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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 MARCH 31, 2005**

☐ **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 ☐

As of May 2, 2005, there were 34,905,254 shares of Common Stock ($0.004 par value) outstanding. This number excludes 1,127,459 shares held by the registrant as treasury shares.

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RESMED INC. AND SUBSIDIARIES

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

	March 31, 2005	June 30, 2004
ASSETS		
Current assets:		
Cash and cash equivalents	$ 136,700	$ 128,907
Marketable securities – available-for-sale (note 3)	37,949	12,021
Accounts receivable, net of allowance for doubtful accounts of $2,880 at March 31, 2005 and $3,197 at June 30, 2004	89,109	67,242
Inventories (note 4)	75,459	55,797
Deferred income taxes	15,859	7,041
Prepaid expenses and other current assets	8,421	6,821
Total current assets	363,497	277,829
Property, plant and equipment, net (note 6)	170,013	147,268
Patents and other intangible assets (note 7)	10,024	4,814
Goodwill (note 8)	121,166	106,075
Other assets	9,602	8,173
Total non-current assets	310,805	266,330
Total assets	$ 674,302	$ 544,159
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 23,261	$ 18,574
Accrued expenses	31,294	22,591
Current portion of deferred revenue	11,730	8,759
Income taxes payable	19,459	8,470
Deferred profit on sale-leaseback	442	2,197
Total current liabilities	86,186	60,591
Non-current liabilities:		
Deferred revenue	10,863	8,819
Convertible subordinated notes (note 9)	113,250	113,250
Total non-current liabilities	124,113	122,069
Total Liabilities	210,299	182,660
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 34,771,863 at March 31, 2005 and 33,858,272 at June 30, 2004 (excluding 1,127,459 and 886,369 shares held as Treasury Stock respectively)	139	135
Additional paid-in capital	170,867	132,875
Retained earnings	266,863	217,656
Treasury stock	(41,405)	(30,440)
Accumulated other comprehensive income (note 5)	67,539	41,273
Total stockholders' equity	464,003	361,499
Total liabilities and stockholders' equity	$ 674,302	$ 544,159

See accompanying notes to unaudited condensed consolidated financial statements.

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

	Three Months Ended March 31,		Nine Months Ended March 31,	
	2005	2004	2005	2004
Net revenue	$ 108,454	$ 91,277	$ 300,080	$ 246,447
Cost of sales	38,159	33,727	104,996	89,315
Gross profit	70,295	57,550	195,084	157,132
Operating expenses:				
Selling, general and administrative	34,449	28,201	94,582	76,153
Research and development	7,240	6,858	21,901	19,641
Donation to research foundation	—	—	500	500
Restructuring expenses (note 10)	1,579	—	4,505	—
Total operating expenses	43,268	35,059	121,488	96,294
Income from operations	27,027	22,491	73,596	60,838
Other income (expense), net:				
Interest income (expense), net	9	(437)	(471)	(1,199)
Other, net	(340)	211	370	1,442
Total other income (expense), net	(331)	(226)	(101)	243
Income before income taxes	26,696	22,265	73,495	61,081
Income taxes	(8,819)	(7,236)	(24,288)	(19,652)
Net income	$ 17,877	$ 15,029	$ 49,207	$ 41,429
Basic earnings per share	$ 0.52	$ 0.45	$ 1.44	$ 1.23
Diluted earnings per share (note 2-j)	$ 0.50	$ 0.43	$ 1.38	$ 1.18
Basic shares outstanding (000's)	34,482	33,639	34,127	33,651
Diluted shares outstanding (000's)	37,745	35,055	37,324	35,063

See accompanying notes to unaudited condensed consolidated financial statements.

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

	Nine Months Ended March 31,	
	2005	2004
Cash flows from operating activities:		
Net income	$ 49,207	$ 41,429
Adjustment to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	19,526	12,773
Amortization of deferred borrowing costs	616	599
Foreign currency options revaluations	(371)	(1,704)
Profit on sale and lease-back of building	(1,932)	(1,840)
Changes in operating assets and liabilities; net of effect of acquisitions:		
Accounts receivable, net	(16,488)	(9,239)
Inventories	(14,367)	(5,939)
Other operating assets and liabilities	13,605	17,129
Net cash provided by operating activities	49,796	53,208
Cash flows from investing activities:		
Purchases of property, plant and equipment	(26,153)	(45,999)
Patent registration costs	(2,072)	(1,704)
Purchase of non-trading investments	(1,400)	(1,381)
Acquisition of businesses, net of cash acquired of $2,450 (note 12)	(14,504)	(184)
Purchases of marketable securities-available-for-sale	(335,647)	(55,633)
Proceeds from sale or maturity of marketable securities – available-for-sale	309,725	49,215
Net cash used in investing activities	(70,051)	(55,686)
Cash flows provided by financing activities:		
Proceeds from issuance of common stock, net	31,900	14,932
Purchase of treasury stock	(10,965)	(19,025)
Net cash provided by (used in) financing activities	20,935	(4,093)
Effect of exchange rate changes on cash	7,113	6,648
Net increase in cash and cash equivalents	7,793	77
Cash and cash equivalents at beginning of period	128,907	114,491
Cash and cash equivalents at end of period	$ 136,700	$ 114,568
Supplemental disclosure of cash flow information:		
Income taxes paid	$ 20,016	$ 9,636
Interest paid	2,265	2,265

See accompanying notes to 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. Through our subsidiaries, we design, manufacture and market devices for the evaluation and treatment of sleep-disordered breathing, primarily obstructive sleep apnea. Our 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 of the Securities and Exchange Commission. 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 nine months ended March 31, 2005 are not necessarily indicative of the results that may be expected for the year ending June 30, 2005.

The consolidated financial statements for the nine months ended March 31, 2005 and 2004 are unaudited and should be read in conjunction with the consolidated financial statements and notes thereto included in our Form 10-K for the year ended 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 in 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.

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

(2) Summary of Significant Accounting Policies, Continued

(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.

We do not recognize revenues to the extent that we 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 recognize revenues if we offer variable sale prices for subsequent events or activities. 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 U.S. 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 U.S. 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 and 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.

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

(2) Summary of Significant Accounting Policies, Continued

(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 and Intangibles

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.

Other intangible assets acquired have been recorded at fair value and are amortized over their estimated useful life, generally seven years.

