SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, DC 20549

FORM 10-Q

☒ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE QUARTERLY PERIOD ENDED SEPTEMBER 30, 2003**

☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE TRANSITION PERIOD FROM _____ TO _____**

0-26038
Commission file number:

ResMed Inc

(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of incorporation or organization)

98-0152841
(IRS Employer Identification No)

14040 Danielson St
Poway CA 92064-6857
United States Of America
(Address of principal executive offices)

(858) 746 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 ☐

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

At November 5, 2003 there were 33,958,137 shares of Common Stock ($0.004 par value) outstanding. This number excludes 425,928 shares held by the registrant as treasury shares.

RESMED INC. AND SUBSIDIARIES

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RESMED INC AND SUBSIDIARIES
Condensed Consolidated Balance Sheets (Unaudited)
(in US$ thousands, except share and per share data)

	September 30, 2003	June 30, 2003
Assets		
Current assets:		
Cash and cash equivalents	$ 104,677	$ 114,491
Marketable securities available-for-sale	27,102	6,533
Accounts receivable, net of allowance for doubtful accounts of $2,244 at September 30, 2003 and $2,474 at June 30, 2003	55,963	56,694
Inventories, net (note 4)	55,973	49,386
Deferred income taxes	9,354	8,301
Prepaid expenses and other current assets	6,632	6,500
Total current assets	259,701	241,905
Property, plant and equipment, net of accumulated amortization of $48,247 at September 30, 2003 and $45,379 at June 30, 2003.	113,482	104,687
Patents, net of accumulated amortization of $3,790 at September 30, 2003 and $3,437 at June 30, 2003	3,777	3,745
Goodwill (note 6)	103,089	102,160
Other assets	6,585	7,098
Total non-current assets	226,933	217,690
Total assets	$ 486,634	$ 459,595
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	$ 17,411	$ 19,368
Accrued expenses	20,104	19,140
Deferred revenue	6,927	6,355
Income taxes payable	5,698	3,408
Current portion of deferred profit on sale-leaseback	2,342	2,312
Total current liabilities	52,482	50,583
Non current liabilities:		
Deferred revenue	8,105	7,210
Deferred profit on sale-leaseback	1,562	2,119
Convertible subordinated notes (note 7)	113,250	113,250
Total non current liabilities	122,917	122,579
Total liabilities	175,399	173,162
Commitments and contingencies (note 8)	—	—
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, 250,000 shares authorized; none issued	—	—
Common stock $0.004 par value 100,000,000 shares authorized; issued and outstanding 33,882,293 at September 30, 2003 and 33,370,885 at June 30, 2003 (excluding 425,928 and 415,365 shares held as Treasury Stock respectively)	136	134
Additional paid-in capital	116,491	107,432
Retained earnings	172,621	160,372
Treasury stock	(11,877)	(11,415)
Accumulated other comprehensive income (note 5)	33,864	29,910
Total stockholders' equity	311,235	286,433
Total liabilities and stockholders' equity	$ 486,634	$ 459,595

See the accompanying notes to the condensed consolidated financial statements.

RESMED INC AND SUBSIDIARIES
Condensed Consolidated Statements of Income (Unaudited)
(in US$ thousands, except share and per share data)

	Three Months Ended September 30,	
	2003	2002
Net revenue	$ 72,878	$ 58,586
Cost of sales	25,720	20,889
Gross profit	47,158	37,697
Operating expenses:		
Selling, general and administrative	22,187	17,791
Research and development	6,017	4,395
Total operating expenses	28,204	22,186
Income from operations	18,954	15,511
Other income (expense), net:		
Interest income (expense), net	(394)	(883)
Gain on extinguishment of debt	—	338
Other, net	(652)	(967)
Total other income (expense), net	(1,046)	(1,512)
Income before income taxes	17,908	13,999
Income taxes	5,659	4,428
Net income	$ 12,249	$ 9,571
Basic earnings per share	$ 0.36	$ 0.29
Diluted earnings per share	$ 0.35	$ 0.28
Basic shares outstanding (000's)	33,649	32,882
Diluted shares outstanding (000's)	35,089	34,121

See the accompanying notes to the condensed consolidated financial statements.

RESMED INC AND SUBSIDIARIES
Condensed Consolidated Statements of Cash Flows (Unaudited)
(in US$ thousands)

	Three Months Ended September 30,	
	2003	2002
Cash flows from operating activities:		
Net income	$ 12,249	$ 9,571
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	3,920	2,725
Amortization of deferred borrowing costs	202	248
Provision for service warranties	49	41
Foreign currency options revaluation	116	1,668
Gain on debt extinguishment	—	(338)
Profit on sale and lease-back of building	(566)	(469)
Changes in operating assets and liabilities:		
Accounts receivable, net	(211)	(371)
Inventories	(5,943)	(4,235)
Prepaid expenses and other current assets	(774)	(78)
Accounts payable, accrued expenses and other liabilities	3,526	(712)
Net cash provided by operating activities	12,568	8,050
Cash flows from investing activities:		
Purchases of property, plant and equipment	(11,027)	(4,796)
Patent registration costs	(280)	(305)
Purchases of non-trading investments	(825)	(250)
Proceeds from sales of non-trading investments	1,038	—
Cash paid for acquisitions, including acquisition costs	(184)	(300)
Purchases of marketable securities—available-for-sale	(22,725)	(4,000)
Proceeds from sale or maturity of marketable securities—available-for-sale	2,132	8,217
Net cash used in investing activities	(31,871)	(1,434)
Cash flows provided by financing activities:		
Proceeds from issuance of common stock, net	9,061	1,591
Redemption of borrowings	—	(4,530)
Purchase of treasury stock	(462)	(1,921)
Net cash provided by (used in) financing activities	8,599	(4,860)
Effect of exchange rate changes on cash	890	(1,046)
Net increase/(decrease) in cash and cash equivalents	(9,814)	710
Cash and cash equivalents at beginning of period	114,491	72,860
Cash and cash equivalents at end of period	$ 104,677	$ 73,570
Supplemental disclosure of cash flow information:		
Income taxes paid	$ 4,584	$ 5,922
Interest paid	—	—
Fair value of assets acquired in acquisition	$ 95	$ —
Liabilities assumed	—	—
Goodwill on acquisition	89	300
Cash paid for acquisition, including acquisition costs	$ 184	$ 300

See the accompanying notes to the condensed consolidated financial statements.

RESMED INC AND SUBSIDIARIES
Notes to Condensed Consolidated Financial Statements
(unaudited)

(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, through its subsidiaries, designs, manufactures and markets devices for the evaluation and treatment of sleep disordered breathing, primarily obstructive sleep apnea. The Company's manufacturing operations are located in Australia, Germany and the United States of America. Major distribution and sales sites are located in the United States of America, Germany, France, United Kingdom, Switzerland, Australia and Sweden.

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America 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 September 30, 2003 are not necessarily indicative of the results that may be expected for the year ending June 30, 2004.

(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 inter-company transactions and balances have been eliminated on consolidation.

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management estimates and assumptions that affect amounts reported in the financial statements and accompanying notes. Actual results could differ from management's estimates.

(b) Revenue Recognition

Revenue on product sales is generally recorded upon shipment, at which time title transfers to the customer. Revenue on product sales which require customer acceptance is not recorded until acceptance is received. Royalty revenue from license agreements is recorded when earned. Service revenue received in advance from service contracts is initially deferred and recognized ratably over the life of the service contract. Revenue received in advance from rental unit contracts is initially deferred and recognized ratably over the life of the rental contract. Revenue from sale of marketing or distribution rights is initially deferred and recognized ratably as revenue over the life of the contract. Freight charges billed to customers are included in revenue. All freight-related expenses are charged to cost of sales.

RESMED INC AND SUBSIDIARIES
Notes to Condensed Consolidated Financial Statements
(unaudited)

(2) Summary of Significant Accounting Policies, Continued

(b) Revenue Recognition (continued)

We do not offer a right of return or other recourse with respect to the sale of our products, other than returns for product defects or other warranty claims, nor do we offer variable sale prices for subsequent events or activities. However, as part of our sales processes we may provide upfront discounts for large orders, one time special pricing to support new product introductions, sales rebates for centralized purchasing entities or price-breaks for regular order volumes. The costs of all such programs are recorded as an adjustment to revenue. In our domestic sales activities we use a number of manufacturer representatives to sell our products. These representatives are paid a direct commission on sales and act as an integral component of our domestic sales force. We do not sell our products to these representatives and do not recognize revenue on such shipments. Our products are predominantly therapy-based equipment and require no installation. As such, we have no significant installation obligations.

(c) Cash and Cash Equivalents

Cash equivalents include certificates of deposit, commercial paper, and other highly liquid investments are 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. We review and provide for any product obsolescence in our manufacturing and distribution operations with assessments of individual products and components (based on estimated future usage and sales) being performed throughout the year.

(e) Property, Plant and Equipment

Property, plant and equipment, including rental 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 except for buildings which are depreciated over an estimated useful life of 40 years. 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.

RESMED INC AND SUBSIDIARIES
Notes to Condensed Consolidated Financial Statements
(unaudited)

(2) Summary of Significant Accounting Policies, Continued

(g) Goodwill

In July 2001, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards ("SFAS") 142, Goodwill and Other Intangible Assets. As allowed under the Standard, we adopted SFAS 142 effective July 1, 2001. SFAS 142 requires goodwill and intangible assets with indefinite useful lives to no longer be amortized, but instead be tested for impairment at least annually.

With the adoption of SFAS 142, we reassessed the useful lives and residual values of all acquired intangible assets to make any necessary amortization period adjustments. Based on that assessment only, goodwill was determined to have an indefinite useful life and no adjustments were made to the amortization period or residual values of other intangible assets.

