

SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, DC 20549

FORM 10-Q

[ X ] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES  
EXCHANGE ACT OF 1934 FOR THE QUARTERLY PERIOD ENDED DECEMBER 31, 1998

[ ] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE  
SECURITIES EXCHANGE ACT OF 1934 FOR THE TRANSACTION PERIOD FROM \_\_\_\_\_  
TO \_\_\_\_\_

Commission file number: 0-26038

ResMed Inc.  
(Exact name of registrant as specified in its charter)

Delaware 98-0152841  
(State or other jurisdiction of (I.R.S Employer  
incorporation or organization) Identification No.)

10121 Carroll Canyon Road  
San Diego, CA 92131-1109  
United States Of America  
(Address of principal executive offices)

619 689 2400  
(Registrant's telephone number including area code)

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

As of December 31, 1998, 14,719,456 shares of Common Stock (\$0.004 par value)  
were outstanding.

RESMED INC. AND SUBSIDIARIES  
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## PART I. FINANCIAL INFORMATION

Item 1.	Financial Statements
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## RESMED INC. AND SUBSIDIARIES

Condensed Consolidated Balance Sheets  
(in US\$ thousands, except per share data)

<S>	<C>	<C>
	December 31, 1998	June 30, 1998
Assets		
-----		
	(Unaudited)	
Current assets:		
Cash and cash equivalents	\$ 13,595	15,526
Marketable securities - available for sale	5,530	5,220
Accounts receivable, net of allowance of \$309 at December 31, 1998 and \$248 at June 30, 1998	13,445	12,789
Government grants	259	384
Inventories	10,551	7,647
Deferred income taxes	2,514	2,518
Prepaid expenses and other current assets	1,965	2,520
Total current assets	<u>47,859</u>	<u>46,604</u>
Property, plant and equipment, net of accumulated depreciation of \$7,108 at December 31, 1998 and \$5,395 at June 30, 1998	20,025	11,111
Patents, net of accumulated amortization of \$432 at December 31, 1998 and \$368 at June 30, 1998	537	459
Goodwill, net of accumulated amortization of \$1,282 at December 31, 1998 and \$893 at June 30, 1998	6,615	5,445
Other assets	470	999
Total Assets	\$ <u>75,506</u>	<u>64,618</u>
-----		
Liabilities and Stockholders' Equity		
-----		
Current liabilities:		
Accounts payable	\$ 4,340	3,759
Accrued expenses	6,903	6,637
Income taxes payable	4,410	3,222
Loan payable	112	227
Total current liabilities	<u>15,765</u>	<u>13,845</u>
Total liabilities	<u>15,765</u>	<u>13,845</u>
Stockholders' equity:		
Preferred Stock, \$0.01 par value, 2,000,000 shares authorized; none issued	-	-
Series A Junior Participating Preferred Stock, \$0.01 par value, 150,000 shares authorized; none issued	-	-
Common stock, \$0.004 par value, 50,000,000 shares authorized; issued and outstanding 14,719,456 at December 31, 1998 and 14,552,000 at June 30, 1998	59	58

Additional paid-in capital		32,622	31,224
Retained earnings		34,276	27,179
Accumulated other comprehensive income (note 4)		(7,216)	(7,688)
		<u>59,741</u>	<u>50,773</u>
Commitments and contingencies (note 5)		-	-
Total liabilities and Stockholders' equity	\$	<u>75,506</u>	<u>64,618</u>

<FN>  
See accompanying notes to condensed consolidated financial statements.  
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RESMED INC. AND SUBSIDIARIES

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Unaudited Condensed Consolidated Statements of Income  
(in US\$ thousands, except per share data)

<S>	<C>	Three Months Ended December 31		Six Months Ended December 31,	
		1998	1997	1998	1997
Net revenue	\$	21,480	16,146	40,724	30,124
Cost of sales		6,964	5,173	13,048	10,598
Gross profit		<u>14,516</u>	<u>10,973</u>	<u>27,676</u>	<u>19,526</u>
Operating expenses					
Selling, general and administrative expenses		6,898	5,044	13,253	9,694
Research and development expenses		1,636	1,234	3,069	2,499
Total operating expenses		<u>8,534</u>	<u>6,278</u>	<u>16,322</u>	<u>12,193</u>
Income from operations		<u>5,982</u>	<u>4,695</u>	<u>11,354</u>	<u>7,333</u>
Other income (expense), net:					
Interest income, net		196	263	403	554
Government grants		134	191	264	348
Other income (expense), net		(336)	(1,649)	(1,214)	(1,441)
Total other income (expense), net		<u>(6)</u>	<u>(1,195)</u>	<u>(547)</u>	<u>(539)</u>
Income before income taxes		5,976	3,500	10,807	6,794
Income taxes		(2,063)	(1,208)	(3,710)	(2,345)
Net income		<u>3,913</u>	<u>2,292</u>	<u>7,097</u>	<u>4,449</u>
Basic earnings per share	\$	0.27	0.16	0.48	0.31
Diluted earnings per share	\$	0.25	0.15	0.46	0.30

