughout the world. These solutions aid in improving the productivity and quality of Customers inpatient and outpatient surgical and centralize sterile assets.

Significant brand names for these products include STERIS SYSTEM 1®, Amsco®, Hamo , Reliance®, Cmax®, Harmony , Kindest Kare®, Alcare®, Verify®, and Cal Stat®.

Services Offered. Our Healthcare segment provides various preventive maintenance programs and repair services to support the effective operation of capital equipment over its lifetime. We offer these corrective and preventive service solutions to both Customers who have internal clinical/biomedical engineering departments and Customers who rely on us to meet these needs. Field service personnel install, maintain, upgrade, repair, and troubleshoot equipment throughout the world. We also offer comprehensive sterilization management consulting services allowing healthcare facilities to achieve safety, quality, and productivity improvements in the end-to-end perioperative loop that flows between and among surgical suites and the central sterile department. Additionally, our Healthcare segment provides other

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support services such as construction and facility planning, engineering support, device testing, Customer education, hand hygiene process excellence, asset management/planning, and the sale of replacement parts.

Customer Concentration. Our Healthcare segment manufactures and sells capital equipment, consumables, and services to Customers in the United States and throughout the rest of the world. For the year ended March 31, 2008, the segment generated revenues in the United States and internationally of $679.0 million and $208.1 million, respectively. For the year ended March 31, 2008, no Customer represented more than 10% of the Healthcare segment s total revenues and the loss of any single Customer is not expected to have a material impact on the segment s results of operations or cash flows.

Competition. Our Healthcare segment manufactures and sells capital equipment, consumables, and services to Customers in the United States and throughout the rest of the world. We compete with a number of large companies that have significant product portfolios and global reach, as well as a number of small companies with very limited product offerings and operations in one or a limited number of countries. Significant competitors include Getinge and Johnson & Johnson. On a product basis, we also compete with 3M, Belimed, Berchtold, Cantel Medical, Cardinal, Ecolab, Hill-Rom, Kimberly-Clark, Skytron, and Stryker.

LIFE SCIENCES SEGMENT

Description of Business. Our Life Sciences segment manufactures and sells engineered capital products, formulated cleaning chemistries, and service solutions to pharmaceutical companies and private and public research facilities around the globe.

Products Offered. Our Life Sciences segment manufactures and sells a broad range of engineered capital products and formulated cleaning chemistries including:

- Sterilizers used in the manufacture of pharmaceuticals and biopharmaceuticals as well as equipment and instruments used in research studies, mitigating the risk of contamination.
- Washer/disinfectors that decontaminate various large and small materials and components used in pharmaceutical and industrial manufacturing processes, such as glassware, vessels, equipment parts, drums, and hoses.
- High-purity water equipment, which generates water for injection and pure steam.
- Vaporized Hydrogen Peroxide (VHP®) generators used to decontaminate many high value spaces, from small isolators to large pharmaceutical processing and laboratory animal rooms. This effective technology has recently been extended to applications in the food and beverage industries.
- Consumables and supplies that are used to prevent the spread of infectious diseases and to monitor sterilization and decontamination processes, including products used to clean instruments, decontaminate systems, and disinfect hard surfaces. We also manufacture and sell skin care and hand hygiene solutions for use in high risk and routine applications.

Significant brand names for these products include Amsco®, Hamo®, Reliance®, Finn-Aqua®, Kindest Kare®, Alcare®, Verify®, and Cal Stat®.

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

pharmaceutical manufacturing requirements.

Customer Concentration. Our Life Sciences segment manufactures and sells capital equipment, consumables, and services to Customers in the United States and throughout the rest of the world. For the year ended March 31, 2008, the segment generated revenues in the United States and internationally of $150.4 million and $77.9 million, respectively. For the year ended March 31, 2008, no Customer

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represented more than 10% of the Life Sciences segment s total revenues and the loss of any single Customer is not expected to have a material impact on the segment s results of operations or cash flows.

Competition. Our Life Sciences segment operates in highly regulated environments where the most intense competition results from technological innovations, product performance, convenience and ease of use, and overall cost-effectiveness. In recent years, our pharmaceutical Customer base has also undergone consolidation and reduced capital spending, resulting in more intense competition. We compete for pharmaceutical, research and industrial Customers with a number of large companies that have significant product portfolios and global reach, as well as a number of small companies with very limited product offerings and operations in one or a limited number of countries. Competitors in the pharmaceutical market include Belimed, Ecolab, Fedegari, Getinge, MECO, Stilmas, and Techniplast.

STERIS ISOMEDIX SERVICES SEGMENT

Description of Business. Our STERIS Isomedix Services segment operates through a network of 21 facilities located in North America. We sell a comprehensive array of contract sterilization services using Gamma Irradiation (Gamma), EO technologies, and to a lesser extent, Electron Beam Irradiation (E-Beam). We provide sterilization, microbial reduction, and materials modification services to companies that supply products to the healthcare, industrial, and consumer product industries.

Services Offered. We use Gamma, E-Beam, and EO technologies to sterilize a wide range of products. Gamma, using cobalt-60 isotope, and E-Beam, using accelerated electrons, are irradiation processes. EO uses a gaseous process to sterilize medical products. Greater than 90 percent of the industrial contract sterilization market uses Gamma or EO, with the remainder using E-Beam technology. Our locations are in major population centers and core distribution corridors throughout North America, primarily in the Northeast, Midwest, Southwest, and southern California. We adapt to increasing imports and changes in manufacturing points-of-origin by monitoring trends in supply chain management. Demographics partially drives this segment s growth. The aging population and rising life expectancy increase the demand for medical procedures, which increases the consumption of single use medical devices and surgical kits. Our technical services group supports Customers in all phases of the sterilization design process, including product development, materials testing, and sterility validation.

Customer Concentration. Our STERIS Isomedix Services segment operates in North America. For the year ended March 31, 2008, the segment generated revenues in the United States and Canada of $133.3 million and $7.3 million, respectively. The segment s services are offered to Customers throughout the footprint of our network. For the year ended March 31, 2008, no Customer represented more than 10% of the segment s revenues. Because of a largely fixed cost structure, the loss of a single Customer could have a material impact on the segment s results of operations or cash flows but would not have a material impact on STERIS.

Competition. STERIS Isomedix Services operates in a highly regulated industry and competes in North America with Sterigenics International, Inc., other smaller contract sterilization companies and manufacturers that sterilize products in-house.

INFORMATION WITH RESPECT TO OUR BUSINESS IN GENERAL

Recent Events

Restructuring Fiscal 2008 Expense Reduction Program. During the fourth quarter of fiscal 2008, we adopted a restructuring plan primarily focused on our North American operations (the Fiscal 2008 Restructuring Plan). As part of this plan, we will close two sales offices and rationalize certain products. We also took steps to reduce the workforce in certain support functions. Across all of our reporting segments approximately 90 employees, primarily located in North America, have been directly impacted. These restructuring actions are designed to enhance profitability and improve efficiency by reducing ongoing operating costs.

In fiscal 2008, we recorded pre-tax expenses totaling $15.8 million related to these actions, of which $11.7 million was recorded as restructuring expenses and $4.1 million was recorded in cost of revenues. We are continuing to evaluate all of our operations for opportunities to enhance performance, but have not committed to any additional specific actions.

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Restructuring European Restructuring Plan. During the third quarter of fiscal 2007, we adopted a restructuring plan related to certain of our European operations (the European Restructuring Plan). As part of this plan, we closed two sales offices. We also took steps to reduce the workforce in certain European support functions. These actions are intended to improve our cost structure in Europe. Approximately 40 employees were directly impacted in various European locations. During fiscal 2008 and fiscal 2007, we recorded pre-tax expenses of $0.1 million and $1.7 million, respectively, related to the European Restructuring Plan.

Restructuring Fiscal 2006 Restructuring Plan. During fiscal 2008, we completed the transfer of the manufacturing portion of our Erie, Pennsylvania operations to Monterrey, Mexico. The objective of this plan, as announced in January 2006, was to reduce production costs and improve our competitive position. At the same time, we also announced plans for other restructuring actions designed to reduce operating costs within the ongoing operations of both the Healthcare and Life Sciences segments. These plans are referred to together as the Fiscal 2006 Restructuring Plan.

During fiscal 2008, fiscal 2007 and fiscal 2006, we incurred pre-tax restructuring expenses of $3.6 million, $4.9 million and $25.3 million, respectively, primarily for non-cash expenses related to asset write-downs, accelerated recognition of pension and retiree medical benefits, and severance and termination benefits related to the transfer of our Erie, Pennsylvania manufacturing operations to Monterrey, Mexico and other restructuring actions.

Collective bargaining agreements with certain employees located at the former Erie, Pennsylvania manufacturing operations terminated in July 2007 and January 2008.

Dispositions. On October 31, 2005, we sold our lyophilizer (freeze dryer) product line to GEA Group of Germany for 20.8 million euros (approximately $25.2 million). As a result of the sale, we recorded an after-tax gain of approximately $7.3 million ($1.1 million recorded in fiscal 2007 and $6.2 million recorded in fiscal 2006). The sale of this product line was a strategic step designed to create greater focus and further development of core sterilization, washing, and decontamination product offerings to the pharmaceutical, biopharmaceutical, governmental, and research markets.

Sources and Availability of Raw Materials. We purchase raw materials, sub-assemblies, components, and other supplies needed in our operations from numerous suppliers in the United States and internationally. The principal raw materials used in our operations include stainless steel, organic chemicals, and plastic components. These raw materials are available from several suppliers and in enough quantities that we do not expect any significant sourcing problems in fiscal 2009. We have longer-term supply contracts for certain raw materials, such as cobalt-60 isotope used by the STERIS Isomedix Services segment, for which there are few suppliers.

We have recently experienced higher prices for raw materials such as stainless steel and other metals, and chemicals, which are important to our operations. While cost and availability are unpredictable, we have not experienced any difficulty, and do not expect significant difficulty, in obtaining the raw materials, sub-assemblies, components, or other supplies we need for our operations.

Intellectual Property. We protect our technology and products by, among other means, obtaining United States and foreign patents. There can be no assurance, however, that any patent will provide adequate protection for the technology, system, product, service, or process it covers. In addition, the process of obtaining and protecting patents can be long and expensive. We also rely upon trade secrets, technical know-how, and continuing technological innovation to develop and maintain our competitive position.

As of March 31, 2008, we held 295 United States patents and 907 foreign patents and had 102 United States patents and 502 foreign patents pending. Patents for individual products extend for varying periods according to the date of filing or grant and legal term of patents in various countries where a patent is obtained. The actual protection a patent provides, which can vary from country to country, depends upon the type of patent, the scope of its coverage, and the availability of legal remedies in each country.

Our products are sold around the world under various brand names and trademarks. We consider our brand names and trademarks to be valuable in the marketing of our products. As of March 31, 2008, we had a total of 854 trademark registrations in the United States and in various foreign countries.

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Research and Development. Research and development is an important factor in our long-term strategy. For the years ended March 31, 2008, 2007, and 2006, research and development expenses were $36.9 million, $33.6 million, and $33.6 million, respectively. We incurred these expenses primarily for the research and development of commercial products.

During fiscal 2008, we announced the launch of our newest surgical solution the Harmony® LED Lighting and Visualization System, which brings surgical lighting, high definition images and surgeon comfort to a new level. The Harmony® LED Lighting and Visualization System is future-ready, designed to accommodate all the most commonly used current integration vendors, as well as anticipated future signal media. In addition, the LED light source will need to be replaced far less often (about every ten years) and will use approximately one-third less energy than incandescent bulbs. Also during fiscal 2008, we announced that the Prolystica Enzymatic Presoak and Cleaner was released for sale in North America and Europe. This new enzymatic cleaner is designed for cleaning surgical instruments and other medical devices such as endoscopes. It is intended for use in both manual and automated cleaning applications, and was specifically designed to optimize the cleaning efficacy of our STERIS washers/disinfectors. In addition, we announced the first orders for our V-PRO1 low temperature sterilizer and introduced Class 6 indicators.

Quality Assurance. We manufacture, assemble, and package products in the United States and throughout the world. Each of our production facilities are dedicated to particular processes and products. Our success depends upon Customer confidence in the quality of our production process and the integrity of the data that supports our product safety and effectiveness. We have implemented quality assurance procedures to ensure the quality and integrity of scientific information and production processes. All of our manufacturing and contract sterilization facilities throughout the world are ISO9001:2000 or ISO13485:2003 certified.

Government Regulation. Our business is subject to various degrees of governmental regulation in the countries in which we operate. In the United States, the United States Food and Drug Administration (FDA), the United States Environmental Protection Agency (EPA), the United States Nuclear Regulatory Commission (NRC), and other governmental authorities regulate the development, manufacture, sale, and distribution of our products and services. Our international operations also are subject to a significant amount of government regulation and country-specific rules and regulations. Government regulations include detailed inspection of, and controls over, research and development, clinical investigations, product approvals and manufacturing, marketing and promotion, sampling, distribution, record-keeping, storage, and disposal practices.

Compliance with applicable regulations is a significant expense for us. Past, current, or future regulations, their interpretation, or their application could have a material adverse impact on our operations. Also, additional governmental regulation may be passed that could prevent, delay, revoke, or result in the rejection of regulatory clearance of our products. We cannot predict the effect on our operations resulting from current or future governmental regulation or the interpretation or application of these regulations.

If we fail to comply with any applicable regulatory requirements, sanctions could be imposed on us. For more information about the risks we face regarding regulatory requirements, see Part I, Item 1A of this Annual Report titled, Risk Factors, We are subject to extensive regulatory requirements . . . .

We have received warning letters, paid civil penalties, conducted product recalls, and been subject to other regulatory sanctions. For example, we received a warning letter from the FDA on May 16, 2008 concerning our STERIS SYSTEM 1® sterile processing system. See Part I, Item 1A of this Annual Report titled, Risk Factors, We may be adversely affected by product liability claims or other legal or regulatory compliance matters. See also Part I, Item 3 Legal Proceedings for further information on the May 16, 2008 warning letter and other issues and their potential impact. We believe that we are currently compliant in all material respects with applicable regulatory requirements. However, we cannot assure you that future or current regulatory, governmental, or private action will not have a material adverse affect on STERIS or its performance, results, or financial condition.

Environmental Matters. We are subject to various laws and governmental regulations concerning environmental matters and employee safety and health in the United States and in other countries. We have made, and continue to make, significant investments to comply with these laws and regulations. We cannot predict the future capital expenditures or operating costs required to comply with environmental laws and regulations. We believe that we are currently compliant with applicable environmental, health, and safety requirements. However,

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we cannot assure you that future or current regulatory, governmental, or private action will not have a material adverse affect on STERIS s performance, results, or financial condition. You should also read Part I, Item 3, Legal Proceedings for further information.

In the future, if a loss contingency related to environmental matters or conditional asset retirement obligations is significantly greater than the current estimated amount, we would record a liability for the obligation and it may result in a material impact on net income for the annual or interim period during which the liability is recorded. The investigation and remediation of environmental obligations generally occur over an extended period of time, and therefore we do not believe that liabilities for these events would have a material adverse affect on our financial condition, liquidity, or cash flow. However, we cannot assure you that such liabilities would not have a material adverse affect on STERIS s performance, results, or financial condition.

Competition. The markets in which we operate are highly competitive and generally highly regulated. Competition is intense in all of our business segments and includes many large and small competitors. Brand, design, quality, safety, ease of use, serviceability, price, product features, warranty, delivery, service, and technical support are important competitive factors to us. We expect to face increased competition in the future as new infection prevention, sterile processing, contamination control, and surgical support products and services enter the market. We believe many organizations are working with a variety of technologies and sterilizing agents. Also, a number of companies have developed disposable medical instruments and other devices designed to address the risk of contamination.

We believe that our long-term competitive position depends on our success in discovering, developing, and marketing innovative, cost-effective products and services. We devote significant resources to research and development efforts and we believe STERIS is positioned as a global competitor in the search for technological innovations. In addition to research and development, we invest in quality control, Customer programs, distribution systems, technical services, and other information services.

We cannot assure you that new products or services we provide or develop in the future will be more commercially successful than those provided or developed by our competitors. In addition, some of our existing or potential competitors may have greater resources than us. Therefore, a competitor may succeed in developing and commercializing products more rapidly than we do. Competition, as it relates to our business segments and product categories, is discussed in more detail in the section above titled, Information Related to Business Segments.

Employees. As of March 31, 2008, we had approximately 5,300 employees throughout the world. We believe we have good relations with our employees.

Methods of Distribution. As of March 31, 2008, we employed over 1,100 direct field sales and service representatives within the United States and approximately 400 in international locations. Sales and service activities are supported by a staff of regionally based clinical specialists, system planners, corporate account managers, and in-house Customer service and field support departments. We also contract with distributors in select markets.

Customer training is important to our business. We provide a variety of courses at Customer locations, at our training and education centers throughout the world, and over the internet. Our training programs help Customers understand the science, technology, and operation of our products. Many of our operator training programs are approved by professional certifying organizations and offer continuing education credits to eligible course participants.

Seasonality. Our financial results have been, from time to time, subject to seasonal patterns. As a result of Customer buying patterns and other factors, sales of certain product lines have historically been weighted toward the latter part of each fiscal year. We cannot assure you that these trends will continue.

International Operations. Our objective is to expand internationally, as we currently only serve a small portion of the world that could benefit from our products. Through our subsidiaries, we operate in various international locations within the same business segments as in the United States. For the year ended March 31, 2008, international revenues were $294.1 million, or 23.2%, of our total revenues and international cost of revenues were 33.7% of our total cost of revenues. Revenues from Europe, Canada, and other international locations were 55.3%, 23.0%, and 21.7%, respectively, of our total international revenues for the year ended March 31, 2008.

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You should also read Note 12 to our Consolidated Financial Statements titled, Business Segment Information, and Item 7, MD&A for a geographic presentation of our revenues for the three years ended March 31, 2008.

We conduct manufacturing in the United States, Canada, Mexico, and various European countries. There are, in varying degrees, a number of inherent risks to our international operations. We describe these risks in Part I, Item 1A of this Annual Report titled, Risk Factors, We conduct manufacturing, sales, and distribution operations on a worldwide basis. . . . .

Fluctuations in the exchange rate of the U.S. dollar relative to the currencies of foreign countries in which we operate can also increase or decrease our reported net assets and results of operations. During fiscal 2008, revenues were favorably impacted by $18.5 million, or 1.5%, and income before taxes was unfavorably impacted by $4.5 million, or 3.5%, as a result of foreign currency movements relative to the U.S. dollar. We cannot predict future changes in foreign currency exchange rates or the effect they will have on our operations.

Backlog. We define backlog as the amount of unfilled capital equipment purchase orders at a point in time. At March 31, 2008, we had a backlog of $142.2 million. Of this amount, $98.0 million and $44.2 million related to our Healthcare and Life Sciences segments, respectively. At March 31, 2007, we had backlog orders of $110.2 million. Of this amount $63.8 million and $46.4 million related to our Healthcare and Life Sciences segments, respectively. A significant portion of the backlog orders in both years were expected to ship in the next fiscal year.

Availability of Securities and Exchange Commission Filings. We make available free of charge on or through our website our Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, and Current Reports on Form 8-K, and amendments to these reports, as soon as reasonably practicable after we electronically file such material with, or furnish such material to the Securities and Exchange Commission (SEC). You may access these documents on the Investor Relations page of our website at http://www.steris-ir.com. You may also obtain copies of these documents by visiting the SEC s Public Reference Room at 100 F Street, NE, Washington, D.C. 20549 or by accessing the SEC s website at http://www.sec.gov. You may obtain information on the Public Reference Room by calling the SEC at 1-800-SEC-0330.

We also make available free of charge on our website our Corporate Governance Guidelines, our Director Code of Ethics, and our Code of Business Conduct, as well as the Charters of the Audit and Financial Policy Committee, the Compensation and Corporate Governance Committee, and the Compliance Committee of the Company s Board of Directors.

ITEM 1A. RISK FACTORS

This item describes certain risk factors that could affect our business, financial condition and results of operations. You should consider these risk factors when evaluating the forward-looking statements contained in this Annual Report on Form 10-K, because our actual results and financial condition might differ materially from those projected in the forward-looking statements should these risks occur. We face other risks besides those highlighted below. These other risks include additional uncertainties not presently known to us or that we currently believe are immaterial, but may ultimately have a significant impact. Should any of the risks described below actually occur, our business, financial condition, performance, value, or results of operations could be negatively affected.

Our businesses are highly competitive, and if we fail to compete successfully, our revenues and results of operations may be hurt.