We conducted our annual review for goodwill impairment in July 2003. In conducting our review of goodwill impairment, we identified reporting units, being components of our operating segment, as each of the entities acquired and giving rise to the goodwill. The fair value for each reporting unit was determined based on discounted cash flows and involved a two step process as follows:

Step 1 — Compare the fair value for each reporting unit to its carrying value, including goodwill. For each reporting unit where the carrying value, including goodwill, exceeds the reporting unit's fair value, move on to step 2. If a reporting unit's fair value exceeds the carrying value, no further work is performed and no impairment charge is necessary.

Step 2 — Allocate the fair value of the reporting unit to its identifiable tangible and non-goodwill intangible assets and liabilities. This will derive an implied fair value for the goodwill. Then, compare the implied fair value of the reporting unit's goodwill with the carrying amount of the reporting unit's goodwill. If the carrying amount of the reporting unit's goodwill is greater than the implied fair value of its goodwill, an impairment loss must be recognized for the excess.

The results of the review indicated that no impaired goodwill exists.

(h) Government Grants

Government grants revenue is recognized when earned. Grants have been obtained by the Company from the Australian Federal Government to support the continued development of the Company's proprietary positive airway pressure technology and to assist development of export markets. Grants have been recognized in the amount of $nil and $nil for the three months ended September 30, 2003 and 2002 respectively.

RESMED INC AND SUBSIDIARIES
Notes to Condensed Consolidated Financial Statements
(unaudited)

(2) Summary of Significant Accounting Policies, Continued

(i) Foreign Currency

The consolidated financial statements of our non–U.S. subsidiaries, whose functional currencies are other than U.S. dollars, 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, and 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 5, and are included in accumulated other comprehensive loss in the 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.

(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 33,649,000 and 32,882,000 for the three month periods ended September 30, 2003 and 2002, 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 1,440,000 and 1,239,000 for the three-month periods ended September 30, 2003 and 2002, respectively. Options of 996,000 and 1,538,000 for the three-month periods ended September 30, 2003 and 2002 respectively, were not included in the computation of diluted earnings per share as the effect of exercising these options would have been anti-dilutive.

(l) Financial Instruments

The carrying value of financial instruments, such as cash and cash equivalents, marketable securities—available-for-sale, accounts receivable, government grants receivable and accounts payable approximate their fair value because of their short-term nature. The estimated fair value of the Company's long-term debt at September 30, 2003 approximates $117.9 million compared with the carrying value of $113.3 million. Foreign currency option contracts are marked to market and therefore reflect their fair value. We do 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.

RESMED INC AND SUBSIDIARIES
Notes to Condensed Consolidated Financial Statements
(unaudited)

(2) Summary of Significant Accounting Policies, Continued

(m) Foreign Exchange Risk Management

We enter into various types of foreign exchange contracts in managing our foreign exchange risk, including derivative financial instruments encompassing forward exchange contracts and foreign currency options.

The purpose of our foreign currency hedging activities is to protect us from adverse exchange rate fluctuations with respect to net cash movements resulting from the sales of products to foreign customers and Australian manufacturing activities. We enter into foreign currency option contracts to hedge anticipated sales and manufacturing costs, principally denominated in Australian dollars and Euros. The terms of such foreign currency option contracts generally do not exceed three years.

Our foreign currency derivatives portfolio represents a cashflow hedge program against the net cash flow of our international manufacturing operations. We have determined our hedge program to be a non-effective hedge as defined under SFAS 133. As such, the foreign currency derivatives portfolio is recorded in the consolidated balance sheets at fair value and included in other assets or other liabilities.

All movements in the fair value of the foreign currency derivatives are recorded within other income, net on our consolidated statements of income.

We are exposed to credit-related losses in the event of non-performance by counter parties to financial instruments. The credit exposure of foreign exchange options at September 30, 2003 and June 30, 2003 was $2.1 million and $2.6 million respectively, which represents the positive fair value of options held by us.

We held foreign currency option contracts with notional amounts totaling $133.3 million and $160.5 million at September 30, 2003 and June 30, 2003 respectively to hedge foreign currency items. These contracts mature at various dates prior to July 2006.

(n) Income Taxes

We account for income taxes under the asset and liability method. We recognize deferred tax assets and liabilities 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. 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.

RESMED INC AND SUBSIDIARIES
Notes to Condensed Consolidated Financial Statements
(unaudited)

(2) Summary of Significant Accounting Policies, Continued

(o) Marketable Securities

Management determines the appropriate classification of our investments in debt and equity securities at the time of purchase and re-evaluates such determination at each balance sheet date. Debt securities for which we do not have the intent or ability to hold to maturity are classified as available-for-sale. Securities available-for-sale are carried at fair value, with the unrealized gains and losses, net of tax, reported in accumulated other comprehensive income (loss). Realized gains and losses are included in other income or expense.

At September 30, 2003 and June 30, 2003, our investments in debt securities were classified on the accompanying consolidated balance sheet as marketable securities-available-for-sale. These investments are diversified among high credit quality securities in accordance with our investment policy.

At September 30, 2003, contractual maturities of marketable securities available-for-sale were:

Due less than one year	$23,434
Due between one and two years	3,668
Total	$27,102

(p) Warranty

Estimated future warranty obligations related to certain products are provided by charges to operations in the period in which the related revenue is recognized.

(q) Impairment of Long-Lived Assets

We periodically evaluate 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.

RESMED INC AND SUBSIDIARIES
Notes to Condensed Consolidated Financial Statements
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(2) Summary of Significant Accounting Policies, Continued

(r) Capitalized Software Production Costs

Software development costs have been capitalized and will be amortized to the cost of product revenues over the estimated economic lives (generally three to five years) of the products that include such software. Total net capitalized software production costs were $1,557,000 and $1,557,000 at September 30, 2003 and June 30, 2003 respectively.

(s) Stock-based Employee Compensation

We have granted stock options to personnel, including officers and directors, under both our 1995 Option Plan and our 1997 Equity Participation Plan (collectively the "Plans"). These options have expiration dates of ten years from the date of grant and vest over three or four years. We granted these options with the exercise price equal to the market value as determined at the date of grant.

We apply APB Opinion No. 25 in accounting for our Plans and as all stock options are issued at market price on date of issue, no compensation cost has been recognized for the grant of stock options. The following table illustrates the effect on net income and earnings per share if we had applied the fair value recognition provisions of SFAS 123, Accounting for Stock-Based Compensation, to stock-based employee compensation.

	Three Months Ended September 30,	
	2003	2002
Net income, as reported	$12,249	$ 9,571
Deduct: Total stock-based employee compensation expense determined under fair value based method for all awards, net of related tax effects.	(1,565)	(3,332)
Pro forma net income	$10,684	$ 6,239
Earnings per share:		
Basic—as reported	$ 0.36	$ 0.29
Basic—pro forma	$ 0.32	$ 0.19
Diluted—as reported	$ 0.35	$ 0.28
Diluted—pro forma	$ 0.30	$ 0.18

RESMED INC AND SUBSIDIARIES
Notes to Condensed Consolidated Financial Statements
(unaudited)

(2) Summary of Significant Accounting Policies, Continued

(s) Stock-based Employee Compensation (continued)

The fair value of each stock option grant was estimated on the date of grant using the Black-Scholes option-pricing model with the following assumptions: weighted average risk-free interest rates of 2.8% and 3.3% for the three months ended September 30, 2003 and 2002 respectively; no dividend yield; expected option lives of 4.0 years and 3.4 years for the three months ended September, 2003 and 2002, respectively and volatility of 63% for the three months ended September 30, 2003 and 2002.

The following table illustrates the fair value of compensation costs as determined under the provisions of SFAS 123 by year of option grant:

Fiscal Year of Grant	Three Months Ended September 30, 2003	Three Months Ended September 30, 2002	Average Exercise Price	Fair Value at Date of Grant
2004	$ 230	$ —	$39.19	$ 18.78
2003	1,115	1,954	26.54	12.22
2002	915	2,485	50.18	26.10
2001	147	666	27.71	13.41
2000	—	21	14.14	6.56
Compensation Cost	$ 2,407	$ 5,126		
Tax Effected	$ 1,565	$ 3,332		

(3) New Accounting Pronouncements

In May 2003, the Financial Accounting Standards Board ("FASB") issued statement of financial accounting standard ("SFAS") 150, Accounting for Certain Financial Instruments with Characteristics of Both Liabilities and Equity. SFAS 150 requires that certain financial instruments, which under previous guidance were accounted for as equity, must now be accounted for as liabilities. The financial instruments affected include mandatory redeemable stock, certain financial instruments that require or may require the issuer to buy back some of its shares in exchange for cash or other assets and certain obligations that can be settled with shares of stock. SFAS 150 is effective for all financial instruments entered into or modified after May 31, 2003, and otherwise is effective at the beginning of the first interim period beginning after June 15, 2003. The Company adopted SFAS 150 effective July 1, 2003. The adoption of SFAS 150 did not have a material impact on its consolidated financial position or results of operation.

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(3) New Accounting Pronouncements, Continued

In April 2003, the FASB issued SFAS 149, Amendment of Statement 133 on Derivative Instruments and Hedging Activities, which amends and clarifies financial accounting and reporting for derivative instruments, including certain derivative instruments embedded in other contracts and for hedging activities under SFAS 133. SFAS 149 is effective for contracts entered into or modified after June 30, 2003. The adoption of SFAS 149 did not have a material impact on the results of operations, financial position or liquidity of the Company.

