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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, 2006.

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

FOR THE TRANSITION PERIOD FROM _____ TO _____

001-15317
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 a large accelerated filer, an accelerated filer, or a non- accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act. (Check one): Large accelerated filer ☒ Accelerated filer ☐ Non-accelerated filer ☐

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

As of May 1, 2006, 75,406,842 shares of Common Stock ($0.004 par value) were outstanding. This number excludes 2,254,918 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, 2006	June 30, 2005
ASSETS		
Current assets:		
Cash and cash equivalents	$ 166,161	142,185
Marketable securities – available-for-sale (note 3)	2,002	—
Accounts receivable, net of allowance for doubtful accounts of $4,190 at March 31, 2006 and $3,199 at June 30, 2005	127,179	103,951
Inventories (note 4)	108,744	89,107
Deferred income taxes	18,861	15,230
Prepaid expenses and other current assets	9,676	9,737
Total current assets	432,623	360,210
Property, plant and equipment, net (note 6)	222,918	174,168
Goodwill (note 7)	188,717	181,106
Other intangibles (note 8)	47,934	49,371
Other assets	6,928	9,291
Total non-current assets	466,497	413,936
Total assets	$ 899,120	$ 774,146
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 35,290	$ 34,416
Accrued expenses	38,339	34,414
Deferred revenue	13,984	12,327
Income taxes payable	20,723	21,959
Current portion of long-term debt (note 9)	2,191	115,435
Total current liabilities	110,527	218,551
Non-current liabilities:		
Deferred income taxes	9,337	11,695
Deferred revenue	10,638	10,901
Long-term debt (note 9)	94,283	58,934
Total non-current liabilities	114,258	81,530
Total Liabilities	224,785	300,081
Commitments and contingencies (notes 12 and 13)	—	—
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, 200,000,000 shares authorized; issued and outstanding 75,359,947 at March 31, 2006 and 70,001,080 at June 30, 2005 (excluding 2,254,918 and 2,254,918 shares held as Treasury Stock, respectively)	301	280
Additional paid-in capital	334,802	179,865
Retained earnings	347,559	282,441
Treasury stock	(41,405)	(41,405)
Accumulated other comprehensive income (note 5)	33,078	52,884
Total stockholders' equity	674,335	474,065
Total liabilities and stockholders' equity	$ 899,120	$ 774,146

All share information has been adjusted to reflect the two-for-one split effected in the form of a 100% stock dividend that was declared on August 10, 2005 and distributed on September 30, 2005.

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,	
	2006	2005	2006	2005
Net revenue	$ 162,280	$ 108,454	$ 435,824	$ 300,080
Cost of sales [A]	61,414	38,159	163,113	104,996
Gross profit	100,866	70,295	272,711	195,084
Operating expenses:				
Selling, general and administrative [A]	52,903	34,449	146,478	94,582
Research and development [A]	9,143	7,240	26,155	21,901
Donation to foundation	505	—	760	500
Amortization of acquired intangible assets	1,570	—	4,661	—
Restructuring expenses (note 10)	—	1,579	1,124	4,505
Total operating expenses	64,121	43,268	179,178	121,488
Income from operations	36,745	27,027	93,533	73,596
Other income (expense), net:				
Interest income (expense), net	1,220	9	(471)	(471)
Other, net	153	(340)	1,471	370
Total other income (expense), net	1,373	(331)	1,000	(101)
Income before income taxes	38,118	26,696	94,533	73,495
Income taxes	(11,756)	(8,819)	(29,415)	(24,288)
Net income	$ 26,362	$ 17,877	$ 65,118	$ 49,207
Basic earnings per share	$ 0.36	$ 0.26	$ 0.91	$ 0.72
Diluted earnings per share (note 2-(j))	$ 0.34	$ 0.25	$ 0.87	$ 0.69
Basic shares outstanding (000's)	72,549	68,964	71,242	68,254
Diluted shares outstanding (000's)	77,403	75,490	76,922	74,649

[A] Includes stock-based compensation costs as follows:

Cost of sales	$ 348	$ —	$ 560	$ —
Selling, general and administrative	2,833	—	9,285	—
Research and development	486	—	1,535	—
Total stock-based compensation costs	$ 3,667	$ —	$ 11,380	$ —

All share and per share information has been adjusted to reflect the two-for-one stock split effected in the form of a 100% stock dividend that was declared on August 10, 2005 and distributed on September 30, 2005

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,	
	2006	2005
Cash flows from operating activities:		
Net income	$ 65,118	$ 49,207
Adjustment to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	29,899	19,526
Stock-based compensation costs	11,380	—
Amortization of deferred borrowing costs	629	616
Write-down of cost-method investment	1,156	—
Provision for product warranties	1,189	—
Foreign currency options revaluation	4,002	(371)
Profit on sale and lease-back of building	—	(1,932)
Changes in operating assets and liabilities; net of effect of acquisitions:		
Accounts receivable, net	(20,200)	(16,488)
Inventories, net	(17,743)	(14,367)
Prepaid expenses, net deferred income taxes and other current assets	(11,176)	5,810
Accounts payable, accrued expenses and other liabilities	(536)	7,795
Net cash provided by operating activities	63,718	49,796
Cash flows from investing activities:		
Purchases of property, plant and equipment	(79,135)	(26,153)
Capitalized interest	(639)	—
Patent registration costs	(2,413)	(2,072)
Purchase of non-trading investments	(2,527)	(1,400)
Business acquisitions, net of cash acquired of $262 ($2,450 in 2005)	(10,368)	(14,504)
Purchases of marketable securities-available-for-sale	(2,000)	(335,647)
Proceeds from sale or maturity of marketable securities – available-for-sale	—	309,725
Net cash used in investing activities	(97,082)	(70,051)
Cash flows from financing activities:		
Proceeds from issuance of common stock, net	26,729	31,900
Tax benefit from stock option exercises	2,173	—
Proceeds from borrowings, net of borrowing costs	35,000	—
Repayment of assumed borrowings from acquisitions	(2,195)	—
Purchase of treasury stock	—	(10,965)
Net cash provided by financing activities	61,707	20,935
Effect of exchange rate changes on cash	(4,367)	7,113
Net increase in cash and cash equivalents	23,976	7,793
Cash and cash equivalents at beginning of period	142,185	128,907
Cash and cash equivalents at end of period	$166,161	$ 136,700
Supplemental disclosure of cash flow information:		
Income taxes paid	$ 34,920	$ 20,016
Interest paid	4,082	2,265
Fair value of assets acquired in acquisitions	$ 10,342	$ 14,082
Liabilities assumed	(7,528)	(7,853)
Goodwill on acquisition	6,961	10,816
Acquisition costs accrued	(799)	(180)
Acquisition costs paid	1,654	89
Cash paid for acquisitions, including acquisition costs	$ 10,630	$ 16,954

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 equipment for the diagnosis and treatment of sleep-disordered breathing and other respiratory disorders, including obstructive sleep apnea. Our manufacturing operations are located in Australia, Germany, France and the United States of America. Major distribution and sales sites are located in the United States of America, Germany, France, the 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 considered necessary for a fair presentation have been included. Operating results for the nine months ended March 31, 2006 are not necessarily indicative of the results that may be expected for the year ending June 30, 2006.