(g) Goodwill

We conducted our annual review for goodwill impairment as at June 30, 2004. 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 existed at June 30, 2004.

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

(2) Summary of Significant Accounting Policies, Continued

(h) 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 income 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.

(i) Research and Development

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

(j) Earnings Per Share

We calculate earnings per share in accordance with Statement of Financial Accounting Standards No. 128, “Earnings per Share” (“SFAS 128”). SFAS 128 requires the presentation of “basic” earnings per share and “diluted” earnings per share. Basic earnings per share is computed by dividing the net income available to common shareholders by the weighted average number of shares of common stock outstanding. For purposes of calculating diluted earnings per share, net income is adjusted for the after-tax amount of interest associated with convertible debt, and the denominator includes both the weighted average number of shares of common stock outstanding and the number of dilutive common stock equivalents such as stock options and convertible notes.

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

(2) Summary of Significant Accounting Policies, Continued

(j) Earnings Per Share (continued)

Basic and diluted earnings per share for the periods ended March 31, 2005 and 2004 are calculated as follows:

	Three Months Ended March 31,		Nine Months Ended March 31,	
	2005	2004	2005	2004
Numerator:				
Net Income	$ 17,877	$ 15,029	$ 49,207	$ 41,429
Adjustment for interest and deferred borrowing costs, net of income tax effect	821	—	2,464	—
Net Income, used in calculating diluted earnings per share	$ 18,698	$ 15,029	$ 51,671	$ 41,429
Denominator:				
Basic weighted-average common shares outstanding	34,482	33,639	34,127	33,651
Effect of dilutive securities:				
Stock options	1,394	1,416	1,328	1,412
Convertible subordinated notes	1,869	—	1,869	—
Diluted potential common shares	3,263	1,416	3,197	1,412
Diluted weighted average shares	37,745	35,055	37,324	35,063
Basic earnings per share	$ 0.52	$ 0.45	$ 1.44	$ 1.23
Diluted earnings per share	$ 0.50	$ 0.43	$ 1.38	$ 1.18

Stock options of 3,000 and 926,000 for the three month periods ended March 31, 2005 and 2004 respectively, and stock options of 380,000 and 979,000 for the nine month periods ended March 31, 2005 and 2004 respectively, were not included in the computation of diluted earnings per share as the effect of exercising these options would have been anti-dilutive.

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

(2) Summary of Significant Accounting Policies, Continued

(k) Financial Instruments

The carrying value of financial instruments, such as cash and cash equivalents, marketable securities available-for-sale, accounts 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 March 31, 2005 approximates $122.5 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.

(l) 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 cash flow 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 Statement of Financial Accounting Standards No. 133 ("SFAS 133"), "Accounting for Derivative Instruments and Hedging Activities". The foreign currency derivatives portfolio is recorded in the condensed consolidated balance sheet 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 March 31, 2005 and June 30, 2004 was $3.2 million and $2.0 million respectively, which represents the positive fair value of options held by us and are included in other assets on the consolidated balance sheet.

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

(2) Summary of Significant Accounting Policies, Continued

(l) Foreign Exchange Risk Management (continued)

We held foreign currency option contracts with notional amounts totaling $124.4 million and $140.6 million at March 31, 2005 and June 30, 2004, respectively, to hedge foreign currency items. These contracts mature at various dates prior to July 2007.

(m) 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.

(n) 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.

At March 31, 2005 and June 30, 2004, the 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 and are principally comprised of corporate obligations.

As at March 31, 2005, contractual maturities of marketable securities-available-for-sale were (in thousands):

Due less than one year	$37,949
Due one to less than three years	—
Due more than three years	—
Total	$37,949

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

(2) Summary of Significant Accounting Policies, Continued

(o) Warranty

Estimated future warranty costs related to certain products are charged to operations in the period in which the related revenue is recognized. The liability for warranty costs are included in accrued expenses in our condensed consolidated balance sheet.

Changes in the liability for product warranty for the nine months ended March 31, 2005 are as follows (in thousands):

Balance as at June 30, 2004	$1,557
Warranty accruals for the nine months ended March 31, 2005	509
Warranty costs incurred for the nine months ended March 31, 2005	(299)
Foreign currency translation adjustments	154
Balance as at March 31, 2005	$1,921

(p) 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 recoverable. 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.

(q) Cost-Method Investments

The aggregate carrying amount of our cost-method investments at March 31, 2005 were $6.2 million and are included in other assets in our condensed consolidated balance sheet. At June 30, 2004, we performed our annual impairment analysis of the carrying value of these investments and determined that the fair value of the investments exceeded the carrying values and no unrealized losses existed.

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

(2) Summary of Significant Accounting Policies, Continued

(r) 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 have also offered to our personnel, including officers and directors, the right to purchase shares of our common stock at a discount under our employee share purchase plan ('ESPP').

We apply APB Opinion No. 25, "Accounting for Stock Issued to Employees" and related Interpretations, in accounting for our equity plans. No stock-based employee compensation cost is reflected in net income, as all options granted under those plans had an exercise price equal to the market value of the underlying common stock on the date of grant (or within permitted discounted prices as it pertains to the employee stock purchase plan). 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 March 31,		Nine Months Ended March 31,	
	2005	2004	2005	2004
Net income, as reported	$ 17,877	$ 15,029	$ 49,207	$ 41,429
Deduct: Total stock-based employee compensation expense determined under fair value based method for all awards, net of related tax effects.	3,204	3,008	6,697	6,603
Pro forma net income	$ 14,673	$ 12,021	$ 42,510	$ 34,826
Adjustment for interest and deferred borrowing costs, net of income tax	821	—	2,464	—
Proforma net income used in calculating diluted earnings per share	$ 15,494	$ 12,021	$ 44,974	$ 34,826
Earnings per share:				
Basic - as reported	$ 0.52	$ 0.45	$ 1.44	$ 1.23
Basic - pro forma	$ 0.43	$ 0.36	$ 1.25	$ 1.03
Diluted - as reported	$ 0.50	$ 0.43	$ 1.38	$ 1.18
Diluted - pro forma	$ 0.41	$ 0.34	$ 1.20	$ 0.99

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

(2) Summary of Significant Accounting Policies, Continued

(r) Stock-based Employee Compensation (continued)

The fair value of stock options granted under our stock option plans and purchase rights granted under our ESPP is estimated on the date of the grant using the Black-Scholes option-pricing model with the following weighted average assumptions:

	Three Months Ended March 31,		Nine Months Ended March 31,	
	2005	2004	2005	2004
Stock Options				
Weighted average risk-free interest rate	4.2%	3.0%	4.2%	3.0%
Dividend yield		—		—
Expected option life in years	4.0-4.6	3.5 – 4.2	4.0-4.6	3.5 – 4.2
Volatility	34%	43%	34%	43%
ESPP Purchase rights:				
Weighted average risk-free interest rate	2.4%	—	2.1%	—
Dividend yield	—	—	—	—
Expected option life in years	6 months	—	6 months	—
Volatility	35%	—	35%	—

(3) Marketable Securities

The estimated fair value of marketable securities available for sale as of March 31, 2005 and June 30, 2004 are $37.9 million and $12.0 million respectively.