In December 2002, the FASB issued SFAS 148, Accounting for Stock-Based Compensation—Transition and Disclosure, which amends SFAS 123, Accounting for Stock-Based Compensation. SFAS 148 amends the disclosure requirements in SFAS 123 for stock-based compensation for annual periods ending after December 15, 2002 and for interim periods beginning after December 15, 2002. SFAS 148 amends SFAS 123 to provide alternative methods of transition for an entity that voluntarily changes to fair value based method of accounting for stock-based employee compensation. It also amends the disclosure provisions of SFAS 123 to require prominent disclosure about the effects on reported net income of an entity's accounting policy decisions with respect to stock-based employee compensation. Finally, SFAS 148 amends Accounting Principles Board ("APB") Opinion No. 28, Interim Financial Reporting, to require disclosure about those effects in interim financial information. We have adopted the amended disclosure provisions of SFAS 148.

In July 2002, the FASB issued SFAS 146, Accounting for Restructuring Costs. SFAS 146 applies to costs associated with an exit activity (including restructuring) or with a disposal of long-lived assets. Those activities can include eliminating or reducing product lines, terminating employees and contracts, and relocating plant facilities or personnel. Under SFAS 146, a company will record a liability for a cost associated with an exit or disposal activity when that liability is incurred and can be measured at fair value.

SFAS 146 requires a company to disclose information about its exit and disposal activities, the related costs, and changes in those costs in the notes to the interim and annual financial statements that include the period in which an exit activity is initiated and in any subsequent period until the activity is completed.

SFAS 146 is effective prospectively for exit or disposal activities initiated after December 31, 2002. Under SFAS 146, a company may not restate its previously issued financial statements and SFAS 146 grandfathers the accounting for liabilities that a company had previously recorded under Emerging Issues Task Force Issue 94-3. The adoption of SFAS 146 did not have a material impact on our results of operations, financial position or liquidity.

RESMED INC AND SUBSIDIARIES
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(unaudited)

(4) Inventories

Inventories were comprised of the following at September 30, 2003 and June 30, 2003 (in thousands):

	September 30, 2003	June 30, 2003
Raw materials	$ 16,012	$ 13,712
Work in progress	2,841	2,288
Finished goods	37,120	33,386
	$ 55,973	$ 49,386

(5) Comprehensive Income

Movements in comprehensive income for the three months ended September 30, 2003 are presented below (in thousands):

	Foreign Currency Items	Unrealized Gains (Losses) on Securities	Accumulated Other Comprehensive Income (Loss)	Retained Earnings	Accumulated Comprehensive Income (Loss)
Beginning balance, July 1, 2003	$ 29,901	$ 9	$ 29,910	$ 160,372	$ 190,282
Current period change	3,968	(14)	3,954	12,249	16,203
Ending balance, Sep. 30, 2003	$ 33,869	($ 5)	$ 33,864	$ 172,621	$ 206,485

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 (loss) at September 30, 2003 and June 30, 2003 consisted of foreign currency translation adjustments with net credit balance of $33.9 million and $29.9 million respectively and unrealized gains (losses) on securities of ($5,000) (net of tax credit of $3,000) and $9,000 (net of tax of $6,000), respectively.

(6) Goodwill and Other Intangible Assets

Changes in the carrying amount of goodwill for the three months ended September 30 2003, were as follows:

(In US$ thousands)	
Balance at June 30, 2003	$ 102,160
Goodwill on acquisition of the assets of Respro Medical Company Limited (our Hong Kong distributor)	89
Foreign currency translation adjustments	840
Balance at September 30, 2003	$ 103,089

RESMED INC AND SUBSIDIARIES
Notes to Condensed Consolidated Financial Statements
(unaudited)

(6) Goodwill and Other Intangible Assets

Other intangible assets amounted to $3.8 million (net of accumulated amortization of $3.8 million) and $3.7 million (net of accumulated amortization of $3.4 million) at September 30, 2003 and June 30, 2003, respectively. These intangible assets consist of patents and are amortized over the estimated useful life of the patent, generally five years. There are no expected residual values related to these intangible assets.

(7) Long-Term Debt

On June 20, 2001 we issued $150.0 million of 4% convertible subordinated notes that are due to mature on June 20, 2006. On July 3, 2001, we received an additional $30.0 million in over allotments. This increased the total amount of convertible subordinated notes issued to $180.0 million.

We may redeem some or all of the notes at any time before June 20, 2004 at a redemption price of $1,000 per $1,000 principal amount of notes, plus accrued and unpaid interest, if any, to the redemption date, if the closing price of our common stock has exceeded 150% of the conversion price then in effect for at least 20 trading days within a period of 30 consecutive trading days ending on the trading day before the date of mailing of the provisional redemption notice. Upon any such provisional redemption, we will make an additional payment in cash equal to $166.67 per $1,000 principal amount of notes, less the amount of any interest actually paid on the notes before the provisional redemption date.

We may also redeem some or all of the notes at any time on or after June 22, 2004, but prior to June 20, 2005, at a redemption price equal to 101.6% of the principal amount of notes redeemed, and at any time after June 19, 2005, at a redemption price of 100.8% of the principal amount of notes, plus in any case accrued and unpaid interest, if any, to the redemption date, if the closing price of our common stock has exceeded 130% of the conversion price then in effect for at least 20 trading days within a period of 30 consecutive trading days ending on the trading day before the date of mailing of the optional redemption notice.

The notes are general unsecured obligations and are subordinated to all of our existing and future senior indebtedness and will be effectively subordinated to all of the indebtedness and liabilities of our subsidiaries. The indenture governing the notes does not limit us or our subsidiaries from incurring senior indebtedness or other indebtedness.

During the three months ended September 30, 2003, we did not repurchase any of our convertible subordinated notes.

During the year ended June 30, 2003, we repurchased $10.0 million face value of our convertible subordinated notes. The total purchase price of the notes was $9.4 million, including $0.2 million in accrued interest. We recognized a gain of $0.3 million, net of tax of $0.2 million, on these transactions.

The notes are convertible, at the option of the holder, at any time on or prior to maturity, into shares of common stock of ResMed Inc. The notes are convertible at a conversion price of $60.60 per share, which is equal to a conversion rate of 16.5017 shares per $1,000 principal amount of notes, subject to adjustment.

RESMED INC AND SUBSIDIARIES
Notes to Condensed Consolidated Financial Statements
(unaudited)

(7) Long-Term Debt, Continued

Interest is to be paid on the notes on June 20 and December 20 of each year.

(8) Commitments and Contingencies

We were engaged in litigation relating to the enforcement and defense of certain of our patents during the fiscal year.

1995 Litigation with Respironics. In January 1995, our subsidiary, ResMed Limited, filed a complaint in the United States District Court for the Southern District of California seeking monetary damages from and injunctive relief against Respironics, Inc. for alleged infringement of three of its patents. In February 1995, Respironics filed a complaint in the U.S. District Court for the Western District of Pennsylvania, in Pittsburgh, against ResMed Limited seeking a declaratory judgment that Respironics, Inc. does not infringe claims of these patents and that ResMed Limited's patents are invalid and unenforceable.

The Respironics complaint also made the University of Sydney a party as the University of Sydney is the assignee of one of the patents in suit; ResMed Limited is the exclusive licensee of that patent. The two actions were combined into one proceeding in the Western District of Pennsylvania. In June 1996, ResMed Limited filed an additional complaint against Respironics for infringement of a fourth ResMed patent, and that complaint was consolidated with the earlier action.

The Court granted three partial summary judgment motions, finding that Respironics did not infringe three of the four patents at issue. In December 1999, in response to the Court's ruling on Respironics, Inc.'s third summary judgment motion, the parties jointly stipulated to a dismissal of charges of infringement under the fourth ResMed patent, with ResMed reserving the right to reassert the charges in the event of a favorable ruling on appeal of the third partial summary judgment. On September 9, 2003, the court vacated the summary judgments.

ResMed and Respironics have agreed to settle this action. ResMed and Respironics will dismiss all claims in the action with prejudice.

2002 Litigation with Fisher & Paykel Healthcare. On August 26, 2002, ResMed Inc., ResMed Corp. and ResMed Limited filed a lawsuit in U.S. District Court for the Southern District of California, in San Diego against Fisher & Paykel Healthcare Inc and Fisher & Paykel Healthcare Limited ("Fisher & Paykel Healthcare"). ResMed's amended complaint sought a judgment that selected Fisher & Paykel Healthcare mask products infringe patents held by ResMed. The complaint further charged the defendants with the copying of ResMed proprietary mask technology and alleges violations of the Lanham Act, trademark and trade dress infringement and common law violations relating to the appearance of ResMed mask products.

RESMED INC AND SUBSIDIARIES
Notes to Condensed Consolidated Financial Statements
(unaudited)

(8) Commitments and Contingencies, Continued

On May 6, 2003, ResMed and Fisher & Paykel Healthcare agreed to settle this patent infringement lawsuit. In accordance with the settlement, Fisher & Paykel introduced a new design of its mask in the United States by August 1, 2003 and ResMed will not assert intellectual property claims against the new mask. In addition, Fisher & Paykel may continue to sell its existing masks outside the United States until October 1, 2003, under license from ResMed, until it introduces the new version there. ResMed has dismissed the lawsuit with prejudice.

2002 Litigation with Respironics. On October 11, 2002, ResMed Inc, ResMed Corp, and ResMed Limited filed a lawsuit in U.S. District Court for the Southern District of California, in San Diego against Respironics, Inc. ResMed's suit seeks a judgment that certain of Respironics' mask products (Contour Deluxe, Comfort Classic, Comfort Select, and Image3 masks) infringe patents held by ResMed. The complaint further charged Respironics with copying ResMed's proprietary mask technology, and alleges violation of the Lanham Act, trademark and trade dress infringement, and common law violations relating to the appearance of ResMed's mask products. ResMed seeks an injunction and damages. On March 4, 2003, the Court denied Respironics' motion to transfer the case to the U.S. District Court for the Western District of Pennsylvania.