The consolidated financial statements for the three months ended March 31, 2006 and 2005 and the nine months ended March 31, 2006 and 2005 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, 2005.

In this report, all share numbers and per share amounts have been retroactively adjusted to reflect the two-for-one stock split effected in the form of a 100% stock dividend that was declared on August 10, 2005 and distributed on September 30, 2005.

(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 shipping and handling 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. However, as part of our sales processes we may provide upfront discounts for large orders, one time special pricing to support new product introductions, sales rebates for centralized purchasing entities or price-breaks for regular order volumes. The costs of all such programs are recorded as an adjustment to revenue. In our 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.

We capitalize interest in connection with the construction of facilities. Actual construction costs incurred relating to facilities under active development qualify for interest capitalization. Interest capitalization ceases when the construction of a facility is complete and available for use. During the nine months ended March 31, 2006, we capitalized $0.6 million of interest relating to such construction costs.

(f) Intangible Assets

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 are amortized on a straight-line basis over their estimated useful lives, which range from seven to nine years. We evaluate the recoverability of intangible assets periodically and take into account events or circumstances that warrant revised estimates of useful lives or that indicate that impairment exists. All of our intangible assets are subject to amortization. No impairment of intangible assets has been identified during any of the periods presented.

(g) Goodwill

We conducted our annual review for goodwill impairment at June 30, 2005. 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.

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

(2) Summary of Significant Accounting Policies, Continued

(g) Goodwill (continued)

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, 2005.

(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 ("SFAS") No. 128, "Earnings per Share" ("SFAS 128"), as amended by SFAS No. 123(R), "Share Based Payments" ("SFAS 123(R)"). 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)

Stock options of 1,988,200 and 6,000 for the three month periods ended March 31, 2006 and 2005, respectively, and stock options of 867,200 and 760,000 for the nine month periods ended March 31, 2006 and 2005, respectively, were not included in the computation of diluted earnings per share as the effect of exercising these options would have been anti-dilutive.

Basic and diluted earnings per share for the periods ended March 31, 2006 and 2005 are calculated as follows (in thousands except per share data):

	Three Months Ended March 31,		Nine Months Ended March 31,	
	2006	2005	2006	2005
Numerator:				
Net Income	$26,362	$17,877	$65,118	$49,207
Adjustment for interest and deferred borrowing costs, net of income tax effect	—	821	1,660	2,464
Net Income, used in calculating diluted earnings per share	$26,362	$18,698	$66,778	$51,671
Denominator:				
Basic weighted-average common shares outstanding	72,549	68,964	71,242	68,254
Effect of dilutive securities:				
Stock options	2,307	2,788	2,339	2,657
Convertible subordinated notes	2,547	3,738	3,341	3,738
Diluted potential common shares	4,854	6,526	5,680	6,395
Diluted weighted average shares	77,403	75,490	76,922	74,649
Basic earnings per share	$ 0.36	$ 0.26	$ 0.91	$ 0.72
Diluted earnings per share	$ 0.34	$ 0.25	$ 0.87	$ 0.69

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. 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 our 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 SFAS No. 133, “Accounting for Derivative Instruments and Hedging Activities” (“SFAS 133”). 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 from foreign exchange options at March 31, 2006 and June 30, 2005 was $1.4 million and $3.0 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 $224.7 million and $145.5 million at March 31, 2006 and June 30, 2005, respectively, to hedge foreign currency items. These contracts mature at various dates on or prior to December 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, 2006 our investments in debt securities were classified on the accompanying consolidated balance sheet as marketable securities-available-for-sale. These investments are diversified among high credit quality securities in accordance with our investment policy and are principally comprised of corporate obligations.

At March 31, 2006, contractual maturities of marketable securities-available-for-sale were (in thousands):

Due less than one year	$2,002
Due one to less than three years	—
Due more than three years	—
Total	$2,002

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, 2006 are as follows (in thousands):

Balance as at July 1, 2005	$2,912
Warranty accruals for the nine months ended March 31, 2006	1,189
Warranty costs incurred for the nine months ended March 31, 2006	(395)
Foreign currency translation adjustments	(160)
Balance as at March 31, 2006	$3,546

(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, which includes investments in privately held service companies, research companies and publicly traded companies, at March 31, 2006 and June 30, 2005, were $4.1 million and $5.3 million, respectively. These are included in other assets in our condensed consolidated balance sheet. At March 31, 2006, we performed an analysis of the carrying value of these investments and we recognized impairment losses of $0.6 million and $1.2 million during the three months and nine months ended March 31, 2006, respectively. The expense associated with this impairment has been included in the other income (expense) line within the statement of income.

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

(2) Summary of Significant Accounting Policies, Continued

(q) Cost-Method Investments, Continued

In addition to the impairment loss recognized an unrealized loss of $0.5 million was identified in relation to an investment in a publicly listed company. The severity of the impairment (fair value is approximately 13% less than the cost) and the duration of the impairment (less than 3 months) correlates with a devaluation in both the currency of the listed shares against the U.S. dollar and the actual share price. Because we have the ability and intent to hold this investment until a recovery of the fair value and the decline in fair value is partly attributable to exchange rate movements, we do not consider this investment to be other-than-temporarily impaired at March 31, 2006. Except for the unrealized loss, we have determined that the fair value of the investments exceeded the carrying values.

(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 an 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 stock purchase plan (‘ESPP’).

As of July 1, 2005, we adopted SFAS No. 123(R), “Share Based Payment” (“SFAS 123(R)”, using the modified prospective method, which requires measurement of compensation expense of all stock-based awards at fair value on the date of grant and recognition of compensation expense over the service period for awards expected to vest. Under this method, the provisions of SFAS 123(R) apply to all awards granted or modified after the date of adoption. In addition, the unrecognized expense of awards not yet vested at the date of adoption, determined under the original provisions of SFAS 123, shall be recognized in net income in the periods after adoption. The fair value of stock options is determined using the Black-Scholes valuation model, which is consistent with valuation techniques previously utilized for options in footnote disclosures required under SFAS No. 123, “Accounting for Stock Based Compensation” (“SFAS 123”), as amended by SFAS No. 148 “Accounting for Stock-Based Compensation – Transition and Disclosure”. Such value is recognized as expense over the service period, net of estimated forfeitures, using the straight-line method under SFAS 123(R).

Prior to the adoption of SFAS 123(R) on July 1, 2005, we applied 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 was 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 ESPP). Results for prior periods have not been restated to reflect, and do not include the impact of, SFAS 123(R).

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 following table illustrates the effect on net income and earnings per share if the fair value based method had been applied to all outstanding and unvested awards in each period of the prior year (in thousands, except per share data).