We operate in a highly competitive global environment. Our businesses compete with other broad line manufacturers, as well as many smaller businesses specializing in particular products or services, primarily on the basis of brand, design, quality, safety, ease of use, serviceability, price, product features, warranty, delivery, service, and technical support. We face increased competition from new infection prevention, sterile processing, contamination control, and surgical support, cleaning consumables, contract sterilization, and other products and services entering the market. Competitors and potential competitors also are attempting to develop alternate technologies and sterilizing agents, as well as disposable medical instruments and other devices designed to address the risk of contamination. If our products, services, support, distribution and/or cost structure do not enable us to compete successfully, our business performance, value, financial condition, and results of operations may be adversely affected.

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Our success depends, in part, on our ability to design, manufacture, distribute and achieve market acceptance of new products with higher functionality and lower costs.

Many of our Customers operate businesses characterized by technological change, product innovation and evolving industry standards. Price is a key consideration in their purchasing decisions. To successfully compete, we must continue to design, develop, and improve innovative products. We also must achieve market acceptance of and effectively distribute those products, and reduce production costs. Our business, performance, value, financial condition, and results of operations might be adversely affected if our competitors product development capabilities become more effective, if they introduce new or improved products that displace our products or gain market acceptance before ours, or if they begin to produce and sell products at lower prices.

We are subject to extensive regulatory requirements and must receive and maintain regulatory clearance or approval for many products and operations. Failure to receive or maintain, or delays in receiving, clearance or approvals may hurt our revenues, profitability, financial condition or value.

Our operations are subject to extensive regulation in both the United States and in other countries where we do business. Government regulation applies to nearly all aspects of testing, manufacturing, safety, labeling, storing, recordkeeping, reporting, promoting, distributing, and importing or exporting of medical devices, products, and services. In general, unless an exemption applies, a sterilization, decontamination or medical device or other product must receive regulatory approval or clearance before it can be marketed or sold. Modifications to existing products or the marketing of new uses for existing products also may require regulatory approvals, approval supplements or clearances. If we are unable to obtain any required approvals, approval supplements or clearances for any modification to a previously cleared or approved device, we may be required to cease manufacturing or recall such modified device until such time as appropriate clearance or approval is obtained.

Regulatory agencies may refuse to grant approval or clearance, or review and disagree with our decision that regulatory approval is not required. Regulatory submissions may require the provision of additional clinical or pre-clinical data and may be time consuming and costly. Regulatory agencies may also change policies, adopt additional regulations, or revise existing regulations, each of which could prevent or delay approval or clearance of devices, or could impact our ability to market a previously cleared or approved device. Refer also to the Risk Factor below titled, We may be adversely affected by product liability claims or other legal or regulatory compliance matters, and to Part I, Item 3, Legal Proceedings for further information.

Our failure to comply with the regulatory requirements of the FDA or other applicable regulatory requirements in the United States or elsewhere might subject us to administratively or judicially imposed sanctions. These sanctions include warning letters, fines, civil penalties, criminal penalties, injunctions, debarment, product seizure or detention, product recalls and total or partial suspension of production. In many foreign countries, sales of our products are subject to extensive regulations that are comparable to those of the FDA. In Europe, our products are regulated primarily by country and community regulations of those countries within the European Economic Area and must conform to the requirements of those authorities.

The failure to receive, or delays in the receipt of, relevant United States or international qualifications could have a material adverse affect on our business, performance, value, financial condition and results of operations.

Consolidations among our health care and pharmaceutical Customers may result in a loss of Customers or more significant pricing pressures.

A number of our Customers have consolidated. These consolidations are due in part to health care cost reduction measures initiated by competitive pressures as well as legislators, regulators and third-party payors. In an effort to attract Customers, some of our competitors have also reduced production costs and lowered prices. This has resulted in greater pricing pressures on us and in some cases loss of Customers. Additional consolidations could result in a loss of Customers or more significant pricing pressures.

If our cost reduction and restructuring efforts are ineffective, our revenues and profitability may be hurt.

We have undertaken various cost reduction and restructuring activities, including the restructuring activities announced in January 2006 and, in particular, the transfer of our Erie, Pennsylvania manufacturing operations to Mexico. More recently, on March 31, 2008 we

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announced cost reduction activities intended to generate annualized operating expense savings of approximately $30 million through direct and indirect overhead expense reductions and other savings. These efforts may not produce the full efficiencies and cost reduction benefits we expect or efficiencies and benefits might be delayed. Implementation costs also might exceed expectations and further cost reduction measures might become necessary, resulting in additional future charges. If these cost reduction and restructuring efforts are not properly implemented or are unsuccessful, we might experience business disruptions or our business otherwise might be adversely affected.

Decreased availability or increased costs of raw materials or energy supplies or other supplies might increase our production costs or limit our production capabilities.

We purchase raw materials, fabricated and other components and energy supplies from a variety of suppliers. Key materials include stainless steel, organic chemicals, fuel, and plastic components. The availability and prices of raw materials and energy supplies are subject to volatility and are influenced by worldwide economic conditions, speculative action, world supply and demand balances, inventory levels, availability of substitute materials, currency exchange rates, anticipated or perceived shortages, and other factors. In some situations, we may be able to limit price increases or assure availability through supply agreements. Otherwise, raw material prices and availability are subject to numerous factors outside of our control, including those described above. Increases in prices or decreases in availability of raw materials and oil and gas might impair our procurement of necessary materials or our product production, or might increase production costs. In addition, energy costs impact our transportation and distribution and other supply and sales costs. Also, a number of our key components are single-sourced. Shortages in supply or increases in the price of raw materials, components and energy supplies may adversely impact our business, performance, value, financial condition, and results of operations to the extent our increased costs can not be passed on to our Customers.

Our operations, and those of our suppliers, are subject to a variety of business continuity hazards and risks, any of which could interrupt production or operations or otherwise adversely affect our performance, results, or value.

Business continuity hazards and other risks include:

- explosions, fires, inclement weather, and other disasters;
- utility or other mechanical failures;
- unscheduled downtime;
- labor difficulties;
- inability to obtain or maintain any required licenses or permits;
- disruption of communications;
- data security, preservation and redundancy disruptions;

inability to hire or retain key management or employees; and

disruption of supply or distribution.

The occurrence of any of these events might disrupt or shut down operations, or otherwise adversely impact the production or profitability of a particular facility, or our operations as a whole. Certain of the described casualties also might cause personal injury and loss of life, or severe damage to or destruction of property and equipment, and for casualties occurring at our facilities result in liability claims against us. Although we maintain property and casualty insurance and liability and similar insurance of the types and in the amounts that we believe are customary for our industries, our insurance coverages have limits and we are not fully insured against all potential hazards and risks incident to our business. Should any of the hazards or risks occur, our business, performance, value, financial condition, and results of operations might be adversely affected, both during and after the event.

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We conduct manufacturing, sales and distribution operations on a worldwide basis and are subject to a variety of risks associated with doing business outside the United States.

We maintain significant international operations, including operations in Canada, Europe, Asia and Latin America. As a result, we are subject to a number of risks and complications inherent in international manufacturing, sales, services, and other operations. These include:

- risks associated with foreign currency exchange rate fluctuations;
- difficulties in enforcing agreements and collecting receivables through some foreign legal systems;
- foreign Customers with longer payment cycles than Customers in the United States;
- tax rates in certain foreign countries that exceed those in the United States, and foreign earnings subject to withholding requirements;
- tax laws that restrict our ability to use tax credits, offset gains, or repatriate funds;
- tariffs, exchange controls or other trade restrictions including transfer pricing restrictions when products produced in one country are sold to an affiliated entity in another country;
- general economic and political conditions in countries where we operate or where end users of our products are situated;
- difficulties associated with managing a large organization spread throughout various countries;
- difficulties in enforcing intellectual property rights or weaker intellectual property right protections in some countries; and
- difficulties associated with compliance with a variety of laws and regulations governing international trade.

Implementation and achievement of international growth objectives also may be impeded by political, social, and economic uncertainties or unrest in countries in which we conduct operations or market or distribute our products. In addition, compliance with multiple, and potentially conflicting, international laws and regulations, import and export limitations, and exchange controls may be burdensome or expensive or otherwise limit our growth opportunities.

These complications and occurrences of these risks may adversely affect our business, performance, value, financial condition, and results of operations.

Changes in government and other third-party payor reimbursement levels to health care providers or failure to meet health care reimbursement requirements might negatively impact our business.

We sell many of our products to hospitals and other health care providers. Many of these providers receive reimbursement for services from third-party payors, such as government programs, including Medicare and Medicaid, private insurance plans, and managed care programs. In the United States, many of these programs set maximum reimbursement levels for these health care services and can have complex reimbursement requirements. Outside the United States, reimbursement systems vary significantly by country. However, government-managed health care systems control reimbursement for health care services in many foreign countries. In these countries, like the United States, public budgetary constraints may significantly impact the ability of hospitals and other providers supported by such systems to purchase our products. If the third-party payors deny coverage, reduce their current levels of reimbursement for health care services, or if our costs increase more rapidly than reimbursement level increases or we do not satisfy the standards or requirements for reimbursement, our revenues or profitability may suffer and our business, performance, value, financial condition and results of operations may be adversely affected.

Our products are subject to recalls, even after receiving United States or foreign regulatory clearance or approval.

Ongoing medical device reporting regulations require that we report to appropriate governmental authorities in the United States and/or other countries when our products cause or contribute to a death or serious injury or malfunction in a way that would be

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reasonably likely to contribute to a death or serious injury if the malfunction were to recur. Governmental authorities can require product recalls for material deficiencies or defects in product design or manufacturing, including labeling, or component failure. For the same reasons, we may voluntarily elect to recall a product. Any recall would divert managerial and financial resources and might harm our reputation among our Customers and other health care professionals who use or recommend the products. Product recalls, suspensions, re-labeling, or other change might have a material adverse affect on our business, performance, value, financial condition, or results of operations.

Our business and financial condition could be adversely affected by difficulties in acquiring or maintaining a proprietary intellectual ownership position.

To maintain our competitive position, we need to obtain patent or other proprietary rights for new and improved products and to maintain and enforce our existing patents and other proprietary rights. We typically apply for patents in the United States and in strategic foreign countries. We may also acquire patents through acquisitions. A 2007 United States Supreme Court decision increases the difficulty of obtaining patent protection in the United States. The actual scope and impact of the decision on our existing patent rights or patent applications and those of others will not be known until other court rulings interpret and apply the decision.

We rely on a combination of patents, trade secrets, know-how and confidentiality agreements to protect the proprietary aspects of our technology. These measures afford only limited protection, and competitors may gain access to our intellectual property and proprietary information. Litigation may be necessary to enforce or defend our intellectual property rights, to protect our trade secrets and to determine the validity and scope of our proprietary rights. Litigation may also be brought against us claiming that we have violated the intellectual property rights of others. Litigation may be costly and may divert management s attention from other matters. Additionally, in some foreign countries with weaker intellectual property rights, it may be difficult to maintain and enforce patents and other proprietary rights or defend against claims of infringement. If we are unable to obtain necessary patents, our patents and other proprietary rights are successfully challenged or competitors independently develop substantially equivalent information and technology or otherwise gain access to our proprietary technology, our business, performance, value, financial condition, and results of operations may be adversely affected.

We may be adversely affected by product liability claims or other legal actions or regulatory or compliance matters.

We face an inherent business risk of exposure to product liability claims and other legal and regulatory actions. A significant increase in the number, severity, amount or scope of these claims and actions may result in substantial costs and harm our reputation or otherwise adversely affect product sales and our business. Product liability claims and other legal and regulatory actions may also distract management from other business responsibilities.

We are also subject to a variety of other types of claims, proceedings, investigations and litigation initiated by government agencies or third parties and other potential risks and liabilities. These include compliance matters, product regulation and safety, taxes, employee benefit plans, employment discrimination, health and safety, environmental, antitrust, customs, import/export, government contract compliance, financial controls or reporting, intellectual property allegations of misrepresentation, false claims or false statements, or other similar or different matters. Any such claims, proceedings, investigations or litigation, regardless of the merits, might result in substantial costs restrictions on product use or sales, or otherwise injure our business.

Administratively or judicially imposed sanctions might include warning letters, fines, civil penalties, criminal penalties, loss of tax benefits, injunctions, product seizure, recalls, re-labeling, detention, and/or debarment. We also might be required to take actions such as payment of substantial amounts, or revision of financial statements, or to take the following types of actions with respect to our products, services, or business:

- redesign, re-label, or recall products;
- cease manufacturing and selling products;

seizure of product inventory;

court injunction against further marketing and sale of products;

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consent decree, which could result in further regulatory constraints;

dedication of significant internal and external resources to respond to and comply with legal and regulatory issues and constraints;

claims, litigation and other proceedings brought by customers, users, governmental agencies and others;

disruption of product improvements and product launches;

discontinuation of certain product lines; or

other restrictions or limitations on product sales, use or operation, or other activities or business practices.

Some product replacements or substitutions may not be possible or may be prohibitively costly or time consuming. As an example of a type of matter described above is the warning letter we received from the FDA on May 16, 2008 regarding our STERIS SYSTEM 1® sterile processing system. In summary, that letter outlines the FDA s assertion that significant changes or modifications have been made in the design, components, method of manufacture or intended use of the system, beyond the FDA s 1988 clearance of the device, such that the FDA asserts a new premarket notification submission should have been made. (For more information regarding this warning letter, see Legal Proceedings below.)

The results of legal, regulatory, or compliance claims, proceedings, investigations or litigation are difficult to predict. An unfavorable resolution or outcome of the recent FDA warning letter regarding our STERIS SYSTEM 1® sterile processing system or any other legal, regulatory or compliance claim or matter regarding any other significant product, service, or obligation of ours, could materially and adversely affect our business, performance, value, financial condition, and results of operations.

We maintain product liability and other insurance with coverages believed to be adequate. However, product liability or other claims may exceed insurance coverage limits, fines, penalties and regulatory sanctions may not be covered by insurance, or insurance may not continue to be available or available on commercially reasonable terms. Additionally, our insurers might deny claim coverage for valid or other reasons or may become insolvent.

We engage in acquisitions and affiliations, divestitures, and other business arrangements. Our growth may be adversely affected if we are unable to successfully identify, price and integrate strategic business candidates or otherwise optimize our business portfolio.

Our success depends, in part, on strategic acquisitions and joint ventures, which are intended to complement or expand our businesses, divestiture of non-strategic businesses, and other actions to optimize our portfolio of businesses. This strategy depends upon our ability to identify, appropriately price, and complete these types of business development transactions or arrangements and to obtain any necessary financing. Our success will also depend on our ability to integrate the businesses acquired or to develop satisfactory working arrangements with our strategic partners in joint ventures or other affiliations, or to divest or realign non-strategic businesses. Competition for strategic business candidates may result in increases in costs and price for acquisition candidates, and market valuation issues may reduce the value available for non-strategic businesses. These types of transactions are also subject to a number of risks and uncertainties, including:

delays in realizing the benefits of the transactions;

diversion of management s time and attention from other business concerns;

difficulties in retaining key employees, Customers or suppliers of the acquired or divested businesses;

difficulties in maintaining uniform standards, controls, procedures and policies, or other integration or divestiture difficulties;

adverse effects on existing business relationships with suppliers or Customers;

other events contributing to difficulties in generating future cash flows;

risks associated with the assumption of contingent or undisclosed liabilities of acquisition targets or retention of liabilities for divested businesses; and

difficulties in obtaining or satisfying financing.

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If we are unable to realize the anticipated operating efficiencies and synergies or other expected transaction benefits, our results of operations might be adversely impacted by the amortization of transaction expenses and acquired assets or by other corrective actions that may be necessary to limit resulting problems.

Our business and results of operations may be adversely affected if we are unable to recruit and retain qualified management.

Our continued success depends, in large part, on our ability to hire and retain highly qualified people and if we are unable to do so, our business and operations may be impaired or disrupted. Competition for highly qualified people is intense and there is no assurance that we will be successful in attracting or retaining replacements to fill vacant positions, successors to fill retirements or employees moving to new positions, or other highly qualified personnel.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES

The following table sets forth the principal plants and other materially important properties of the Company and its subsidiaries as of March 31, 2008. The Company believes that its facilities are adequate for operations and are maintained in good condition. The Company is confident that, if needed, it will be able to acquire additional facilities at commercially reasonable rates.

In the table below, Contract Sterilization refers to locations of the STERIS Isomedix Services segment and Sterilization Services refers to locations of the Healthcare segment. Manufacturing, Warehousing, Operations or Sales Offices refer to locations serving both the Healthcare and Life Sciences segments.

U.S. Locations (including Puerto Rico)

Owned Locations		*Leased Locations*	
Montgomery, AL	Manufacturing	Montgomery, AL	Warehousing
Nogales, AZ	Contract Sterilization	Aliso Viejo, CA	Sales Office
Ontario, CA	Contract Sterilization	San Diego, CA	Contract Sterilization
Temecula, CA	Contract Sterilization	Morton Grove, IL	Contract Sterilization
Libertyville, IL (2 locations)	Contract Sterilization	Waukegan, IL	Contract Sterilization
Northborough, MA	Contract Sterilization	Bel Air, MD	Sales Office
St. Louis, MO	Manufacturing	St. Louis, MO	Warehousing/Distribution
Groveport, OH	Contract Sterilization	Mentor, OH (2 locations)	Administrative Offices
South Plainfield, NJ	Contract Sterilization		Administrative Offices/ Operations
Whippany, NJ	Contract Sterilization	Minneapolis, MN	Contract Sterilization
Chester, NY	Contract Sterilization	Reno, NV	Warehousing

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U.S. Locations (including Puerto Rico)

Owned Locations		*Leased Locations*	
Mentor, OH (7 locations)	Corporate Headquarters Sales/Marketing Offices Administrative Offices Manufacturing/Warehousing Manufacturing/Operations	Erie, PA (2 locations)	Administrative Offices Warehousing
		Nashville, TN	Sterilization Services
		Grand Prairie, TX	Contract Sterilization
Vega Alta, PR	Contract Sterilization		
Coventry, RI	Contract Sterilization		
Spartanburg, SC	Contract Sterilization		
El Paso, TX	Contract Sterilization		
Sandy, UT	Contract Sterilization		

International Locations

Owned Locations		*Leased Locations*	
Whitby, Canada	Contract Sterilization	Brussels, Belgium	Sales Office
Quebec City, Canada	Manufacturing	Sao Palo, Brazil	Sales Office
Leicester, England (2 locations)	Manufacturing/Warehousing	Mississauga, Canada	Warehousing/Sales Office
Tuusula, Finland	Manufacturing/Sales Office	St. Laurent, Canada	Sales Office
Pieterlen, Switzerland	Manufacturing/Sales Office	Shanghai, China	Representative Office
		Basingstoke, England	European Corporate Headquarters/Sales Office
		Saran, France	Manufacturing/Sales Office
		Cologne, Germany	Sales Office
		Halandri, Greece	Sales Office
		Calcutta, India	Sales Office
		Segrate, Italy	Sales Office
		Kobe, Japan	Sales Office
		Tokyo, Japan	Sales Office
		Petaling Jaya, Malaysia	Sales Office

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International Locations

Owned Locations	*Leased Locations*	
	Guadalupe, Mexico	Manufacturing
	Singapore	Sales Office
	Madrid, Spain	Sales Office

ITEM 3. LEGAL PROCEEDINGS

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

The FDA and the United States Department of Justice have been conducting an investigation to our knowledge since 2003 involving our SYSTEM 1® sterile processing system. We have received requests for documents, including the subpoena received in January 2005, and interviews of current and former employees in connection with the investigation. We continue to respond to these requests and cooperate with the government agencies regarding this matter. There can be no assurance of the ultimate outcome of the investigation, or that any matter arising out of the investigation will not result in actions by the government agencies or third parties, or that the government agencies will not initiate administrative proceedings, civil proceedings or criminal proceedings, or any combination thereof, against us.

On May 16, 2008, we received a warning letter from the FDA regarding our STERIS SYSTEM 1® sterile processor and the S-20 sterilant used with the processor (referred to collectively in the FDA letter and in this Item 3 as the device). We believe this warning letter arose from the previously disclosed investigation. In summary, the warning letter includes the FDA s assertion that significant changes or modifications have been made in the design, components, method of manufacture or intended use of the device beyond the FDA s 1988 clearance, such that the FDA believes a new premarket notification submission (known within FDA regulations as a 510(k) submission) should have been made. The warning letter references a number of changes to the device that the FDA believes should be evaluated to determine if they significantly affect the safety or effectiveness of the device and, if true, could require a new premarket notification submission. The warning letter also requests documentation and explanation regarding various corrective actions related to the device prior to 2003, and whether those actions should be considered corrections or removals within the meaning of FDA regulations.