<FN>  
See accompanying notes to condensed consolidated financial statements.  
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RESMED INC. AND SUBSIDIARIES

<TABLE>  
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Unaudited Condensed Consolidated Statements of Cash Flows  
(in US\$ thousands)

<S>	<C>	Six Months Ended December 31,
		<C>

	1998	1997
	-----	-----
Cash flows from operating activities:		
Net income	\$ 7,097	4,449
Adjustment to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	2,148	1,603
Provision for service warranties	92	60
Deferred income taxes	-	55
Foreign currency options revaluations	709	1,669
Changes in operating assets and liabilities:		
Accounts receivable, net	(384)	(1,629)
Government grants	127	(130)
Inventories	(2,628)	(2,149)
Prepaid expenses and other current assets	439	(726)
Accounts payable, accrued expenses and other liabilities	1,599	(1,897)
Net cash provided by operating activities	<u>9,199</u>	<u>1,305</u>
Cash flows from investing activities:		
Purchases of property, plant and equipment	(10,718)	(6,042)
Patents costs	(151)	(155)
Purchase of trading investments	(205)	(389)
Deferred payments - business acquisition	(1,033)	(1,068)
Purchases of marketable securities - available for sale	(7,589)	(18,017)
Proceeds from sale of marketable securities - available for sale	7,257	23,478
Net cash provided by/(used in) investing activities	<u>(12,439)</u>	<u>(2,193)</u>
Cash flows from financing activities:		
Proceeds from issuance of common stock	1,399	531
Repayment of long-term debt	(115)	(124)
Net cash provided by/(used in) financing activities	<u>1,284</u>	<u>407</u>
Effect of exchange rate changes on cash	<u>25</u>	<u>(1,015)</u>
Net increase (decrease) in cash and cash equivalents	<u>(1,931)</u>	<u>(1,496)</u>
Cash and cash equivalents at beginning of period	<u>15,526</u>	<u>9,077</u>
Cash and cash equivalents at end of period	<u>\$ 13,595</u>	<u>7,581</u>
	=====	=====
Supplemental disclosure of cash flow information:		
Income taxes paid	1,373	4,160
Interest paid	4	35
<FN>		

See accompany notes to condensed consolidated financial statements.

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#### RESMED INC. AND SUBSIDIARIES

##### NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

###### (1) Organization and Basis of Presentation

ResMed Inc. (the Company), is a Delaware corporation formed in March 1994 as a holding company for the ResMed Group. The Company designs, manufactures and markets devices for the evaluation and treatment of sleep disordered breathing, primarily obstructive sleep apnea. The Company's principal manufacturing operations are located in Australia. Other principal distribution and sales sites are located in the United States, the United Kingdom, Asia and Europe.

The accompanying unaudited consolidated financial statements have been prepared in accordance with generally accepted accounting principles for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. Operating results for the three months ended December 31, 1998 and the six months ended December 31, 1998 are not necessarily indicative of the results that may be expected for the year ended June 30, 1999.

###### (2) Summary of Significant Accounting Policies

###### (a) Basis of Consolidation:

The consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries. All significant intercompany transactions and balances have been eliminated in consolidation.

(b) Revenue Recognition:

Revenue on product sales is recorded at the time of shipment. Royalty revenue from license agreements is recorded when earned. Service revenue received in advance from service contracts is initially deferred and recognized as revenue over the life of the service contract. Revenue from sale of marketing and distribution rights is initially deferred and recognized as revenue over the terms of the agreements.

(c) Cash and Cash Equivalents:

Cash equivalents include certificates of deposit, commercial paper, and other highly liquid investments stated at cost, which approximates market. Investments with original maturities of 90 days or less are considered to be cash equivalents for purposes of the consolidated statements of cash flows.

(d) Inventories:

Inventories are stated at the lower of cost, determined principally by the first-in, first-out method, or net realizable value.

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RESMED INC. AND SUBSIDIARIES

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(2) Summary of Significant Accounting Policies, Continued

(e) Property, Plant and Equipment:

Property, plant and equipment is recorded at cost. Depreciation expense is computed using the straight-line method over the estimated useful lives of the assets, generally two to ten years. Assets held under capital leases are recorded at the lower of the net present value of the minimum lease payments or the fair value of the leased asset at the inception of the lease.