	Three Months Ended March 31, 2005	Nine Months Ended March 31, 2005
Net income, as reported	$ 17,877	$ 49,207
Add: Stock-based employee compensation expense included in reported net income, net of related tax effects	—	—
Deduct: Stock-based employee compensation expense included in reported net income, net of related tax effects	(3,204)	(6,697)
Pro forma net income	$ 14,673	$ 42,510
Adjustment for interest and deferred borrowing costs, net of related tax effects	821	2,464
Pro forma net income used in calculating diluted earnings per share	$ 15,494	$ 44,974
Earnings per share:		
Basic - as reported	$ 0.26	$ 0.72
Basic - pro forma	$ 0.21	$ 0.62
Diluted - as reported (note 2-j)	$ 0.25	$ 0.69
Diluted - pro forma	$ 0.21	$ 0.60

The application of SFAS 123(R) had the following effect on reported amounts relative to amounts that would have been reported under previous accounting (in thousands, except per share data):

	Three Months Ended March 31, 2006			Nine Months Ended March 31, 2006		
	Under Previous Accounting	SFAS 123(R) Adjustments	As Reported	Under Previous Accounting	SFAS 123(R) Adjustments	As Reported
Cost of sales	$ 61,066	$ 348	$ 61,414	$ 162,553	$ 560	$ 163,113
Operating expenses:						
Selling, general and admin.	50,070	2,833	52,903	137,193	9,285	146,478
Research and development	8,657	486	9,143	24,620	1,535	26,155
Income from operations	40,142	(3,667)	36,475	104,913	(11,380)	93,533
Income before income taxes	41,785	(3,667)	38,118	105,913	(11,380)	94,533
Net income	29,015	(2,653)	26,362	73,812	(8,694)	65,118
Inventories, net	108,309	435	108,744	108,309	435	108,744
Earnings per share:						
Basic	$ 0.40	$ (0.04)	$ 0.36	$ 1.03	$ (0.12)	$ 0.91
Diluted	$ 0.37	$ (0.03)	$ 0.34	$ 0.98	$ (0.11)	$ 0.87
Cashflow from operating activities				$ 65,891	$ (2,173)	$ 63,718
Cashflow from financing activities				$ 59,534	$ 2,173	$ 61,707

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(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, assuming no dividends and the following assumptions:

	Three Months Ended March 31, 2006	Nine Months Ended March 31, 2006
Stock options		
Weighted average fair value	$12.94	$12.74
Weighted average risk-free interest rate	4.4%	3.9-4.4%
Expected option life in years	4.3 - 5.2	3.9 - 5.2
Expected volatility	29% - 30%	29% - 33%
ESPP Purchase rights:		
Weighted average risk-free interest rate	4.2%	3.2-4.2%
Expected option life in years	6 months	6 months
Expected volatility	29%	29 - 31%

Expected volatilities are based on a combination of historical volatilities of our stock and implied volatilities from traded options of our stock. The expected life represents the weighted average period of time that options granted are expected to be outstanding giving consideration to vesting schedules and our historical exercise patterns. The risk-free rate is based on the U.S. Treasury yield curve in effect at the time of grant for periods corresponding with the expected life of the option.

(3) Marketable Securities

The estimated fair value of marketable securities available for sale as of March 31, 2006 and June 30, 2005 are $2.0 million and $nil, 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, 2006 and June 30, 2005 (in thousands):

	March 31, 2006	June 30, 2005
Raw materials	$ 33,343	$ 29,857
Work in progress	3,363	1,820
Finished goods	72,038	57,430
	$ 108,744	$ 89,107

RESMED INC. AND SUBSIDIARIES
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(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,	
	2006	2005	2006	2005
Net income	$26,362	$17,877	$ 65,118	$49,207
Foreign currency translation gains/(losses)	(4,186)	(9,089)	(19,812)	26,274
Unrealized gains/(losses) on marketable securities	2	(3)	6	(8)
Comprehensive income	$22,178	$ 8,785	$ 45,312	$75,473

(6) Property, Plant and Equipment

Property, plant and equipment is comprised of the following as of March 31, 2006 and June 30, 2005 (in thousands):

	March 31, 2006	June 30, 2005
Machinery and equipment	$ 48,015	$ 42,623
Computer equipment	47,794	44,011
Furniture and fixtures	18,371	18,174
Vehicles	2,767	2,266
Clinical, demonstration and rental equipment	37,174	29,211
Leasehold improvements	10,023	4,940
Land	54,778	35,492
Buildings	75,743	77,101
Construction in Progress	33,385	9,320
	328,050	263,138
Accumulated depreciation and amortization	(105,132)	(88,970)
	$ 222,918	$174,168

(7) Goodwill

Changes in the carrying amount of goodwill for the nine months ended March 31, 2006, were as follows (in thousands):

Balance at July 1, 2005	$181,106
Acquisition of PolarMed (note 13)	4,903
Acquisition of Pulmomed (note 13)	1,785
Payment of earn-out relating to Hoefner acquisition (note 13)	594
Final adjustment to purchase price allocation relating to Saime acquisition (note 13)	(321)
Foreign currency translation adjustments	650
Balance at March 31, 2006	$188,717

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(8) Other Intangible Assets

Other intangible assets is comprised of the following as of March 31, 2006 and June 30, 2005 (in thousands):

	March 31, 2006	June 30, 2005
Developed/core product technology	$29,689	$29,620
Accumulated amortization	(3,669)	(487)
Developed/core product technology, net of accumulated amortization	26,020	29,133
Trade names	1,575	1,572
Accumulated amortization	(194)	(26)
Trade names, net of accumulated amortization	1,381	1,546
Customer relationships	15,563	12,936
Accumulated amortization	(1,557)	(345)
Customer relationships, net of accumulated amortization	14,006	12,591
Patents	14,889	13,200
Accumulated amortization	(8,362)	(7,099)
Patents, net of accumulated amortization	6,527	6,101
Other intangibles, net of accumulated amortization	$47,934	$49,371

Intangible assets consist of patents, customer relationships, trade names, developed/core product technology and are amortized over the estimated useful life of the assets, generally between five and nine years. There are no expected residual values related to these intangible assets.

In fiscal year 2005, as part of the acquisition of Saime, we recognized an intangible asset with respect to developed/core product technology. Specifically, this technology related to the design and architecture of the hardware and algorithms that formed part of Saime's ventilation products and is the subject of patents and other intellectual property protections. This technology is separable from goodwill as it is capable of being sold, transferred or licensed. This represents proprietary know-how predominantly associated with the following portfolio of products that were technologically feasible at the date of acquisition:

(i) Elisee Series: Combines all conventional ventilation modes and monitoring functions; and

(iii) VS Series (including Serena, Ultra and Integra): A new generation of ventilators using new blower technology.

Both of these series of products continue to generate revenue which is consistent with the original expectations. Although no assurance can be given that the underlying assumptions used to value the acquired developed/core product technology will transpire as estimated, we remain confident in the assumptions used and, as a result, the net return of the Saime acquisition.