We continue to believe that the changes described in the warning letter from the FDA do not significantly affect the safety or effectiveness of the device and, therefore, did not and do not require a new premarket notification submission, and further, that the corrective actions were compliant with FDA regulations. However, if the FDA s assertions are ultimately determined to be correct, the device would be considered adulterated and misbranded under United States law, in which case, we would be required to make a new premarket notification submission. The FDA could also take enforcement action immediately without providing the opportunity to make a new premarket certification submission (510(k) submission). If we did not make that 510(k) submission, if the FDA rejected that 510(k) submission, if the FDA took immediate enforcement action, or if governmental agencies and/or third parties otherwise considered the device to be non-compliant, civil, administrative or criminal proceedings could be initiated. These or other proceedings involving our STERIS SYSTEM 1® sterile processing system or other significant product, service, or obligation, which could possibly result in judgments requiring recall, re-labeling or restriction on the manufacturing, sale or distribution of the device, or could require us to take other action, pay fines or civil damages, or be subject to other governmental or third party claims or remedies, could materially affect our business, performance, value, financial condition, and results of operations. The STERIS SYSTEM 1® sterile processing system has been in use since its clearance by the FDA in the late 1980 s. We estimate that the devices currently in operation are used in excess of 30,000 times per day in the aggregate and that over 250 million medical instruments have been processed using the STERIS SYSTEM 1® sterile processing system. We have commenced discussions with the FDA regarding this warning letter and the FDA has requested that we respond within 15 working days.

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We believe we have adequately reserved for our current litigation and that the ultimate outcome of pending lawsuits and claims will not have a material adverse affect on our consolidated financial position or results of operations taken as a whole. Due to their inherent uncertainty, however, there can be no assurance of the ultimate outcome of current or future litigation, proceedings, investigations, or claims or their effect. We presently maintain product liability insurance coverage, and other liability coverages in amounts and with deductibles that we believe are prudent, but there can be no assurance that these coverages will be applicable or adequate to cover adverse outcomes of claims against us.

From time to time, STERIS is also involved in legal proceedings as a plaintiff involving contract, patent protection, and other claims asserted by us. Gains, if any, from these proceedings are recognized when they are realized.

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

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

No matters were submitted to a vote of our security holders during the fourth quarter of fiscal year 2008.

Executive Officers of the Registrant. The following table presents certain information regarding our executive officers as of May 14, 2008. All executive officers, other than Mr. Voyzey, serve at the pleasure of the Board of Directors. Mr. Voyzey serves at the pleasure of the President and Chief Executive Officer.

Name	Age	Position
Walter M. Rosebrough, Jr.	54	President and Chief Executive Officer
William L. Aamoth	54	Vice President and Corporate Treasurer
Dr. Peter A. Burke	59	Senior Vice President and Chief Technology Officer
Timothy L. Chapman	46	Senior Vice President and Group President, Healthcare
Mark D. McGinley	51	Senior Vice President, General Counsel, and Secretary
Robert E. Moss	63	Senior Vice President and Group President, STERIS Isomedix Services
Gerard J. Reis	56	Senior Vice President, Government and Administration
Michael J. Tokich	39	Senior Vice President and Chief Financial Officer
John N. Voyzey	41	Vice President and General Manager Life Sciences

The following discussion provides a summary of each executive officer s recent business experience:

Walter M. Rosebrough, Jr. serves as President and Chief Executive Officer. He assumed this role when he joined STERIS in October 2007. Mr. Rosebrough also joined our Board of Directors in October 2007. Prior to his employment with STERIS, Mr. Rosebrough served from February 2005 to September 2007 as President and Chief Executive Officer of Coastal Hydraulics, Inc., a provider of hydraulic and pneumatic systems, equipment and services used in industrial, marine and mobile equipment applications, a company that he purchased in 2005. From January 2003 until February 2005, Mr. Rosebrough was involved in a variety of personal business matters.

William L. Aamoth serves as Vice President and Corporate Treasurer. He assumed this role in July 2002.

Dr. Peter A. Burke serves as Senior Vice President and Chief Technology Officer. He assumed this role in July 2002.

Timothy L. Chapman serves as Senior Vice President and Group President, Healthcare. He assumed this role in February 2008. He joined STERIS in January 2006 and served as Senior Vice President, Business Strategy until February 2008. Prior to joining STERIS, Mr. Chapman was associated with McKinsey & Company, a professional services firm, from June 1985 through January 2006, serving most recently as Director (Senior Partner) in McKinsey s Healthcare and Operations practices.

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Mark D. McGinley serves as Senior Vice President, General Counsel, and Secretary. He assumed this role in April 2005. He joined STERIS in March 2002 as Vice President, General Counsel, and Secretary.

Robert E. Moss serves as Senior Vice President and Group President, STERIS Isomedix Services. He assumed this role in April 2005. He served as Vice President and Group President of STERIS Isomedix Services from March 2003 until April 2005.

Gerard J. Reis serves as Senior Vice President, Government and Administration. He assumed this role in March 2008. He served as Senior Vice President and Group President, Life Sciences from February 2005 until March 2008 and Senior Vice President and Group President, Defense and Industrial from April 2003 until February 2005.

Michael J. Tokich serves as Senior Vice President and Chief Financial Officer. He assumed this role in March 2008. He served as Vice President and Corporate Controller from July 2002 until March 2008.

John N. Voyzey serves as Vice President and General Manager Life Sciences. He assumed this role in March 2008. He joined STERIS in May 2005 as Vice President and General Manager Pharmaceuticals and Research. Prior to joining STERIS, Mr. Voyzey was associated with McKinsey & Company, a professional services firm, from September 1999 through May 2005, serving most recently as Associate Principal.

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PART II

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

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

Quarters Ended	March 31	December 31	September 30	June 30
Fiscal 2008				
High	$ 31.05	$ 30.28	$ 31.15	$ 31.71
Low	20.71	26.52	25.45	25.23
Fiscal 2007				
High	$ 27.29	$ 26.75	$ 25.10	$ 25.03
Low	24.25	23.56	21.83	21.28

Holders. As of May 14, 2008, there were approximately 1,346 holders of record of our common shares. However, we believe that we have a significantly larger number of beneficial holders of common shares.

Dividend Policy. The Company s Board of Directors decides the timing and amount of any dividends we may pay. During fiscal 2008, we paid cash dividends totaling $0.23 per outstanding common share ($0.05 per outstanding common share to common shareholders of record on May 16, 2007 and $0.06 per outstanding common share to common shareholders of record on each of the following record dates: August 15, 2007, November 14, 2007 and February 12, 2008). During fiscal 2007, we paid cash dividends totaling $0.18 per outstanding common share ($0.04 per outstanding common share to common shareholders of record on May 17, 2006 and August 16, 2006 and $0.05 per outstanding common share to common shareholders of record on November 15, 2006 and February 13, 2007).

Recent Sales of Unregistered Securities. None.

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Purchases of Equity Securities by the Issuer and Affiliated Purchasers. The following table presents information about stock repurchases we made during the fourth quarter of fiscal 2008:

	(a) Total Number of Shares Purchased(1)	(b) Average Price Paid Per Share	(c) Total Number of Shares Purchased as Part of Publicly Announced Plans(2)	(d) Maximum Dollar Value of Shares That May Yet Be Purchased Under the Plans at period end(2)
January 1 - 31	415,119	$ 27.59	415,119	$ 213,517,345
February 1 - 29	1,378,000(3)	24.22(3)	1,361,000	180,537,178
March 1 - 31(4)	1,642,900	25.87	1,642,900	278,301,295
Total	3,436,019	$ 25.43	3,419,019	$ 278,301,295

(1) Does not include 41 shares purchased during the quarter at an average price of $26.24 per share by the STERIS Corporation 401(k) Plan on behalf of a certain executive officer of the Company who may be deemed to be an affiliated purchaser.

(2) On March 14, 2008, we announced that the Company s Board of Directors provided authorization to repurchase up to $300 million of our common shares. This common share repurchase authorization replaced the existing authorization to repurchase up to $300 million of our common shares that was approved on July 26, 2007. At the time of the replacement, $159.7 million in common shares remained available for repurchase under the prior authorization. As of March 31, 2008, $278.3 million in common shares remained authorized for repurchase under the current share repurchase authorization. This authorization does not have a stated maturity date. We provide information about our full year fiscal 2008 share repurchase activity in Note 14 to our consolidated financial statements titled, Repurchases of Common Shares.

(3) Includes 17,000 shares purchased in the open market at an average price of $23.11 per share by the President and CEO of the Company.

(4) Includes 225,000 shares repurchased at an average price of $26.79 per share that were not settled until April 2008.

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ITEM 6. SELECTED FINANCIAL DATA

Years Ended March 31,	2008(1)	2007(1)	2006(1)(2)(3)	2005(2)(3)	2004(2)(3)
			(in thousands, except per share data)		
Statements of Income Data:					
Revenues	$ 1,265,090	$ 1,197,407	$ 1,160,285	$ 1,081,674	$ 1,031,908
Gross profit	523,957	504,807	484,185	461,921	443,900
Restructuring expenses	15,461	6,584	25,308		
Income from continuing operations	123,545	137,701	109,698	141,344	128,760
Income taxes	42,693	51,833	45,172	54,620	40,182
Income from discontinued operations, net of tax			1,109	2,308	7,937
Gain on the sale of discontinued operations, net of tax		1,058	6,234		
Net income	77,106	82,155	70,289	85,980	94,243
Basic income per common share:					
Income from continuing operations	$ 1.22	$ 1.24	$ 0.92	$ 1.21	$ 1.24
Income from discontinued operations		0.02	0.11	0.03	0.12
Net income	$ 1.22	$ 1.26	$ 1.03	$ 1.24	$ 1.36
Shares used in computing net income per common share basic	63,300	65,174	68,238	69,254	69,521
Diluted income per common share:					
Income from continuing operations	$ 1.20	$ 1.23	$ 0.91	$ 1.20	$ 1.22
Income from discontinued operations		0.02	0.11	0.03	0.11
Net income	$ 1.20	$ 1.25	$ 1.02	$ 1.23	$ 1.33
Shares used in computing net income per common share diluted	64,124	65,731	68,939	70,022	70,742
Dividends per common share	$ 0.23	$ 0.18	$ 0.16	$	$
Balance Sheets Data:					
Working capital	$ 283,017	$ 267,321	$ 239,002	$ 198,316	$ 272,250
Total assets	1,239,292	1,209,170	1,188,973	1,185,722	1,068,170
Long-term indebtedness	179,280	100,800	114,480	104,274	109,090
Total liabilities	533,140	434,878	458,146	430,084	387,471
Total shareholders equity	706,152	774,292	730,827	755,638	680,699

(1) See Management s Discussion and Analysis of Financial Condition and Results of Operations.
(2) Certain balance sheet reclassifications have been made to conform to the fiscal 2007 presentation.
(3) On October 31, 2005, we completed the sale of our lyophilizer (freeze dryer) product line to GEA Group of Germany for 20.8 million euros (approximately $25.2 million). As a result of this transaction, we recorded an after-tax gain of approximately $7.3 million ($6.2 million in fiscal 2006 and $1.1 million in fiscal 2007). The freeze dryer product line, based in Cologne, Germany, was part of our Life Sciences segment. This product line is presented as a discontinued operation in our financial statements. Revenues, cost of revenues, operating expenses and income taxes related to this product line are combined in a single line on the income statement for all periods presented. Segment results exclude the freeze dryer product line and reflect the reallocation of corporate overhead charges to all business segments.

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ITEM 7. MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

INTRODUCTION

In Management s Discussion and Analysis (MD&A), we explain the general financial condition and the results of operations for STERIS and its subsidiaries including:

- what factors affect our business;
- what our earnings and costs were;
- why those earnings and costs were different from the year before;
- where our earnings came from;
- how this affects our overall financial condition;
- what our expenditures for capital projects were; and
- where cash will come from to pay for future capital expenditures.

The MD&A also analyzes and explains the annual changes in specific line items in the Consolidated Statements of Income. As you read the MD&A, it may be helpful to refer to information in Item 1, Business, Item 6, Selected Financial Data, and our consolidated financial statements, which present the results of our operations for fiscal 2008, 2007 and 2006, as well as Part I, Item 1A, Risk Factors, and Part 1, Item 3, Legal Proceedings for a discussion of some of the matters that can adversely affect our business and results of operations. This information, discussion, and disclosure may be important to you in making decisions about your investments in STERIS.

FINANCIAL MEASURES

In the following sections of MD&A and in Item 1, Business, we, at times, may refer to financial measures that are not required to be presented in the consolidated financial statements under accounting principles generally accepted in the United States. We have used the following financial measures in the context of this report: backlog, debt-to-capital, and days sales outstanding. We define these financial measures as follows:

Backlog We define backlog as the amount of unfilled capital 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-capital We define debt-to-capital as total debt divided by the sum of debt and shareholders equity. We use this figure as a financial liquidity measure to gauge our ability to borrow, provide strength/protection against creditors, fund growth, and

measure the risk of our financial structure.

Days sales outstanding We define days sales outstanding 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.

In the following sections of MD&A and in Item 1, Business, we, at times, may also refer to financial measures which are considered to be non-GAAP financial measures under SEC rules. Non-GAAP financial measures we may use are as follows:

Free cash flow We define free cash flow as cash flows from operating activities as presented in the Consolidated Statements of Cash Flows, which are presented in Item 8, Financial Statements and Supplementary Data, less purchases of property, plant and equipment, net, plus proceeds from the sale of property, plant and equipment, which are also presented in the Consolidated Statements of Cash Flows.

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We use this measure to gauge our ability to fund future growth outside of core operations, repurchase common shares, and pay cash dividends. The following table summarizes the calculation of our free cash flow for the years ended March 31, 2008 and 2007:

Years Ended March 31,	2008	2007
	(dollars in millions)	
Cash flows from operating activities	$ 143.4	$ 95.7
Purchases of property, plant and equipment, net	(57.0)	(49.0)
Proceeds from the sale of property, plant and equipment	5.2	2.8
Free cash flow	$ 91.6	$ 49.5

We may, at times, 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 years presented. For example, when discussing changes in revenues, we may, at times, exclude the impact of current or prior year business acquisitions.

We have presented these financial measures because we believe that meaningful analysis of our financial performance is enhanced by an understanding of certain additional factors underlying that performance. These financial measures should not be considered an alternative to measures required by accounting principles generally accepted in the United States. Our calculations of these measures may differ from calculations of similar measures used by other companies and you should be careful when comparing these financial measures to those of other companies.

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 year 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; 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.

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 Services segment.

Capital Revenues We define capital 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; and surgical lights and tables.

Consumable Revenues We define consumable revenues 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 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.

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GENERAL COMPANY OVERVIEW AND OUTLOOK

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 equipment, consumables, and services to healthcare, pharmaceutical, industrial, and governmental Customers.

We participate in industries that currently benefit from strong underlying demand, with the bulk of our revenues derived from the healthcare and pharmaceutical industries. As such, much of the growth in our markets is driven by the aging of the population throughout the world, as an increasing number of individuals are entering their prime healthcare consumption years. In addition, each of our core industries are also benefiting from specific trends that drive growth. Within the healthcare market, 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, where Isomedix competes, an increasing trend toward the outsourcing of sterilization services continues to drive growth.

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

Fiscal 2008 was, in many ways, a transitional year for us. Transitions in management occurred as new leaders stepped into the roles of President and Chief Executive Officer, Chief Financial Officer, and group heads for our Healthcare and Life Sciences segments. Fiscal 2008 is also marked by key operational transitions, including the completion of the transfer of manufacturing operations from Erie, Pennsylvania to Monterrey, Mexico. Recent product introductions such as Class 6 indicators, the V-PRO I low temperature sterilizer, Harmony LED lights, and OR integration solutions have generated significant interest from our Customer base.

In the fourth quarter of fiscal 2008, in an effort to improve our overall cost structure, we adopted a restructuring plan primarily related to certain of our North American operations. As part of this plan, we will close two sales offices, rationalize certain products, and reduce the workforce in certain support functions across all of our reporting segments. We continue to look for opportunities to improve our costs, but have not committed to any specific additional reportable actions.

Developments during fiscal 2007 important to the commercialization of recently developed products or applications include market clearance from the EPA for expanded use of our Vaprox® Hydrogen Peroxide Sterilant technology. This clearance provides an important advancement for us, which will enable the offering of a broader array of cleaning chemistries, capital equipment and sterilization services to facilitate and provide complete solutions to combat emerging decontamination needs in both traditional and new markets. In addition, we received clearance from the FDA to market the Reliance EPS in the United States. This innovative technology addresses significant unmet reprocessing needs within the gastrointestinal departments of hospitals and surgery centers.

In the third quarter of fiscal 2007, in an effort to improve our cost structure in Europe, we adopted a restructuring plan related to certain of our European operations. As part of this plan, we closed two sales offices and reduced the workforce in certain European support functions.

Several critical actions were taken in fiscal 2006. The sale of the lyophilizer (freeze dryer) business in the third quarter was an important step in the Life Sciences renewed strategic focus. In January 2006, we announced the transfer of manufacturing operations from Erie, Pennsylvania to Mexico as a major element of a plan to reduce the cost structure of operations.

Our financial position and cash flows remain strong. For fiscal 2008, cash flows from operations were $143.4 million and free cash flow was $91.6 million. We continue to maintain low debt levels with our debt to capital ratio of 20.3% at March 31, 2008. Our strong financial position and cash flows currently afford us the financial flexibility to return value to shareholders. Value returned to shareholders may be in various forms, but principally includes potential common share repurchases and cash dividends.

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A detailed discussion of our fiscal 2008 performance is included in the subsection of MD&A titled, Results of Operations.

MATTERS AFFECTING COMPARABILITY

Accounting for Uncertain Tax Positions. On April 1, 2007, we adopted Financial Accounting Standards Board (FASB) Interpretation No. 48 (FIN No. 48), Accounting for Uncertainty in Income Taxes an Interpretation of FASB Statement No. 109, which provides guidance for the recognition threshold and measurement attribute for financial statement recognition and measurement of tax positions taken or expected to be taken on a tax return. Under FIN No. 48, we cannot recognize a tax benefit in our financial statements unless it is more-likely-than-not that the benefit will be sustained on audit by the taxing authority based solely on the technical merits of the associated tax position. FIN No. 48 requires the cumulative effect of adoption to be recorded as an adjustment to the opening balance of retained earnings. In connection with the adoption of FIN No. 48, we recorded an adjustment of $8.4 million, increasing our liability for unrecognized tax benefits, interest, and penalties and reducing the April 1, 2007 balance of retained earnings. Prior to April 1, 2007, we regularly assessed our positions with respect to tax exposures and recorded liabilities for uncertain tax positions according to Statement of Accounting Standards No. 5 (SFAS No. 5), Accounting for Contingencies.

Additional information regarding our adoption of FIN No. 48 is included in the subsection of MD&A titled, Critical Accounting Policies, Estimates, and Assumptions and in Note 1 and Note 9 to our consolidated financial statements titled, Nature of Operations and Summary of Significant Accounting Policies and Income Taxes, respectively.

Accounting for Share-Based Compensation. On April 1, 2006, we adopted Statement of Financial Accounting Standards No. 123 (revised 2004) (SFAS No. 123R), Share-Based Payment, using the modified prospective transition method. SFAS No. 123R requires us to estimate the fair value of share-based awards on the date of the grant using an option pricing model. The value of the portion of the award that is ultimately expected to vest is recognized as expense over the requisite service periods in our consolidated statements of income.

Our consolidated financial statements as of and for the years ended March 31, 2008 and 2007 reflect the impact of SFAS No. 123R. In accordance with the modified prospective transition method, we did not restate the consolidated financial statements for prior periods, and they do not include the impact of SFAS No. 123R. Total share-based compensation expense for fiscal 2008 was $8.6 million on a pre-tax basis, or $5.4 million ($0.09 per basic share and $0.08 per diluted share), net of tax. Total share-based compensation expense for fiscal 2007 was $9.9 million on a pre-tax basis, or $6.1 million ($0.09 per basic and diluted share), net of tax.

As of March 31, 2008, there was $9.4 million of total unrecognized compensation cost related to non-vested share-based compensation granted under our equity incentive compensation plans. The cost is expected to be recognized over a weighted average period of 1.77 years.

Additional information regarding our adoption of SFAS No. 123R is included in the subsection of MD&A titled, Critical Accounting Policies, Estimates, and Assumptions and in Note 15 to our consolidated financial statements titled, Share-Based Compensation.

Restructuring. During the fourth quarter of fiscal 2008, we adopted a restructuring plan primarily focused on our North American operations (the Fiscal 2008 Restructuring Plan). As part of this plan, we will reduce the workforce in certain support functions, close two sales offices, and rationalize certain products. These actions are intended to enhance profitability and improve efficiency by reducing ongoing operating costs. Across all of our reporting segments, approximately 90 employees, primarily located in North America, have been directly impacted.