Amortization expense is computed using the straight-line method over the shorter of the estimated useful lives of the assets or the period of the related lease. Straight-line and accelerated methods of depreciation are used for tax purposes. Maintenance and repairs are charged to expense as incurred.

(f) Patents:

The registration costs for new patents are capitalized and amortized over the estimated useful life of the patent, generally five years. In the event of a patent being superseded, the unamortized costs are written off immediately.

(g) Goodwill

Goodwill arising from business acquisitions is amortized on a straight-line basis over periods ranging from three to 15 years. The Company carries goodwill at cost net of amortization. The Company reviews its goodwill carrying value when events indicate that an impairment may have occurred in goodwill. If, based on the undiscounted cash flows, management determines goodwill is not recoverable, goodwill is written down to its discounted cash flow value and the amortization period is re-assessed.

(h) Government Grants:

Government grants revenue is recognized when earned. Grants have been obtained by the Company from the Australian Federal Government to support continued development and export of the Company's proprietary positive airway pressure technology and to assist development of export markets. Grants of \$134,000 and \$191,000 have been recognized for the three month periods ended December 31, 1998 and 1997, respectively and \$264,000 and \$348,000 for the six month periods ended December 31, 1998 and 1997, respectively.

(i) Foreign Currency:

The consolidated financial statements of the Company's non-U.S. subsidiaries are translated into U.S. dollars for financial reporting purposes. Assets and liabilities of non-U.S. subsidiaries whose functional currencies are other than the U.S. dollar are translated at period end exchange rates, revenue and expense transactions are translated at average exchange rates for the period. Cumulative translation adjustments are recognized as part of "Comprehensive Income", as described in Note 4, and are included in "Accumulated Other Comprehensive Income" on the Condensed Consolidated Balance Sheet until such time as the subsidiary is sold or

substantially or completely liquidated. Gains and losses on transactions, denominated in other than the functional currency of the entity, are reflected in operations.

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RESMED INC. AND SUBSIDIARIES

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(2) Summary of Significant Accounting Policies, Continued

(j) Research and Development:

All research and development costs are expensed in the period incurred.

(k) Earnings per Share:

The weighted average shares used to calculate basic earnings per share was 14,693,000 and 14,494,000 for the quarters ended December 31, 1998 and 1997, respectively, and 14,654,000 and 14,476,000 for the six month periods ended December 31, 1998 and 1997, respectively. The difference between basic earnings per share and diluted earnings per share is attributable to the impact of outstanding stock options during the periods presented. Stock options had the effect of increasing the number of shares used in the calculation (by application of the treasury stock method) by 893,000 and 472,000 for the quarters ended December 31, 1998 and 1997, respectively, and by 766,000 and 438,000 for the six month periods ended December 31, 1998 and 1997, respectively.

(l) Financial Instruments:

The carrying value of financial instruments, such as cash and cash equivalents, marketable securities - available for sale, accounts receivable, government grants, foreign currency option contracts, accounts payable and long-term debt approximate their fair value. The Company does not hold or issue financial instruments for trading purposes.

The fair value of financial instruments is defined as the amount at which the instrument could be exchanged in a current transaction between willing parties.

(m) Foreign Exchange Risk Management:

The Company enters into various types of foreign exchange contracts in managing its foreign exchange risk, including derivative financial instruments encompassing forward exchange contracts and foreign currency options.

The purpose of the Company's foreign currency hedging activities is to protect the Company from adverse exchange rate fluctuations with respect to net cash movements resulting from the sales of products to foreign customers and Australian manufacturing activities. The Company enters into foreign currency option contracts to hedge anticipated sales and manufacturing costs denominated in principally Australian Dollars, Pound Sterling and Deutschmarks. The term of such foreign exchange contracts generally do not exceed three years.

Premiums to enter certain foreign currency options are included in other assets and are amortized over the period of the agreement in the consolidated statement of income against other income, net. At December 31, 1998 and June 30, 1998 unamortized premiums amounted to \$452,000 and \$267,000, respectively.

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RESMED INC. AND SUBSIDIARIES

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(2) Summary of Significant Accounting Policies, Continued

(m) Foreign Exchange Risk Management, Continued:

Unrealized gains or losses are recognized as incurred in the statement of financial position as either other assets or other liabilities and are recorded within other income, net on the Company's consolidated statements of income. Unrealized gains and losses on currency derivatives are determined based on dealer quoted prices.

The Company is exposed to credit-related losses in the event of non-performance by counterparties to financial instruments, but it does not expect any counterparties to fail to meet their obligations given their high credit ratings. The credit exposure of foreign exchange options is represented by the positive fair value of options at the reporting date.