On October 16, 2002 Respironics, Inc. filed a lawsuit in U.S. District Court for the Western District of Pennsylvania, in Pittsburgh, against ResMed Limited seeking a declaratory judgment that Respironics, Inc. does not infringe the patents that are the subject of ResMed's October 11, 2002 complaint filed in San Diego, that such patents are invalid and unenforceable and that Respironics has not committed any other trademark, trade dress or common law violations. On July 29, 2003, the court ordered the case transferred to the US District Court for the Southern District of California.

On September 5, 2003, ResMed and Respironics agreed to settle this action. ResMed and Respironics have dismissed all claims in the actions with prejudice.

Other Litigation. In addition to the matters described above, in the normal course of business, we are subject to routine litigation incidental to our business. While the results of this litigation cannot be predicted with certainty, we believe that their final outcome will not have a material adverse effect on our consolidated financial statements taken as a whole.

(9) Business Acquisitions

Three months ended September 30, 2003

On July 2, 2003 we acquired the assets of Respro Medical Company Limited ("Respro"), our Hong Kong distributor for total consideration of $184,000 in cash. The acquisition has been accounted for as a purchase and accordingly, the results of operations of Respro has been included within our consolidated financial statements from July 2, 2003. An amount of $89,000, representing the excess of the purchase price over the fair value of net identifiable assets acquired of $95,000, has been recorded as goodwill.

RESMED INC AND SUBSIDIARIES
Notes to Condensed Consolidated Financial Statements
(unaudited)

(9) Business Acquisitions

Fiscal year ended June 30, 2003

On July 24, 2002 we acquired the business of John Stark and Associates, our Texas representative, for total consideration of $0.3 million in cash. The acquisition has been accounted for as a purchase and accordingly, the results of operations of John Stark and Associates were included within our consolidated financial statements from July 24, 2002. An amount of $0.3 million, representing the excess of the purchase price over the fair value of net identifiable assets acquired of $nil, has been recorded as goodwill.

(10) In-Process Research and Development Charge

MAP

On acquisition of MAP in February 2001, we recognized as an expense a charge of $17.7 million with respect to five in-process research and development programs under active development by MAP at date of acquisition. The five projects were:

(i) A single-walled nasal cushion mask system.

(ii) A new headgear system

(iii) Standalone active humidifier

(iv) An autotitration CPAP device for treatment of OSA

(v) A new OSA diagnostic screening device.

The status of each project is as noted below:

(i) Single-walled nasal cushion

The nasal cushion under development by MAP on acquisition was originally due for release in October 2001. Delays in the design and manufacturing process delayed the release for seven months, until April 2002. The delay in release of the product was not significant over its expected life cycle, and has made no significant impact on the net return assumptions used in the initial in-process research and development model. Since release, the product (now referred to as the Papillon) has met or exceeded all sales forecasts.

(ii) New headgear

The new headgear product line was withheld to coincide with the release of the Papillion mask system in April 2002 and so was also seven months behind schedule in projected release dates. Since release, the new headgear system has exceeded original sales projections and continues to meet or exceed initial expectations.

RESMED INC AND SUBSIDIARIES
Notes to Condensed Consolidated Financial Statements
(unaudited)

(10) In-Process Research and Development Charge, Continued

(iii) Standalone active humidifier

Due to other priorities and to the introduction of integrated humidification flow generator devices by a number of competitors during fiscal 2002, we have delayed the standalone humidifier project.

Given the relatively small revenue forecast of the product line in the in-process research and development model, the financial impact of this project is not material to ResMed or the net return of the MAP acquisition.

(iv) Auto titration CPAP Device

The main product development effort of MAP since acquisition has been on the completion of the Autotitration CPAP flow generator specified in the initial in-process research and development charge. This project experienced some delays due to the complexity of the software algorithm development process and associated electronics resulting in the product being released in November 2002.

(v) OSA diagnostic screening device

MAP's new diagnostic screening device, now called the micro MESAM, is expected to be released to the market in February 2004. We remain confident in the capacity of the device to enhance the diagnostic process, and remain confident in the potential of the product to significantly impact the treatment and diagnosis of Obstructive Sleep Apnea in the German market.

As at September 30, 2003, three of the five programs have been completed with the release of the Papillon mask system, upgraded headgear and Magellan automated flow generator CPAP device. All three products are generating sales revenue consistent with our original expectations and assumptions used in calculating the in-process research and development charge.

Given the successful completion of the above research programs and performance of the associated product lines, we remain confident in the assumptions used to determine the in-process research and development charge and as a result the net return of the MAP acquisition.

RESMED INC. AND SUBSIDIARIES
Management's Discussion and Analysis of Financial Conditions and Results of Operations

Net Revenue

Net revenue increased for the three months ended September 30, 2003 to $72.9 million from $58.6 million for the three months ended September 30, 2002, an increase of $14.3 million or 24%. The increase in net revenue is primarily attributable to an increase in unit sales of the Company's flow generators and accessories. Sales also benefited from an appreciation of international currencies against the US dollar (increasing sales by approximately $3.9 million). Net revenue in North and Latin America increased for the three months ended September 30, 2003 to $34.7 million from $28.3 million for the three months ended September 30, 2002, an increase of $6.4 million or 23%. This growth primarily reflects increased public and physician awareness of sleep-disordered breathing partially offset by the cessation, in the second quarter of fiscal 2003, of our domestic diagnostic distribution business (which contributed revenue of $0.8 million for the three months ended September 30, 2002). Net revenue in international markets for the three months ended September 30, 2003 increased to $38.2 million from $30.3 million for the three months ended September 30, 2002, an increase of $7.9 million or 26%. International sales growth for the three months ended September 30, 2003 reflects organic growth in the overall sleep-disordered breathing market, particularly the Japanese market, and appreciation of international currencies against the U.S. dollar.

Sales of flow generators for the three months September 30, 2003 increased by 21% compared to the three months ended September 30, 2002 including increases of 22% in North and Latin America and 20% elsewhere. Sales of mask systems, motors and other accessories increased by 28% including increases of 23% in North and Latin America and 36% elsewhere, for the three months ended September 30, 2003 compared to the three months ended September 30, 2002. These increases primarily reflect growth in the overall sleep-disordered breathing market and appreciation of international currencies against the U.S. dollar.

Gross Profit

Gross profit increased for the three months ended September 30, 2003 to $47.2 million from $37.7 million for the three months ended September 30, 2002, an increase of $9.5 million or 25%. Gross profit as a percentage of net revenue increased for the three months ended September 30, 2003 to 65% compared to a margin of 64% for the three months September 30, 2002, reflecting a more favorable product mix and improved gross margins in our German subsidiary, MAP. This was partially offset by the impact of higher manufacturing costs in our Australian manufacturing facility resulting from a stronger Australian dollar against the U.S. dollar, as the majority of manufacturing labor and overhead costs are incurred in Australia.

RESMED INC AND SUBSIDIARIES

Management Discussion and Analysis of Financial Conditions and Results of Operations

Selling, General and Administrative Expenses

Selling, general and administrative expenses increased for the three months ended September 30, 2003 to $22.2 million from $17.8 million for the three months ended September 30, 2002, an increase of $4.4 million or 25%. As a percentage of net revenue, selling, general and administrative expenses for the three months ended September 30, 2003 was 30%, consistent with the three months ended September 30, 2002. The increase in selling, general and administrative expenses was due primarily to an increases in the number of sales and administrative personnel and other expenses related to the increase in our sales. The increase in selling, general and administrative expenses was also attributable to appreciation of international currencies against the U.S. dollar (adding approximately $1.7 million to our expenses as reported in U.S dollars).

Research and Development Expenses

Research and development expenses increased for the three months ended September 30, 2003 to $6.0 million from $4.4 million for the three months ended September 30, 2002, an increase of $1.6 million or 37%. As a percentage of net revenue, research and development expenses were 8.3% for the three months ended September 30, 2003 compared to 7.5% for the three months ended September 30, 2002. The increase in research and development expenses was due to increased salaries associated with an increase in personnel and increased charges for consulting fees, clinical trials and technical assessments incurred to facilitate development of new products. The increase also reflects an appreciation of the Australian dollar against the U.S. dollar, as the majority of research and development costs are incurred in Australian dollars. In constant currency terms, research and development expenses for the three months ended September 30, 2003 increased by $0.8 million, or 17%, compared to the three months ended September 30, 2002.

Other Income (Expenses), Net

Other income (expense), net decreased for the three months ended September 30, 2003 to net expense of $1.0 million from net expense of $1.5 million for the three months period September 30, 2002. The decrease in other expense, was attributable to lower interest expense due to the reduction in convertible note debt and reduced net foreign currency exchange losses.

Income Taxes

Our effective income tax rate for the three-month periods ended September 30, 2003 and 2002 was 31.6%. We continue to benefit from the Australian corporate tax rate of 30% because we generate a majority of our taxable income in Australia.

Liquidity and Capital Resources

As of September 30, 2003 and June 30, 2003, we had cash and cash equivalents and marketable securities available-for-sale of approximately $131.8 million and $121.0 million, respectively. Working capital approximated $207.2 million and $191.3 million at September 30, 2003 and June 30, 2003 respectively.

RESMED INC AND SUBSIDIARIES

Management Discussion and Analysis of Financial Conditions and Results of Operations

Liquidity and Capital Resources, Continued

Inventories at September 30, 2003 increased by $10.9 million or 24% to $56.0 million compared to September 30, 2002 inventories of $45.1 million. The percentage increase in inventories was consistent with the 24% increase in revenues in the three month period ended September 30, 2003 compared to the three-month period September 30, 2002. The inventory build in absolute terms reflects higher sales volumes, stonger international currencies (increasing the value of inventory in U.S. dollar terms) and during this quarter, the initiation of an inventory build to buffer stock before we relocate our Australian manufacturing facility. The move is expected to occur in the third quarter of this fiscal year. Accounts receivable at September 30, 2003 were $56.0 million, an increase of $9.3 million or 20% over the September 30, 2002 accounts receivable balance of $46.7 million. This increase was lower than the 24% increase in revenues for the three month period ended September 30, 2003 compared to the three month period ended September 30, 2002, reflecting improved collections. Accounts receivable days outstanding improved to 69 days for the quarter ended September 30, 2003, compared to 72 days for the quarter ended September 30, 2002.