In fiscal 2008, we recorded pre-tax expenses totaling approximately $15.8 million related to these actions, including $11.7 million recorded as restructuring expenses and $4.1 million recorded as cost of revenues. We do not expect to incur any significant additional restructuring expenses related to this plan.

During the third quarter of fiscal 2007, we adopted a restructuring plan related to certain of our European operations (the European Restructuring Plan). As part of this plan, we closed two sales offices. We also took steps to reduce the workforce in certain

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European support functions. These actions are intended to improve our cost structure in Europe. Approximately 40 employees were directly impacted in various European locations.

In fiscal 2008 and fiscal 2007, we recorded pre-tax expenses of $0.1 million and $1.7 million, respectively, for the European Restructuring Plan, primarily for severance and termination benefits, for lease termination costs, and for non-cash expenses related to asset write-downs. We do not expect to incur any significant additional restructuring expenses related to this plan.

On January 30, 2006, we announced that the manufacturing portion of our Erie, Pennsylvania operations would be transferred to Mexico to reduce production costs and improve our competitive position. Plans for other restructuring actions, including the closure of a sales office, rationalization of operations in Finland, and the elimination of certain management positions were also approved. These actions were designed to reduce operating costs within the ongoing operations of both the Healthcare and Life Sciences segments, and together we refer to them as the Fiscal 2006 Restructuring Plan.

Operating income for fiscal 2008, fiscal 2007, and fiscal 2006 includes pre-tax restructuring expenses for the Fiscal 2006 Restructuring Plan of approximately $3.6 million, $4.9 million, and $25.3 million, respectively, primarily for non-cash expenses related to asset write-downs, accelerated recognition of pension and retiree medical benefits, and severance and termination benefits related to the transfer and other restructuring actions.

We completed the transfer of our Erie, Pennsylvania manufacturing operations during fiscal 2008 and do not expect to incur any significant additional restructuring expenses related to the Fiscal 2006 Restructuring Plan.

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

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

Business Dispositions. On October 31, 2005, we sold our lyophilizer (freeze dryer) product line to GEA Group of Germany for 20.8 million euros (approximately $25.2 million). As a result of this sale, we recorded an after-tax gain of approximately $7.3 million ($1.1 million recorded in fiscal 2007 and $6.2 million recorded in fiscal 2006). The freeze dryer product line, based in Cologne, Germany, was part of our Life Sciences segment. This product line is presented as a discontinued operation in our financial statements. Revenues, cost of revenues, operating expenses and income taxes attributable to this product line are aggregated in a single line on the income statement for all periods presented. Segment results for all periods presented exclude the freeze dryer product line and reflect the reallocation of corporate overhead charges to all business segments.

Further information regarding our discontinued operations is included in Note 16 to our consolidated financial statements titled, Business Dispositions.

International Operations. Since we conduct operations outside of the United States using various foreign currencies, our operating results are impacted by foreign currency movements relative to the U.S. dollar. During fiscal 2008, our revenues were favorably impacted by $18.5 million, or 1.5%, and income before taxes was unfavorably impacted by $4.5 million, or 3.5%, as a result of foreign currency movements relative to the U.S. dollar.

RESULTS OF OPERATIONS

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

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FISCAL 2008 AS COMPARED TO FISCAL 2007

Revenues. The following table compares our revenues for the year ended March 31, 2008 to the year ended March 31, 2007:

(dollars in thousands)	Years Ended March 31, 2008	2007	Change	Percent Change	Percentage of Total Revenues 2008(1)	2007(1)
Capital Revenues	$ 528,082	$ 509,312	$ 18,770	3.7%	41.7%	42.5%
Consumable Revenues	283,976	264,257	19,719	7.5%	22.4%	22.1%
Product Revenues	812,058	773,569	38,489	5.0%	64.2%	64.6%
Service Revenues	453,032	423,838	29,194	6.9%	35.8%	35.4%
Total Revenues	$ 1,265,090	$ 1,197,407	$ 67,683	5.7%	100.0%	100.0%
Service Revenues	$ 453,032	$ 423,838	$ 29,194	6.9%	35.8%	35.4%
Consumable Revenues	283,976	264,257	19,719	7.5%	22.4%	22.1%
Recurring Revenues	737,008	688,095	48,913	7.1%	58.3%	57.5%
Capital Revenues	528,082	509,312	18,770	3.7%	41.7%	42.5%
Total Revenues	$ 1,265,090	$ 1,197,407	$ 67,683	5.7%	100.0%	100.0%
United States	$ 971,018	$ 933,546	$ 37,472	4.0%	76.8%	78.0%
International	294,072	263,861	30,211	11.4%	23.2%	22.0%
Total Revenues	$ 1,265,090	$ 1,197,407	$ 67,683	5.7%	100.0%	100.0%

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

Revenues increased $67.7 million, or 5.7%, to $1,265.1 million for the year ended March 31, 2008, as compared to $1,197.4 million for fiscal 2007. For fiscal 2008, recurring revenues increased 7.1% as compared to fiscal 2007. The recurring revenues increase was generated primarily by a 6.9% increase in service revenues as compared to fiscal 2007. Service revenues, which increased in all segments, were driven by a $16.3 million, or 7.6%, increase in the Healthcare segment. Within our Life Sciences and Isomedix Services segments, service revenues for fiscal 2008 increased 9.0% and 5.1%, respectively, as compared to fiscal 2007. Consumable revenues also increased $19.7 million, or 7.5%, for fiscal 2008 when compared to the prior year, primarily driven by growth of 7.3% in the Healthcare segment. Capital revenues increased $18.8 million, or 3.7%, during fiscal 2008, as compared to fiscal 2007. The Life Sciences segment experienced a significant increase in capital equipment shipment levels in the fourth quarter of fiscal 2008 driven by a recovery in the United States research market compared to the prior year. The Healthcare segment s capital revenues increased 2.2% when compared to the prior year.

International revenues for fiscal 2008 were $294.1 million, an increase of $30.2 million, or 11.4%, as compared to fiscal 2007. The increase in year-over-year international revenues was attributable to increases in capital, consumable, and service revenues of 8.5%, 18.0%, and 12.7%, respectively. Within the European market, key drivers include strong revenues in surgical support capital products and accessories, consumables, and service. In Asia Pacific and Latin America, surgical support capital products, water systems, sterilizers, and consumable products drove revenue growth.

United States revenues for fiscal 2008 were $971.0 million, an increase of $37.5 million, or 4.0%, as compared to fiscal 2007. United States revenues were positively impacted by a 5.5% increase in recurring revenues, which were driven by increases in service revenues in all segments. Year over year, United States capital revenues increased 1.7%. The increased capital equipment shipments to the

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United States research market experienced by the Life Sciences segment in the fourth quarter of fiscal 2008 more than offset a small decline in the Healthcare segment s capital revenues of 1.2%.

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 year ended March 31, 2008 to the year ended March 31, 2007:

	Years Ended March 31,			Percent
(dollars in thousands)	2008	2007	Change	Change
Gross Profit:				
Product	$ 325,117	$ 319,066	$ 6,051	1.9%
Service	198,840	185,741	13,099	7.1%
Total Gross Profit	$ 523,957	$ 504,807	$ 19,150	3.8%
Gross Profit Percentage:				
Product	40.0%	41.2%		
Service	43.9%	43.8%		
Total Gross Profit Percentage	41.4%	42.2%		

Our gross profit (margin) is affected by the volume, pricing, and mix of sales of our products and services, as well as the costs associated with the products and services that are sold. Our gross margin decreased 80 basis points to 41.4% for fiscal 2008. In fiscal 2008, we benefited from labor savings from the transfer of our manufacturing operations from Erie, Pennsylvania to Monterrey, Mexico and from price increases. However, these benefits were more than offset by increases in raw material costs, increases in transportation costs, and the unfavorable impact of foreign exchange rates.

The gross margins related to our operating segments are further discussed in the section of MD&A titled, Business Segment Results of Operations.

Operating Expenses. The following table compares our operating expenses for the year ended March 31, 2008 to the year ended March 31, 2007:

	Years Ended March 31,			Percent
(dollars in thousands)	2008	2007	Change	Change
Operating Expenses:				
Selling, General, and Administrative	$ 348,035	$ 326,896	$ 21,139	6.5%
Research and Development	36,916	33,626	3,290	9.8%
Restructuring Expenses	15,461	6,584	8,877	NM
Total Operating Expenses	$ 400,412	$ 367,106	$ 33,306	9.1%

NM Not meaningful.

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Compensation and benefit costs, fees for professional services, travel and entertainment, facilities costs, and other general and administrative expenses are significant components of selling, general, and administrative expenses (SG&A). SG&A increased $21.1 million, or 20 basis points, to 27.5% of total revenues for fiscal 2008 as compared to fiscal 2007. The increase in SG&A spending primarily reflects investments in the development and marketing of new products along with selling expenses associated with growth initiatives.

Research and development expenses as a percentage of total revenues increased 10 basis points to 2.9% for fiscal 2008 as compared to fiscal 2007. 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 continually emphasize new product development, product improvements, and the development of new technological platform innovations. During fiscal 2008, our investments in research and development focused on, but were not limited to, enhancing capabilities of delivery systems in the defense and industrial areas, sterile processing combination technologies, surgical tables and accessories, and the area of emerging infectious agents such as Prions and Nanobacteria.

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

During the fourth quarter of fiscal 2008, we adopted the Fiscal 2008 Restructuring Plan, which primarily focused on our North American operations. As part of this plan, we will close two sales offices and rationalize certain products. We also took steps to reduce the workforce in certain support functions. Across all of our reporting segments approximately 90 employees, primarily located in North America, have been directly impacted. These restructuring actions are designed to enhance profitability and improve efficiency by reducing ongoing operating costs.

In fiscal 2008, we recorded pre-tax expenses totaling $15.8 million related to these actions, of which $11.7 million was recorded as restructuring expenses and $4.1 million was recorded in cost of revenues, with restructuring expenses of $13.1 million, $1.5 million, $0.4 million, and $0.8 million related to the Healthcare, Life Sciences, and Isomedix reporting segments, and Corporate and other, respectively. We do not expect to incur any significant additional restructuring expenses related to the Fiscal 2008 Restructuring Plan.

During the third quarter of fiscal 2007, we adopted our European Restructuring Plan. As part of this plan, we closed two sales offices and took steps to reduce the workforce in certain of our European support functions. These actions are intended to improve our cost structure in Europe. Approximately 40 employees were directly impacted in various European locations.

In fiscal 2008 and fiscal 2007, we recorded $0.1 million and $1.7 million in pre-tax restructuring expenses, respectively, related to the European Restructuring Plan actions. The restructuring expenses were predominately for severance and related benefits, with restructuring expenses of $1.3 million and $0.5 million related to the Healthcare and Life Sciences business segments, respectively. We do not expect to incur any significant additional restructuring expenses related to the European Restructuring Plan.

On January 30, 2006, we announced our Fiscal 2006 Restructuring Plan. In fiscal 2008 and fiscal 2007, we recorded $3.6 million and $4.9 million in pre-tax restructuring expenses, respectively, primarily related to the transfer of the Erie, Pennsylvania manufacturing operations. All such actions are intended to improve our cost structure.

Since the inception of the Fiscal 2006 Restructuring Plan, we have recorded restructuring expenses of $33.8 million, with restructuring expenses of $33.4 million and $0.4 million related to the Healthcare and Life Sciences business segments, respectively. These actions directly impacted more than 450 employees beginning in the fourth quarter of fiscal 2006 and continuing through fiscal 2008. Information regarding the impact of the restructuring actions on our employee benefit plans is included in Note 10 to our consolidated financial statements titled, Benefit Plans.

Collective bargaining agreements with certain employees located at the former Erie, Pennsylvania manufacturing operations terminated in July 2007 and January 2008.

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We completed the transfer of the Erie, Pennsylvania manufacturing operations during fiscal 2008 and do not expect to incur any significant additional restructuring expenses related to the Fiscal 2006 Restructuring Plan. While we continue to evaluate all of our operations for additional opportunities to improve performance, we have not committed to any additional specific actions.

The following tables summarize our total restructuring charges for fiscal 2008 and fiscal 2007:

	Year Ended March 31, 2008			
(dollars in thousands)	Fiscal 2008 Restructuring Plan(1)	European Restructuring Plan	Fiscal 2006 Restructuring Plan	Total
Severance, payroll and other related costs	$ 5,213	$ (80)	$ 203	$ 5,336
Asset impairment and accelerated depreciation	5,106		2,885	7,991
Product rationalization	3,754			3,754
Lease termination costs	898	165	(13)	1,050
Other	863		551	1,414
Total restructuring charges	$ 15,834	$ 85	$ 3,626	$ 19,545

(1) Includes $4.1 million in charges recorded in cost of revenues on the Consolidated Statements of Income.

	Year Ended March 31, 2007		
(dollars in thousands)	European Restructuring Plan	Fiscal 2006 Restructuring Plan	Total
Severance, payroll and other related costs	$ 1,365	$ 2,027	$ 3,392
Asset impairment and accelerated depreciation	105	2,606	2,711
Lease termination obligations	233	150	383
Other		98	98
Total restructuring charges	$ 1,703	$ 4,881	$ 6,584

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

		Fiscal 2008 Restructuring Plan Fiscal 2008		
	March 31, 2007	Provision	Payments/ Impairments	March 31, 2008
Severance and termination benefits	$	$ 5,213	$ (969)	$ 4,244
Asset impairment		5,106	(4,614)	492
Product rationalization		3,754	(3,754)	
Lease termination obligations		898		898
Other		863	(254)	609
Total	$	$ 15,834	$ (9,591)	$ 6,243

		European Restructuring Plan Fiscal 2008		
	March 31, 2007	Provision	Payments/ Impairments	March 31, 2008
Severance and termination benefits	$ 638	$ (68)	$ (570)	$
Lease termination obligations	219	160	(132)	247
Fixed asset impairments	105		(105)	
Total	$ 962	$ 92	$ (807)	$ 247

		Fiscal 2006 Restructuring Plan Fiscal 2008		
	March 31, 2007	Provision	Payments	March 31, 2008
Severance and termination benefits	$ 1,799	$ 132	$ (1,052)	$ 879
Lease termination obligation	157	(13)	(144)	
Total	$ 1,956	$ 119	$ (1,196)	$ 879

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Non-Operating Expenses, Net. Non-operating expense (income), net consists of interest expense on debt, offset by interest earned on cash, cash equivalents, and short-term investment balances, and other miscellaneous income. The following table compares our non-operating expense (income), net for the year ended March 31, 2008 to the year ended March 31, 2007:

	Years Ended March 31,		
(dollars in thousands)	2008	2007	Change
Non-Operating Expenses:			
Interest Expense	$ 5,979	$ 7,211	$ (1,232)
Interest and Miscellaneous Income	(2,233)	(2,440)	207
Non-Operating Expenses, Net	$ 3,746	$ 4,771	$ (1,025)

During fiscal 2008, we had lower average outstanding debt levels as compared to fiscal 2007. We also incurred lower interest rates on outstanding debt during fiscal 2008 as compared to fiscal 2007. As a result, interest expense decreased year over year. We used borrowings from our credit facility to fund stock repurchases and working capital needs. Interest and other miscellaneous income decreased $0.2 million in fiscal 2008 as compared to the prior year. We had lower average cash balances during fiscal 2008, which resulted in a smaller amount of interest earnings on those balances.

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

Income Tax Expense. The following table compares our income tax expense and effective tax rates for the years ended March 31, 2008 and 2007:

	Years Ended March 31,			Percent
(dollars in thousands)	2008	2007	Change	Change
Income Tax Expense	$ 42,693	$ 51,833	$ (9,140)	(17.6)%
Effective Income Tax Rate	35.6%	39.0%		

The effective income tax rate for fiscal 2008 was 35.6% as compared to 39.0% for fiscal 2007. The lower effective income tax rate for fiscal 2008 resulted principally from the favorable impact of a United States manufacturing deduction, the tax impact of foreign operations, and adjustments resulting from various international and United States audit matters. Additional information regarding our income tax expense is included in Note 9 to our consolidated financial statements titled, Income Taxes.

Business Segment Results of Operations. As a result of organizational changes within the Life Sciences segment announced in fiscal 2008, we changed our methodology for reporting segments. The Defense and Industrial business unit, which contains businesses in early development stages, is no longer a component of the Life Sciences segment. Corporate and other, which will be presented separately, contains the Defense and Industrial business unit plus costs that are associated with being a publicly traded company and certain other corporate costs. These costs include executive office costs, Board of Directors compensation, shareholder services and investor relations, external audit fees, and legacy pension and post-retirement benefit costs from our former Erie manufacturing operation. Fiscal 2007 amounts have been reclassified to reflect the fiscal 2008 presentation.

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We operate in three reportable business segments: Healthcare, Life Sciences, and STERIS Isomedix Services. Note 12 to our consolidated financial statements titled, Business Segment Information, and Item 1, Business provide detailed information regarding each business segment. The following table compares reporting business segment revenues and Corporate and other for the year ended March 31, 2008 to the year ended March 31, 2007:

(dollars in thousands)	Years Ended March 31, 2008	2007	Change	Percent Change
Revenues:				
Healthcare	$ 887,073	$ 845,674	$ 41,399	4.9%
Life Sciences	228,350	209,658	18,692	8.9%
STERIS Isomedix Services	140,558	133,781	6,777	5.1%
Total reportable segments	1,255,981	1,189,113	66,868	5.6%
Corporate and other	9,109	8,294	815	9.8%
Total Revenues	$ 1,265,090	$ 1,197,407	$ 67,683	5.7%

Healthcare segment revenues were 70.1% of total revenues for the year ended March 31, 2008, as compared to 70.6% for the year ended March 31, 2007. Healthcare segment revenues increased $41.4 million, or 4.9%, to $887.1 million for the year ended March 31, 2008, as compared to $845.7 million for the prior fiscal year. The increase in Healthcare revenues was primarily driven by a 7.4% increase in recurring revenues. We generated increases in service and consumable revenues of 7.6% and 7.3%, respectively, as a result of strong service revenues within the United States hospital market and increased demand for our consumable products around the world. Our Healthcare segment s fiscal 2008 revenues were also positively impacted by a 2.2% increase in capital revenues driven by strong sales of surgical support products. At March 31, 2008, our Healthcare segment s backlog amounted to $98.0 million, as compared to $63.8 million at March 31, 2007.

Life Sciences segment revenues represented 18.1% of total revenues for the year ended March 31, 2008, as compared to 17.5% for the year ended March 31, 2007. Life Sciences segment revenues increased $18.7 million, or 8.9%, to $228.4 million for the year ended March 31, 2008, as compared to $209.7 million for the prior fiscal year. Life Sciences capital revenues grew 9.2%, primarily driven by the increased shipments of capital equipment to the United States research market in the fourth quarter of fiscal 2008. Recurring revenues also grew 8.7%, with increases of 9.0% and 8.3% in service revenues and consumable revenues, respectively. At March 31, 2008, our Life Sciences segment s backlog amounted to $44.2 million, as compared to $46.4 million at March 31, 2007.

STERIS Isomedix Services segment revenues represented 11.1% of total revenues for the year ended March 31, 2008, as compared to 11.2% for the year ended March 31, 2007. This segment experienced revenue growth of $6.8 million, or 5.1%, during fiscal 2008, as compared to fiscal 2007. The growth in fiscal 2008 revenues was primarily driven by an increase in demand from our core medical device Customers and routine price increases.

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The following table compares our reporting business segment and Corporate and other operating results for the year ended March 31, 2008 to the year ended March 31, 2007:

(dollars in thousands)	Years Ended March 31, 2008	2007	Change	Percent Change
Operating Income:				
Healthcare	$ 103,447	$ 122,468	$ (19,021)	(15.5)%
Life Sciences	11,535	10,953	582	5.3%
STERIS Isomedix Services	28,964	25,127	3,837	15.3%
Total reportable segments	143,946	158,548	(14,602)	(9.2)%
Corporate and other	(20,401)	(20,847)	446	(2.1)%
Total Operating Income	$ 123,545	$ 137,701	$ (14,156)	(10.3)%

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

In fiscal 2008, restructuring expenses of $16.8 million, $1.5 million, $0.4 million, and $0.8 million were included in the operating income for Healthcare, Life Sciences, STERIS Isomedix Services, and Corporate and other, respectively. In fiscal 2007, restructuring expenses of $6.2 million and $0.4 million were included in the operating income for Healthcare and Life Sciences, respectively.