The Company held foreign currency option contracts with notional amounts

totaling \$60,501,000 and \$62,683,000 at December 31, 1998 and June 30, 1998, respectively to hedge foreign currency items. These contracts mature at various dates prior to December 31, 2000.

(n) Income Taxes:

The Company accounts for income taxes under Statement of Financial Accounting Standards No. 109, "Accounting for Income Taxes" (Statement 109). Statement 109 requires an asset and liability method of accounting for income taxes. Under the asset and liability method of Statement 109, deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. Under Statement 109, the effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date.

(o) Warranty:

Estimated future warranty costs related to certain products are accrued to operations in the period in which the related revenue is recognized.

(p) Impairment of Long-Lived Assets:

The Company periodically evaluates the carrying value of long-lived assets to be held and used, including certain identifiable intangible assets, when events and circumstances indicate that the carrying amount of an asset may not be recovered. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to future net cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceed the fair value of the assets. Assets to be disposed of are reported at the lower of the carrying amount or fair value less costs to sell.

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RESMED INC. AND SUBSIDIARIES

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(2) Summary of Significant Accounting Policies, Continued

(q) As of July 1, 1998 the Company adopted Statement of Financial Accounting Standards No 131 "Disclosures About Segments of an Enterprise and Related Information". This Statement addresses presentation and disclosure matters and will have no impact on the Company's financial position or results of operations. As required by Statement 131, compliance with the respective reporting disclosures will be reflected in the Company's 1999 Annual Report on Form 10-K.

<TABLE>  
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(3) Inventories

Inventories were comprised of the following at December 31, 1998 and June 30, 1998:

<S>	<C>	
	December 31, 1998	June 30, 1998
	----- \$ '000	----- \$ '000
	-----	-----
Raw materials	\$ 3,537	2,169
Work in progress	34	546
Finished goods	6,980	4,932
	\$ <u>10,551</u>	<u>7,647</u>
	=====	=====

</TABLE>

(4) Comprehensive Income

As of July 1, 1998, the Company adopted Statement of Financial Accounting Standards No 130, "Reporting Comprehensive Income", which established standards for the reporting and display of comprehensive income and its components in the financial statements. The only component of comprehensive income that impacts the Company is foreign currency translation adjustments. The net gain associated with the foreign currency translation adjustments for

the three months ended December 31, 1998 was \$1.0 million compared to a net loss of \$3.7 million for the three months ended December 31, 1997. The net gain associated with the foreign currency translation adjustments for the six months ended December 31, 1998 was \$472,000 compared to a net loss of \$4.2 million for the six months ended December 31, 1997. The Company does not provide for US income taxes on foreign currency translation adjustments since it does not provide for such taxes on undistributed earnings of foreign subsidiaries. Accumulated other comprehensive income at December 31, 1998 and June 30, 1998 consisted solely of foreign currency translation adjustments with debit balances of \$7.2 million and \$7.7 million, respectively.

(5) Commitments and Contingencies

The company is currently engaged in litigation relating to the enforcement and defense of certain of its patents. In 1992, the Australian distributor for Respiroics, Inc challenged the Company's original Australian patent covering both a method of and device for treating OSA with CPAP. In 1994, an Australian appeals court, relying on issues specific to Australian patent law, revoked the patent. The Company's market share in Australia has decreased from 1995 to the present, and the Company expects that its market share in Australia will continue to decrease.

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RESMED INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
(UNAUDITED)

(5) Commitments and Contingencies, Continued

In 1995, the Company filed a complaint in the United States District Court seeking monetary damages from and injunctive relief against Respiroics for alleged infringement of three ResMed patents. In 1996, the Company filed an additional complaint against Respiroics for infringement of a fourth ResMed patent, and the actions were consolidated. As of this date, Respiroics has brought three partial summary judgment motions for non-infringement of the ResMed patents; the Court has granted two of the motions, and the third is currently being litigated. It is ResMed's intention to appeal the summary judgment rulings after a final judgment in the consolidated litigation has been entered in the District Court proceedings.

In 1995, Respiroics and its Australian distributor filed a Statement of Claim against the Company and Dr. Farrell, in the Federal Court of Australia, alleging that the Company engaged in unfair trade practices. The Statement of Claim asserts damage claims for lost profits on sales in the aggregate amount of approximately \$1,000,000 USD. While the Company intends to defend this action, there can be no assurance that the Company will be successful or that the Company will not be required to make significant payments to the claimants. Furthermore, the Company expects to incur ongoing legal costs in defending this action, as well as in the continuing litigation of its patent cases.