During the three month period ended September 30, 2003, we generated cash of $12.6 million from operations, primarily as a result of increased profit partially offset by higher working capital, particularly in respect of inventories. During the three-month period ended September 30, 2002 approximately $8.1 million of cash was generated by operations.

Capital expenditures for the three months ended September 30, 2003 and 2002 aggregated $11.0 million and $4.8 million respectively. The majority of the expenditures for the three months ended September 30, 2003 related to the construction of our new manufacturing facility, acquisition of computer hardware and software and purchase of production tooling and equipment. The capital expenditures in the three months ended September 30, 2002 primarily related to the construction of our new manufacturing facility, acquisition of computer hardware and software including a disaster recovery system and purchase of production tooling and equipment. As a result of these capital expenditures, our balance sheet reflects net property, plant and equipment of approximately $113.5 million at September 30, 2003 compared to $104.7 million at June 30, 2003.

During the year ended June 30, 2003 we repurchased $10.0 million face value of our outstanding convertible subordinated notes. The total purchase price of the notes was $9.4 million, including $0.2 million in accrued interest. We recognized a gain of $0.3 million, net of tax of $0.2 million, on these transactions. We did not repurchase any convertible subordinated notes during the three-month period ended September 30, 2003. At September 30, 2003, we had convertible subordinated notes outstanding of $113.3 million.

During the year ended June 30, 2002, we repurchased $56.8 million face value of our convertible subordinated notes. The total purchase price of the notes was $49.1 million, including $0.6 million in accrued interest. We recognized a gain of $4.0 million, net of tax of $2.5 million, on these transactions.

RESMED INC AND SUBSIDIARIES

Management Discussion and Analysis of Financial Conditions and Results of Operations

Liquidity and Capital Resources, Continued

We may from time to time seek to retire our convertible subordinated notes through cash purchases and/or exchanges for equity securities in open market purchases, privately negotiated transactions, or otherwise. Such repurchases or exchanges, if any, will depend on prevailing market conditions, our liquidity requirements, and our current or future contractual obligations, if any, that may directly or indirectly apply to such transactions.

On April 26, 2002, we settled our purchase of a 30-acre site at Norwest Business Park, located northwest of Sydney, Australia. The acquisition cost was $23.6 million, including deferred payments of $5.7 million paid in October 2002 and $5.7 million paid in April 2003. We expect the first building, a manufacturing facility, to be operational on this site in the first half of calendar 2004. New research and development and office facilities are expected to be completed in 2005. We estimate that the building costs will be approximately $40.0 million.

On May 8, 2002, we completed a sale and leaseback transaction of our Australian facility located at North Ryde in Sydney, Australia. The property was sold for $18.5 million with a three-year leaseback and a further one-year option. The profit before tax on sale of the property of $5.5 million will be amortized over the lease period. The cash made available from the sale will be utilized for the construction of our new facilities at Norwest Business Park also located in Sydney, Australia.

On June 6, 2002, the Board of Directors authorized us to repurchase up to 4.0 million shares of our outstanding common stock. For the three month period ended September 30, 2003 and the year ended June 30, 2003, we repurchased 10,563 and 125,000 shares at a cost of $0.5 million and $3.5 million respectively. We may continue to repurchase shares of our common stock for cash in the open market, or in negotiated or block transactions, from time to time as market and business conditions warrant.

Details of contractual obligations at September 30, 2003 are as follows:

		Payments Due by Period			
In $000's	**Total**	**Less than 1 year**	**1-3 years**	**4-5 years**	**After 5 years**
Long-Term Debt	$ 113,250	—	113,250	—	—
Operating Leases	13,607	5,140	5,507	2,177	783
Unconditional Purchase Obligations[1]	26,385[1]	26,385	—	—	—
Total Contractual Cash Obligations	153,242	$ 31,525	118,757	2,177	783

[1] The figure includes unconditional purchase obligations of $21.9 million relating to the construction of our manufacturing and warehouse facility at Norwest, in Sydney, Australia.

RESMED INC AND SUBSIDIARIES

Management Discussion and Analysis of Financial Conditions and Results of Operations

Liquidity and Capital Resources, Continued

Details of other commercial commitments at June 30, 2003 are as follows:

In $000's	Total Amounts Committed	Amount of Commitment Expiration Per Period			
		Less than 1 year	1-3 years	4-5 years	Over 5 years
Lines of Credit	$ 119	$ 119	$ —	$ —	$ —
Standby Letters of Credit	—	—	—	—	—
Guarantees*	2,415	—	805	—	1,610
Standby Repurchase Obligations	—	—	—	—	—
Other Commercial Commitments	—	—	—	—	—
Total Commercial Commitments	$ 2,534	$ 119	$ 805	—	$ 1,610

*The above guarantees relate to guarantees required by statutory authorities as a pre-requisite to developing our site at Norwest and requirements under contractual obligations with insurance companies transacting with our German subsidiaries.

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

We expect to satisfy all of our short term and long-term liquidity requirements through a combination of cash on hand, cash generated from operations and a $15.0 million undrawn revolving line of credit with Union Bank of California.

In-Process Research and Development Charge

MAP

On acquisition of MAP in February 2001, we recognized as an expense a charge of $17.7 million with respect to five in-process research and development programs under active development by MAP at date of acquisition. The five projects were:

(i) A single-walled nasal cushion mask system.
(ii) A new headgear system
(iii) Standalone active humidifier
(iv) An autotitration CPAP device for treatment of OSA
(v) A new OSA diagnostic screening device

Thestatus of each project is as noted below:

(i) Single-walled nasal cushion

The nasal cushion under development by MAP on acquisition was originally due for release in October 2001. Delays in the design and manufacturing process delayed the release for seven months, until April 2002. The delay in release of the product was not significant over its expected life cycle, and has made no significant impact on the net return assumptions used in the initial in-process research and development model. Since release, the product (now referred to as the Papillon) has met or exceeded all sales forecasts.

RESMED INC AND SUBSIDIARIES

Management Discussion and Analysis of Financial Conditions and Results of Operations

In-Process Research and Development Charge, Continued

(ii) New headgear

The new headgear product line was withheld to coincide with the release of the Papillion mask system in April 2002 and so was also seven months behind schedule in projected release dates. Since release, the new headgear system has exceeded original sales projections and continues to meet or exceed initial expectations.

(iii) Standalone active humidifier

Due to other priorities and to the introduction of integrated humidification flow generator devices by a number of competitors during fiscal 2002, we have delayed the standalone humidifier project.

(iv) Auto titration CPAP Device

The main product development effort of MAP since acquisition has been on the completion of the Autotitration CPAP flow generator specified in the initial in-process research and development charge. This project experienced some delays due to the complexity of the software algorithm development process and associated electronics resulting in the product being released in November 2002.

(v) OSA diagnostic screening device

MAP's new diagnostic screening device, now called the micro MESAM, is expected to be released to the market in February 2004. We remain confident in the capacity of the device to enhance the diagnostic process, and remain confident in the potential of the product to significantly impact the treatment and diagnosis of Obstructive Sleep Apnea in the German market.

As at September 30, 2003, three of the five programs have been completed with the release of the Papillon mask system, upgraded headgear and Magellan automated flow generator CPAP device. All three products are generating sales revenue consistent with our original expectations and assumptions used in calculating the in-process research and development charge.

Given the successful completion of the above research programs and performance of the associated product lines, we remain confident in the assumptions used to determine the in-process research and development charge and as a result the net return of the MAP acquisition.

RESMED INC AND SUBSIDIARIES

Management Discussion and Analysis of Financial Conditions and Results of Operations

Critical Accounting Principles and Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires us to make estimates and judgments that affect our reported amounts of assets and liabilities, revenues and expenses and related disclosures of contingent assets and liabilities. On an ongoing basis we evaluate our estimates, including those related to allowance for doubtful accounts, inventory reserves, warranty obligations, goodwill, impaired assets, intangible assets, income taxes and contingencies.

We state these accounting policies in the notes to the financial statements and at relevant sections in this discussion and analysis. The estimates are based on the information that is currently available to us and on various other assumptions that we believe to be reasonable under the circumstances. Actual results could vary from those estimates under different assumptions or conditions.

We believe that the following critical accounting policies affect the more significant judgments and estimates used in the preparation of our financial statements:

(1) Allowance for Doubtful Accounts. We maintain an allowance for doubtful accounts for estimated losses resulting from the inability of our customers to make required payments, which results in bad debt expense. We determine the adequacy of this allowance by continually evaluating individual customer receivables, considering a customer's financial condition, credit history and current economic conditions. If the financial condition of our customers were to deteriorate, resulting in an impairment of their ability to make payments, additional allowances may be required.

(2) Inventory Adjustments. Inventories are stated at lower of cost or market and are determined by the first-in, first-out method. We review the components of inventory on a regular basis for excess, obsolete and impaired inventory based on estimated future usage and sales. The likelihood of any material inventory write-downs is dependent on changes in competitive conditions, new product introductions by us or our competitors, or rapid changes in customer demand.

(3) Valuation of Goodwill, Intangible and Other Long-Lived Assets. We use assumptions in establishing the carrying value, fair value and estimated lives of our long-lived assets and goodwill. The criteria used for these evaluations include management's estimate of the asset's continuing ability to generate positive income from operations and positive cash flow in future periods compared to the carrying value of the asset, as well as the strategic significance of any identifiable intangible asset in our business objectives. If assets are considered to be impaired, the impairment recognized is the amount by which the carrying value of the assets exceeds the fair value of the assets. Useful lives and related amortization or depreciation expense are based on our estimate of the period that the assets will generate revenues or otherwise be used by us.