Our Healthcare segment s operating income decreased $19.0 million, or 15.5%, to $103.4 million for the year ended March 31, 2008 from $122.5 million during the prior fiscal year. Our Healthcare segment s operating margins were 11.7% and 14.5%, respectively, for the years ended March 31, 2008 and March 31, 2007. In fiscal 2008, we benefited from labor savings in Mexico and improved pricing, but these benefits were offset by increases in raw materials and transportation costs. Operating expenses also increased as we continued to invest in the development and marketing of new products. The Healthcare segment s fiscal 2008 operating margin includes restructuring expenses of $16.8 million. Of these restructuring expenses, $13.1 million was associated with the restructuring actions announced in the fourth quarter of fiscal 2008, $3.6 million was associated with the transfer of manufacturing operations from Erie, Pennsylvania to Monterrey, Mexico, and $0.1 million was associated with the European restructuring actions. In fiscal 2007, this segment s operating income includes restructuring expenses of $6.2 million. Of these restructuring expenses, $4.9 million related to the transfer of the Erie, Pennsylvania manufacturing operations and $1.3 million related to the European restructuring actions.

Our Life Sciences segment s operating income increased $0.5 million, or 5.3%, to $11.5 million in fiscal 2008 from $11.0 million in fiscal 2007. Our Life Sciences segment s operating margins were 5.1% and 5.2%, respectively, for the years ended March 31, 2008 and March 31, 2007. This segment s fiscal 2008 operating results benefited from increased volumes associated with higher margin consumable products and service offerings. However, these benefits were significantly offset by investments in research and development and the negative impact of foreign currency exchange rates. In fiscal 2008, our Life Sciences segment s operating income includes $1.5 million in restructuring expenses primarily associated with the restructuring actions announced in the fourth quarter of fiscal 2008. In fiscal 2007, our Life Sciences segment s operating income includes restructuring expenses of $0.4 million associated with the European restructuring actions.

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STERIS Isomedix Services segment operating income increased $3.8 million, or 15.3%, to $29.0 million for the year ended March 31, 2008 as compared to $25.1 million during the prior fiscal year. This segment s operating margins were 20.6% and 18.8%, respectively, for the years ended March 31, 2008 and March 31, 2007. Restructuring expenses of $0.4 million associated with the restructuring actions announced in the fourth quarter of fiscal 2008 are included in this segment s fiscal 2008 operating income. Fiscal 2008 operating margins improved as a result of increased volumes and contracted price increases. Operating margins of STERIS Isomedix Services are greatly impacted by volume levels as the facilities operate with relatively high percentages of fixed costs.

FISCAL 2007 AS COMPARED TO FISCAL 2006

Revenues. The following table compares our revenues for the year ended March 31, 2007 to the year ended March 31, 2006:

(dollars in thousands)	Years Ended March 31, 2007	2006	Change	Percent Change	Percentage of Total Revenues 2007(1)	2006(1)
Capital Revenues	$ 509,312	$ 505,235	$ 4,077	0.8%	42.5%	43.5%
Consumable Revenues	264,257	254,604	9,653	3.8%	22.1%	21.9%
Product Revenues	773,569	759,839	13,730	1.8%	64.6%	65.5%
Service Revenues	423,838	400,446	23,392	5.8%	35.4%	34.5%
Total Revenues	$ 1,197,407	$ 1,160,285	$ 37,122	3.2%	100.0%	100.0%
Service Revenues	$ 423,838	$ 400,446	$ 23,392	5.8%	35.4%	34.5%
Consumable Revenues	264,257	254,604	9,653	3.8%	22.1%	21.9%
Recurring Revenues	688,095	655,050	33,045	5.0%	57.5%	56.5%
Capital Revenues	509,312	505,235	4,077	0.8%	42.5%	43.5%
Total Revenues	$ 1,197,407	$ 1,160,285	$ 37,122	3.2%	100.0%	100.0%
United States	$ 933,546	$ 925,593	$ 7,953	0.9%	78.0%	79.8%
International	263,861	234,692	29,169	12.4%	22.0%	20.2%
Total Revenues	$ 1,197,407	$ 1,160,285	$ 37,122	3.2%	100.0%	100.0%

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

Revenues increased $37.1 million, or 3.2%, to $1,197.4 million for the year ended March 31, 2007, as compared to $1,160.3 million for fiscal 2006. For fiscal 2007, recurring revenues increased 5.0% as compared to fiscal 2006. The recurring revenues increase was generated primarily by a 5.8% increase in service revenues as compared to fiscal 2006. Service revenues, which increased in all segments, were driven by a $14.4 million, or 7.1%, increase in the Healthcare segment. Within our Life Sciences and Isomedix Services segments, service revenues for fiscal 2007 increased 4.8% and 5.0%, respectively, as compared to fiscal 2006. Consumable revenues also increased 3.8% for fiscal 2007 when compared to the prior year. Capital revenues increased $4.1 million, or 0.8%, during fiscal 2007, as compared to fiscal 2006. The Healthcare segment continued to experience strong demand for surgical tables both in the United States and internationally. However, the growth in Healthcare segment s capital revenues of 2.4% was partially offset by a decline in the Life Sciences segment s capital revenues of 5.2%. The decline in Life Sciences capital revenues was a result of strong price competition for capital equipment being sold into the United States research market.

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International revenues for fiscal 2007 amounted to $263.9 million, an increase of $29.2 million, or 12.4%, as compared to fiscal 2006. The increase in year-over-year international revenues was attributable to a 14.9% increase in capital revenues primarily within the European and Canadian marketplaces. Within Europe, fiscal 2007 capital revenues reflect the continued success of surgical tables and related accessories in the Healthcare segment and increases in the Life Sciences segment s revenues from VHP technologies and water systems. This increase was partially offset by a decrease in Asia Pacific and Latin America capital revenues in our Life Sciences segment during fiscal 2007. The increase in international capital revenues was supplemented by an increase of 9.4% in recurring revenue streams year over year.

United States revenues for fiscal 2007 amounted to $933.5 million, an increase of $7.9 million, or 0.9%, as compared to fiscal 2006. United States revenues were positively impacted by a 4.1% increase in recurring revenues, which were driven by increases in service revenues in all segments. Year over year, United States capital revenues decreased 3.9%, reflecting fluctuating demand within the Healthcare segment for sterile processing capital products generally associated with new construction projects and as a result of the strong price competition experienced by the Life Sciences segment for capital equipment being sold into the United States research market.

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 year ended March 31, 2007 to the year ended March 31, 2006:

	Years Ended March 31,			Percent
(dollars in thousands)	2007	2006	Change	Change
Gross Profit:				
Product	$ 319,066	$ 314,386	$ 4,680	1.5%
Service	185,741	169,799	15,942	9.4%
Total Gross Profit	$ 504,807	$ 484,185	$ 20,622	4.3%
Gross Profit Percentage:				
Product	41.2%	41.4%		
Service	43.8%	42.4%		
Total Gross Profit Percentage	42.2%	41.7%		

Our gross profit (margin) is affected by the volume, pricing, and mix of sales of our products and services, as well as the costs associated with the products and services that are sold. Our gross margin increased to 42.2% for fiscal 2007. Overall, our fiscal 2007 margins increased due to improved productivity and pricing, which more than offset increases in labor and raw material costs. Gross margins also benefited from a shift towards higher margin recurring revenue products within the Life Sciences segment. Gross margins for fiscal 2007 include $1.1 million in share-based compensation expense as a result of the impact of SFAS No. 123R.

The gross margins related to our operating segments are further discussed in the section of MD&A titled, Business Segment Results of Operations.

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Operating Expenses. The following table compares our operating expenses for the year ended March 31, 2007 to the year ended March 31, 2006:

(dollars in thousands)	Years Ended March 31, 2007	2006	Change	Percent Change
Operating Expenses:				
Selling, General, and Administrative	$ 326,896	$ 315,582	$ 11,314	3.6%
Research and Development	33,626	33,597	29	0.1%
Restructuring Expenses	6,584	25,308	(18,724)	NM
Total Operating Expenses	$ 367,106	$ 374,487	$ (7,381)	(2.0)%

NM Not meaningful.

Compensation and benefit costs, fees for professional services, travel and entertainment, facilities costs, and other general and administrative expenses are significant components of SG&A. As a percentage of total revenues, SG&A increased 10 basis points to 27.3% for fiscal 2007 as compared to fiscal 2006. The increase reflects higher compensation and benefit costs net of lower costs associated with consulting and marketing fees.

Research and development expenses as a percentage of total revenues decreased 10 basis points to 2.8% for fiscal 2007 as compared to fiscal 2006. During both fiscal 2007 and fiscal 2006, research and development expenses were $33.6 million. Our research and development initiatives continually emphasize new product development, product improvements, and the development of new technological platform innovations. During fiscal 2007, our investments in research and development focused on, but were not limited to, enhancing capabilities of delivery systems in the defense and industrial areas, sterile processing combination technologies, surgical tables and accessories, and the area of emerging infectious agents such as Prions and Nanobacteria.

SG&A and research and development expenses for fiscal 2007 included $8.0 million and $0.8 million, respectively, in share-based compensation expense as a result of the impact of the adoption of SFAS No. 123R.

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

In fiscal 2007 and fiscal 2006, we recorded $4.9 million and $25.3 million in pre-tax restructuring expenses, respectively, for the Fiscal 2006 Restructuring Plan. These restructuring expenses primarily related to the previously announced transfer of the Erie, Pennsylvania manufacturing operations to Monterrey, Mexico and other restructuring actions, including the closure of a sales office, rationalization of operations in Finland and the elimination of certain management positions. All such actions are intended to improve our cost structure.

These actions directly impacted more than 450 employees. Information regarding the impact of the restructuring actions on our employee benefit plans is included in Note 10 to our consolidated financial statements titled, Benefit Plans.

During the third quarter of fiscal 2007, we adopted the European Restructuring Plan. As part of this plan, we closed two offices. We also took steps to reduce the workforce in certain of our European support functions. These actions are intended to improve our cost structure in Europe. Approximately 40 employees were directly impacted in various European locations.

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In fiscal 2007, we recorded $1.7 million in pre-tax restructuring expenses related to the European Restructuring Plan. The restructuring expenses were predominately for severance and related benefits, with restructuring expenses of $1.2 million and $0.5 million related to the Healthcare and Life Sciences business segments, respectively.

The following tables summarize our total restructuring expenses for fiscal 2007 and fiscal 2006:

	Year Ended March 31, 2007		
(dollars in thousands)	Fiscal 2006 Restructuring Plan	European Restructuring Plan	Total
Severance, payroll and other related costs	$ 2,027	$ 1,365	$ 3,392
Asset impairment and accelerated depreciation	2,606	105	2,711
Lease termination costs	150	233	383
Other	98		98
Total restructuring charges	$ 4,881	$ 1,703	$ 6,584

	Year Ended March 31, 2006
	Fiscal 2006 Restructuring
(dollars in thousands)	Plan
Asset impairment and accelerated depreciation	$ 11,712
Severance, payroll and other related costs	2,038
Lease termination costs	135
Pension curtailment	2,335
OPEB acceleration	8,982
Other	106
Total restructuring charges	$ 25,308

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

		Fiscal 2006 Restructuring Plan Fiscal 2007		
	March 31, 2006	Provision	Payments	March 31, 2007
Severance and termination benefits(1)	$ 1,941	$ 1,743	$ (1,885)	$ 1,799
Lease termination obligations	135	150	(128)	157
Total	$ 2,076	$ 1,893	$ (2,013)	$ 1,956

(1) Does not include certain items that were paid in the period incurred.

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	March 31, 2006	European Restructuring Plan Fiscal 2007 Provision	Payments	March 31, 2007
Severance and termination benefits	$	$ 1,365	$ (727)	$ 638
Lease termination obligations		233	(14)	219
Asset impairment		105		105
Total	$	$ 1,703	$ (741)	$ 962

Non-Operating Expenses, Net. Non-operating expense (income), net consists of interest expense on debt, offset by interest earned on cash, cash equivalents, and short-term investment balances, and other miscellaneous income. The following table compares our net non-operating expense for the year ended March 31, 2007 to the year ended March 31, 2006:

(dollars in thousands)	Years Ended March 31, 2007	2006	Change
Non-Operating Expenses:			
Interest Expense	$ 7,211	$ 4,935	$ 2,276
Interest and Miscellaneous Income	(2,440)	(3,355)	915
Non-Operating Expenses, Net	$ 4,771	$ 1,580	$ 3,191

We had higher average outstanding debt levels and incurred higher interest rates on outstanding debt during fiscal 2007 as compared to fiscal 2006 and, as a result, interest expense increased year over year. The higher debt levels in fiscal 2007 were used to fund stock repurchases and working capital needs. Interest and other miscellaneous income decreased $0.9 million in fiscal 2007 as compared to the prior year. This decrease was primarily due to receiving the final settlement of certain working capital adjustments and the resolution of certain indemnification claims pursuant to the terms of the share purchase agreement with respect to our acquisition of Hamo Holding AG (Hamo) in the first quarter of fiscal 2006. We completed the acquisition of Hamo during fiscal 2004.

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

Income Tax Expense. The following table compares our income tax expense and effective tax rates for the years ended March 31, 2007 and 2006:

(dollars in thousands)	Years Ended March 31, 2007	2006	Change	Percent Change
Income Tax Expense	$ 51,833	$ 45,172	$ 6,661	14.7%
Effective Income Tax Rate	39.0%	41.8%		

The effective income tax rate for fiscal 2007 was 39.0% as compared to 41.8% for fiscal 2006. The lower effective income tax rate for fiscal 2007 was primarily due to adjustments to recognize additional foreign tax credits. Additional information regarding our income tax expense is included in Note 9 to our consolidated financial statements titled, Income Taxes.

Business Segment Results of Operations. As a result of organizational changes within the Life Sciences segment announced in fiscal 2008, we changed our methodology for reporting segments. The Defense and Industrial business unit, which consists of businesses in early development stages, is no longer a component of the Life Sciences segment. Corporate and other, which is presented separately, contains

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the Defense and Industrial business unit plus costs that are associated with being a publicly traded company and certain other corporate costs. These costs include executive office costs, Board of Directors compensation, shareholder services and investor relations, external audit fees, and legacy pension and post-retirement benefit costs from our former Erie manufacturing operation. Fiscal 2007 and fiscal 2006 amounts have been reclassified to reflect the fiscal 2008 presentation.

We operate in three reportable business segments: Healthcare, Life Sciences, and STERIS Isomedix Services. Note 12 to our consolidated financial statements titled, Business Segment Information, and Item 1, Business provide detailed information regarding each business segment. The following table compares reporting business segment and Corporate and other revenues for the year ended March 31, 2007 to the year ended March 31, 2006:

(dollars in thousands)	Years Ended March 31, 2007	2006	Change	Percent Change
Revenues:				
Healthcare	$ 845,674	$ 817,014	$ 28,660	3.5%
Life Sciences	209,658	207,078	2,580	1.2%
STERIS Isomedix Services	133,781	127,444	6,337	5.0%
Total reportable segments	1,189,113	1,151,536	37,577	3.3%
Corporate and other	8,294	8,749	(455)	(5.2)%
Total Revenues	$ 1,197,407	$ 1,160,285	$ 37,122	3.2%

Healthcare segment revenues were 70.6% of total revenues for the year ended March 31, 2007, as compared to 70.4% for the year ended March 31, 2006. Healthcare segment revenues increased $28.7 million, or 3.5%, to $845.7 million for the year ended March 31, 2007, as compared to $817.0 million for the prior fiscal year. The increase in Healthcare revenues was primarily driven by a 4.7% increase in recurring revenues. We generated increases in service and consumable revenues of 7.1% and 2.4%, respectively, as a result of strong service revenues within the United States hospital market and increased demand for our consumable products in the United States and Canada. Our Healthcare segment s fiscal 2007 revenues were also positively impacted by a 2.3% increase in capital revenues driven by continued strong sales of surgical tables both in the United States and internationally. This increase was partially offset by a decline in the sales of high temperature sterile processing capital equipment. At March 31, 2007, our Healthcare segment s backlog amounted to $63.8 million, as compared to $62.0 million at March 31, 2006.

Life Sciences segment revenues represented 17.5% of total revenues for the year ended March 31, 2007, as compared to 17.8% for the year ended March 31, 2006. Life Sciences segment revenues increased $2.6 million, or 1.2%, to $209.7 million for the year ended March 31, 2007, as compared to $207.1 million for the prior fiscal year. The increase in Life Sciences revenues was driven by strong growth in consumable products and service of 11.0% and 4.8%, respectively, partially offset by a 5.2% decrease in capital revenues. Fiscal 2007 Life Sciences capital revenues were unfavorably impacted as a result of strong price competition for capital equipment being sold into the United States research market. At March 31, 2007, our Life Sciences segment s backlog amounted to $46.4 million, as compared to $42.5 million at March 31, 2006.

STERIS Isomedix Services segment revenues represented 11.2% of total revenues for the year ended March 31, 2007, as compared to 11.0% for the year ended March 31, 2006. This segment experienced revenue growth of $6.3 million, or 5.0%, during fiscal 2007, as compared to fiscal 2006. This revenue growth was primarily attributable to increased demand from our core medical device Customers and routine price increases.

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The following table compares our reporting business segment and Corporate and other operating results for the year ended March 31, 2007 to the year ended March 31, 2006:

(dollars in thousands)	Years Ended March 31, 2007	2006	Change	Percent Change
Operating Income (Loss):				
Healthcare	$ 122,468	$ 105,074	$ 17,394	16.6%
Life Sciences	10,953	4,841	6,112	NM
STERIS Isomedix Services	25,127	23,981	1,146	4.8%
Total reportable segments	158,548	133,896	24,652	18.4%
Corporate and other	(20,847)	(24,198)	3,351	(13.8)%
Total Operating Income	$ 137,701	$ 109,698	$ 28,003	25.5%

NM Not meaningful.

Segment operating income (loss) is calculated as the segment s gross profit less direct expenses and indirect cost allocations, which results in the full allocation of all distribution and research and development expenses, and the partial allocation of corporate costs. The Corporate and other segment includes the gross profit and direct expenses of the Defense and Industrial business unit, as well as certain unallocated corporate costs related to being a publicly traded company and legacy pension and post-retirement benefits, as previously discussed. Corporate cost allocations are based on each segment s percentage of revenues, headcount, or other variables in relation to those of the total company.

In fiscal 2007, restructuring expenses of $6.2 million and $0.4 million were included in the operating income for Healthcare and Life Sciences, respectively. In fiscal 2006, restructuring expenses of $24.8 million and $0.5 million were included in the operating income for Healthcare and Life Sciences, respectively.

Our Healthcare segment s operating income increased $17.4 million, or 16.6%, to $122.5 million for the year ended March 31, 2007 from $105.1 million during the prior fiscal year. Our Healthcare segment s operating margins were 14.5% and 12.9%, respectively, for the years ended March 31, 2007 and March 31, 2006. In fiscal 2007, this segment s operating income includes restructuring expenses of $4.9 million and $1.3 million related to the transfer of manufacturing operations from Erie, Pennsylvania to Monterrey, Mexico and the European restructuring actions, respectively. Share-based compensation expenses of $6.7 million were also included in our Healthcare segment s fiscal 2007 operating income. In fiscal 2006, restructuring expenses primarily associated with the transfer of manufacturing operations from Erie, Pennsylvania to Monterrey, Mexico of $24.8 million were included in the Healthcare segment s operating income. Operating income improved as a result of lower restructuring costs and improved leveraging of operating expense.

Our Life Sciences segment s operating income was $11.0 million in fiscal 2007 as compared to $4.8 million in fiscal 2006. Our Life Sciences segment s operating margins were 5.2% and 2.3%, respectively, for the years ended March 31, 2007 and March 31, 2006. This segment s operating results benefited from increased volumes associated with higher margin consumable products and service offerings, as well as productivity improvements and operating expense control. In fiscal 2007, our Life Sciences segment s operating income includes restructuring expenses of $0.4 million associated with the European restructuring actions and $2.0 million in share-based compensation expense. The fiscal 2006 operating income includes approximately $0.5 million in restructuring expenses associated with the rationalization of operations at the manufacturing facility in Finland.

STERIS Isomedix Services segment operating income increased $1.1 million, or 4.8%, to $25.1 million for the year ended March 31, 2007 as compared to $24.0 million during the prior fiscal year. This segment s operating margins were 18.8% for the years ended

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March 31, 2007 and March 31, 2006. Fiscal 2007 operating margins improved as a result of increased volumes and normal contracted price increases, but this improvement was offset by share-based compensation expense of $1.2 million. Operating margins of STERIS Isomedix Services are greatly impacted by volume levels as the facilities operate with relatively high percentages of fixed costs.