Expected maturities may differ from contractual maturities because the issuers of the securities may have the right to prepay obligations without prepayment penalties.

(4) Inventories

Inventories were comprised of the following at March 31, 2005 and June 30, 2004 (in thousands):

	March 31, 2005	June 30, 2004
Raw materials	$25,510	$15,277
Work in progress	3,042	2,254
Finished goods	46,907	38,266
	$75,459	$55,797

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

(5) Comprehensive Income

The components of comprehensive income, net of tax, were as follows (in thousands):

	Three months ended March 31,		Nine months ended March 31,	
	2005	2004	2005	2004
Net income	$ 17,877	$ 15,029	$ 49,207	$ 41,429
Foreign currency translation gains/(losses)	(9,089)	1,333	26,267	28,555
Unrealized gains/(losses) on marketable securities	(3)	—	(1)	2
Comprehensive income	$ 8,785	$ 16,362	$ 75,473	$ 69,986

(6) Property, Plant and Equipment

Property, plant and equipment is comprised of the following as of March 31, 2005 and June 30, 2004 (in thousands):

	March 31, 2005	June 30, 2004
Machinery and equipment	$ 41,431	$ 33,605
Computer equipment	41,436	33,542
Furniture and fixtures	17,476	13,613
Vehicles	2,400	2,015
Clinical, demonstration and rental equipment	30,007	21,763
Leasehold improvements	3,440	1,346
Land	36,244	32,990
Buildings	76,344	68,249
Construction in Progress	5,643	475
	254,421	207,598
Accumulated depreciation and amortization	(84,408)	(60,330)
	$ 170,013	$ 147,268

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Notes to Condensed Consolidated Financial Statements
(unaudited)

(7) Patents and Other Intangible assets

Patents and other intangibles is comprised of the following as of March 31, 2005 and June 30, 2004 (in thousands):

	March 31, 2005	June 30, 2004
Customer relationships	$ 4,295	$ —
Accumulated amortization	(127)	—
Customer relationships, net of accumulated amortization	4,168	—
Patents	12,794	9,775
Accumulated amortization	(6,938)	(4,961)
Patents, net of accumulated amortization	5,856	4,814
Patents and other intangibles, net of accumulated amortization	$ 10,024	$ 4,814

Intangible assets consist of patents and customer relationships and are amortized over the estimated useful life of the assets, generally between five and seven years. There are no expected residual values related to these intangible assets.

(8) Goodwill

Changes in the carrying amount of goodwill for the nine months ended March 31, 2005, were as follows (in thousands):

Balance at June 30, 2004	$106,075
Goodwill on acquisition of Hoefner (note 12)	7,096
Goodwill on acquisition of the assets of Resprecare BV (note 12)	3,652
Foreign currency translation adjustments	4,343
Balance at March 31, 2005	$121,166

(9) 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.

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.

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

(9) Long-Term Debt, Continued

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.

As at March 31, 2005, we had convertible subordinated notes outstanding of $113.3 million.

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 currently 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.

We may 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.

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

(10) Restructuring Expenses

Restructuring expenses incurred during the three months and nine months ended March 31, 2005 were $1.6 million ($1.0 million net of tax) and $4.5 million ($2.8 million net of tax), respectively. Restructuring expenses (predominantly one-time termination benefits) are associated with the integration of the separate operations of ResMed Germany and MAP into a single operating unit. We have completed the relocation of our ResMed Germany operation (previously located in Moenchengladbach) to Munich and integration of the back office functions including customer service, logistics and administration. The total restructuring expenses including the expenses recognized in the nine months ended March 31, 2005, are estimated to be $5.0 million ($3.2 million net of tax). We expect to incur most of the restructuring expenses over the remainder of the 2005 fiscal year.

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

(10) Restructuring Expenses, Continued

Following is a summary of the restructuring liabilities related to the restructure and integration of the separate operations of ResMed Germany and MAP into a single operating unit, that were recorded during the nine-months ended March 31, 2005 (in thousands):

	Accrued employee costs	Other accrued costs	Total accrued costs
Balance at June 30, 2004	$ —	$ —	$ —
Restructuring expenses	4,157	348	4,505
Cash payments	(3,966)	(144)	(4,110)
Balance at March 31, 2005	$ 191	$ 204	$ 395

Restructuring expenses incurred are recorded in the consolidated statement of income as restructuring expenses.

(11) Commitments and Contingencies

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.

During September and October 2004, the Company received tax assessment notices for the audit of one of its German subsidiaries by the German tax authorities for the years 1996 through 1998. Certain of these adjustments are being contested and appealed to the German tax authority office. We believe no additional provision is necessary for any tax adjustment that may result from the tax audit. However, the outcome of the audit cannot be predicted with certainty. Should any tax audit issues be resolved in a manner not consistent with management's expectations, the Company could be required to adjust its provision for income tax in the period of resolution.

We have given guarantees totaling $1.1 million relating to guarantees required by statutory authorities as a pre-requisite to developing our site at Norwest Business Park, near Sydney, Australia, and to guarantees required by contracts with insurance companies transacting with our German subsidiaries.

We have unconditional purchase obligations totaling $47.2 million predominantly relating to the construction of our office facilities at Norwest Business Park, near Sydney, Australia.