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RESMED INC. AND SUBSIDIARIES

Item 2. MANagements Discussion and Analysis of Financial Conditions and  
Results of Operations

Net Revenue

Net revenue increased for the three months ended December 31, 1998 to \$21.5 million from \$16.1 million for the three months ended December 31, 1997, an increase of \$5.3 million or 33%. For the six month period ended December 31, 1998 net revenue increased to \$40.7 million from \$30.1 million in the six month period ended December 31, 1997, an increase of \$10.6 million or 35%. Both the three month and six month increases in net revenue were attributable to an increase in unit sales of the Company's flow generators and accessories primarily in Latin and North America. Net revenue in Latin and North America increased to \$12.2 million from \$8.3 million for the quarter, and to \$24.1 million from \$15.3 million for the six month period ended December 31, respectively. In Europe net revenue increased to \$7.6 million from \$5.5 million for the quarter, and to \$13.5 million from \$10.9 million for the six month periods ended December 31, 1998 and 1997, respectively.

Gross Profit

Gross profit increased for the three months ended December 31, 1998 to \$14.5 million from \$11.0 million for the three months ended December 31, 1997, an increase of \$3.5 million or 32%. Gross profit as a percentage of net revenue



was 68% for the quarters ended December 31, 1998 and 1997. The steady margin reflects continuing domestic price competition offset by a shift in sales mix to higher margin products.

For the six month period ended December 31, 1998 gross profit increased to \$27.7 million from \$19.5 million in the same period of fiscal 1998, an increase of \$8.2 million or 42%. Gross profit as a percentage of net revenue increased for the six month period ended December 31, 1998 to 68% from 65% for the six months ended December 31, 1997. These increases also resulted from increased revenues and a shift to higher margin product sales.

#### Selling, General and Administrative Expenses

Selling, general and administrative expenses increased for the three months ended December 31, 1998 to \$6.9 million from \$5.0 million for the three months ended December 31, 1997, an increase of \$1.9 million or 37%. As a percentage of net revenue, selling, general and administrative expenses increased to 32% for the quarter ended December 31, 1998 from 31% for the quarter ended December 31, 1997. The increase in selling, general and administrative expenses was primarily due to an increase from 124 to 185 in the number of sales and administrative personnel while legal costs associated with ongoing legal action (refer Note 5) increased to \$377,000 from \$306,000 and other expenses rose in relation to the increase in Company sales.

Selling, general and administrative expenses for the six months ended December 31, 1998 increased to \$13.3 million from \$9.7 million for the six months ended December 31, 1997, an increase of \$3.6 million or 37%. As a percentage of net revenue selling, general and administration expenses increased to 33% for the six months ended December 31, 1998 from 32% in the six months ended December 31, 1997.

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#### RESMED INC. AND SUBSIDIARIES

#### MANAGEMENTS DISCUSSION AND ANALYSIS OF FINANCIAL CONDITIONS AND RESULTS OF OPERATIONS

#### Research and Development Expenses

Research and development expenses increased for the three months ended December 31, 1998 to \$1.6 million from \$1.2 million for the three months ended December 31, 1997, an increase of \$400,000 or 33%. As a percentage of net revenue, research and development expenses remained constant for the three months ended December 31, 1998 and 1997 at 8% of net revenues. The increase in gross research and development expenses was due to increased evaluation and testing procedures incurred to facilitate development of a number of new products.

For the six month period ended December 31, 1998 research and development expenses increased to \$3.1 million from \$2.5 million for the same period in fiscal 1998, an increase of \$570,000 or 23%. As a percentage of net revenue, research and development expenses was 8% for the six months ended December 31, 1998 and 1997. The increase in gross research and development expenditure for the six months reflects additional costs relating to development and evaluation of new products.

#### Other Income (Expense), Net

Other Income (Expense), Net, improved for the three months ended December 31, 1998 to a loss of \$6,000 from a loss of \$1.2 million for the three months ended December 31, 1997, a decrease of \$1.2 million. This decline was due primarily to lower net foreign exchange losses arising from the Company's foreign currency hedging program. Government grants income declined for the three months ended December 31, 1998 to \$134,000 from \$191,000 for the three months ended December 31, 1997 reflecting reduced Australian Federal Government research grants.

Other Income (Expense), Net increased for the six months ended December 31, 1998 to a loss of \$547,000, from a loss of \$539,000 for the six months ended December 31, 1997 an increase of \$8,000.

#### Income Taxes

The Company's effective income tax rate was approximately 34.5% for the three months ended December 31, 1998 and 1997 and for the six month period ended December 31, 1998 decreased to 34.3% from 34.5% for the six month period ended December 31, 1997.