Factors that would influence the likelihood of a material change in our reported results include significant changes in the asset's ability to generate positive cash flow, loss of legal ownership or title to the asset, a significant decline in the economic and competitive environment on which the asset depends, significant changes in our strategic business objectives, utilization of the asset, and a significant change in the economic and/or political conditions in certain countries.

RESMED INC AND SUBSIDIARIES

Management Discussion and Analysis of Financial Conditions and Results of Operations

Critical Accounting Principles and Estimates, Continued

(4) Valuation of Deferred Income Taxes. Valuation allowances are established, when necessary, to reduce deferred tax assets to the amount expected to be realized. The likelihood of a material change in our expected realization of these assets is dependent on future taxable income, our ability to deduct tax loss carry forwards against future taxable income, the effectiveness of our tax planning and strategies among the various tax jurisdictions that we operate in, and any significant changes in the tax treatment received on our business combinations.

(5) Provision for Warranty. We provide for the estimated cost of product warranties at the time the related revenue is recognized. The amount of this provision is determined by using a financial model, which takes into consideration actual, historical expenses and potential risks associated with our different products. This financial model is then used to calculate the future probable expenses related to warranty and the required level of the warranty provision. Although we engage in product improvement programs and processes, our warranty obligation is affected by product failure rates and costs incurred to correct those product failures. Should actual product failure rates or estimated costs to repair those product failures differ from our estimates, revisions to our estimated warranty provision would be required.

(6) Revenue Recognition. Revenue on product sales is recorded at the time of shipment, at which time title transfers to the customer. Revenue on product sales which require customer acceptance is not recorded until acceptance is received. Royalty revenue from license agreements is recorded when earned. Service revenue received in advance from service contracts is initially deferred and recognized ratably over the life of the service contract. Revenue received in advance from rental unit contracts is initially deferred and recognized ratably over the life of the rental contract. Revenue from sale of marketing and distribution rights is initially deferred and recognized ratably as revenue over the life of the contract. Freight charges billed to customers are included in revenue. All freight-related expenses are charged to cost of sales.

We do not offer a right of return or other recourse with respect to the sale of our products or similarly offer variable sale prices for subsequent events or activities. However, as part of our sales processes we may provide upfront discounts for large orders, one time special pricing to support new product introductions, sales rebates for centralized purchasing entities or price-breaks for regular order volumes. The costs of all such programs are recorded as an adjustment to revenue. In our domestic sales activities we use a number of Manufacturer Representatives to sell our products. These representatives are paid a direct commission on sales and act as an integral component of our domestic sales force. We do not sell our products to these representatives, and do not recognize revenue on such shipments. Our products are predominantly therapy-based equipment and require no installation. As such, we have no significant installation obligations.

RESMED INC AND SUBSIDIARIES

Management Discussion and Analysis of Financial Conditions and Results of Operations

Recently Issued Accounting Pronouncements

In May 2003, the Financial Accounting Standards Board ("FASB") issued statement of financial accounting standard ("SFAS") 150, Accounting for Certain Financial Instruments with Characteristics of Both Liabilities and Equity. SFAS 150 requires that certain financial instruments, which under previous guidance were accounted for as equity, must now be accounted for as liabilities. The financial instruments affected include mandatory redeemable stock, certain financial instruments that require or may require the issuer to buy back some of its shares in exchange for cash or other assets and certain obligations that can be settled with shares of stock.

SFAS 150 is effective for all financial instruments entered into or modified after May 31, 2003, and otherwise is effective at the beginning of the first interim period beginning after June 15, 2003. We adopted SFAS No. 150 effective July 1, 2003. The adoption of SFAS 150 did not have a material impact on our consolidated financial position or results of operation.

In April 2003, the FASB issued SFAS 149, Amendment of Statement 133 on Derivative Instruments and Hedging Activities, which amends and clarifies financial accounting and reporting for derivative instruments, including certain derivative instruments embedded in other contracts and for hedging activities under SFAS 133. SFAS 149 is effective for contracts entered into or modified after June 30, 2003. The adoption of SFAS 149 did not have a material impact on our results of operations, financial position or liquidity.

RESMED INC AND SUBSIDIARIES

Quantitative and Qualitative Disclosures About Market and Business Risk

Foreign Currency Market Risk

Our functional currency is the U.S. dollar, although we transact business in various foreign currencies, including a number of major European currencies as well as the Australian dollar. We have significant foreign currency exposure through both our Australian manufacturing activities and international sales operations.

We have established a foreign currency hedging program using 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 our foreign currency exposures denominated in Euro's and the Australian dollar. Under this program, increases or decreases in our 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 (in US dollars equivalents) on our foreign-currency-denominated financial assets by legal entity functional currency as of September 30, 2003 (in thousands):

	Foreign Currency Financial Assets							
	Aust Dollar	**US Dollar**	**Euro**	**Great Britain Pound**	**Singapore Dollar**	**New Zealand Dollar**	**Swedish Krona**	**Swiss Franc**
AUD Functional Currency Entities:								
Assets	—	$ 30,558	$ 8,376	$ 2,383	$ 862	$ 1,351	$ 384	$ 247
Liability	—	(4,679)	(105)	(6,003)	—	(10)	—	—
Net Total	—	25,879	8,271	(3,620)	862	1,341	384	247
USD Functional Currency Entities:								
Assets	$ 19,376	—	—	—	—	—	—	—
Liability	—	—	—	—	—	—	—	—
Net Total	$ 19,376	—	—	—	—	—	—	—
Euro Functional Currency Entities:								
Assets	$ 7,221	79	—	—	—	—	—	1,402
Liability	—	(194)	—	—	—	—	—	—
Net Total	$ 7,221	($ 115)	—	—	—	—	—	$ 1,402

The table below provides information about our foreign currency derivative financial instruments and presents the information in U.S. 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 September 30, 2003. The table presents the notional amounts and weighted average exchange rates by contractual maturity dates for our foreign currency derivative financial instruments. These notional amounts generally are used to calculate payments to be exchanged under the options contracts.

					Fair Value Assets/ (Liabilities)	
(In thousands except exchange rates)	**FY 2004**	**FY 2005**	**FY 2006**	**Total**	**Sep 30, 2003**	**Jun 30, 2003**
Foreign Exchange Call Options						
(Receive AUS$/Pay U.S.$)						
Option amount	$ 49,500	$ 36,000	$ 18,000	$ 103,500	$ 1,667	$ 2,026
Ave. contractual exchange rate	AUS $1 = USD 0.680	AUS $1 = USD 0.678	AUS $1 = USD 0.685	AUS $1 = USD 0.680		
(Receive AUS$/Pay Euro)						
Option amount	$ 15,610	$ 14,114	—	$ 29,724	$ 450	$ 552
Ave. contractual exchange rate	AUS $1 = Euro 0.590	AUS $1 = Euro 0.580		AUS $1 = Euro 0.585		
Total					2,117	2,578

RESMED INC AND SUBSIDIARIES
Quantitative and Qualitative Disclosures About Market and Business Risk

Interest Rate Risk

We are exposed to risk associated with changes in interest rates affecting the return on our investments.

At September 30, 2003, we maintained a portion of our cash and cash equivalents in financial instruments with original maturities of three months or less. We maintain a short-term investment portfolio containing financial instruments of which the majority have original maturities of greater than three months but less than twelve months. These financial instruments, principally comprised of corporate obligations, are subject to interest rate risk and will decline in value if interest rates increase.

A hypothetical 100 basis point change in interest rates during the three months ended September 30, 2003, would have resulted in approximately $0.2 million change in pretax income. In addition, the value of our marketable securities would change by approximately $0.5 million following a hypothetical 100 basis point change in interest rates. We do not use derivative financial instruments in our investment portfolio.

Forward-Looking Statements

This report on Form 10-K contains or may contain certain forward-looking statements and information that are based on the beliefs of our management as well as estimates and assumptions made by, and information currently available to our management. The words “believe,” “expect,” “anticipate,” “estimate,” “plan,” “future” and other similar expressions generally identify forward-looking statements, including, in particular, statements regarding the development and approval of new products and product applications, market expansion, pending litigation and the development of new markets for our products, such as cardiovascular and stroke markets. These forward-looking statements are made pursuant to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. You are cautioned not to place undue reliance on these forward-looking statements. Such forward-looking statements reflect the views of our management at the time such statements are made and are subject to a number of risks, uncertainties, estimates and assumptions, including, without limitation, and in addition to those identified in the text surrounding such statements, those identified below and elsewhere in this report. In addition, important factors to consider in evaluating such forward-looking statements include changes or developments in social, economic, market, legal or regulatory circumstances, changes in our business or growth strategy or an inability to execute our strategy due to changes in our industry or the economy generally, the emergence of new or growing competitors, the actions or omissions of third parties, including suppliers, customers, competitors and governmental authorities, and various other factors. Should any one or more of these risks or uncertainties materialize, or the underlying estimates or assumptions prove incorrect, actual results may vary significantly from those expressed in such forward-looking statements, and there can be no assurance that the forward-looking statements contained in this report will in fact occur.

Risk Factors

The risks and uncertainties that may affect our business, financial condition or results of operations include the following:

RESMED INC AND SUBSIDIARIES
Quantitative and Qualitative Disclosures About Market and Business Risk

Risk Factors, Continued

Our inability to compete successfully in our markets may harm our business. The markets for our sleep-disordered breathing products are highly competitive and are characterized by frequent product improvements and evolving technology. Our ability to compete successfully depends, in part, on our ability to develop innovative new products and to be the first to market with those products. The development of innovative new products by our competitors or the discovery of alternative treatments or potential cures for the conditions that our products treat could result in our products becoming noncompetitive or obsolete.