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

(12) Business Acquisitions

Nine months ended March 31, 2005

On February 14, 2005 we acquired 100% of the outstanding stock of Hoefner Medizintechnick GmbH ("Hoefner"), for net cash consideration of $8.1 million. This was comprised of the $10.5 million purchase price less $2.4 million of cash acquired. Under the purchase agreement, we may also be required to make additional future payments of up to $0.9 million based on the achievement of certain performance milestones following the acquisition through December 31, 2006. Hoefner is a Germany based company that distributes medical equipment and associated services for the treatment of sleep and respiratory patients. The acquisition has been accounted for as a purchase and accordingly, the results of operations of Hoefner have been included within our consolidated financial statements from February 14, 2005. An amount of $7.1 million, representing the excess of the purchase price over the fair value of identifiable net assets acquired of $3.4 million, has been recorded as goodwill. An amount of $2.6 million representing management's preliminary estimate of intangible assets (customer relationships) has currently been recorded in our consolidated financial statements. We have engaged an independent third party to prepare a valuation of identifiable assets, including intangibles, associated with the Hoefner acquisition. As a result of this valuation, assigned values may be reclassified. We expect to complete our review and allocation of the purchase price in the three-month period ending June 30, 2005.

The following table summarizes the estimated fair value of the assets acquired and liabilities assumed from Hoefner at the date of acquisition (in thousands):

	At February 14, 2005
Cash	$ 2,450
Accounts receivable	1,684
Inventory	2,423
Other assets	276
Property, plant & equipment	1,831
Intangibles	2,637
Goodwill	7,096
Total assets acquired	$ 18,397
Current liabilities, primarily consisting of accounts payable, accrued expenses, taxes payable and deferred revenue	7,853
Net assets acquired	$ 10,544

On December 1, 2004 we acquired substantially all the assets of Resprecare BV, our Dutch distributor for consideration of $5.8 million in cash. Under the purchase agreement, we may also be required to make up to $1.4 million of additional future payments based on the achievement of certain performance milestones following the acquisition through December 31, 2005, of which $0.6 million was paid in January 2005 as a result of the successful achievement of a performance milestone. The acquisition has been accounted for as a purchase and accordingly, the results of operations of Resprecare have been included within our consolidated financial statements from December 1, 2004. An amount of $3.6 million, representing the excess of the purchase price over the fair value of identifiable net assets acquired of $2.8 million (comprising inventory and fixed assets), has been recorded as goodwill. An independent third party has completed a valuation of identifiable intangible assets associated with the Resprecare acquisition. As a result of this valuation, $1.7 million that was preliminarily allocated to goodwill has been recorded as a customer relationship intangible asset and is being amortized over its estimated useful life of seven years.

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

(12) Business Acquisitions, Continued

Pro-forma financial information associated with the acquisition of Resprecare and Hoefner are not included as the effects would not be significant to the consolidated financial statements.

Fiscal year ended June 30, 2004

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.

(13) Subsequent Event

On May 5, 2005, we entered into a definitive agreement to acquire Saime SA, a leading developer and distributor of ventilation products in France and Germany. We have agreed to acquire Financiere ACE SAS, the holding company for Saime SA and its affiliates, for approximately $112 million. We expect to finance the acquisition with a combination of existing cash reserves and debt. We expect the acquisition to close in May 2005.

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

Overview

The following is an overview of the results of the three-month and nine-month periods ended March 31, 2005. It should be read together with the detail provided in the individual sections below.

We are a developer, manufacturer, and marketer of medical equipment for the diagnosis, treatment and management of sleep-disordered breathing. We offer a comprehensive range of products in over 60 countries. We derive our revenue primarily from the sale of medical devices and accessories to treat individuals who suffer from sleep-disordered breathing.

During the three-month and nine-month periods ended March 31, 2005, our net revenue increased by 19% and 22%, respectively, and gross profit increased by 22% and 24%, respectively, when compared to the three-month and nine-month periods ended March 31, 2004. These results were primarily driven by increasing unit sales of our products. Diluted earnings per share for the three-month period ended March 31, 2005 increased to $0.50 per share, up from $0.43 per share in the March 2004 quarter. Diluted earnings per share for the nine-month period ended March 31, 2005 increased to $1.38 per share, up from $1.18 per share for the nine-month period ended March 31, 2004. We experienced a favorable product mix due to increased sales of higher margin products during the three-month and nine-month periods ended March 31, 2005, and this resulted in improved gross margins compared to the prior year periods. For the three-month and nine-month periods ended March 31, 2005, we recognized restructuring expenses of $1.6 million and $4.5 million respectively, associated with the integration of our German operations.

Net Revenue

Net revenue increased for the three months ended March 31, 2005 to $108.5 million from $91.3 million for the three months ended March 31, 2004, an increase of $17.2 million or 19%. For the nine months ended March 31, 2005 net revenue increased to $300.1 million from $246.4 million for the nine months ended March 31, 2004, an increase of $53.7 million or 22%. Both the three-month and nine-month increases in net revenue are primarily attributable to an increase in unit sales of our flow generators and masks. Sales also benefited from an appreciation of international currencies against the U.S. dollar which increased sales by approximately $1.9 million and $8.7 million for the three and nine-month periods ended March 31, 2005, respectively.

Net revenue in North and Latin America increased for the three months ended March 31, 2005 to $57.9 million from $45.0 million for the three months ended March 31, 2004, an increase of $12.9 million or 29%. For the nine months ended March 31, 2005, North and Latin America net revenue increased to $155.9 million from $120.8 million during the nine months ended March 31, 2004, an increase of $35.1 million or 29%. We believe this growth primarily reflects increased public and physician awareness of sleep-disordered breathing, strong customer focus and recent product introductions, particularly in our masks offerings.

Net Revenue, Continued

Net revenue in international markets for the three months ended March 31, 2005 increased to $50.5 million from $46.2 million for the three months ended March 31, 2004, an increase of $4.3 million or 9%. International sales growth in the three months ended March 31, 2005 was offset by weaker sales in Germany. Results in Germany were negatively impacted by the integration of our German operations, which has caused delays in processing of prescriptions and therefore sales. Excluding Germany and the impact of acquisitions of Resprecare and Hoefner, international sales increased 16% for the three months ended March 31, 2005 compared to the three months ended March 31, 2004. For the nine months ended March 31, 2005, net revenue in international markets increased to $144.2 million from $125.7 million for the nine months ended March 31, 2004, an increase of $18.5 million or 15%. International sales growth for both the three-month and nine-month periods ended March 31, 2005 reflect growth in the overall sleep-disordered breathing market, appreciation of international currencies against the U.S. dollar, incremental sales from the acquisition of Resprecare and Hoefner, partially offset by weaker sales in Germany in the March quarter of 2005.