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#### RESMED INC. AND SUBSIDIARIES

#### MANAGEMENTS DISCUSSION AND ANALYSIS OF FINANCIAL CONDITIONS AND RESULTS OF OPERATIONS

## Liquidity and Capital Resources

As of December 31, 1998 and June 30, 1998, the Company had cash and cash equivalents and marketable securities available for sale of approximately \$19.1 million and \$20.7 million, respectively. The Company's working capital approximated \$32.1 million and \$32.8 million, at December 31, 1998 and June 30, 1998, respectively. The decline in working capital balances primarily reflects the increase in capital expenditure associated with the construction of the Australian manufacturing facility offset by the increase in cash generated from operations and proceeds from the exercise of stock options.

During the six months ended December 31, 1998, the Company generated cash of \$9.2 million from operations, primarily as a result of increased profit from operations and reduction in income taxes paid offset by increases in inventory balances. During the six months ended December 31, 1997 approximately \$1.3 million of cash was generated by operations primarily due to increased profit from operations.

The Company's capital expenditures for the six month period ended December 31, 1998 and 1997 aggregated \$10.7 million and \$6.0 million respectively. The majority of the expenditures in the six month period ending December 31, 1998 related to the construction of a new manufacturing facility along with the purchase of computer hardware and production tooling. As a result of these capital expenditures, the Company's December 31, 1998 balance sheet reflects net property plant and equipment of approximately \$20.0 million at December 31, 1998 compared to \$11.1 million at June 30, 1998.

In addition, during the six month period ended December 31, 1998 the Company paid \$1.0 million in business acquisition payments in relation to the 1996 acquisition of Priess.

The Company anticipates expending approximately \$4.0 million in relation to the construction of its new manufacturing facility and computer system over the next three months. These payments are to be funded through cash flows from operations.

The results of the Company's international operations are affected by changes in exchange rates between currencies. Changes in exchange rates may negatively affect the Company's consolidated net revenue and gross profit margins from international operations. The company is exposed to the risk that the dollar value equivalent of anticipated cash flows will be adversely affected by changes in foreign currency exchange rates. The Company manages this risk through foreign currency option contracts.

In May 1993, the Australian Federal Government agreed to lend the Company up to \$870,000 over a six year term. Such a loan bears no interest for the first three years but bears interest at a rate of 3.8% thereafter until maturity. The outstanding principal balance of such loan was \$112,000 and \$227,000 at December 31, 1998 and June 30, 1998, respectively.

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### RESMED INC. AND SUBSIDIARIES

#### MANAGEMENTS DISCUSSION AND ANALYSIS OF FINANCIAL CONDITIONS AND RESULTS OF OPERATIONS

##### Year 2000

The Company conducted a strategic review of its information systems in fiscal 1997 with a view to upgrading operations to facilitate the growth in business activity. As a consequence of these review procedures a decision was made to replace existing internal systems with the Oracle Applications Enterprise package. The decision to replace the Company's existing information systems was driven by operational requirements although as a consequence all information systems are expected to be fully Year 2000 compliant. While management expects the costs associated with Year 2000 compliance to be approximately \$100,000, the cost of implementing the Oracle Application Enterprise package is estimated to be approximately \$2,000,000.

In addition, the Company is reviewing its product lines to identify any products or systems with embedded technology which may not be Year 2000 compliant. To date, this review has not revealed any significant Year 2000 exposure with regards to the Company's products.

The Company is also conducting a review of the Year 2000 compliance of its vendors and customers and any Year 2000 associated issues with respect to any customer or supplier interface systems. In addition, the Company is currently analyzing all other computer related systems and equipment to ensure Year 2000 compliance. This review is expected to be completed during fiscal 1999 as part of the construction of the Company's new Australian manufacturing facility.

Beyond the above review procedures, the Company is in the process of, and has developed, a number of Year 2000 contingency plans should a Year 2000 compliance issue arise. However, there can be no assurance that customers, suppliers and service providers on which the Company relies will resolve their

Year 2000 issues accurately, thoroughly and on schedule. Failure to complete the Year 2000 project by Year 2000 could have a material adverse effect on future operating results or financial condition.