Additionally, some of our competitors have greater financial, research and development, manufacturing and marketing resources than we do. The past several years have seen a trend towards consolidation in the health care industry and in the markets for our products. Industry consolidation could result in greater competition if our competitors combine their resources or if our competitors are acquired by other companies with greater resources than ours. This competition could increase pressure on us to reduce the selling prices of our products or could cause us to increase our spending on research and development and sales and marketing. If we are unable to develop innovative new products, maintain competitive pricing, and offer products that consumers perceive to be as reliable as those of our competitors, our sales or gross margins could decrease which would harm our business.

Our business depends on our ability to market effectively to dealers of home health care products and sleep clinics. We market our products primarily to home health care dealers and to sleep clinics that diagnose obstructive sleep apnea and other sleep disorders. We believe that home health care dealers and sleep clinics play a significant role in determining which brand of product a patient will use. The success of our business depends on our ability to market effectively to home health care dealers and sleep clinics to ensure that our products are properly marketed and sold by these third parties.

We have limited resources to market to the more than 2,500 U.S. sleep clinics and the more than 4,000 home health care dealer branch locations, most of which use, sell or recommend several brands of products. In addition, home health care dealers have experienced price pressures as government and third-party reimbursement have declined for home care products, and home health care dealers are requiring price discounts and longer periods of time to pay for products purchased from us. We cannot assure you that sleep clinic physicians will continue to prescribe our products, or that home health care dealers or patients will not substitute competing products when a prescription specifying our products has been written.

We have expanded our marketing activities to target the population with a predisposition to sleep- disordered breathing as well as primary care physicians and various medical specialists. We cannot assure you that these marketing efforts will be successful in increasing awareness of our products.

Any inability to market effectively our products outside the U.S. could impact our profitability. Approximately half our revenues are generated outside the U.S., in approximately 60 different countries. Many of these countries have unique regulatory, medical, and business environments. If we are unable to market our products effectively outside the U.S., our overall financial performance could decline.

RESMED INC AND SUBSIDIARIES
Quantitative and Qualitative Disclosures About Market and Business Risk

Risk Factors, Continued

If we are unable to support our continued growth, our business could suffer. We have experienced rapid and substantial growth. As we continue to grow, the complexity of our operations increases, placing greater demands on our management. Our ability to manage our growth effectively depends on our ability to implement and improve our financial and management information systems on a timely basis and to effect other changes in our business. Unexpected difficulties during expansion, the failure to attract and retain qualified employees, the failure to successfully replace or upgrade our management information systems, the failure to manage costs or our inability to respond effectively to growth or plan for future expansion could cause our growth to stop. If we fail to manage our growth, our business could suffer.

If we fail to integrate our recent acquisitions with our operations, our business could suffer. The integration of our acquired operations requires significant efforts from our company and the acquired entity, for several years after each acquisition. Although we acquired our MAP subsidiary in February 2001, our Labhardt subsidiary in November 2001, and our Servo Magnetics subsidiary in May 2002, we continue to adjust our business strategies, equipment, and personnel to achieve maximum efficiencies and success. If we are not able to successfully integrate the operations of our acquired entities, we may not fully realize the anticipated benefits of the acquisitions.

We manufacture substantially all of our products outside the U.S. and sell a significant portion of our products in non-U.S. markets, subjecting us to various risks relating to international activities that could adversely affect our overall profitability. Sales outside North and Latin America accounted for approximately 52%, 51%, and 48% of our net revenues in fiscal years 2003, 2002 and 2001, respectively. We expect that sales within these areas will account for approximately 50% of our net revenues in the foreseeable future. Our sales outside of North America and our operations in Europe, Australia and Asia are subject to several difficulties and risks that are separate and distinct from those we face in our domestic operations, including:

- fluctuations in currency exchange rates;
- tariffs and other trade barriers;
- compliance with foreign medical device manufacturing regulations;
- reduction in third party payer reimbursement for our products;
- inability to obtain import licenses;
- changes in trade policies and in domestic and foreign tax policies;
- possible changes in export or import restrictions; and
- the modification or introduction of other governmental policies with potentially adverse effects.

Fluctuations in foreign currency exchange rates could result in declines in our reported sales and earnings. Since our international sales and a significant portion of our manufacturing costs are denominated in local currencies and not in U.S. dollars, our reported sales and earnings are subject to fluctuations in foreign exchange rates. We had foreign currency transaction losses in recent periods and may have further losses in the future. We expect that international sales will continue to be a significant portion of our business and that a significant portion of our manufacturing costs will continue to be denominated in Australian dollars.

RESMED INC AND SUBSIDIARIES
Quantitative and Qualitative Disclosures About Market and Business Risk

Risk Factors, Continued

Government and private insurance plans may not reimburse patients for our products, which could result in reductions in sales or selling prices for our products. Our ability to sell our products depends in large part on the extent to which reimbursement for the cost of our products will be available from government health administration authorities, private health insurers and other organizations. These third party payers are increasingly challenging the prices charged for medical products and services. Therefore, even if a product is approved for marketing, we cannot assure you that reimbursement will be allowed for the product or that the reimbursement amount will be adequate or, if adequate, will not subsequently be reduced. For example, in some markets, such as Spain, France and Germany, government reimbursement is currently available for purchase or rental of our products but is subject to constraints such as price controls or unit sales limitations. In other markets, such as Australia and the United Kingdom, there is currently limited or no reimbursement for devices that treat sleep-disordered breathing conditions. Additionally, future legislation or regulation concerning the health care industry or third party or governmental coverage and reimbursement, particularly legislation or regulation limiting consumers' reimbursement rights, may harm our business.

As we continue to develop new products, those products will generally not qualify for reimbursement, if at all, until they are approved for marketing. In the United States, we sell our products primarily to home health care dealers and to sleep clinics. We do not file claims and bill governmental programs and other third party payers directly for reimbursement for our products. However, we are still subject to laws and regulations relating to governmental reimbursement programs, particularly Medicaid and Medicare.

In particular, the federal Anti-Kickback Law prohibits persons from knowingly and willfully soliciting, receiving, offering or providing remuneration, directly or indirectly, to induce either the referral of an individual, or the furnishing, recommending or arranging for a good or service, for which payment may be made under a federal healthcare program such as the Medicare and Medicaid programs. The government has interpreted this law broadly to apply to the marketing and sales activities of manufacturers and distributors like us. Many states and other governments have adopted laws similar to the federal Anti-Kickback Law. We are also subject to other federal and state fraud laws applicable to payment from any third party payer. These laws prohibit persons from knowingly and willfully filing false claims or executing a scheme to defraud any healthcare benefit program, including private third party payers. These laws may apply to manufacturers and distributors who provide information on coverage, coding, and reimbursement of their products to persons who do bill third party payers. Any violation of these laws and regulations could result in civil and criminal penalties, including fines.

Complying with Food and Drug Administration and other regulations is an expensive and time-consuming process, and any failure to comply could result in substantial penalties. We are subject to various federal, state, local and international regulations regarding our business activities. Failure to comply with these regulations could result in, among other things, recalls of our products, substantial fines and/or criminal charges against us and our employees.

RESMED INC AND SUBSIDIARIES
Quantitative and Qualitative Disclosures About Market and Business Risk

Risk Factors, Continued

Product sales, introductions or modifications may be delayed or canceled as a result of the FDA or similar foreign regulations, which could cause our sales to decline. Before we can market or sell a new medical device in the United States, we must obtain FDA clearance, which can be a lengthy and time-consuming process. We generally receive clearance from the FDA to market our products in the United States under Section 510(k) of the Federal Food, Drug, and Cosmetic Act or our products are exempt from the 510(k) clearance process. We have modified some of our 510(k) approved products without submitting new 510(k) notices, which we do not believe were required. However, if the FDA disagrees with us and requires us to submit new 510(k) notifications for modifications to our existing products, we may be required to stop marketing the products while the FDA reviews the 510(k) notification.

Any new product introduction or existing product modification could be subjected to a lengthier, more rigorous FDA examination process. For example, in certain cases we may need to conduct clinical trials of a new product prior to submitting a 510(k) notice. Additionally, we may be required to obtain premarket approvals for our products. The requirements of these more rigorous processes could delay product introductions and increase the costs associated with FDA compliance. Marketing and sale of our products outside the United States are also subject to regulatory clearances and approvals, and if we fail to obtain these regulatory approvals, our sales could suffer.

We cannot assure you that any new products we develop will receive required regulatory approvals from U.S. or foreign regulatory agencies.

Off label marketing of our products could result in substantial penalties. Clearance under Section 510(k) only permits us to market our products for the uses indicated on the labeling cleared by the FDA. We may request additional label indications for our current products, and the FDA may deny those requests outright, require additional expensive clinical data to support any additional indications or impose limitations on the intended use of any cleared products as a condition of clearance. If the FDA determines that we have marketed our products for off label use, we could be subject to fines, injunctions or other penalties.

Disruptions in the supply of components from our single source suppliers could result in a significant reduction in sales and profitability. We purchase uniquely configured components for our devices from various suppliers, including some in which we use single-source suppliers. We cannot assure you that a replacement supplier would be able to configure its components for our devices on a timely basis or, in the alternative, that we would be able to reconfigure our devices to integrate the replacement part. A reduction or stoppage in supply while a replacement supplier reconfigures its components, or while we reconfigure our devices for the replacement part, would limit our ability to manufacture our devices, which could result in a significant reduction in sales and profitability. We cannot assure you that our inventories would be adequate to meet our production needs during any prolonged interruption of supply.