Revenue from sales of flow generators for the three months ended March 31, 2005 increased by 16% compared to the three months ended March 31, 2004 including increases of 21% in North and Latin America and 12% elsewhere. Revenue from sales of mask systems, motors and other accessories increased by 22% including increases of 34% in North and Latin America and 6% elsewhere, for the three months ended March 31, 2005 compared to the three months ended March 31, 2004. These increases primarily reflect growth in the overall sleep-disordered breathing market.

For the nine months ended March 31, 2005, revenue from sales of flow generators increased by 18% compared to the nine months ended March 31, 2004; 20% in North and Latin America and 17% internationally. Revenue from sales of mask systems, motors and other accessories increased by 25%; 36% in North and Latin America and 13% internationally, for the nine months ended March 31, 2005 compared to the nine months ended March 31, 2004. We believe these increases primarily reflect growth in the overall sleep-disordered breathing market.

Gross Profit

Gross profit increased for the three months ended March 31, 2005 to $70.3 million from $57.6 million for the three months ended March 31, 2004, an increase of $12.7 million or 22%. Gross profit as a percentage of net revenue for the three months ended March 31, 2005 was 65%, compared to 63% for the quarter ended March 31, 2004, reflecting a more favorable product mix due to increased sales of higher margin masks and new product introductions.

Gross Profit, Continued

For the nine months ended March 31, 2005 gross profit increased to $195.1 million from $157.1 million in the same period of fiscal 2004, an increase of $38.0 million or 24%. Gross profit as a percentage of net revenue for the nine months ended March 31, 2005 was 65% compared to 64% for the nine months ended March 31, 2004. This also reflects a more favorable product mix due to increased sales of higher margin masks and new product introductions, 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 a majority of our manufacturing labor and overhead costs are incurred in Australian dollars.

Selling, General and Administrative Expenses

Selling, general and administrative expenses increased for the three months ended March 31, 2005 to $34.4 million from $28.2 million for the three months ended March 31, 2004, an increase of $6.2 million or 22%. As a percentage of net revenue, selling, general and administrative expenses for the three months ended March 31, 2005 were 32% compared to 31% for the three months ended March 31, 2004. The increase in selling, general and administrative expenses was primarily due to an increase 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, which added approximately $0.6 million to our expenses as reported in U.S. dollars, and selling, general and administrative expenses associated with acquired businesses which added approximately $1.0 million to expenses during the three months ended March 31, 2005.

Selling, general and administrative expenses for the nine months ended March 31, 2005 increased to $94.6 million from $76.2 million for the nine months ended March 31, 2004, an increase of $18.4 million or 24%. As a percentage of net revenue selling, general and administrative expenses were for the nine months ended March 31, 2005 were 32% compared to 31% for the nine months ended March 31, 2004. The increase in selling, general and administrative expenses was primarily due to an increase 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, which added approximately $3.2 million to our expenses as reported in U.S. dollars.

Research and Development Expenses

Research and development expenses increased for the three months ended March 31, 2005 to $7.2 million from $6.9 million for the three months ended March 31, 2004, an increase of $0.3 million or 6%. As a percentage of net revenue, research and development expenses were 7% for the three months ended March 31, 2005 compared to 8% for the three months ended March 31, 2004. The increase in research and development expenses 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. The appreciation of international currencies against the U.S. dollar added approximately $0.1 million to our research and development expenses as reported in U.S. dollars.

Research and Development Expenses, Continued

For the nine-month period ended March 31, 2005 research and development expenses increased to $21.9 million from $19.6 million for the same period in fiscal 2004, an increase of $2.3 million or 12%. As a percentage of net revenue, research and development expenses were 7% for the nine months ended March 31, 2005 compared to 8% for the nine months ended March 31, 2004. The increase in research and development expenses was due to increased salary costs associated with an increase in personnel and increased charges for consulting fees 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. For the nine months ended March 31, 2005, the appreciation of international currencies against the U.S. dollar added approximately $0.9 million to our research and development expenses as reported in U.S. dollars.

Donation to Research Foundation

For the nine months ended March 31, 2005 we donated $0.5 million to the ResMed Foundations. The foundations were established to promote awareness of and research into the serious medical consequences of untreated sleep disordered breathing.

Restructuring Expenses

Restructuring expenses incurred during the three months and nine months ended March 31, 2005 were $1.6 million ($1.0 million net of tax) and $4.5 million ($2.8 million net of tax), respectively, and consisted of restructuring charges associated with our integration of the separate operations of ResMed Germany and MAP into a single operating unit. We have completed the relocation of our ResMed Germany operation, previously located in Moenchengladbach, to Munich and integration of the back office functions including customer service, logistics and administration. The total restructuring expenses, including the expenses recognized in the nine months ended March 31, 2005, are estimated to be $5.0 million ($3.2 million net of tax). We expect to incur most of the restructuring expenses over the remainder of the 2005 fiscal year.

Other Income (Expense), Net

Other income (expense), net for the three months ended March 31, 2005 increased to net expense of $0.3 million compared to net expense of $0.2 million for the three months ended March 31, 2004. Other expense, net primarily reflects interest income from cash and marketable securities, partially offset by interest expense associated with our convertible subordinated notes and losses on foreign currency exchange. The increase in other expense, net was predominantly attributable to foreign currency exchange losses, partially offset by a reduction in net interest expense.

Other income (expense), net for the nine months ended March 31, 2005 changed to net expense of $0.1 million compared to net income of $0.2 million for the nine months ended March 31, 2004. The decrease in other income was predominantly attributable to lower net foreign currency exchange gains, partially offset by a reduction in net interest expense.

Income Taxes

Our effective income tax rate increased to approximately 33.0% for the three months ended March 31, 2005 from approximately 32.5% for the three months ended March 31, 2004 and for the nine-month period ended March 31, 2005 increased to 33.0% from 32.2% for the nine-month period ended March 31, 2004. The higher tax rate was primarily due to the geographical mix of taxable income partially offset by the tax benefit associated with our restructuring expenses, with a greater proportion of our income being generated in higher tax rate jurisdictions. We continue to benefit from the Australian corporate tax rate of 30%, as we generate a majority of our taxable income in Australia.