LIQUIDITY AND CAPITAL RESOURCES

The following table summarizes significant components of our cash flows for the years ended March 31, 2008 and 2007:

	Years Ended March 31,			
(dollars in thousands)	2008	2007	Change	Percent Change
Operating activities:				
Net income	$ 77,106	$ 82,155	$ (5,049)	(6.1)%
Non-cash items	67,540	62,123	5,417	8.7%
Changes in operating assets and liabilities	(1,245)	(48,538)	47,293	(97.4)%
Net cash provided by operating activities	$ 143,401	$ 95,740	$ 47,661	49.8%
Investing activities:				
Purchases of property, plant, equipment, and intangibles, net	$ (56,974)	$ (49,024)	$ (7,950)	16.2%
Proceeds from the sale of property, plant and equipment	5,154	2,825	2,329	82.4%
Proceeds from the sale of discontinued operations		2,927	(2,927)	(100.0)%
Net cash used in investing activities	$ (51,820)	$ (43,272)	$ (8,548)	19.8%
Financing activities:				
Proceeds (payments) on long-term obligations, capital leases, and credit facility, net	$ 78,480	$ (14,667)	$ 93,147	NM
Deferred financing fees and debt issuance costs	(443)		(443)	NM
Repurchases of common shares	(177,171)	(60,170)	(117,001)	194.5%
Cash dividends paid to common shareholders	(14,609)	(11,766)	(2,843)	24.2%
Stock option and other equity transactions, net	17,813	10,924	6,889	63.1%
Net cash used in financing activities	$ (95,930)	$ (75,679)	$ (20,251)	26.8%
Debt-to-capital ratio	20.3%	11.6%		
Free cash flow	$ 91,581	$ 49,541		

NM Not meaningful.

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Net Cash Provided by Operating Activities. The net cash provided by our operating activities was $143.4 million for the year ended March 31, 2008 compared to $95.7 million for the year ended March 31, 2007. The following discussion summarizes the significant changes in our operating cash flows:

Non-cash items Our non-cash items include depreciation, depletion, and amortization, losses on the disposal of property, plant, equipment and intangibles, share-based compensation expense, changes in deferred income taxes, gains on the sale of discontinued operations, and other items. Non-cash items were $67.5 million for fiscal 2008 compared to $62.1 million for fiscal 2007.

Depreciation, depletion, and amortization Depreciation, depletion, and amortization expense is the most significant component of non-cash items. This expense totaled $62.8 million and $60.3 million for fiscal 2008 and 2007, respectively. The $2.5 million increase in this expense was primarily the result of capital purchases in support of our research efforts and increased material purchases for our STERIS Isomedix Services segment.

Loss on the disposal of property, plant, equipment, and intangibles, net We recorded losses of $5.8 million and $0.8 million for the disposal of property, plant, equipment, and intangibles in fiscal 2008 and fiscal 2007, respectively. In fiscal 2008, this expense primarily related to the impairment or disposal of certain assets related to the Fiscal 2008 Restructuring Plan and the Fiscal 2006 Restructuring Plan. In fiscal 2007, this expense primarily related to the disposal of certain assets included in the Fiscal 2006 Restructuring Plan.

Share-based compensation expense We recorded non-cash share-based compensation expense of $8.6 million and $9.9 million for fiscal 2008 and fiscal 2007, respectively. The decline of $1.3 million reflects a reduction in the number of stock options and restricted shares subject to amortization in the current fiscal year.

Deferred income taxes Our fiscal 2008 deferred income tax benefit of $10.2 million resulted primarily from share-based compensation expense and depreciation and amortization of fixed assets and intangibles. Our fiscal 2007 deferred income tax benefit of $10.1 million primarily resulted from the settlement of the fiscal 1997 and fiscal 1998 IRS audits and from share-based compensation expense.

Gain on the sale of discontinued operations In fiscal 2007, we recorded a gain totaling $1.1 million for the October 31, 2005 sale of our freeze dryer product line.

Working capital- Significant changes in our working capital for the year ended March 31, 2008 as compared to the prior fiscal year are summarized below. Our discussion excludes the impact of foreign currency translation adjustments and balances acquired from business acquisitions. Changes in our working capital used $1.2 million and $48.5 million in fiscal 2008 and fiscal 2007, respectively.

Accounts receivable, net Our net accounts receivable balances decreased $9.2 million in fiscal 2008 and increased $4.6 million during fiscal 2007. Our accounts receivable balances may change from period to period due to the timing of revenues and Customer payments. The decrease in the accounts receivable balance was a result of improved collection processes, evident in the decrease in days sales outstanding from 77 days at March 31, 2007 to 72 days at March 31, 2008.

Inventories, net Our net inventory balances increased $4.9 million and $16.9 million during fiscal 2008 and fiscal 2007, respectively. Inventory balances in fiscal 2008 increased as a result of the impact of increased raw material costs, new products, and higher order levels. The inventory increase in fiscal 2007 was primarily associated with the transfer of the Erie, Pennsylvania manufacturing operations to Monterrey, Mexico. We increased inventory levels at both the Erie and Monterrey facilities by $8.0 million during fiscal 2007 to ensure product would be consistently available for our Customers during the transition.

Other current assets Our other current assets primarily consist of prepaid expenses for insurance, taxes, and other general corporate items. Other current assets decreased $0.5 million during fiscal 2008 and increased $16.8 million during

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fiscal 2007. The increase in fiscal 2007 reflects approximately $17.5 million of the tax payments made during the first quarter of fiscal 2007 that remains on deposit with the IRS, subject to final resolution of certain matters under audit.

Accounts payable, net Our net accounts payable balances decreased $3.1 million and $12.0 million during fiscal 2008 and fiscal 2007, respectively, resulting in a cash flow change of $8.9 million. Cash flows related to accounts payable may change from period to period due to varying payment due dates and other terms of our accounts payable obligations.

Accruals and other, net Our net accruals and other liabilities balances decreased $2.9 million and increased $1.7 million during fiscal 2008 and fiscal 2007, respectively. In fiscal 2008, the decrease was primarily a result of recording deferred tax assets for uncertain tax positions under FIN No. 48 and for unfunded pension and post-retirement benefit liabilities under SFAS No. 158. In fiscal 2007, the increase was primarily due to increases in the accruals for compensation and benefit-related liabilities, partially offset by a decrease in the accruals for other taxes not related to income.

Net Cash Used in Investing Activities. The net cash we used in investing activities totaled $51.8 million during fiscal 2008 compared to $43.3 million during fiscal 2007. The following discussion summarizes the significant changes in our investing cash flows for the years ended March 31, 2008 and 2007:

Purchases of property, plant, equipment, and intangibles, net Capital expenditures totaled $57.0 million during fiscal 2008 compared to $49.0 million during fiscal 2007. Increased capital spending levels in fiscal 2008 resulted primarily from a planned expansion at one of our STERIS Isomedix Services facilities.

Proceeds from the sale of property, plant, equipment and intangibles In fiscal 2008, these proceeds include $4.7 million we received in the third quarter from the sale of our manufacturing facility located in Erie, Pennsylvania. In fiscal 2007, these proceeds include $2.4 million we received during the third quarter from the sale of a building located in Nogales, Arizona.

Proceeds from the sale of discontinued operations In fiscal 2007, we recorded additional proceeds of $2.9 million for the October 31, 2005 sale of the freeze dryer product line. We received these additional proceeds because we reached a final settlement with the buyer for working capital changes and certain indemnifications.

Net Cash Used in Financing Activities. The net cash we used in financing activities totaled $95.9 million in fiscal 2008 compared to $75.7 million for the prior fiscal year. The following discussion summarizes the significant changes in our financing cash flows for the years ended March 31, 2008 and 2007:

an opinion of independent counsel that registration is not required under the Investment Company Act of 1940;

an opinion of counsel as to certain other matters;

officers certificates and opinion of counsel certifying as to compliance with the indenture and other matters; and

(3) paying all other amounts due under the indenture.

Further, the defeasance cannot cause an event of default under the indenture or any other material agreement or instrument and no event of default under the indenture can exist at the time the defeasance occurs.

Subordination

The subordinated debt securities will be subordinated in right of payment to all senior debt, as defined in the subordinated indenture. In certain circumstances relating to our liquidation, dissolution, receivership, reorganization, insolvency or similar proceedings:

- the holders of all senior debt will first be entitled to receive payment in full before the holders of the subordinated debt securities will be entitled to receive any payment on the subordinated debt securities; and

- until the senior debt is paid in full, any distributions that the holders of subordinated debt would be entitled shall be made to holders of senior debt, except that holders of subordinated debt may receive securities that are subordinated to senior debt to at least the same extent as the senior debt.

In addition, we may make no payment on the subordinated debt securities in the event:

- there is an event of default with respect to any senior debt which permits the holders of that senior debt to accelerate the maturity of the senior debt; and

- the default is the subject of judicial proceedings or we receive notice of the default from an authorized person under the subordinated indenture.

By reason of this subordination in favor of the holders of senior debt, in the event of an insolvency our creditors who are not holders of senior debt or the subordinated debt securities may recover less, proportionately,

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than holders of senior debt and may recover more proportionately, than holders of the subordinated debt securities. Unless otherwise specified in the prospectus supplement relating to the particular series of subordinated debt securities, senior debt is defined in the subordinated indenture as the principal, premium, if any, unpaid interest (including interest accruing on or after the filing of any petition in bankruptcy or for reorganization relating to Triumph Bancorp, Inc. whether or not a claim for post-filing interest is allowed in such proceeding), fees, charges, expenses, reimbursement and indemnification obligations, and all other amounts payable under or in respect of the following indebtedness of Triumph Bancorp, Inc. for money borrowed, whether any such indebtedness exists as of the date of the indenture or is created, incurred, assumed or guaranteed after such date:

(i) any debt (a) for money borrowed by Triumph Bancorp, Inc., or (b) evidenced by a bond, note, debenture, or similar instrument (including purchase money obligations) given in connection with the acquisition of any business, property or assets, whether by purchase, merger, consolidation or otherwise, but shall not include any account payable or other obligation created or assumed in the ordinary course of business in connection with the obtaining of materials or services, or (c) which is a direct or indirect obligation which arises as a result of banker s acceptances or bank letters of credit issued to secure obligations of Triumph Bancorp, Inc., or to secure the payment of revenue bonds issued for the benefit of Triumph Bancorp, Inc. whether contingent or otherwise;

(ii) any debt of others described in the preceding clause (i) which Triumph Bancorp, Inc. has guaranteed or for which it is otherwise liable;

(iii) the obligation of Triumph Bancorp, Inc. as lessee under any lease of property which is reflected on Triumph Bancorp, Inc. s balance sheet as a capitalized lease; and

(iv) any deferral, amendment, renewal, extension, supplement or refunding of any liability of the kind described in any of the preceding clauses (i), (ii) and (iii).

Senior debt does not include (1) any such indebtedness, obligation or liability referred to in clauses (i) through (iv) above as to which, in the instrument creating or evidencing the same or pursuant to which the same is outstanding, it is provided that such indebtedness, obligation or liability is not superior in right of payment to the subordinated debt securities, or ranks pari passu with the subordinated debt securities, (2) any such indebtedness, obligation or liability which is subordinated to indebtedness of Triumph Bancorp, Inc. to substantially the same extent as or to a greater extent than the subordinated debt securities are subordinated, (3) any indebtedness to a subsidiary of Triumph Bancorp, Inc. and (4) the subordinated debt securities.

The subordinated indenture does not limit or prohibit the incurrence of additional senior debt, which may include indebtedness that is senior to the subordinated debt securities, but subordinate to our other obligations. Any prospectus supplement relating to a particular series of subordinated debt securities will set forth the aggregate amount of our indebtedness senior to the subordinated debt securities as of a recent practicable date.

The prospectus supplement may further describe the provisions, if any, which may apply to the subordination of the subordinated debt securities of a particular series.

Restrictive Covenants

The subordinated indenture does not contain any significant restrictive covenants. The prospectus supplement relating to a series of subordinated debt securities may describe certain restrictive covenants, if any, to which we may be bound under the subordinated indenture.

Governing Law

Unless indicated otherwise in the applicable prospectus supplement, the indentures and the debt securities will be governed by, and construed in accordance with, the laws of the State of New York.

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DESCRIPTION OF COMMON STOCK AND PREFERRED STOCK

Our authorized capital stock consists of 50,000,000 shares of common stock, par value of $0.01 per share and 1,000,000 shares of preferred stock, par value of $0.01 per share, of which 50,000 shares have been designated as Series A Non-Cumulative Non-Voting Preferred Stock (the Series A Preferred Stock) and 115,000 shares have been designated as Series B Non-Cumulative Non-Voting Preferred Stock (the Series B Preferred Stock). As of August 1, 2016, there were 18,107,493 shares of common stock issued and outstanding. As of June 30, 2016, there were 45,500 shares of Series A Preferred Stock issued and outstanding and 51,956 shares of Series B Preferred Stock issued and outstanding. Our charter authorizes our board of director to issue all authorized but unissued shares of common stock without any further stockholder action.

In this section we describe certain features and rights of our capital stock. The following discussion summarizes some of the important rights of our stockholders. This discussion does not purport to be a complete description of these rights and may not contain all of the information regarding our capital stock that is important to you. These rights can be determined in full only by reference to federal and state banking laws and regulations, the Texas Business Organizations Code (the TBOC) and our certificate of formation (our charter) and bylaws, which are incorporated by reference as exhibits to the registration statement of which this prospectus forms a part.

Common Stock

We may issue, either separately or together with other securities, shares of common stock. Upon our receipt of the full specified purchase price, the common stock issued will be fully paid and nonassessable. A prospectus supplement relating to an offering of common stock, or other securities convertible or exchangeable for, or exercisable into, common stock, will describe the relevant offering terms, including the number of shares offered, the initial offering price, and market price and dividend information, as well as, if applicable, information on other related securities.

Each holder of common stock is entitled to the following rights:

Voting Rights. Each holder of common stock is entitled to one vote for each share held on all matters on which our stockholders are entitled to vote. Directors are elected by a plurality vote standard and no stockholder has the right to cumulative voting with respect to the election of directors.

With respect to any matter other than the election of directors or a matter for which the affirmative vote of the holders of a specified portion of the shares entitled to vote is required by Texas law or our charter, the act of the stockholders will be the affirmative vote of the holders of a majority of the shares entitled to vote on, and voted for or against, the matter at a meeting of stockholders at which a quorum is present.

Dividend Rights. Subject to the prior rights of holders of any then outstanding shares of our preferred stock, each share of common stock has equal rights to participate in dividends when, as and if declared by our board of directors out of funds legally available therefor.

Liquidation Rights. Subject to the prior rights of our creditors and the satisfaction of any liquidation preference granted to the holders of any then-outstanding shares of our preferred stock, in the event of our liquidation, the holders of our common stock will be entitled to share ratably in any assets remaining after payment of all debts and other liabilities.

Other. Our stockholders have no subscription, sinking fund, conversion or preemptive rights.

Preferred Stock

The following summary contains a description of the general terms of the preferred stock that we may issue. The specific terms of any series of preferred stock will be described in the prospectus supplement relating to that series of preferred stock. The terms of any series of preferred stock may differ from the terms described

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below. Certain provisions of the preferred stock described below and in any prospectus supplement are not complete. You should refer to the articles supplementary to our charter with respect to the establishment of a series of preferred stock which will be filed with the SEC in connection with the offering of such series of preferred stock.

Upon authorization of our board of directors, we may issue shares of one or more series of our preferred stock from time to time. Our board of directors may, without any action by holders of common stock or, except as may be otherwise provided in the terms of any series of preferred stock of which there are shares outstanding, adopt resolutions to designate and establish a new series of preferred stock. Upon establishing such a series of preferred stock, the board will determine the number of shares of preferred stock of that series that may be issued and the rights and preferences of that series of preferred stock.

Any preferred stock that we issue under this prospectus will have the voting, dividend, liquidation, redemption and conversion rights described below , unless otherwise provided in the prospectus supplement related to a particular series of preferred stock. You should read the prospectus supplement relating to the particular series of preferred stock for specific terms of the series. The rights of any series of preferred stock may include, among others:

- general or special voting rights;
- preferential liquidation or preemptive rights;
- preferential cumulative or noncumulative dividend rights;
- redemption or put rights;
- conversion or exchange rights; or
- any additional dividend, liquidation, redemption or sinking fund provisions and other rights, preferences, privileges, limitations and restrictions of such preferred stock.

When issued, the preferred stock will be fully paid and nonassessable. Unless otherwise specified in the prospectus supplement relating to a series of preferred stock, in the event of a liquidation, each series of preferred stock will rank on a parity as to dividends and distributions with the Series A Preferred Stock and the Series B Preferred Stock, as described under Series A Preferred Stock and Series B Preferred Stock. You should read the prospectus supplement relating to the particular series of the preferred stock being offered for specific terms. Any of these actions could have an anti-takeover effect and discourage a transaction that some or a majority of our stockholders might believe to be in their best interests or in which our stockholders might receive a premium for their stock over our then market price.

Voting Rights. Unless otherwise described in the applicable prospectus supplement, holders of the preferred stock will have no voting rights except as may be otherwise required by Texas law or in our charter.

Dividends. Holders of the preferred stock of each series will be entitled to receive, when, as and if declared by our board of directors, cash dividends at such rates and on such dates described, if any, in the applicable prospectus

supplement. Different series of preferred stock may be entitled to dividends at different rates or based on different methods of calculation. The dividend rate may be fixed or variable or both. Dividends will be payable to the holders of record as they appear on our stock books on record dates fixed by our board of directors, as specified in the applicable prospectus supplement.

Dividends on any series of the preferred stock may be cumulative or noncumulative, as described in the applicable prospectus supplement. If our board of directors does not declare a dividend payable on a dividend payment date on any series of noncumulative preferred stock, then the holders of that noncumulative preferred stock will have no right to receive a dividend for that dividend payment date, and we will have no obligation to pay the dividend accrued for that period, whether or not dividends on that series are declared payable on any future dividend payment dates. Such dividends shall accrue on a daily basis and shall be payable quarterly in arrears on or before March 31, June 30, September 30 or December 31 of each year.

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If dividends are paid to holders of such preferred stock, the preferred stock will share dividends pro rata with the parity securities. Any dividends that are not paid with respect to a dividend period will not cumulate but will be waived and not payable by the Company.

Rights Upon Liquidation. Unless otherwise set forth in the applicable prospectus supplement, in the event of any voluntary or involuntary liquidation, dissolution or winding up of our business, the holders of each series of preferred stock will be entitled to receive, before any payment or distribution of assets is made to holders of junior securities, liquidating distributions in the amount described in the applicable prospectus supplement relating to that series of the preferred stock, plus an amount equal to accrued and unpaid dividends and, if the series of the preferred stock is cumulative, for all dividend periods prior to that point in time. In addition, if the amounts payable with respect to the preferred stock of any series and any other parity securities are not paid in full, the holders of the preferred stock of that series and of the parity securities will share proportionately in the distribution of our assets in proportion to the full liquidation preferences to which they are entitled. After the holders of preferred stock and the parity securities are paid in full, they will have no right or claim to any of our remaining assets.

Redemption. We may provide that a series of the preferred stock may be redeemable, in whole or in part, at our option or at the option of the holder of the stock. In addition, a series of preferred stock may be subject to mandatory redemption pursuant to a sinking fund or otherwise. The redemption provisions that may apply to a series of preferred stock, including the redemption dates and the redemption prices for that series, will be described in the prospectus supplement. The applicable prospectus supplement will state the terms, if any, regarding partial redemption, future payment of dividends, termination rights, treatment in the event of arrears and the ability of the Company to acquire any shares.

Conversion or Exchange Rights. The prospectus supplement relating to a series of preferred stock will state the terms, if any, on which shares of that series are convertible or exchangeable into shares of our common stock, debt securities or another series of our preferred stock. These provisions may allow or require the number of our shares of common stock or other securities to be received by holders of shares of preferred stock to be adjusted upon the occurrence of events described in the applicable prospectus supplement, including: the issuance of a stock dividend to common stockholders or a combination, subdivision or reclassification of common stock; the issuance of rights, warrants or options to all common and/or preferred stockholders entitling them to purchase common stock for an aggregate purchase price per share less than the current market price per share of common stock; and any other events described in the prospectus supplement. Unless the prospectus supplement relating to a series of preferred stock so provides, our preferred stock will have no preemptive rights.

Series A Preferred Stock and Series B Preferred Stock

The description of the Series A Preferred Stock and Series B Preferred Stock contained in this section is qualified in its entirety by the actual terms of the Series A Preferred Stock and Series B Preferred Stock, as are stated in our charter. See Where You Can Find More Information.

General. The Series A Preferred Stock constitutes a single series of our preferred stock, consisting of 50,000 shares, par value $0.01 per share, of which 45,500 are issued and outstanding. The Series B Preferred Stock constitutes a single series of our preferred stock, consisting of 115,000 shares, par value $0.01 per share, of which 51,956 are issued and outstanding. All issued and outstanding shares of Series A Preferred Stock and Series B Preferred Stock are duly authorized, validly issued, fully paid and nonassessable. All authorized but unissued shares of preferred stock will be available for issuance by our board of directors without any further stockholder action.