RESMED INC AND SUBSIDIARIES
Quantitative and Qualitative Disclosures About Market and Business Risk

Risk Factors, Continued

Our intellectual property may not protect our products, and our products may infringe on the intellectual property rights of third parties. We rely on a combination of patents, trade secrets and non-disclosure agreements to protect our intellectual property. Our success depends, in part, on our ability to obtain and maintain United States and foreign patent protection for our products, their uses and our processes to preserve our trade secrets and to operate without infringing on the proprietary rights of third parties. We have a number of pending patent applications, and we do not know whether any patents will issue from any of these applications. We do not know whether any of the claims in our issued patents or pending applications will provide us with any significant protection against competitive products or otherwise be commercially valuable. Legal standards regarding the validity of patents and the proper scope of their claims are still evolving, and there is no consistent law or policy regarding the valid breadth of claims. Additionally, there may be third party patents, patent applications and other intellectual property relevant to our products and technology which are not known to us and that block or compete with our products.

We face the risks that:

- third parties will infringe our intellectual property rights;
- our non-disclosure agreements will be breached;
- we will not have adequate remedies for infringement;
- our trade secrets will become known to or independently developed by our competitors; or
- third parties will be issued patents that may prevent the sale of our products or require us to license and pay fees or royalties in order for us to be able to market some of our products.

We are currently engaged in litigation relating to the enforcement and defense of a number of our patents. Additional litigation may be necessary to enforce patents issued to us, to protect our proprietary rights, or to defend third party claims that we have infringed upon proprietary rights of others. The defense and prosecution of patent claims, including these pending claims, as well as participation in other inter-party proceedings, can be expensive and time consuming, even in those instances in which the outcome is favorable to us. If the outcome of any litigation or proceeding brought against us were adverse, we could be subject to significant liabilities to third parties, could be required to obtain licenses from third parties or could be required to cease sales of the affected products. Additionally, the laws regarding the enforceability of patents vary from country to country, and we cannot assure you that any patent issues we face will be uniformly resolved, or that local laws will provide us with consistent rights and benefits.

RESMED INC AND SUBSIDIARIES
Quantitative and Qualitative Disclosures About Market and Business Risk

Risk Factors, Continued

We are subject to potential product liability claims that may exceed the scope and amount of our insurance coverage, which would expose us to liability for uninsured claims. We are subject to potential product liability claims as a result of the design, manufacture and marketing of medical devices. Any product liability claim brought against us, with or without merit, could result in the increase of our product liability insurance rates. In addition, we would have to pay any amount awarded by a court in excess of our policy limits. Our insurance policies have various exclusions, and thus we may be subject to a product liability claim for which we have no insurance coverage, in which case, we may have to pay the entire amount of any award. We cannot assure you that our insurance coverage will be adequate or that all claims brought against us will be covered by our insurance. Insurance varies in cost and can be difficult to obtain, and we cannot assure you that we will be able to obtain insurance in the future on terms acceptable to us or at all. A successful product liability claim brought against us in excess of our insurance coverage, if any, may require us to pay substantial amounts, which could harm our business.

Our quarterly operating results are subject to fluctuation for a variety of reasons. Our operating results have, from time to time, fluctuated on a quarterly basis and may be subject to similar fluctuations in the future. These fluctuations may result from a number of factors, including:

- the introduction of new products by us or our competitors;
- the geographic mix of product sales;
- the success of our marketing efforts in new regions;
- changes in third party reimbursement;
- timing of regulatory clearances and approvals;
- timing of orders by distributors;
- expenditures incurred for research and development;
- competitive pricing in different regions;
- seasonality;
- the cost and effect of promotional and marketing programs;
- the effect of foreign currency transaction gains or losses; and
- other activities of our competitors.

If a natural or man-made disaster strikes our manufacturing facilities, we will be unable to manufacture our products for a substantial amount of time and our sales will decline. Our facilities and the manufacturing equipment we use to produce our products would be costly to replace and could require substantial lead time to repair or replace. The facilities may be affected by natural or man made disasters and in the event it was affected by a disaster, we would be forced to rely on third party manufacturers. Although we believe we possess adequate insurance for damage to our property and the disruption of our business from casualties, such insurance may not be sufficient to cover all of our potential losses and may not continue to be available to us on acceptable terms, or at all.

RESMED INC AND SUBSIDIARIES
Quantitative and Qualitative Disclosures About Market and Business Risk

Risk Factors, Continued

Delaware law, provisions in our charter and our shareholder rights plan could make it difficult for another company to acquire us. Provisions of our certificate of incorporation may have the effect of delaying or preventing changes in control or management which might be beneficial to us or our security holders. In particular, our board of directors is divided into three classes, serving for staggered three-year terms. Because of this classification it will require at least two annual meetings to elect directors constituting a majority of our board of directors.

Additionally, our board of directors has the authority to issue up to 2,000,000 shares of preferred stock and to determine the price, rights, preferences, privileges and restrictions, including voting rights, of those shares without further vote or action by the stockholders. Under our stockholder rights plan, we have also issued purchase rights to the holders of our common stock that entitle those holders to purchase our Series A Junior Participating Preferred Stock at a discount, under certain circumstances. The rights of the holders of our common stock will be subject to, and may be adversely affected by, the rights of the holders of any preferred stock that may be issued in the future. The issuance of preferred stock may have the effect of delaying, deferring or preventing a change in control, may discourage bids for our common stock at a premium over the market price of our common stock and may adversely affect the market price of our common stock and the voting and other rights of the holders of our common stock.

You may not be able to enforce the judgments of U.S. courts against some of our assets or officers and directors. A substantial portion of our assets are located outside the United States. Additionally, two of our seven directors and three of our seven officers reside outside the United States, along with all or a substantial portion of the assets of these persons. As a result, it may not be possible for investors to enforce judgments of U.S. courts relating to any liabilities under U.S. securities laws against our assets, those persons or their assets. In addition, we have been advised by our Australian counsel that some doubt exists as to the ability of investors to pursue claims based on U.S. securities laws against these assets or these persons in Australian courts.

RESMED INC AND SUBSIDIARIES

Controls and Procedures

We maintain disclosure controls and procedures that are designed to ensure that information required to be disclosed in our Exchange Act reports is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms and that such information is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure. In designing and evaluating the disclosure controls and procedures, management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives, and in reaching a reasonable level of assurance management necessarily was required to apply its judgment in evaluating the cost benefit relationship of possible controls and procedures.

As required by SEC Rule 13a-15(b), we carried out an evaluation, under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures as of June 30, 2003. Based on the foregoing, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective at the reasonable assurance level.

There has been no change in our internal controls over financial reporting during our most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, our internal controls over financial reporting.

RESMED INC. AND SUBSIDIARIES

Item 1 Legal Proceedings
Refer Note 8 to the Condensed Consolidated Financial Statements

Item 2 Changes in Securities and Use of Proceeds
None

Item 3 Defaults Upon Senior Securities
None

Item 4 Submission of Matters to a Vote of Security Holders
None

Item 5 Other Information
None

Item 6 Exhibits and Report on Form 8-K

a) Exhibits:

31.1 Certification of Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

31.2 Certification of Chief Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

32.1 Certification of Chief Executive Officer and Chief Financial Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

b) Reports on Form 8-K
None

Pursuant to the requirements of Section 13 or 15(d) 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.

DATED November 12, 2003

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

EXHIBIT 31.1

RESMED INC. AND SUBSIDIARIES
Certification of Chief Executive Officer
Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

I, Peter C. Farrell, certify that:

1. I have reviewed this quarterly report on Form 10-Q of ResMed Inc;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report.

4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:

   a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared.

   b) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   c) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

November 12, 2003

/s/ **PETER C. FARRELL**

Peter C. Farrell
Chairman and Chief Executive Officer

EXHIBIT 31.2

RESMED INC. AND SUBSIDIARIES
Certification of Chief Financial Officer
Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

I, Adrian M. Smith, certify that:

1. I have reviewed this quarterly report on Form 10-Q of ResMed Inc;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report.

4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:

   a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared.

   b) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   c) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

November12, 2003

/s/ **ADRIAN M. SMITH**

Adrian M. Smith
Vice President Finance and Chief Financial Officer

EXHIBIT 32.1

The following certifications are being furnished solely to accompany the Report pursuant to 18 U.S.C. § 1350 and in accordance with SEC Release No. 33-8238. These certifications shall not be deemed "filed" for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, nor shall they be incorporated by reference in any filing of the Company under the Securities Act of 1933, as amended, whether made before or after the date hereof, regardless of any general incorporation language in such filing.

Certification of Chief Executive Officer

Pursuant to 18 U.S.C. § 1350, as created by Section 906 of the Sarbanes-Oxley Act of 2002, the undersigned officer of ResMed Inc., a Delaware corporation (the "Company"), hereby certifies, to his knowledge, that:

(i) the accompanying Quarterly Report on Form 10-Q of the Company for the period ended September 30, 2003 (the "Report") fully complies with the requirements of Section 13(a) or Section 15(d), as applicable, of the Securities Exchange Act of 1934, as amended; and

(ii) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: November 12, 2003

/s/ PETER C. FARRELL

Peter C. Farrell
Chairman and Chief Executive Officer

A signed original of this written statement required by Section 906 has been provided to ResMed Inc. and will be retained by ResMed Inc. and furnished to the Securities and Exchange Commission or its staff upon request.

Certification of Chief Financial Officer

Pursuant to 18 U.S.C. § 1350, as created by Section 906 of the Sarbanes-Oxley Act of 2002, the undersigned officer of ResMed Inc., a Delaware, corporation (the "Company"), hereby certifies, to his knowledge, that:

(i) the accompanying Quarterly Report on Form 10-Q of the Company for the period ended September 30, 2003 (the "Report") fully complies with the requirements of Section 13(a) or Section 15(d), as applicable, of the Securities Exchange Act of 1934, as amended; and

(ii) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: November 12, 2003

/s/ ADRIAN M. SMITH

Adrian M. Smith
Vice President Finance and Chief Financial Officer

A signed original of this written statement required by Section 906 has been provided to ResMed Inc. and will be retained by ResMed Inc. and furnished to the Securities and Exchange Commission or its staff upon request.