Business Acquisitions

Nine months ended March 31, 2005

On February 14, 2005 we acquired 100% of the outstanding stock of Hoefner Medizintechnick GmbH ("Hoefner"), for net cash consideration of $8.1 million. This was comprised of $10.5 million purchase price less $2.4 million of cash acquired. Under the purchase agreement, we may also be required to make additional future payments of $0.9 million based on the achievement of certain performance milestones following the acquisition through December 31, 2006. Hoefner is a German based company that distributes medical equipment and associated services for the treatment of sleep and respiratory patients. The acquisition of our Bavarian distributor fits our strategy for ongoing expansion of our international operations. We have been particularly successful in selling directly in Europe, which improves our understanding of local markets as well as our relationships with physicians and payors. Most importantly, the acquisition brings us closer to patients and allows us to better respond to their needs. The acquisition has been accounted for as a purchase and accordingly, the results of operations of Hoefner have been included within our consolidated financial statements from February 14, 2005. An amount of $7.1 million, representing the excess of the purchase price over the fair value of identifiable net assets acquired of $3.4 million, has been recorded as goodwill. An amount of $2.6 million, representing management's preliminary estimate of intangible assets (customer relationships), has currently been recorded in our consolidated financial statements. We have engaged an independent third party to prepare a valuation of identifiable assets, including intangibles, associated with the Hoefner acquisition. As a result of this valuation, assigned values may be reclassified. We expect to complete our review and allocation of the purchase price in the three-month period ending June 30, 2005.

The following table summarizes the estimated fair value of the assets acquired and liabilities assumed from Hoefner at the date of acquisition (in thousands):

	At February 14, 2005
Cash	$ 2,450
Accounts receivable	1,684
Inventory	2,423
Other assets	276
Property, plant & equipment	1,831
Intangibles	2,637
Goodwill	7,096
Total assets acquired	$ 18,397
Current liabilities, primarily consisting of accounts payable, accrued expenses, taxes payable and deferred revenue	7,853
Net assets acquired	$ 10,544

RESMED INC. AND SUBSIDIARIES

Management's Discussion and Analysis of Financial Condition and Results of Operations

On December 1, 2004 we acquired substantially all the assets of Resprecare BV, our Dutch distributor for consideration of $5.8 million in cash. This acquisition of our exclusive Dutch distributor fits our strategy for ongoing expansion of our international operations. Under the purchase agreement, we may also be required to make up to $1.4 million of additional future payments based on the achievement of certain performance milestones following the acquisition through December 31, 2005, of which $0.6 million was paid in January 2005 as a result of the successful achievement of a performance milestone. The acquisition has been accounted for as a purchase and accordingly, the results of operations of Resprecare have been included within our consolidated financial statements from December 1, 2004. An amount of $3.6 million, representing the excess of the purchase price over the fair value of identifiable net assets acquired of $2.8 million (comprising inventory and fixed assets), has been recorded as goodwill. An independent third party has completed a valuation of identifiable intangible assets associated with the Resprecare acquisition. As a result of this valuation, $1.7 million that was originally allocated to goodwill has been recorded as a customer relationship intangible asset and is being amortized over its estimated useful life of seven years.

Pro-forma financial information associated with the acquisition of Resprecare and Hoefner are not included as the effects would not be significant to the consolidated financial statements.

Fiscal year ended June 30, 2004

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.

Liquidity and Capital Resources

As of March 31, 2005 and June 30, 2004, we had cash and cash equivalents and marketable securities available-for-sale of approximately $174.6 million and $140.9 million, respectively. Working capital was approximately $277.3 million and $217.2 million at March 31, 2005 and June 30, 2004 respectively.

Inventories at March 31, 2005 increased by $18.0 million or 31% to $75.5 million compared to March 31, 2004 inventories of $57.5 million. The percentage increase in inventories was higher than the 19% increase in revenues in the three-month period ended March 31, 2005 compared to the three-month period ended March 31, 2004. The higher inventory growth reflects management's decision to increase inventory levels, particularly in raw materials, to accommodate our increasing production volumes. Raw material inventories have also increased to support production of our recently launched S8 flow generator. The inventory increase also includes inventory of $3.4 million as a result of Resprecare and Hoefner acquisitions during the nine months ended March 31, 2005. Accounts receivable at March 31, 2005 were $89.1 million, an increase of $23.2 million or 35% over the March 31, 2004 accounts receivable balance of $65.9 million. The accounts receivable increase includes accounts receivable of $1.7 million as a result of the Hoefner acquisition during the March quarter. Account receivable days outstanding were 70 days for the quarter ended March 31, 2005, compared to 64 days for the quarter ended March 31, 2004. The deterioration in ageing largely reflects higher than normal receivable balances relative to sales in Germany as delays in processing of invoices have also resulted in timing of collections being delayed. The credit quality of debtors remains consistent with our historical experience.

RESMED INC. AND SUBSIDIARIES

Management's Discussion and Analysis of Financial Condition and Results of Operations

Liquidity and Capital Resources, Continued

During the nine-month period ended March 31, 2005, we generated cash of $49.8 million from operations, primarily as a result of increased profit partially offset by higher working capital, particularly in respect of inventories and receivables. During the nine-month period ended March 31, 2004 approximately $53.2 million of cash was generated from operations.

Capital expenditures for the nine months ended March 31, 2005 and 2004 aggregated $26.2 million and $46.0 million, respectively. The majority of the expenditures for the nine months ended March 31, 2005 related to the construction of our new sleep center, research and development and office facilities at our campus in Norwest Business Park in Sydney, Australia, acquisition of computer hardware and software and purchase of production tooling and equipment.

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. We did not repurchase any convertible subordinated notes during the nine month period ended March 31, 2005 or during the year ended June 30, 2004.

In April 2002, we acquired a 30-acre site at Norwest Business Park, located in the northwest of Sydney, Australia. The site was acquired to develop a campus to accommodate our global manufacturing operations and research and development group as well as a sleep center and administration functions. The first building, our manufacturing facility, was completed in May 2004. We expect to complete our new sleep center in the first half of calendar 2005 and to complete our new research and development and office facilities in the second half of calendar year 2006. We estimate that the additional building costs for the new sleep center, research and development and office facilities will be approximately $52 million.