Voting Rights. The holders of the Series A Preferred Stock and Series B Preferred Stock are not entitled to vote or consent on any matter submitted to our stockholders for a vote or consent, except to the extent separate

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voting of the Series A or Series B Preferred Stock is required by Section 21.364(d) through (g) of the TBOC and, under certain circumstances, with respect to any amendment to the statement of designation that materially and adversely affects the rights of such stockholders.

Dividend Rights. Each holder of the outstanding shares of Series A Preferred Stock is entitled to receive, when and if authorized by our board of directors, out of funds legally available for the payment of dividends, noncumulative preferential cash dividends accruing at the Prime Rate (as defined in the statement of designations for the Series A Preferred Stock) plus 2%, subject to a minimum rate of 8% per annum, on the amount of $100 per share of Series A Preferred Stock owned by such holder.

Each holder of the outstanding shares of Series B Preferred Stock is entitled to receive, when and if authorized by our board of directors, out of funds legally available for the payment of dividends, noncumulative preferential cash dividends accruing at a rate of 8% per annum, on the amount of $100 per share of Series B Preferred Stock owned by such holder.

Such dividends shall accrue on a daily basis and shall be payable quarterly in arrears on or before March 31, June 30, September 30 or December 31 of each year. Dividends are paid to the holders pro rata based on the number of shares of Series A or Series B Preferred Stock then outstanding and owned by each such holder. Any dividends that are not paid with respect to a dividend period will not cumulate but will be waived and not payable by the Company.

Subject to regulatory approval, the holders of the Series A Preferred Stock have the right to receive a special, one-time dividend with respect to their respective shares of Series A Preferred Stock within 30 days after the occurrence of any of the following events: (i) the sale of all of the limited liability company interests of TBK Bank, SSB (successor to Triumph Commercial Finance, LLC) in Advance Business Capital, LLC d/b/Triumph Business Capital, (ii) a merger of Advance Business Capital, LLC d/b/a Triumph Business Capital resulting in TBK Bank, SSB (successor to Triumph Commercial Finance, LLC) no longer owning any limited liability company interests in Advance Business Capital LLC d/b/a Triumph Business Capital or (iii) the sale of all or substantially all of the assets of Advance Business Capital LLC d/b/a Triumph Business Capital, subject to certain organizational restructuring exceptions.

Conversion. The Series A Preferred Stock and Series B Preferred Stock have the following conversion rights:

Subject to the terms and conditions set forth in the respective statement of designation for the Series A Preferred Stock and Series B Preferred Stock, the holders of shares of Series A Preferred Stock or Series B Preferred Stock shall have the right, at her/his option at any time, to convert all or any portion of such shares of Series A Preferred Stock or Series B Preferred Stock into shares of common stock at a rate of 6.94008 shares of common stock for every one share of Series A Preferred Stock or Series B Preferred Stock being converted, as such rate may be adjusted from time to time.

Upon receipt of a redemption notice for the Series A Preferred Stock or Series B Preferred Stock from the Company, the holders of shares of Series A Preferred Stock or Series B Preferred Stock shall have the right, subject to the terms and conditions of the respective Series A Preferred Stock or Series B Preferred Stock statement of designation, to convert all or any portion of such shares of Series A Preferred Stock or Series B Preferred Stock into shares of common stock at a rate of 6.94008 shares of common stock for every one share of Series A Preferred Stock or Series B Preferred Stock being converted, as such rate may be adjusted from time to time.

If any capital reorganization or reclassification of our common stock shall be effected while shares of the Series A Preferred Stock or Series B Preferred Stock are outstanding in such a way that holders of common stock shall be entitled to receive stock, securities or assets with respect to or in exchange for common stock, then, as a condition of such reorganization or reclassification, lawful and adequate provisions shall be made whereby each holder of shares of Series A Preferred Stock or Series B

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Preferred Stock shall thereupon have the right to receive, upon the terms and conditions specified in the respective Series A Preferred Stock or Series B Preferred Stock statement of designation and in lieu of the shares of common stock immediately theretofore receivable upon the conversion of such share or shares of Series A Preferred Stock or Series B Preferred Stock, such shares of stock, securities or assets as may be issued or payable with respect to or in exchange for a number of outstanding shares of such common stock equal to the number of shares of such common stock immediately theretofore receivable upon such conversion had such reorganization or reclassification not taken place and in any such case appropriate provisions shall be made with respect to the rights and interests of such holder to the end that the provisions hereof (including without limitation provisions for adjustments of the Series A Preferred Stock or Series B conversion rate) shall thereafter be applicable, as nearly as may be, in relation to any shares of stock, securities or assets thereafter deliverable upon the exercise of such conversion rights.

Liquidation Rights. In the event of a liquidation of our business, the Series A Preferred Stock and Series B Preferred Stock have a liquidation preference equal to the sum of $100 per share and the unpaid accrued dividend per share for the then current dividend period, in the event of liquidation.

Right of First Refusal. The Company has a 30-day right of first refusal to purchase any Series A Preferred Stock or Series B Preferred Stock for which a stockholder receives a bona fide offer to purchase. In addition, any proposed transfer of Series A Preferred Stock or Series B Preferred Stock must be approved in advance by the Company unless the transfer occurs by reason of the death of the holder and each transferee is a member of such holder s immediate family.

Redemption. The Company has the right, subject to obtaining regulatory approval, to redeem Series A Preferred Stock and Series B Preferred Stock after October 15, 2018, at a cash price of $100 per share, plus accrued unpaid dividends to the date fixed for redemption with respect to the dividend period in which the redemption occurs.

No Unregistered Resales. The Series A Preferred Stock and Series B Preferred Stock have not been registered under the Securities Act or any state securities laws. Stockholders may not make any sale, assignment or other transfer of Series A Preferred Stock or Series B Preferred Stock except pursuant to an offering of such securities duly registered under the Securities Act and registered or qualified under applicable state securities laws, or under such other circumstances as in the opinion of counsel for (or counsel satisfactory to) the Company shall not at the time require registration under the Securities Act or under such state laws.

Anti-takeover Effects

Texas law and certain provisions of our charter and bylaws may be deemed to have anti-takeover effects and may delay, prevent, discourage or make more difficult unsolicited tender offers or takeover attempts that a stockholder may consider to be in the stockholder s best interest, including those attempts that might result in a premium over the market price for the shares of common stock held by stockholders. These provisions, summarized below, are intended to encourage persons seeking to acquire control of us to first negotiate with our board of directors. These provisions may also have the effect of making it more difficult for third parties to cause the replacement of our current management.

No Action by Written Consent Without Unanimous Consent. Under our charter and bylaws, any action required or permitted to be taken at an annual or special meeting of stockholders may be taken by written consent in lieu of a meeting of stockholders only with the unanimous written consent of our stockholders;

Business Combinations. We are subject to the provisions of Title 2, Chapter 21, Subchapter M of the TBOC, or the Texas Business Combination Law, which provides that, subject to certain exceptions, a Texas corporation such as us

may not engage in certain business combinations, including mergers, consolidations and asset sales,

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with a person, or an affiliate or associate of such person, who is an Affiliated Stockholder (generally defined as the holder of 20% or more of the corporation s voting shares) for a period of three years from the date such person became an Affiliated Stockholder unless: (1) the business combination or purchase or acquisition of shares made by the Affiliated Stockholder was approved by the board of directors of the corporation before the Affiliated Stockholder became an Affiliated Stockholder or (2) the business combination was approved by the affirmative vote of the holders of at least two-thirds of the outstanding voting shares of the corporation not beneficially owned by the Affiliated Stockholder, at a meeting of stockholders called for that purpose (and not by written consent), not less than six months after the Affiliated Stockholder became an Affiliated Stockholder. Neither our charter nor our bylaws contain any provision expressly providing that we will not be subject to the Texas Business Combination Law. This law may have the effect of inhibiting a non-negotiated merger or other business combination involving us, even if such event would be beneficial to our stockholders;

Authorized Capital Stock. We have authorized but unissued shares of preferred stock and common stock and our board of directors may authorize the issuance of one or more series of preferred stock without stockholder approval. These shares could be used by our board of directors to make it more difficult or to discourage an attempt to obtain control of us through a merger, tender offer, proxy contest or otherwise;

Special Meetings of Stockholders. Our charter and bylaws provide that a special meeting of stockholders may be called only by our board of directors or the chairman of the board or upon the written request of the holders of not less than 50% of the voting power represented by all the shares issued, outstanding and entitled to be voted at the proposed special meeting;

Board Vacancies. Our charter and bylaws enable the board of directors to increase, between annual meetings, the number of persons serving as directors and to fill the vacancies created as a result of the increase by a majority vote of the directors then in office;

Bylaw Amendments. Provisions in our charter and bylaws allow our board of directors to amend or repeal the bylaws by a majority vote of the directors present at a meeting;

Charter Amendments. Texas law requires that stockholders representing two-thirds of the outstanding shares of common stock approve all amendments to our charter and approve mergers and similar transactions;

Advance Notice. The requirement that any stockholders that wish to bring business before our annual meeting of stockholders or nominate candidates for election as directors at our annual meeting of stockholders must provide advance notice of their intent in writing;

Removal of Directors. The vote of no less than the majority of stockholders will be required for stockholders to remove from office a member of our board of directors with cause; and

Board of Directors. Our charter and bylaws provide that our board of directors is classified into three classes of directors, with the members of one class to be elected each year. Our charter and bylaws also provide for noncumulative voting and a plurality voting standard in the election for directors.

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DESCRIPTION OF DEPOSITARY SHARES

We may offer depositary shares, which will be evidenced by depositary receipts, representing fractional interests in shares of preferred stock of any series. In connection with the issuance of any depositary shares, we will enter into a deposit agreement with a bank or trust company, as depositary, which will be named in the applicable prospectus supplement. The following briefly summarizes the material provisions of the deposit agreement and of the depositary shares and depositary receipts, other than pricing and related terms disclosed for a particular issuance in an accompanying prospectus supplement. This description is not complete and is subject to, and qualified in its entirety by reference to, all provisions of the deposit agreement, depositary shares and depositary receipts. You should read the particular terms of any depositary shares and any depositary receipts that we offer and any deposit agreement relating to a particular series of preferred stock described in more detail in a prospectus supplement. The prospectus supplement will also state whether any of the generalized provisions summarized below do not apply to the depositary shares or depositary receipts being offered.

General

We may, at our option, elect to offer fractional shares of preferred stock, rather than full shares of preferred stock. In such event, we will issue receipts for depositary shares, each of which will represent a fraction of a share of a particular series of preferred stock. For a description of our preferred stock, see Description of Our Common Stock and Preferred Stock Description of Preferred Stock.

The shares of any series of preferred stock represented by depositary shares will be deposited under a deposit agreement between us and depositary we select. Each owner of a depositary share will be entitled to all the rights and preferences of the underlying preferred stock, including any dividend, voting, redemption, conversion and liquidation rights described in the particular prospectus supplement, in proportion to the applicable fraction of a share of preferred stock represented by such depositary share.

The depositary shares will be evidenced by depositary receipts issued pursuant to the deposit agreement. Depositary receipts will be distributed to those persons purchasing the fractional shares of preferred stock in accordance with the terms of the applicable prospectus supplement.

Dividends and Other Distributions

The preferred stock depositary will distribute all cash dividends or other cash distributions, if any, received in respect of the deposited preferred stock to the record holders of depositary shares relating to the preferred stock in proportion to the number of depositary shares owned by such holders on the relevant record date.

In the case of a distribution other than in cash, the preferred stock depositary will distribute any property received by it other than cash to the record holders of depositary shares entitled to receive it in proportion to the number of depositary shares owned by such holder. If the preferred stock depositary determines that it is not feasible to make such a distribution, it may, with our approval, sell the property and distribute the net proceeds from the sale to the holders of the depositary shares.

The amounts distributed in any such distribution, whether in cash or otherwise, will be reduced by any amount required to be withheld by us or the preferred stock depositary on account of taxes.

Withdrawal of Preferred Stock

Unless otherwise indicated in the applicable prospectus supplement and unless the related depositary shares have been called for redemption, when a holder surrenders depositary receipts at the office of the preferred stock depositary maintained for that purpose, and pays any necessary taxes, charges or other fees, the holder will be entitled to receive the number of whole shares of the related series of preferred stock, and any money or other property, if any, represented by the holder s depositary shares. Once a holder exchanges depositary shares for whole shares of preferred stock, that holder generally cannot re-deposit these shares of preferred stock with the

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preferred stock depositary, or exchange them for depositary shares. If a holder delivers depositary receipts that represent a number of depositary shares other than a whole number of shares of preferred stock for redemption or exchange, the preferred stock depositary will issue a new depositary receipt to the holder that evidences the remainder of depositary shares at the same time that the preferred stock is withdrawn.

Redemption, Conversion and Exchange of Preferred Stock

If a series of preferred stock represented by depositary shares is to be redeemed, the depositary shares will be redeemed from the proceeds received by the preferred stock depositary resulting from the redemption, in whole or in part, of that series of preferred stock. The depositary shares will be redeemed by the preferred stock depositary at a price per depositary share equal to the applicable fraction of the redemption price per share payable in respect of the shares of preferred stock redeemed.

Whenever we redeem shares of preferred stock held by the preferred stock depositary, the preferred stock depositary will redeem, as of the same date, the number of depositary shares representing shares of preferred stock redeemed. If fewer than all the depositary shares are to be redeemed, the depositary shares to be redeemed will be selected by the preferred stock depositary by lot or ratably or by any other equitable method, in each case as we may determine.

If a series of preferred stock represented by depositary shares is to be converted or exchanged, the holder of depositary receipts representing the shares of preferred stock being converted or exchanged will have the right or obligation to convert or exchange the depositary shares evidenced by the depositary receipts.

After the redemption, conversion or exchange date, the depositary shares called for redemption, conversion or exchange will no longer be outstanding. When the depositary shares are no longer outstanding, all rights of the holders will end, except the right to receive money, securities or other property payable upon redemption, conversion or exchange.

Voting Deposited Preferred Stock

Upon receipt of notice of any meeting at which the holders of any series of deposited preferred stock are entitled to vote, the preferred stock depositary will mail the information contained in the notice of meeting to the record holders of the depositary receipts evidencing the depositary shares relating to that series of preferred stock. Each record holder of the depositary receipts on the record date will be entitled to instruct the preferred stock depositary to vote the amount of the preferred stock represented by the holder s depositary shares. The preferred stock depositary will try, if practical, to vote the amount of such series of preferred stock represented by such depositary shares in accordance with such instructions.

We will agree to take all reasonable actions that the preferred stock depositary determines are necessary to enable the preferred stock depositary to vote as instructed. The preferred stock depositary will abstain from voting shares of any series of preferred stock held by it for which it does not receive specific instructions from the holders of depositary shares representing those preferred shares.

Amendment and Termination of the Deposit Agreement

The form of depositary receipt evidencing the depositary shares and any provision of the deposit agreement may at any time be amended by agreement between us and the preferred stock depositary. However, any amendment that materially and adversely alters any existing right of the holders of depositary receipts will not be effective unless the amendment has been approved by the holders of depositary receipts representing at least a majority of the depositary

shares then outstanding. Additionally, in the case of amendments relating to or affecting rights to receive dividends or distributions or voting or redemption rights, approval is also required by the holders of depositary receipts representing not less than a specified percentage or all of the depositary shares of such series or class then outstanding, as provided in the applicable prospectus supplement. Every holder of an outstanding depositary receipt at the time any such amendment becomes effective will be deemed, by continuing

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to hold the depositary receipt, to consent and agree to the amendment and to be bound by the deposit agreement, as amended.

We may direct the preferred stock depositary to terminate the deposit agreement at any time by mailing notice of termination to the record holders of the depositary receipts then outstanding at least 30 days prior to the date fixed for termination. Upon termination, the preferred stock depositary will deliver to each holder of depositary receipts, upon surrender of those receipts, such number of whole shares of the series of preferred stock represented by the depositary shares together with cash in lieu of any fractional shares, to the extent we have deposited cash for payment in lieu of fractional shares with the preferred stock depositary. In addition, the deposit agreement will automatically terminate if:

- all of the outstanding shares of the preferred stock deposited with the preferred stock depositary have been withdrawn, redeemed, converted or exchanged; or

- there has been a final distribution in respect of the deposited preferred stock in connection with our liquidation, dissolution or winding up and the distribution has been made to the holders of the related depositary shares evidenced by depositary receipts.

Charges of Preferred Stock Depositary; Taxes and Other Governmental Charges

We will pay all transfer and other taxes and governmental charges arising solely from the existence of the depositary arrangements. We also will pay charges of the preferred stock depositary in connection with the initial deposit of preferred stock and any redemption of preferred stock. Holders of depositary receipts will pay other transfer and other taxes and governmental charges and such other charges, including a fee for the withdrawal of shares of preferred stock upon surrender of depositary receipts, as are expressly provided in the deposit agreement to be for their accounts.

Prospective purchasers of depositary shares should be aware that special tax, accounting and other issues may be applicable to instruments such as depositary shares.

Resignation and Removal of Depositary

The preferred stock depositary may resign at any time by delivering to us notice of its intent to do so, and we may at any time remove the preferred stock depositary, any such resignation or removal to take effect upon the appointment of a successor preferred stock depositary meeting the requirements specified in the deposit agreement and its acceptance of such appointment.

Miscellaneous

The preferred stock depositary will forward all reports and communications from us which are delivered to the preferred stock depositary and which we are required to furnish to the holders of the deposited preferred stock.

Neither we nor the preferred stock depositary will be liable if we are or the preferred stock depositary is prevented or delayed by law or any circumstances beyond our or its control in performing our or its obligations under the deposit agreement. Our obligations and the obligations of the preferred stock depositary under the deposit agreement will be limited to performance in good faith of the duties under the deposit agreement, and we and the preferred stock depositary will not be obligated to prosecute or defend any legal proceeding in respect of any depositary shares,

depositary receipts or shares of preferred stock unless satisfactory indemnity is furnished. We and the preferred stock depositary may rely upon written advice of counsel or accountants, or upon information provided by holders of depositary receipts or other persons believed to be competent and on documents believed to be genuine.

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DESCRIPTION OF PURCHASE CONTRACTS

We may issue purchase contracts, including purchase contracts issued as part of a unit with one or more other securities, for the purchase or sale of our debt securities, preferred stock, depositary shares or common stock. Any purchase contracts we issue will be physically settled by delivery of our debt securities, preferred stock, depositary shares or common stock.

The price of our debt securities or the price per share of our common stock, preferred stock or depositary shares, may be fixed at the time the purchase contracts are issued or may be determined by reference to a specific formula contained in the purchase contracts. We may issue purchase contracts in such amounts and in as many distinct series as we wish.

The applicable prospectus supplement may contain, where applicable, the following information about the purchase contracts issued under it:

- whether the purchase contracts obligate the holder to purchase or sell, or both purchase and sell, our debt securities, common stock, preferred stock or depositary shares, as applicable, and the nature and amount of each of those securities, or method of determining those amounts;
- whether the purchase contracts are to be prepaid or not;
- any acceleration, cancellation, termination or other provisions relating to the settlement of the purchase contracts;
- United States federal income tax considerations relevant to the purchase contracts; and
- whether the purchase contracts will be issued in fully registered or global form.

The applicable prospectus supplement will describe the terms of any purchase contracts. The preceding description and any description of purchase contracts in the applicable prospectus supplement does not purport to be complete and is subject to and is qualified in its entirety by reference to the purchase contract agreement and, if applicable, collateral arrangements and depositary arrangements relating to such purchase contracts.

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DESCRIPTION OF WARRANTS

We may issue warrants for the purchase of our debt securities, or shares of our common stock or preferred stock or depositary shares. Warrants may be issued independently or together with any of our debt securities, shares of common stock or preferred stock or depositary shares offered by any prospectus supplement and may be attached to or separate from the debt securities, shares of common stock or preferred stock or depositary shares. The warrants will be issued under warrant agreements to be entered into between Triumph Bancorp, Inc. and a warrant agent, as is named in the prospectus supplement relating to the particular issue of warrants. The warrant agent will act solely as an agent of Triumph Bancorp, Inc. in connection with the warrants and will not assume any obligation or relationship of agency or trust for or with any holders of warrants or beneficial owners of warrants.

The following outlines the some of the anticipated general terms and conditions of the warrants. Further terms of the warrants and the applicable warrant agreement will be stated in the applicable prospectus supplement. The following description and any description of the warrants in a prospectus supplement may not be complete and is subject to and qualified in its entirety by reference to the terms and provisions of the applicable warrant agreement.