Recent Accounting Developments

SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities" (SFAS 133), was issued by the Financial Accounting Standards Board in June 1998 and is effective for the Company's quarter ending September 30, 1999. SFAS 133 standardizes the accounting for derivative instruments, including certain derivative instruments embedded in other contracts. Under the standard, entities are required to carry all derivative instruments in the statement of financial position at fair value. The accounting for changes in the fair value (ie, gains or losses) of a derivative instrument depends on whether it has been designated and qualifies as part of a hedging relationship and, if so, on the reason for holding it. If certain conditions are met, entities may elect to designate a derivative instrument as a hedge of exposures to changes in fair values, cash flows, or foreign currencies. If the hedged exposure is a fair value exposure, the gain or loss on the derivative instrument is recognized in earnings in the period of change together with the offsetting loss or gain on the hedged item attributable to the risk being hedged. If the hedged exposure is a cash flow exposure, the effective portion of the gain or loss on the derivative instrument is reported initially as a component of other comprehensive income (outside earnings) and subsequently reclassified into earnings when the forecasted transaction affects earnings. Any amounts excluded from the assessment of hedge effectiveness as well as the ineffective portion of the gain or loss is reported in earnings immediately. Accounting for foreign currency hedges is similar to the accounting for fair value and cash flow hedges. If the derivative instrument is not designated as a hedge, the gain or loss is recognized in earnings in the period of change.

The company has not determined the impact that Statement 133 will have on its financial statements and believes that such determination will not be meaningful until closer to the date of initial adoption.

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RESMED INC. AND SUBSIDIARIES

QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Foreign Currency Market Risk

The Company's functional currency is the US dollar although the Company transacts business in various foreign currencies including a number of major European currencies as well as the Australian dollar. The Company has significant foreign currency exposure through both its Australian manufacturing activities and international sales operations.

The Company has established a foreign currency hedging program using foreign currency forward exchange contracts and purchased currency options to hedge foreign-currency-denominated financial assets, liabilities and manufacturing expenditure. The goal of this hedging program is to economically guarantee or lock in the exchange rates on the Company's foreign currency exposures denominated in the Deutschmark and Australian dollar. Under this program, increases or decreases in the Company's foreign-currency-denominated financial assets, liabilities, and firm commitments are partially offset by gains and losses on the hedging instruments.

The table below provides information about the Company's foreign currency derivative financial instruments, by functional currency and presents such information in US dollar equivalents. The table summarizes information on instruments and transactions that are sensitive to foreign currency exchange rates, including foreign currency call options held at December 31, 1998. The table presents the notional amounts and weighted average exchange rates by expected (contractual) maturity dates for the Company's foreign currency derivative financial instruments. These notional amounts generally are used to calculate payments to be exchanged under the contract or options.

<TABLE>  
<CAPTION>

	1999	2000	2001	Total
	-----	-----	-----	-----
--				
<S>	<C>	<C>	<C>	<C>
FOREIGN CURRENCY DERIVATIVES				
FOREIGN EXCHANGE CALL OPTIONS				
(Receive AUS\$/Pay US\$)				
Option amount	\$ 16,583,000	\$ 37,500,000		- \$
54,083,000				

Average contractual exchange rate AUS \$1 = USD 0.667 AUS \$1 = USD 0.667 AUS \$1 = USD 0.667

(Receive AUS\$/Pay DM)  
 Option amount \$ 2,083,000 \$ 2,890,000 \$ 1,445,000 \$ 6,418,000  
 Average contractual exchange rate AUS \$1 = DM 1.17 AUS \$1 = DM 1.12 AUS \$1 = DM 1.12 AUS \$1 = DM 1.134

Fair Value  
 Assets/(Liabilities)  
 -----  
 <S> <C>

FOREIGN CURRENCY DERIVATIVES

FOREIGN EXCHANGE CALL OPTIONS

(Receive AUS\$/Pay US\$)  
 Option amount \$ 331,000  
 Average contractual exchange rate

(Receive AUS\$/Pay DM)  
 Option amount \$ 60,000  
 Average contractual exchange rate

</TABLE>

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RESMED INC. AND SUBSIDIARIES

PART II OTHER INFORMATION

Item 1. Legal Proceedings

Refer Note 5 to the Condensed Consolidated Financial Statements

Item 2. Changes in Securities

None

Item 3. Defaults Upon Senior Securities

None

Item 4. Submission of Matters to a Vote of Security Holders

The Company's Annual Meeting of Shareholders was held on November 6, 1998. The holders of 6,563,531 shares of the Company's stock (approximately 90% of the outstanding shares) were present at the meeting in person or by proxy. The only matters voted upon at the meeting were (1) to elect a director, to serve for a three year term; (2) to amend the Certificate of Incorporation of the Company to (i) effect a two-for-one stock split of the outstanding shares of the Company's Common Stock and (ii) increase the number of authorized shares of the Company's Common Stock, par value of \$0.004 per share, from 15,000,000 to 50,000,000 shares; (3) to ratify the selection of auditors to examine the consolidated financial statements of the Company for the fiscal year ending June 30, 1999; and (4) to transact such other business as may properly come before the meeting.

(1) Mr Michael A Quinn, nominated by the Company's Board of Directors, was elected to serve until 2001. There were no other nominees.