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 nine-month period ended March 31, 2005, we repurchased 241,090 shares at a cost of $11.0 million. As at March 31, 2005, we have repurchased a total of 1,127,459 shares at a cost of $41.4 million. 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.

RESMED INC. AND SUBSIDIARIES

Management's Discussion and Analysis of Financial Condition and Results of Operations

Liquidity and Capital Resources, Continued

Details of contractual obligations at March 31, 2005 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	13,677	7,408	5,023	1,221	25
Unconditional Purchase Obligations [1]	47,184	38,919	8,265	—	—
Total Contractual Cash Obligations	$174,111	$46,327	$126,538	$ 1,221	$ 25

[1] The figure includes unconditional purchase obligations of $44.1 million relating to the construction of our office facilities at Norwest, in Sydney, Australia.

Details of other commercial commitments at March 31, 2005 are as follows:

		Amount of Commitment Expiration Per Period			
In $000's	**Total Amounts Committed**	**Less than 1 year**	**1-3 years**	**4-5 years**	**Over 5 years**
Lines of Credit	$ 519	$ 519	$ —	$ —	$ —
Standby Letters of Credit	—	—	—	—	—
Guarantees*	1,077	—	408	—	669
Standby Repurchase Obligations	—	—	—	—	—
Other Commercial Commitments	499	105	315	79	—
Total Commercial Commitments	$ 2,095	$ 624	$ 723	$ 79	$ 669

* 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 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.

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.

RESMED INC. AND SUBSIDIARIES

Management Discussion and Analysis of Financial Condition and Results of Operations

Critical Accounting Principles and Estimates, Continued

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 Condition 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 recognize revenues to the extent that we 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 recognize revenues if we offer variable sale prices for subsequent events or activities. 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 Condition and Results of Operations

Recently Issued Accounting Pronouncements

In December 2004, the Financial Accounting Standards Board, ("FASB"), issued SFAS 123(R), "Share-Based Payment", which is a revision of SFAS 123. Generally, the approach in SFAS 123(R) is similar to the approach described in SFAS 123. However, SFAS 123(R) requires all share-based payments to employees, including grants of employee stock options, to be recognized in the income statement based on their fair values. Pro forma disclosure will no longer be an alternative. This statement also eliminates the ability to account for share-based compensation transactions using APB Opinion No. 25. The statement, which was delayed, is effective at the beginning of the fiscal year beginning after June 15, 2005. Early adoption will be permitted in periods in which financial statements have not yet been issued. We expect to adopt SFAS 123(R) for our interim period ending September 30, 2005.

SFAS 123(R) permits public companies to adopt its requirements using one of two methods: (1) A "modified prospective" method in which compensation cost is recognized beginning with the effective date (a) based on the requirements of SFAS 123(R) for all share-based payments granted after the effective date and (b) based on the requirements of SFAS 123 for all awards granted to employees prior to the effective date of SFAS 123(R) that remain unvested on the effective date, (2) A "modified retrospective" method which includes the requirements of the modified prospective method described above, but also permits entities to restate based on the amounts previously recognized under SFAS 123 for purposes of pro forma disclosures either (a) all prior periods presented or (b) prior interim periods of the year of adoption. We have not yet determined what method we will use.

As permitted by SFAS 123, we currently account for share-based payments to employees using Opinion 25's intrinsic value method and, as such, generally recognize no compensation cost for employee stock options. Accordingly, the adoption of SFAS 123(R)'s fair value method may have a significant impact on our results of operations. We have not yet determined the impact of the adoption of SFAS 123(R).

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 expenditures. The goal of this hedging program is to economically guarantee or lock in the exchange rates on our foreign currency exposures denominated in Euros and Australian dollars. 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 U.S. dollar equivalents on our foreign-currency denominated financial assets by legal entity functional currency as at March 31, 2005 (in thousands):

	Foreign Currency Financial Assets								
	Australian Dollar	US Dollar	Euro	Great Britain Pound	Singapore Dollar	New Zealand Dollar	Swedish Krona	Swiss Franc	Japanese Yen
AUD Functional Currency Entities:									
Assets	—	$ 65,211	$24,465	$ 6,703	$ 1,051	$1,129	$1,277	$1,080	$ —
Liability	—	(17,345)	(492)	(8,217)	(158)	(12)	—	(4)	(35)
Net Total		$ 47,866	$23,973	$(1,514)	$ 893	$1,117	$1,277	$1,076	$ (35)
USD Functional Currency Entities:									
Assets	$ 23,816	—	$ 4,978	—	—	—	—	—	—
Liability	—	—	—	—	—	—	—	—	—
Net Total	$ 23,816	—	$ 4,978	—	—	—	—	—	—
Euro Functional Currency Entities:									
Assets	$ 4,693	$ 3,000	—	—	—	—	—	—	—
Liability	(18)	(419)	(590)	—	—	—	—	(924)	—
Net Total	$ 4,675	$ 2,581	($590)	—	—	—	—	($924)	—

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 March 31, 2005. 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 our option contracts.

(In thousands except exchange rates)					Fair Value Assets / (Liabilities)	
Foreign Exchange Call Options	FY 2005	FY 2006	FY 2007	Total	Mar 31, 2005	Jun 30, 2004
Receive AUD/Pay USD						
Option amount	$ 15,000	$ 66,000	$ 24,000	$ 105,000	$2,920	$1,816
Ave. contractual exchange rate	AUD 1 = USD 0.705	AUD1 = USD 0.747	AUD1= USD 0.77	AUD 1 = USD 0.749		
Receive AUD/Pay Euro						
Option amount	$ 3,889	$ 15,554	—	$ 19,443	$ 311	$ 180
Ave. contractual exchange rate	AUD 1 = Euro 0.58	AUD 1 = Euro 0.60		AUD 1 = Euro 0.596		
Total					$3,231	$1,996

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 cash and cash equivalents and marketable securities.

At March 31, 2005, we maintain a short-term investment portfolio containing financial instruments that have original maturities of 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 10% change in interest rates during the nine months ended March 31, 2005, would not have had a material impact on our results of operations. In addition, the value of our marketable securities following a hypothetical 10% change in interest rates would not have had a material impact on our results of operations. We have no interest rate hedging agreements.

Forward-Looking Statements

This report 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.