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(9) Long-Term Debt

Long-term debt at March 31, 2006 and June 30, 2005 consists of the following (in thousands):

	March 31, 2006	June 30, 2005
Convertible subordinated notes	$ —	$ 113,250
Current portion of long-term loan	2,121	2,116
Capital lease	70	69
Current portion of long-term debt	$ 2,191	$ 115,435
Long-term loan and revolving facility	93,727	58,328
Capital lease	556	606
Non-current portion of long-term debt	$ 94,283	$ 58,934

Convertible Subordinated Notes

During the three months ended March 31, 2006, and pursuant to the Indenture dated June 20, 2001 between us and American Stock Transfer & Trust Company, as trustee, holders of all of the 4% Convertible Subordinated Notes ("the Notes") due 2006 converted the Notes into an aggregate of 3,737,593 shares of our common stock, par value $0.004. The Notes were converted into 33 shares of our common stock for each $1,000 principal amount of the Notes, at a conversion price of $30.30 per share. No payment was made for accrued interest on Notes surrendered for conversion and the dilutive impact of these conversions has been reflected in the reported earnings per share.

Previous to the conversion, on January 5, 2006, we had exercised our right to call for an early redemption of all of the Notes, which at that time had an outstanding balance of $113.25 million. We provided notice to the trustee and the holders of the Notes that we were to redeem the Notes on March 3, 2006 at a redemption price of approximately $1,008 per $1,000 principal amount of Notes, or 100.8% of the principal amount thereof plus accrued and unpaid interest to the redemption date. However, as noted above, holders of all of the Notes exercised their option to convert the Notes into our common stock.

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(9) Long-Term Debt, Continued

Syndicated Facility

On May 16, 2005, our wholly-owned Australian subsidiary, ResMed Ltd. entered into a Syndicated Facility Agreement (the "Syndicated Facility Agreement") with HSBC Bank Australia Limited, as Initial Lender, Facility Agent and Security Trustee, which provides for a 5 year term loan of EUR 50,000,000 (the "Loan"), the proceeds of which are required to be used solely to fund the obligations of our wholly-owned French subsidiary ResMed SA under its agreement to acquire Saime SA.

The Loan bears interest at a rate equal to LIBOR for deposits denominated in Euro plus a margin of 0.90% or 1.00%, depending on the ratio of the total debt to EBITDA, as defined in the Syndicated Facility Agreement, of ResMed Ltd. and its subsidiaries for the most recently completed fiscal year for the applicable interest period, and is payable quarterly. The effective interest rate is currently 3.03%. Payments of principal must be made to reduce the total outstanding principal amount of the Loan to EUR 48,250,000 on June 30, 2006, EUR 44,500,000 on June 30, 2007, EUR 37,750,000 on June 30, 2008, EUR 27,500,000 on June 30, 2009, EUR 15,000,000 on December 31, 2009, and the entire outstanding principal amount must be repaid in full on May 15, 2010. At March 31, 2006, the facility loan with HSBC had an amount outstanding of $60.6 million.

The Loan is secured by a pledge of one hundred percent of the shares of Saime SA, and a Guarantee by ResMed SA and Take Air Medical Handels GmbH. The Syndicated Facility Agreement also contains customary covenants, including certain financial covenants and an obligation that ResMed Ltd. maintain certain financial ratios, including a minimum debt service cover ratio, a maximum ratio of total debt to EBITDA and a minimum tangible net worth. The entire principal amount of the Loan and any accrued but unpaid interest may be declared immediately due and payable in the event of the occurrence of an event of default as defined in the Syndicated Facility Agreement, which include, among other items, failure to make payments when due, breaches of representations, warranties or covenants, the occurrence of certain insolvency events, the occurrence of an event or change which could have a material adverse effect on ResMed Ltd. and its subsidiaries, and if ResMed Inc. ceases to control ResMed Ltd, ResMed SA, Saime SA or any of Saime SA's subsidiaries. At March 31, 2006, we were in compliance with our debt covenants.

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(9) Long-Term Debt, Continued

Revolving Facility

On March 13, 2006, our wholly-owned subsidiaries ResMed Corp., Servo Magnetics Inc. and ResMed EAP Holdings Inc. entered into a Second Amended and Restated Revolving Loan Agreement with Union Bank of California, N.A. as administrative agent for the Lenders (the "Loan Agreement"), that provides for a revolving loan of up to $75 million. Draws under the revolving loans must be made before March 1, 2011, at which time all unpaid principal and interest under both loans must be repaid. The outstanding principal amount due under the loans will bear interest at a rate equal to LIBOR plus 0.75% to 1.00% (depending on the applicable leverage ratio). The current principal amount outstanding under the Loan Agreement is $35 million.

The obligations of ResMed Corp, Servo Magnetics Inc. and ResMed EAP Holdings Inc. under the Loan Agreement are secured by substantially all of the personal property of each of ResMed Corp., Servo Magnetics Inc. and ResMed EAP Holdings Inc., and are guaranteed by ResMed Inc. under an Amended and Restated Continuing Guaranty and Pledge Agreement, which guaranty is secured by a pledge of the equity interests in ResMed Corp., Servo Magnetics Inc. and ResMed EAP Holdings Inc. held by ResMed Inc. The Loan Agreement also contains customary covenants, including certain financial covenants and an obligation that ResMed Inc. maintain certain financial ratios, including a maximum ratio of total debt to EBITDA (as defined in the Loan Agreement), a fixed charge coverage ratio, a minimum tangible net worth, and a minimum ResMed Corp., Servo Magnetics Inc. and ResMed EAP Holdings Inc. EBITDA and liquidity. The entire principal amount of the Loan and any accrued but unpaid interest may be declared immediately due and payable in the event of the occurrence of an event of default as defined in the Loan Agreement. Events of default include, among other items, failure to make payments when due, the occurrence of a material default in the performance of any covenants in the Loan Agreement or related document or a 35% or more change in control of ResMed Inc., ResMed Corp., Servo Magnetics Inc. or ResMed EAP Holdings Inc. At March 31, 2006, we were in compliance with our debt covenants.

Capital Lease

As part of the acquisition of Saime we assumed a capital lease over land and buildings. This lease contains an option to purchase the property, for nominal consideration, at the end of the lease term in September 2014.

Details of contractual debt maturities at March 31, 2006 are as follows (in thousands):

		Payments Due by Period					
	Total	1 year	2 years	3 years	4 years	5 years	Thereafter
Long-Term Debt	$ 95,848	$ 2,121	$ 4,802	$ 43,180	$ 12,421	$ 33,324	$ —
Capital Leases	626	70	70	70	70	70	276
Total	$ 96,474	$ 2,191	$ 4,872	$ 43,250	$ 12,491	$ 33,394	$ 276

RESMED INC. AND SUBSIDIARIES
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(10) Restructuring Expenses

Restructuring expenses incurred during the three and nine months ended March 31, 2006 were $nil and $1.1 million ($0.7 million net of tax), respectively. The cumulative amount of restructuring expenses incurred to date is $6.3 million. Restructuring expenses (predominantly one-time termination benefits) are associated with the integration of the separate operations of ResMed Germany and Medizin-Technologie GmbH ("MAP") into a single operating unit. We have completed the relocation of our ResMed Germany operation (previously located in Moenchengladbach) to Munich and the integration of the back office functions including customer service, logistics and administration. We will continue to monitor the progress of this restructure and adjust our business strategies and personnel accordingly to achieve maximum efficiencies and cost savings.