<TABLE>

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Shares were voted as follows:

<S> Name	<C> For	<C> Withholding Vote For
-----	-----	-----

Michael A Quinn	6,530,548	32,983
-----------------	-----------	--------

</TABLE>

(2) The proposed amendment to the Certificate of Incorporation described above was approved:

Affirmative votes	4,751,236
Negative votes	1,801,311

(3) the selection of KPMG Peat Marwick LLP as independent public accountants for the 1999 fiscal year was ratified: affirmative votes, 6,549,132 shares; negative votes, 1,900 shares.

(4) There was no other business transacted at the meeting.

Item 5. Other Information

None

Item 6. Exhibits and Report on Form 8K

Exhibits. The following exhibits are filed as a part of this report:

- 11.1 Statement re: Computation of Earnings per Share
- 27.1 Financial Data Schedule

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SIGNATURES

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

ResMed Inc.

/S/ PETER C FARRELL

\_\_\_\_\_  
 Peter C Farrell  
 President and Chief Executive Officer

/S/ ADRIAN M SMITH

\_\_\_\_\_  
 Adrian M Smith  
 Vice President Finance and Chief Financial Officer

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 <TABLE>  
 <CAPTION>

Exhibit 11.1

RESMED INC AND SUBSIDIARIES  
 COMPUTATION OF EARNINGS PER COMMON SHARE  
 (IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)

<S>	<C>	Three Months Ended		Six Months Ended	
		December 31, ----- 1998 -----	December 31, ----- 1997 -----	December 31, ----- 1998 -----	December 31, ----- 1997 -----
BASIC EARNINGS					
Net income	\$	3,913 =====	2,292 =====	7,097 =====	4,449 =====
Shares					
Weighted average number of common shares outstanding		14,693 =====	14,494 =====	14,654 =====	14,476 =====
Basic earnings per share:	\$	0.27 =====	0.16 =====	0.48 =====	0.31 =====
DILUTED EARNINGS					
Net Income	\$	3,913 =====	2,292 =====	7,097 =====	4,449 =====
Shares					
Weighted average number of common shares outstanding		14,693	14,494	14,654	14,476
Additional shares assuming conversion of stock options under treasury stock method		893	472	766	438
Weighted average number of common and common equivalent shares outstanding as adjusted		15,586 =====	14,966 =====	15,420 =====	14,914 =====

Diluted earnings per share:	\$	0.25	0.15	0.46	0.30
		=====	=====	=====	=====

</TABLE>

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Exhibit 27.1

<TABLE>

<CAPTION>

ARTICLE. 5 FDS FOR 2ND QUARTER 10-Q

This schedule contains summary financial information extracted from ResMed Inc's second quarter December 31, 1998 financial report and is qualified in its entirety by reference to such financial statements.

CURRENCY USD \$ CURRENCY

<S>	<C>	<C>
PERIOD-TYPE	6-MOS	6-MOS
FISCAL-YEAR-END	JUN-30-1999	JUN-30-1998
PERIOD-END	DEC-31-1998	DEC-31-1997
EXCHANGE-RATE	1	1
CASH	13,595,000	7,581,000
SECURITIES	5,530,000	13,027,000
RECEIVABLES	13,445,000	9,365,000
ALLOWANCES	309,000	270,000
INVENTORY	10,551,000	7,572,000
CURRENT-ASSETS	47,859,000	40,981,000
PP&E	20,025,000	9,098,000
DEPRECIATION	0	0
TOTAL-ASSETS	75,506,000	57,044,000
CURRENT-LIABILITIES	15,765,000	11,678,000
BONDS	0	0
PREFERRED-MANDATORY	0	0
PREFERRED	0	0
COMMON	59,000	58,000
OTHER-SE	32,622,000	31,224,000
TOTAL-LIABILITY-AND-EQUITY	75,506,000	57,044,000
SALES	40,724,000	30,124,000
TOTAL-REVENUES	40,724,000	30,124,000
CGS	13,048,000	10,598,000
TOTAL-COSTS	0	0
OTHER-EXPENSES	0	0
LOSS-PROVISION	0	0
INTEREST-EXPENSE	0	0
INCOME-PRETAX	10,807,000	6,794,000
INCOME-TAX	3,710,000	2,345,000
INCOME-CONTINUING	7,097,000	4,449,000
DISCONTINUED	0	0
EXTRAORDINARY	0	0
CHANGES	0	0
NET-INCOME	7,097,000	4,449,000
EPS-BASIC	\$ 0.48	\$ 0.31
EPS-DILUTED	\$ 0.46	\$ 0.30

</TABLE>

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