RESMED INC. AND SUBSIDIARIES

Quantitative and Qualitative Disclosures About Market and Business Risk

Risk Factors

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

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 make our products 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 sources have declined for home health care products, and home health care dealers are requiring price discounts and longer periods of time to pay for products purchased from us. Sleep clinic physicians may not continue to prescribe our products, and home health care dealers or patients may 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. These marketing efforts may not be successful in increasing awareness of our products.

RESMED INC. AND SUBSIDIARIES

Quantitative and Qualitative Disclosures About Market and Business Risk

Risk Factors, Continued

Any inability to effectively market 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 effectively market our products outside the U.S., our overall financial performance could decline.

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 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. For example, during the first quarter of fiscal year 2005, we began combining the business operations in Germany of MAP and our ResMed subsidiary in Germany. We expect to continue that process during the balance of fiscal year 2005. 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 51%, 52%, and 51% of our net revenues in fiscal years 2004, 2003 and 2002, 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 U.S. 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 U.S. and foreign tax policies;
- possible changes in export or import restrictions; and
- the modification or introduction of other governmental policies with potentially adverse effects.

RESMED INC. AND SUBSIDIARIES

Quantitative and Qualitative Disclosures About Market and Business Risk

Risk Factors, Continued

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.

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, that the reimbursement amount will be adequate or, that the reimbursement amount even if initially 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. Although we sell some products directly to agencies of the US Government, we do not file claims and bill governmental programs and other third party payers directly for reimbursement for the sale of our products to patients. 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 health care 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 health care 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.

RESMED INC. AND SUBSIDIARIES

Quantitative and Qualitative Disclosures About Market and Business Risk

Risk Factors, Continued

In addition to reimbursement for our products, our customers depend in part on reimbursement by government and private health insurers for other products. During fiscal years 2004 and 2005, the U.S. Government proposed reductions in reimbursement rates for some of these other products. Such proposed reductions, if they occur, may have a material impact on our customers. Any material impact on our customers may indirectly affect our sales to those customers, or the collectibility of receivables we have from those customers.

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 criminal charges against us or against our employees. A recall or other regulatory action could increase our costs, damage our reputation, and materially affect operating results.

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 and profits 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 clearances and approvals, our sales could suffer.

Any new products we develop may not receive required regulatory clearances and 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.

RESMED INC. AND SUBSIDIARIES

Quantitative and Qualitative Disclosures About Market and Business Risk

Risk Factors, Continued

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 who are single-source suppliers for us. 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 halt 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.

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.

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.

We are subject to tax audits by various tax authorities in many jurisdictions. From time to time we may be audited by the tax authorities of the many jurisdictions in which we operate and we were subject to tax audits in Germany during the nine months ended March 31, 2005. The German tax audit remains ongoing and any further assessments resulting from this audit could result in material changes to our past or future taxable income, tax payable or deferred tax assets, and could require us to pay penalties and interest that could materially adversely affect our financial results.

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.

RESMED INC. AND SUBSIDIARIES

Quantitative and Qualitative Disclosures About Market and Business Risk

Risk Factors, Continued

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 and profitability 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.

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 eight directors and two of our five executive 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

Quantitative and Qualitative Disclosures About Market and Business Risk

Risk Factors, Continued

If we fail to have sufficient funds available to repay our convertible notes due June 20, 2006, our operations may be jeopardized.

We have outstanding an aggregate of $113,250,000 of convertible notes, which are due on June 20, 2006. The outstanding convertible notes were initially issued as part of a $180,000,000 private offering completed in June 2001. The remainder of the convertible notes were repurchased by us through open market purchases in 2002 and 2003. The convertible notes bear interest at a rate of 4% per annum and may convert to common stock at a conversion price of $60.60 per share. Should the holders of the notes not elect to convert them to common stock, or if we are not able to force the conversion of the notes by their terms, we must repay the amounts on the due date. We may not have sufficient funds available to repay our convertible notes at their maturity, and we do not currently have credit facilities or other financing available to us to provide funds for the repayment of the convertible notes. We may not be able to obtain additional financing to repay the convertible notes on terms acceptable to us, if at all. If we raise additional funds by selling equity securities, the relative equity ownership of our existing investors would be diluted. A failure to obtain additional funding to repay the convertible notes and support our working capital and operating requirements could jeopardize our operations.

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 March 31, 2005. 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 11 to the Condensed Consolidated Financial Statements

Item 2 Unregistered Sales of Equity Securities and Use of Proceeds

Purchases of equity securities. The following table summarizes purchases by us of our common stock during the nine months ended March 31, 2005.

Period	Total Number of Shares	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs [1]	Maximum Number of Shares that May yet be Purchased Under the Plans or Programs[1]
Opening balance at July 1, 2004	886,369	$ 34.34	886,369	3,113,631
July 2004	Nil	—	—	—
August 2004	241,090	$ 45.48	241,090	(241,090)
September 2004	Nil	—	—	—
October 2004	Nil	—	—	—
November 2004	Nil	—	—	—
December 2004	Nil	—	—	—
January 2005	Nil	—	—	—
February 2005	Nil	—	—	—
March 2005	Nil	—	—	—
Closing balance at March 31, 2005	1,127,459	$ 36.72	1,127,459	2,872,541

(1) 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, 2004 and the year ended June 30, 2004, we repurchased 241,090 and 471,004 shares at a cost of $11.0 million and $19.0 million respectively. Since the inception of the share buyback program, we have repurchased 1,127,459 shares at a cost of $41.4 million.

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

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

RESMED INC. AND SUBSIDIARIES

Signatures

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.

May 9, 2005

ResMed Inc.

/s/ PETER C. FARRELL
Peter C. Farrell
Chairman and Chief Executive Officer

/s/ ADRIAN M. SMITH
Adrian M. Smith
Senior Vice President Finance and Chief Financial Officer

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 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 officer 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 officer 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.

May 9, 2005

/s/ PETER C. FARRELL
Peter C. Farrell
Chairman and Chief Executive Officer

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 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 officer 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 officer 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.

May 9, 2005

/s/ ADRIAN M. SMITH
Adrian M. Smith
Senior Vice President Finance and Chief Financial Officer

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 March 31, 2005 (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.

May 9, 2005

/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 March 31, 2005 (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.

May 9, 2005

/s/ ADRIAN M. SMITH
Adrian M. Smith
Senior 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.