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, 2006 (in thousands):

	Accrued employee costs	Other accrued costs	Total accrued costs
Balance at July 1, 2005	$ 222	$ 252	$ 474
Restructuring expenses	873	251	1,124
Cash payments	(973)	(326)	(1,299)
Foreign currency translation	(32)	17	(15)
Balance at March 31, 2006	$ 90	$ 194	$ 284

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

(11) Stockholders' Equity

Stock Options. We have granted stock options to personnel, including officers and directors, in accordance with both the 1995 Option Plan and the 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 an exercise price equal to the market value as determined on the grant date.

The total number of shares of Common Stock authorized for issuance upon exercise of options and other awards, or upon vesting of restricted or deferred stock awards, under the 1997 Plan was initially established at 2,000,000 and increases at the beginning of each fiscal year, commencing on July 1, 1998, by an amount equal to 4% of the outstanding Common Stock on the last day of the preceding fiscal year. The maximum number of shares of Common Stock issuable upon exercise of incentive stock options granted under the 1997 Plan, cannot exceed 16,000,000. Furthermore, the maximum number of shares, which may be subject to options, rights or other awards granted under the 1997 Plan to any individual in any calendar year, cannot exceed 600,000.

RESMED INC. AND SUBSIDIARIES
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(11) Stockholders' Equity, Continued

Stock Options, Continued At March 31, 2006, there was $37.8 million in unrecognized compensation costs, related to unvested stock options. This is expected to be recognized over a weighted average period of 2.4 years. The aggregate intrinsic value of the options outstanding and the options exercisable at March 31, 2006 was $170.1 million and $118.4 million, respectively. The aggregate intrinsic value of the options exercised during the three months and nine months ended March 31, 2006 was $12.3 million and $30.9 million, respectively. The total fair value of options that vested during the three months and nine months ended March 31, 2006 was $9.7 million and $16.5 million, respectively. The following table summarizes option activity during the nine months ended March 31, 2006:

	Options	Weighted Average Exercise Price	Weighted Average Remaining Term	Weighted Average Grant Date Fair Value
Outstanding at beginning of period	8,301,408	$ 19.38		$ 7.93
Granted	2,012,200	38.12		12.74
Exercised	(1,566,427)	16.13		7.61
Forfeited	(213,728)	23.42		8.30
Outstanding at end of period	8,533,453	$ 24.04	7.5 years	$ 9.29
Exercise price range of granted options	$32.99 – 40.80			
Options exercisable at end of period	4,543,963	$ 17.92	6.0 years	$ 7.90

Employee Stock Purchase Plan (the "ESPP"). The ESPP was approved by our stockholders at the Annual General Meeting in November 2003. Under the ESPP, participants are offered the right to purchase shares of our common stock at a discount during successive offering periods. Each offering period under the ESPP will be for a period of time determined by the Board of Directors' Compensation Committee of no less than 3 months and no more than 27 months. The purchase price for our common stock under the ESPP will be the lower of 85% of the fair market value of our common stock on the date of grant or 85% of the fair market value of our common stock on the date of purchase. An individual participant cannot subscribe for more than $25,000 in value of our common stock during any calendar year. There is a maximum of 7,500,000 shares of our common stock authorized for sale under the ESPP.

During nine months ended March 31, 2006, we recognized $0.8 million of stock-based compensation expense associated with the ESPP and issued 54,847 shares at a share price of $26.52.

Stock Split. On August 10, 2005, our Board of Directors declared a two-for-one split of our common stock which was effected in the form of a 100% stock dividend distributed on September 30, 2005. Stockholders received one additional share of common stock for every share held of record on September 15, 2005. All share numbers and per share amounts contained in these notes and accompanying consolidated financial statements have been retroactively adjusted to reflect this stock split.

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(11) Stockholders' Equity, Continued

Convertible Subordinated Notes. During the three months ended March 31, 2006, and pursuant to the Indenture dated June 20, 2001 between us and American Stock Transfer & Trust Company, as trustee, holders of all of the 4% Convertible Subordinated Notes due 2006 converted the notes into an aggregate of 3,737,593 shares of the Company's common stock, par value $0.004. The notes were converted into 33 shares of our common stock for each $1,000 principal amount of the notes, at a conversion price of $30.30 per share. The dilutive impact of these conversions has been reflected in the reported earnings per share.

(12) Legal Actions 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 began receiving 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.

On December 23, 2002, three former contractors of our subsidiary MAP Medizin-Technologie GmbH initiated proceedings in Munich 1 Regional Court (Proceedings No. 7 O 23286/02), petitioning the Court for a declaration of inventorship with respect to MAP German Patent Applications identified as No. 100 31 079 and 101 92 802.5 and European Patent Application No. EP 01 967 819.7. On March 10, 2005, the Court entered judgement in favor of the plaintiffs, finding that they should be identified as co-inventors in place of certain individual defendants. In April 2005, MAP filed an appeal of that decision. We do not expect that the outcome of this litigation to have an adverse material effect on our consolidated financial statements.

In March 2006 an Australian University made a demand that ResMed pay extra royalties pursuant to a current patent license agreement. ResMed rejected the demand and the University has agreed to discuss its position. ResMed does not consider the claim to have merit. We do not expect that the outcome of this demand to have an adverse material effect on our consolidated financial statements.

RESMED INC. AND SUBSIDIARIES
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(13) Business Acquisitions

PolarMed Holding AS ("PolarMed"). On December 1, 2005, we acquired 100% of the outstanding stock of PolarMed, the holding company for PolarMed AS and its affiliates, for net cash consideration of $6.4 million. This was comprised of $6.6 million in consideration less $0.3 million of cash acquired. Additionally, as part of the acquisition we assumed debt of $1.5 million. Under the purchase agreement, we may also be required to make additional future payments of up to $3.0 million based on the achievement of certain performance milestones following the acquisition through December 31, 2008. The acquisition and the immediate repayment of the majority of the assumed debt were funded with cash on hand.

PolarMed is predominantly a Norwegian based company, with affiliated operations based in Sweden and Denmark, which distributes medical equipment and associated services for the treatment of sleep and respiratory patients. PolarMed was our Danish distributor before the acquisition, and the acquisition is consistent with our strategy for ongoing expansion of our international operations.

The acquisition has been accounted for using purchase accounting and has been included within our consolidated financial statements from December 1, 2005. An amount of $4.9 million, representing the excess of the purchase price over the fair value of identifiable net assets acquired of $1.7 million, has been recorded as goodwill, which will not be tax deductible under Norwegian tax law. The cost of the acquisition was allocated to the assets acquired and liabilities assumed based on estimates of their respective fair values at the date of acquisition. We have not yet completed the purchase price allocation, as the appraisals associated with the valuation of certain tangible assets are not yet complete. We do not believe that the appraisals will materially modify the preliminary purchase price allocation. We expect to complete our purchase price allocation in the quarter ending June 30, 2006.