General

If warrants are offered, the prospectus supplement will describe the terms of the warrants, including the following:

- the title of the warrants;
- the price or prices at which the warrants will be issued;
- the designation, aggregate principal amount and terms of the debt securities purchasable upon exercise of any debt warrants and the price at which such debt securities may be purchased upon such exercise;
- the price or prices at which the warrants may be exercised to purchase the securities underlying them;
- the number of shares purchasable upon exercise of any common stock warrants and the price at which such shares of common stock may be purchased upon such exercise;
- the designation, number of shares and terms of the preferred stock purchasable upon exercise of any preferred stock warrants and the price at which such shares of preferred stock may be purchased upon such exercise;
- if applicable, the date on and after which the warrants and the related debt securities, common stock or preferred stock will be separately transferable;

if applicable, the minimum or maximum amount of the warrants that may be exercised at any one time;

the date on which the right to exercise the warrants shall commence and the date on which such right shall expire;

whether the warrants will be issued in registered or bearer form;

a discussion of certain federal income tax, accounting and other special considerations, procedures and limitations relating to the warrants; and

any other terms of the warrants, including terms, procedures and limitations relating to the exchange and exercise of the warrants.

If in registered form, warrants may be presented for registration of transfer, and may be exercised at the corporate trust office of the warrant agent or any other office indicated in the prospectus supplement. Before the exercise of their warrants, holders of warrants will not have any of the rights of holders of the securities purchasable upon such exercise.

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Exercise of Warrants

Each warrant will entitle the holder to purchase such principal amount of debt securities or such number of shares of common stock or preferred stock or depositary shares at such exercise price as shall in each case be set forth in, or can be calculated according to information contained in, the prospectus supplement relating to the warrant. Warrants may be exercised at such times as are set forth in the prospectus supplement relating to such warrants. After the close of business on the expiration date of the warrants, or such later date to which such expiration date may be extended by Triumph Bancorp, Inc., unexercised warrants will become void.

Subject to any restrictions and additional requirements that may be set forth in the prospectus supplement, warrants may be exercised by delivery to the warrant agent of the certificate evidencing such warrants properly completed and duly executed and of payment as provided in the prospectus supplement of the amount required to purchase the debt securities or shares of common stock or preferred stock or depositary shares purchasable upon such exercise. The exercise price will be the price applicable on the date of payment in full, as set forth in the prospectus supplement relating to the warrants. Upon receipt of such payment and the certificate representing the warrants to be exercised, properly completed and duly executed at the corporate trust office of the warrant agent or any other office indicated in the prospectus supplement, we will, as soon as practicable, issue and deliver the debt securities or shares of common stock or preferred stock or depositary shares purchasable upon such exercise. If fewer than all of the warrants represented by such certificate are exercised, a new certificate will be issued for the remaining amount of warrants.

Additional Provisions

The exercise price payable and the number of shares of common stock or preferred stock purchasable upon the exercise of each stock warrant will be subject to adjustment in certain events, including:

the issuance of the stock dividend to holders of common stock or preferred stock, respectively;

a combination, subdivision or reclassification of common stock or preferred stock, respectively; or

any other event described in the applicable prospectus supplement.

In lieu of adjusting the number of shares of common stock or preferred stock purchasable upon exercise of each stock warrant, we may elect to adjust the number of stock warrants. We may, at our option, reduce the exercise price at any time. No fractional shares will be issued upon exercise of stock warrants, but we will pay the cash value of any fractional shares otherwise issuable. Notwithstanding the foregoing, in case of any consolidation, merger, or sale or conveyance of the property of Triumph Bancorp, Inc. as an entirety or substantially as an entirety, the holder of each outstanding stock warrant will have the right upon the exercise thereof to the kind and amount of shares of stock and other securities and property, including cash, receivable by a holder of the number of shares of common stock or preferred stock into which such stock warrants were exercisable immediately prior thereto.

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DESCRIPTION OF RIGHTS

This section describes the general terms of the rights to purchase common stock or other securities that we may offer using this prospectus. Further terms of the rights will be stated in the applicable prospectus supplement. The following description and any description of the rights in a prospectus supplement may not be complete and is subject to and qualified in its entirety by reference to the terms of any agreement relating to the rights.

We may issue rights to purchase shares of our common stock or our preferred stock, depositary shares, senior debt securities, senior subordinated debt securities, subordinated debt securities, or any combination thereof. The rights may be issued independently or together with any other securities and may be attached or separate from the other securities. Each series of rights will be issued under a separate rights agreement to be entered into between a rights agent and us. The rights agent will act solely as our agent in connection with the rights and will not assume any obligation or relationship of agency for or with the holders or beneficial owners of rights

Rights may be issued independently or together with any other security and may or may not be transferable. As part of the rights offering, we may enter into a standby underwriting or other arrangement under which the underwriters or any other person would purchase any securities that are not purchased in such rights offering. The prospectus supplement relating to any rights we offer will describe the specific terms of the offering and the rights, including:

the title of the rights;

the record date for determining security holders entitled to the rights distribution;

the number of rights issued and the number of shares of common stock or other securities that may be purchased upon exercise of the rights;

the rights agent;

the designation and terms of the underlying securities purchasable upon exercise of the rights and the number of such underlying securities initially issuable upon exercise of the rights;

if applicable, the designation and terms of the other securities with which the rights are issued and the number of such rights securities issued with each such underlying right;

the date, if any, on and after which the rights will be separately transferable;

if applicable, the minimum or maximum number of rights that may be exercised at any one time; the exercise price of the rights;

the steps required to exercise the rights;

the conditions to the completion of the offering, if any;

the withdrawal, termination and cancellation rights, if any;

the date on which the rights will become effective and the date on which the rights will expire;

whether the rights will include oversubscription rights, so that the holder may purchase more securities if other holders do not purchase their full allotments;

whether we intend to sell the shares of common stock or other securities that are not purchased in the offering to an underwriter or other purchaser under a contractual standby commitment or other arrangement;

our ability to withdraw or terminate the rights offering prior to the expiration date of the rights;

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any material U.S. Federal income tax consequences; or

any other terms of the rights, including terms, procedures and limitations relating to the distribution, exchange and exercise of the rights.

Each right will entitle the holder of rights to purchase for cash the principal amount of shares of common stock, preferred stock or other securities at the exercise price provided in the applicable prospectus supplement. Unless otherwise provided in the applicable prospectus supplement, rights may be exercised at any time up to the close of business on the expiration date for the rights provided in the applicable prospectus supplement. Rights will be issued in registered form only.

Prior to the exercise of their rights, holders of rights will not have any of the rights of holders of the securities purchasable upon the exercise of the rights, and will not be entitled to, among other things, vote or receive dividend payments or other distributions on the securities purchasable upon exercise.

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DESCRIPTION OF UNITS

This section identifies the general terms of the rights to issue units consisting of common stock, preferred stock, debt securities, warrants, rights, stock purchase contracts or any combination of one or more of the other securities described in this prospectus. Further terms of the rights will be stated in the applicable prospectus supplement. The following description and any description of the rights in a prospectus supplement may not be complete and is subject to and qualified in its entirety by reference to the terms of any agreement relating to the rights.

The applicable prospectus supplement or supplements will also describe:

- the designation and the terms of the units and of any combination of the securities constituting the units, including whether and under what circumstances those securities may be held or traded separately;
- any additional terms of the agreement governing the units;
- any additional provisions for the issuance, payment, settlement, transfer or exchange of the units or of the securities constituting the units;
- any applicable material United States federal income tax consequences; and
- whether the units will be issued in fully registered form.

The terms and conditions described under Description of Debt Securities, Description of Warrants, and Description of Common Stock and Preferred Stock will apply to each unit that includes such securities and to the securities included in each unit, unless otherwise specified in the applicable prospectus supplement.

We will issue the units under one or more unit agreements to be entered into between us and a bank or trust company, as unit agent. We may issue units in one or more series, which will be described in the applicable prospectus supplement.

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DESCRIPTION OF GLOBAL SECURITIES

Unless otherwise indicated in the applicable prospectus supplement, we may issue the securities in the form of one or more fully registered global securities that will be deposited with a depository or its nominee identified in the applicable prospectus supplement and registered in the name of that depository or its nominee. In those cases, one or more registered global securities will be issued in a denomination or aggregate denominations equal to the portion of the aggregate principal or face amount of the securities to be represented by registered global securities. Unless and until it is exchanged in whole for securities in definitive registered form, a registered global security may not be transferred except as a whole by and among the depository for the registered global security, the nominees of the depository or any successors of the depository or those nominees.

If not described below, any specific terms of the depository arrangement with respect to any securities to be represented by a registered global security will be described in the prospectus supplement relating to those securities. We anticipate that the following provisions will apply to all depository arrangements.

Ownership of beneficial interests in a registered global security will be limited to persons, called participants, that have accounts with the depository or persons that may hold interests through participants. Upon the issuance of a registered global security, the depository will credit, on its book-entry registration and transfer system, the participants accounts with the respective principal or face amounts of the securities beneficially owned by the participants. Any dealers, underwriters or agents participating in the distribution of the securities will designate the accounts to be credited.

Ownership of beneficial interests in a registered global security will be shown on, and the transfer of ownership interests will be effected only through, records maintained by the depository, with respect to interests of participants, and on the records of participants, with respect to interests of persons holding through participants. The laws of some states may require that some purchasers of securities take physical delivery of these securities in definitive form. These laws may impair your ability to own, transfer or pledge beneficial interests in registered global securities.

So long as the depository, or its nominee, is the registered owner of a registered global security, that depository or its nominee, as the case may be, will be considered the sole owner or holder of the securities represented by the registered global security for all purposes. Except as described below, owners of beneficial interests in a registered global security will not be entitled to have the securities represented by the registered global security registered in their names, will not receive or be entitled to receive physical delivery of the securities in definitive form and will not be considered the owners or holders of the securities. Accordingly, each person owning a beneficial interest in a registered global security must rely on the procedures of the depository for that registered global security and, if that person is not a participant, on the procedures of the participant through which the person owns its interest, to exercise any rights of a holder under the applicable indenture, warrant agreement or unit agreement. We understand that under existing industry practices, if we request any action of holders or if an owner of a beneficial interest in a registered global security desires to give or take any action that a holder is entitled to give or take, the depository for the registered global security would authorize the participants holding the relevant beneficial interests to give or take that action, and the participants would authorize beneficial owners owning through them to give or take that action or would otherwise act upon the instructions of beneficial owners holding through them.

Payments of principal of, and premium, if any, and interest on, debt securities, and any payments to holders with respect to other securities represented by a registered global security registered in the name of a depository or its nominee will be made to the depository or its nominee, as the case may be, as the registered owner of the registered global security. None of Triumph Bancorp, Inc., the trustees, the warrant agents or any preferred stock depositary, as applicable, will have any responsibility or liability for any aspect of the records relating to or the payments made on

account of beneficial ownership interests in the registered global security or for maintaining, supervising or reviewing any records relating to those beneficial ownership interests.

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We expect that the depository for any of the securities represented by a registered global security, upon receipt of any payment of principal, premium, interest or other distribution of underlying securities or other property to holders on that registered global security, will immediately credit participants accounts in amounts proportionate to their respective beneficial interests in that registered global security as shown on the records of the depository. We also expect that payments by participants to owners of beneficial interests in a registered global security held through participants will be governed by standing customer instructions and customary practices, as is now the case with the securities held for the accounts of customers in bearer form or registered in street name, and will be the responsibility of those participants.

If the depository for any of these securities represented by a registered global security is at any time unwilling or unable to continue as depository or ceases to be a clearing agency registered under the Exchange Act, and a successor depository registered as a clearing agency under the Exchange Act is not appointed by us within 90 days, we will issue securities in definitive form in exchange for the registered global security that had been held by the depository. In addition, under the terms of the indenture, we may at any time and in our sole discretion decide not to have any of the securities represented by one or more registered global securities. We understand, however, that, under current industry practices, the depository would notify its participants of our request, but will only withdraw beneficial interests from a global security at the request of each participant. We would issue definitive certificates in exchange for any such interests withdrawn. Any securities issued in definitive form in exchange for a registered global security will be registered in the name or names that the depository gives to the applicable trustee, warrant agent, unit agent or other relevant agent of ours or theirs. It is expected that the depository s instructions will be based upon directions received by the depository from participants with respect to ownership of beneficial interests in the registered global security that had been held by the depository.

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PLAN OF DISTRIBUTION

We may sell our securities in any of three ways (or in any combination):

through underwriters or dealers;

through agents; or

directly to purchasers or to a single purchaser.

Each time that we use this prospectus to sell our securities, we will also provide a prospectus supplement that contains the specific terms of the offering. The prospectus supplement will set forth the terms of the offering of such securities, including:

the name or names of any underwriters, dealers or agents and the type and amounts of securities underwritten or purchased by each of them; and

the public offering price of the securities and the proceeds to us and any discounts, commissions or concessions allowed or reallowed or paid to dealers.

Sales of the securities may be effected from time to time in one or more transactions, including negotiated transactions:

at a fixed price or prices, which may be changed;

at market prices prevailing at the time of sale;

at prices related to prevailing market prices; or

at negotiated prices

Any public offering price and any discounts or concessions allowed or reallowed or paid to dealers may be changed from time to time.

If underwriters are used in the sale of any securities, the securities will be acquired by the underwriters for their own account and may be resold from time to time in one or more transactions, including negotiated transactions, at a fixed public offering price or at varying prices determined at the time of sale. The securities may be either offered to the public through underwriting syndicates represented by managing underwriters, or directly by underwriters. Generally, the underwriters obligations to purchase the securities will be subject to certain conditions precedent. The

underwriters will be obligated to purchase all of the securities if they purchase any of the securities.

We may sell the securities through agents from time to time. The prospectus supplement will name any agent involved in the offer or sale of our securities and any commissions we pay to them. Generally, any agent will be acting on a best efforts basis for the period of its appointment.

We may authorize underwriters, dealers or agents to solicit offers by certain purchasers to purchase our securities at the public offering price set forth in the prospectus supplement pursuant to delayed delivery contracts providing for payment and delivery on a specified date in the future. The contracts will be subject only to those conditions set forth in the prospectus supplement, and the prospectus supplement will set forth any commissions or discounts we pay for solicitation of these contracts.

In connection with the sale of any of the securities, underwriters or agents may receive compensation from us in the form of underwriting discounts or commissions and may also receive compensation from purchasers of the securities, for whom they may act as agents, in the form of discounts, concessions or commissions. Underwriters may sell the securities to or through dealers, and such dealers may receive compensation in the

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form of discounts, concessions or commissions from the underwriters and/or commissions from the purchasers for whom they may act as agents. Discounts, concessions and commissions may be changed from time to time. Dealers and agents that participate in the distribution of the securities may be deemed to be underwriters under the Securities Act of, and any discounts, concessions or commissions they receive from us and any profit on the resale of securities they realize may be deemed to be underwriting compensation under applicable federal and state securities laws.

Pursuant to a requirement by the Financial Industry Regulatory Authority (FINRA), the maximum commission or discount to be received by any FINRA member or independent broker-dealer may not be greater than 8% of the gross proceeds received by us from the sale of any securities registered pursuant to SEC Rule 415.

Agents and underwriters may be entitled to indemnification by us against certain civil liabilities, including liabilities under the Securities Act of 1933, as amended, or to contribution with respect to payments which the agents or underwriters may be required to make in respect thereof. Agents and underwriters may be customers of, engage in transactions with, or perform services for us in the ordinary course of business.

Unless otherwise specified in the related prospectus supplement, each series of securities will be a new issue with no established trading market, other than our common stock, which is listed on the NASDAQ Global Select Market. We expect that any common stock sold pursuant to a prospectus supplement will be listed on the NASDAQ Global Select Market, subject to official notice of issuance. We may elect to list any series of debt securities or preferred stock on an exchange, but we are not obligated to do so. It is possible that one or more underwriters may make a market in the securities, but such underwriters will not be obligated to do so and may discontinue any market making at any time without notice. No assurance can be given as to the liquidity of, or the trading market for, any offered securities.

We may enter into derivative transactions with third parties, or sell securities not covered by this prospectus to third parties in privately negotiated transactions. If the applicable prospectus supplement so indicates in connection with those derivatives, then the third parties may sell securities covered by this prospectus and the applicable prospectus supplement, including in short sale transactions. In that event, the third party may use securities pledged by us or borrowed from us or others to settle those sales or to close out any related open borrowings of stock, and may use securities received from us in settlement of those derivatives to close out any related open borrowings of securities. The third party in such sale transactions will be an underwriter and will be identified in the applicable prospectus supplement (or a post-effective amendment).

Until the distribution of the securities is completed, rules of the SEC may limit the ability of any underwriters and selling group members to bid for and purchase the securities. As an exception to these rules, underwriters are permitted to engage in some transactions that stabilize the price of the securities. Such transactions consist of bids or purchases for the purpose of pegging, fixing or maintaining the price of the securities.

Underwriters may engage in overallotment. If any underwriters create a short position in the securities in an offering in which they sell more securities than are set forth on the cover page of the applicable prospectus supplement, the underwriters may reduce that short position by purchasing the securities in the open market.

The lead underwriters may also impose a penalty bid on other underwriters and selling group members participating in an offering. This means that if the lead underwriters purchase securities in the open market to reduce the underwriters short position or to stabilize the price of the securities, they may reclaim the amount of any selling concession from the underwriters and selling group members who sold those securities as part of the offering.

In general, purchases of a security for the purpose of stabilization or to reduce a short position could cause the price of the security to be higher than it might be in the absence of such purchases. The imposition of a penalty bid might also

have an effect on the price of a security to the extent that it were to discourage resales of the security before the distribution is completed.

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We do not make any representation or prediction as to the direction or magnitude of any effect that the transactions described above might have on the price of the securities. In addition, we do not make any representation that underwriters will engage in such transactions or that such transactions, once commenced, will not be discontinued without notice.

If we offer securities in a subscription rights offering to our existing security holders, we may enter into a standby underwriting agreement with dealers, acting as standby underwriters. We may pay the standby underwriters a commitment fee for the securities they commit to purchase on a standby basis. If we do not enter into a standby underwriting arrangement, we may retain a dealer-manager to manage a subscription rights offering for us.

Underwriters, dealers and agents may engage in transactions with us or perform services for us in the ordinary course of business.

If indicated in the applicable prospectus supplement, we will authorize underwriters or other persons acting as our agents to solicit offers by particular institutions to purchase securities from us at the public offering price set forth in such prospectus supplement pursuant to delayed delivery contracts providing for payment and delivery on the date or dates stated in such prospectus supplement. Each delayed delivery contract will be for an amount no less than, and the aggregate amounts of securities sold under delayed delivery contracts shall be not less nor more than, the respective amounts stated in the applicable prospectus supplement. Institutions with which such contracts, when authorized, may be made include commercial and savings banks, insurance companies, pension funds, investment companies, educational and charitable institutions and others, but will in all cases be subject to our approval. The obligations of any purchaser under any such contract will be subject to the conditions that (a) the purchase of the securities shall not at the time of delivery be prohibited under the laws of any jurisdiction in the United States to which the purchaser is subject, and (b) if the securities are being sold to underwriters, we shall have sold to the underwriters the total amount of the securities less the amount thereof covered by the contracts. The underwriters and such other agents will not have any responsibility in respect of the validity or performance of such contracts.

To comply with applicable state securities laws, the securities offered by this prospectus will be sold, if necessary, in such jurisdictions only through registered or licensed brokers or dealers. In addition, securities may not be sold in some states unless they have been registered or qualified for sale in the applicable state or an exemption from the registration or qualification requirement is available and is complied with.

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LEGAL MATTERS

In connection with particular offerings of our securities in the future, and unless otherwise indicated in the applicable prospectus supplement, the validity of the securities offered hereby will be passed upon for us by Wachtell, Lipton, Rosen & Katz, New York, New York, and certain legal matters relating to Texas law will be passed upon for us by Adam D. Nelson, who is our General Counsel, or another of our lawyers. Additional legal matters may be passed on for us, or any underwriters, dealers or agents, by counsel that we will name in the applicable prospectus supplement.

EXPERTS

The consolidated financial statements of Triumph Bancorp, Inc. as of December 31, 2015 and 2014, and for each of the three years in the period ended December 31, 2015, have been audited by Crowe Horwath LLP, an independent registered public accounting firm, as set forth in their report appearing in our Annual Report on Form 10-K for the year ended December 31, 2015, and incorporated in this prospectus by reference. Such consolidated financial statements have been so incorporated in reliance upon the report of such firm given upon their authority as experts in accounting and auditing.

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Shares

Common Stock

PROSPECTUS SUPPLEMENT

Lead Book-Running Managers

Stephens Inc. **Keefe, Bruyette & Woods**

A Stifel Company

Co-Managers

Sandler O Neill + Partners, L.P. **Wells Fargo Securities**

July , 2017