The following table summarizes the purchase price allocation of the assets acquired and liabilities assumed from PolarMed at the date of acquisition based on a preliminary independent appraisal and internal studies (in thousands):

	At December 1, 2005
Cash	$ 262
Accounts receivable	2,473
Inventory	2,170
Other assets	27
Property, plant & equipment	321
Customer relationships (useful life of 7 years)	1,780
Goodwill (non-amortizing, non-tax deductible)	4,903
Total assets acquired	$ 11,936
Current liabilities, primarily consisting of accounts payable, accrued expenses, taxes payable and deferred revenue	(4,891)
Non current liabilities, primarily consisting of deferred tax liabilities	(427)
Net assets acquired	$ 6,618

RESMED INC. AND SUBSIDIARIES
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(13) Business Acquisitions, Continued

Pulmomed Medizinisch-Technische Geräte GmbH ("Pulmomed"). On July 1, 2005, we acquired 100% of the outstanding stock of Pulmomed for net cash consideration of $2.5 million, including acquisition costs. Additionally, as part of the acquisition we assumed debt of $1.0 million. 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 June 30, 2007.

Pulmomed is an Austrian based company that distributes medical equipment and associated services for the treatment of sleep and respiratory patients. The acquisition of Pulmomed is consistent with our strategy for ongoing expansion of our international operations.

The acquisition has been accounted for using purchase accounting and has been included within our consolidated financial statements from July 1, 2005. An amount of $1.8 million, representing the excess of the purchase price over the fair value of identifiable net assets acquired of $0.7 million, has been recorded as goodwill, which will not be tax deductible under Austrian tax law. The cost of the acquisition was allocated to the assets acquired and liabilities assumed based on estimates of their respective fair values at the date of acquisition. The fair values were determined by an independent appraisal and internal studies.

The following table summarizes the final purchase price allocation of the assets acquired and liabilities assumed from Pulmomed at the date of acquisition (in thousands):

	At July 1, 2005
Cash	$ 1
Accounts receivable	377
Inventory	592
Other assets	217
Property, plant & equipment	458
Customer relationships (useful life of 7 years)	907
Goodwill (non-amortizing, non-tax deductible)	1,785
Total assets acquired	$ 4,337
Current liabilities, primarily consisting of accounts payable, accrued expenses, loans and deferred tax liabilities	(1,668)
Non-current liabilities, primarily consisting of deferred tax liabilities	(203)
Net assets acquired	$ 2,466

Pro-forma financial information associated with the acquisition of PolarMed and Pulmomed, both individually and cumulatively, is not included as the effects would not be significant to the consolidated financial statements.

RESMED INC. AND SUBSIDIARIES
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(13) Business Acquisitions, Continued

Saime SA ("Saime"). As disclosed in our financial statements and Form 10-K for the year ended June 30, 2005, we acquired 100% of the outstanding stock of Financiere ACE SAS, the holding company for Saime SA and its affiliates, on May 19, 2005, for net cash consideration of $40.6 million. This was comprised of $51.1 million in consideration, including acquisition costs, less $10.5 million of cash acquired. At June 30, 2005, we had not yet completed the purchase price allocation as the appraisals associated with the valuation of certain tangible assets were not yet complete. The fair values have now been finalized based on independent appraisals and internal studies. The impact of the completion of the purchase price allocation was to increase the fair value of the acquired fixed assets by approximately $0.7 million to $2.9 million, increase the fair value of acquired liabilities, including deferred tax liabilities, by approximately $0.4 million to $91.7 million and to decrease the amount recorded as goodwill by $0.3 million to $66.0 million.

Hoefner Medizintechnick GmbH ("Hoefner"). As disclosed in our financial statements and Form 10-K for the year ended June 30, 2005, we acquired 100% of the outstanding stock of Hoefner Medizintechnick GmbH ("Hoefner") on February 14, 2005, for net cash consideration of $8.2 million. This was comprised of the $10.7 million in total consideration, including acquisition costs, less $2.5 million of cash acquired. Under the purchase agreement, additional future payments of up to $0.9 million are possible based on the achievement of certain performance milestones following the acquisition through December 31, 2006. Of these potential additional payments, $0.6 million, which was accrued at December 31, 2005, was paid during the three months ended March 31, 2006 as a result of the successful achievement of a performance milestone. The impact of this accrual was to increase the total acquisition consideration to $11.3 million from $10.7 million and to increase the amount recorded as goodwill by $0.6 million to $8.8 million.

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 operations for the three months and nine months ended March 31, 2006. It should be read together with the detail provided in the individual sections below. In this report, all share numbers and per share amounts have been retroactively adjusted to reflect the two-for-one stock split effected in the form of a 100% stock dividend that was declared on August 10, 2005 and distributed on September 30, 2005.

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.

We have invested significant resources in research and development and product enhancement. Since 1989, we have developed several innovations to the original continuous positive airway pressure, or CPAP, device to increase patient comfort and to improve ease of product use. We have been developing products for automated treatment, titration and monitoring of obstructive sleep apnea, such as the AutoSet T, AutoSet Spirit and S8 AutoSet Vantage flow generators. We have also developed numerous innovations associated with our mask product offerings and they now form a significant part of our product portfolio.

During the quarter ended March 31, 2006, our net revenue increased by 50% and gross profit increased by 43%, when compared to the quarter ended March 31, 2005. These results were primarily driven by increasing unit sales of our products. Diluted earnings per share for the quarter ended March 31, 2006 increased to $0.34 per share, up from $0.25 per share in the quarter ended March 31, 2005. Gross margin was 62% for the quarter ended March 31, 2006 compared to 65% for the same period in fiscal 2005. The reduction in gross margin is predominantly attributable to a change in the geographical mix of our sales with a higher percentage of sales being generated in the domestic market (excluding acquisitions) and a change in product mix with a higher percentage of flow generator sales. For the quarter ended March 31, 2006, our results included acquisition related amortization expenses and stock-based compensation costs of $1.6 million and $3.7 million, respectively.

Net Revenue

Net revenue increased for the three months ended March 31, 2006 to $162.3 million from $108.5 million for the three months ended March 31, 2005, an increase of $53.8 million or 50%. The increase in net revenue is primarily attributable to an increase in unit sales of our flow generators, masks and accessories and incremental revenue of $15.5 million associated with our recent acquisitions. Excluding the impact of acquisitions, net revenue grew by 35%. Movements in international currencies against the U.S. dollar negatively impacted revenues by approximately $4.5 million during the three months ended March 31, 2006.

Net revenue in North and Latin America increased for the quarter ended March 31, 2006 to $86.2 million from $57.9 million for the three months ended March 31, 2005, an increase of $28.3 million or 49%. This growth has been generated by increased public and physician awareness of sleep-disordered breathing together with our continued investment in our sales force and marketing initiatives. Recent product releases, in particular our Mirage Swift mask and our new flow generator platform, the S8, have also contributed strongly to our sales growth.

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Net Revenue, Continued

Net revenue in international markets for the quarter ended March 31, 2006 increased to $76.1 million from $50.5 million compared to the quarter ended March 31, 2005, an increase of $25.6 million or 51%. International sales growth in the quarter ended March 31, 2006 reflects organic growth in the overall sleep-disordered breathing market and the recent acquisitions of Resprecare, Hoefner, Saime, Pulmomed and PolarMed. These acquisitions contributed incremental revenue of $15.5 million for the quarter ended March 31, 2006. In constant currency terms, and excluding the impact of acquisitions, international sales grew by 29%.

Revenue from sales of flow generators for the quarter ended March 31, 2006 totaled $84.5 million, an increase of 66% compared to the quarter ended March 31, 2005, including increases of 56% in North and Latin America and 74% elsewhere. Revenue from sales of mask systems, motors and other accessories totaled $77.8 million, an increase of 35%, including increases of 44% in North and Latin America and 21% internationally, for the quarter ended March 31, 2006, compared to the quarter ended March 31, 2005. We believe these increases primarily reflect growth in the overall sleep-disordered breathing market, the effects of recent acquisitions and contributions from new products.

For the nine months ended March 31, 2006, revenue from sales of flow generators increased by 56% compared to the nine months ended March 31, 2005—48% in North and Latin America and 62% internationally. Revenue from sales of mask systems, motors and other accessories increased by 35%—49% in North and Latin America and 15% internationally—for the nine months ended March 31, 2006 compared to the nine months ended March 31, 2005. We believe these increases primarily reflect growth in the overall sleep-disordered breathing market, contributions from our recent acquisitions and strong sales from our new products, particularly the Mirage Swift mask and S8 flow generator.

Gross Profit

Gross profit increased for the quarter ended March 31, 2006 to $100.9 million from $70.3 million for the quarter ended March 31, 2005, an increase of $30.6 million or 43%. Gross profit as a percentage of net revenue for the quarter ended March 31, 2006 was 62%, compared to 65% for the quarter ended March 31, 2005, reflecting a change in the geographical mix of our sales with a higher percentage of sales being generated in the domestic market (excluding acquisitions) and a change in product mix with a higher percentage of flow generator sales, which generate lower margins relative to our mask sales.

For the nine months ended March 31, 2006, gross profit increased to $272.7 million from $195.1 million for the nine months ended March 31, 2005, an increase of $77.6 million or 40%. Gross profit as a percentage of net revenue for the nine months ended March 31, 2006 was 63% compared to 65% for the nine months ended March 31, 2005. This also reflects a change in the geographical mix of our sales with a higher percentage of sales being generated in the domestic market (excluding acquisitions) and a change in product mix with a higher percentage of flow generator sales, which generate lower margins relative to our mask sales.

Stock-based compensation expenses of $0.3 million and $0.6 million, have been included within cost of sales for the three months and nine months ended March 31, 2006, respectively, as compared to no stock-based compensation expense for the three and nine months ended March 31, 2005.

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Selling, General and Administrative Expenses

Selling, general and administrative expenses increased for the three months ended March 31, 2006 to $52.9 million from $34.4 million for the three months ended March 31, 2005, an increase of $18.5 million or 54%. Stock-based compensation expenses of $2.8 million have been included within selling, general and administrative expenses for the three months ended March 31, 2006. Selling, general and administrative expenses, excluding the impact of stock-based compensation costs, as a percentage of net revenue, were 31% for the three months ended March 31, 2006, compared to 32% for the three months ended March 31, 2005.

Selling, general and administrative expenses increased for the nine months ended March 31, 2006 to $146.5 million from $94.6 million for the nine months ended March 31, 2005, an increase of $51.9 million or 55%. Stock-based compensation expenses of $9.3 million, have been included within the selling, general and administrative expenses for the nine months ended March 31, 2006. Selling, general and administrative expenses, excluding the impact of stock-based compensation costs, as a percentage of net revenue, were 31% for the nine months ended March 31, 2006, compared to 32% for the nine months ended March 31, 2005.

The increase in selling, general and administrative expenses was primarily due to stock-based compensation expense and an increase in the number of sales and administrative personnel to support our growth, the acquisitions of Resprecare, Hoefner, Saime, Pulmomed and PolarMed, continued sales and marketing infrastructure investment, particularly in our European businesses, and other expenses related to the increase in our sales. The increase in selling, general and administrative expenses were partially offset by an appreciation of the U.S. dollar against international currencies, which reduced selling, general and administrative expenses for the three months ended March 31, 2006 by approximately $2.3 million as reported in U.S. dollars. As a percentage of net revenue, we expect our selling, general and administrative expense for fiscal year 2006 to be in the range of 33% to 35%, including stock-based compensation expense.

Research and Development Expenses

Research and development expenses increased for the three months ended March 31, 2006 to $9.1 million from $7.2 million for the three months ended March 31, 2005, an increase of $1.9 million or 26%. Stock-based compensation expenses of $0.5 million, have been included within research and development expenses for the three months ended March 31, 2006. Research and development expenses, as a percentage of net revenue, were 6% compared to 7% for the three months ended March 31, 2005.

Research and development expenses increased for the nine months ended March 31, 2006 to $26.2 million from $21.9 million for the nine months ended March 31, 2005, an increase of $4.3 million or 20%. Stock-based compensation expenses of $1.5 million, have been included within research and development expenses for the nine months ended March 31, 2006. Research and development expenses, as a percentage of net revenue, were 6% compared to 7% for the nine months ended March 31, 2005.

Research and Development Expenses, Continued

The increase in research and development expenses was primarily due to higher employee compensation, increased charges for consulting fees and technical assessments incurred to facilitate development of new products and stock-based compensation expenses. The increase in research and development expenses was partially offset by an appreciation of the U.S. dollar against international currencies, which reduced the total spend by approximately $0.4 million as reported in U.S. dollars. As a percentage of net revenue, we expect our research and development expense for fiscal 2006 to be in the range of 5% to 7%, including stock-based compensation expense.

Donation to Research Foundation

For the three months and nine months ended March 31, 2006, we donated $0.5 million and $0.8 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.

Amortization of Acquired Intangible Assets

Amortization of acquired intangible assets for the three months ended March 31, 2006 totaled $1.6 million and for the nine months ended March 31, 2006 totaled $4.7 million. These costs related to acquired intangible assets associated with the acquisitions of Pulmomed, Saime, Hoefner, Resprecare and PolarMed. We had no amortization of acquired intangible assets for the three and nine months ended March 31, 2005.

Restructuring Expenses

Restructuring expenses incurred during the three months and nine months ended March 31, 2006 were $nil and $1.1 million ($0.7 million net of tax), respectively, and consisted predominantly 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 operations, previously located in Moenchengladbach, to Munich and the integration of the back office functions including customer service, logistics and administration. We will continue to monitor the progress of this restructuring and adjust our business strategies and personnel accordingly to achieve maximum efficiencies and cost savings.

Other Income (Expenses), Net

Other income (expense), net for the three months ended March 31, 2006 increased to net income of $1.4 million compared to net expense of $0.3 million for the three months ended March 31, 2005. Other income, net primarily reflects interest income from cash and marketable securities and gains on foreign currency exchange, partially offset by interest expense associated with our long term debt and the write-down of $0.6 million related to an impairment loss on one of our cost-method investments. The increase in other income (expense), net was predominantly attributable to an increase in net interest income as a result of additional cash balances and no interest expense being incurred on the convertible debt due to its conversion into equity during the current quarter. This was partly offset by increased interest expense associated with the additional Euro 50 million loan taken out on May 16, 2005 as part of the funding for the Saime acquisition and the $35 million draw down on our revolving line of credit with Union Bank of California.

Other income (expense), net for the nine months ended March 31, 2006 increased to net income of $1.0 million compared to net expense of $0.1 million for the nine months ended March 31, 2005. The increase in other income (expense), net was predominantly attributable to an increase in net interest income as a result of additional cash balances and no interest expense being incurred on the convertible debt during the last quarter. This was partly offset by increased interest expense associated with the additional Euro 50 million loan taken out on May 16, 2005 as part of the funding for the Saime acquisition and the $35 million draw down on our revolving line of credit with Union Bank of California. In addition, an expense of $1.1 million was recognized in relation to an impairment loss on one of our cost-method investments.

Income Taxes

Our effective income tax rate decreased to approximately 30.8% for the three months ended March 31, 2006 from approximately 33.0% for the three months ended March 31, 2005 and for the nine-month period ended March 31, 2006 decreased to 31.1% from 33.0% for the nine-month period ended March 31, 2005. The lower tax rate was primarily due to the geographical mix of taxable income with a greater proportion of our income being generated in lower tax rate jurisdictions. Excluding the impact of stock-based compensation expense, our effective tax rate was approximately 30.6% and 30.3% for the three months and nine months ended March 31, 2006, respectively. We continue to benefit from the relatively low Australian corporate tax rate of 30% and certain Australian research and development tax benefits because we generate a majority of our taxable income in Australia.

Net Income

As a result of the factors above, our net income for the three months ended March 31, 2006 was $26.4 million or $0.34 per diluted share compared to net income of $17.9 million or $0.25 per diluted share for the three months ended March 31, 2005. The stock-based compensation expense, restructuring expenses and amortization of acquired intangible assets described above constituted a reduction of $0.05 and $0.01 per diluted share on an after-tax basis for the three months ended March 31, 2006 and 2005, respectively. Our net income for the nine months ended March 31, 2006 was $65.1 million or $0.87 per diluted share compared to net income of $49.2 million or $0.69 per diluted share for the nine months ended March 31, 2005. The stock-based compensation expense, restructuring expenses and amortization of acquired intangible assets constituted a reduction of $0.15 and $0.04 per diluted share on an after-tax basis for the nine months ended March 31, 2006 and 2005, respectively.

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Stock-based Compensation Costs

As of July 1, 2005, we adopted SFAS 123(R) using the modified prospective method, which requires measurement of compensation of all stock-based awards at fair value on date of grant and recognition of compensation over the service period for awards expected to vest. Under this method, the provisions of SFAS 123(R) apply to all awards granted or modified after the date of adoption. In addition, the unrecognised expense of awards not yet vested at the date of adoption, determined under the original provisions of SFAS 123, shall be recognized in net income in the periods after adoption. The fair value of stock options is determined using the Black-Scholes valuation model, which is consistent with valuation techniques previously utilized for options in footnote disclosures required under SFAS 123. Such value is recognized as expense over the service period, net of estimated forfeitures, using the accelerated method under SFAS 123(R).

Prior to the adoption of SFAS 123 (R) on July 1, 2005, we applied 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 was 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 ESPP). Results for prior periods have not been restated to reflect, and do not include the impact of, SFAS 123(R).

The following table illustrates the effect on net income and earnings per share if the fair value based method had been applied to all outstanding and unvested awards in each period of the prior year (in thousands, except per share data).

	Three Months Ended March 31, 2005	Nine Months Ended March 31, 2005
Net income, as reported	$ 17,877	$ 49,207
Add: Stock-based employee compensation expense included in reported net income, net of related tax effects	—	—
Deduct: Stock-based employee compensation expense included in reported net income, net of related tax effects	(3,204)	(6,697)
Pro forma net income	$ 14,673	$ 42,510
Adjustment for interest and deferred borrowing costs, net of related tax effects	821	2,464
Pro forma net income used in calculating diluted earnings per share	$ 15,494	$ 44,974
Earnings per share:		
Basic - as reported	$ 0.26	$ 0.72
Basic - pro forma	$ 0.21	$ 0.62
Diluted - as reported (note 2-(j))	$ 0.25	$ 0.69
Diluted - pro forma	$ 0.21	$ 0.60

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Stock-based Compensation Costs, Continued

The application of SFAS 123(R) had the following effect on reported amounts relative to amounts that would have been reported under previous accounting (in thousands, except per share data):

	Three Months Ended March 31, 2006			Nine Months Ended March 31, 2006		
	Under Previous Accounting	SFAS 123(R) Adjustments	As Reported	Under Previous Accounting	SFAS 123(R) Adjustments	As Reported
Cost of sales	$ 61,066	$ 348	$ 61,414	$ 162,553	$ 560	$ 163,113
Operating expenses:						
Selling, general and admin.	50,070	2,833	52,903	137,193	9,285	146,478
Research and development	8,657	486	9,143	24,620	1,535	26,155
Income from operations	40,142	(3,667)	36,475	104,913	(11,380)	93,533
Income before income taxes	41,785	(3,667)	38,118	105,913	(11,380)	94,533
Net income	29,015	(2,653)	26,362	73,812	(8,694)	65,118
Inventories, net	108,309	435	108,744	108,309	435	108,744
Earnings per share:						
Basic	$ 0.40	$ (0.04)	$ 0.36	$ 1.03	$ (0.12)	$ 0.91
Diluted	$ 0.37	$ (0.03)	$ 0.34	$ 0.98	$ (0.11)	$ 0.87
Cashflow from operating activities				$ 65,891	$ (2,173)	$ 63,718
Cashflow from financing activities				$ 59,534	$ 2,173	$ 61,707

Business Acquisitions

Nine months ended March 31, 2006

PolarMed Holding AS ("PolarMed"). On December 1, 2005, we acquired 100% of the outstanding stock of PolarMed, the holding company for PolarMed AS and its affiliates, for net cash consideration of $6.4 million. This was comprised of $6.6 million in consideration less $0.3 million of cash acquired. Additionally, as part of the acquisition we assumed debt of $1.5 million. Under the purchase agreement, we may also be required to make additional future payments of up to $3.0 million based on the achievement of certain performance milestones following the acquisition through December 31, 2008. The acquisition and the immediate repayment of the majority of the assumed debt were funded with cash on hand.

PolarMed is predominantly a Norwegian based company, with affiliated operations based in Sweden and Denmark, which distributes medical equipment and associated services for the treatment of sleep and respiratory patients. PolarMed was our Danish distributor before the acquisition, and the acquisition is consistent with our strategy for ongoing expansion of our international operations.

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Business Acquisitions, Continued

The acquisition has been accounted for using purchase accounting and has been included within our consolidated financial statements from December 1, 2005. An amount of $4.9 million, representing the excess of the purchase price over the fair value of identifiable net assets acquired of $1.7 million, has been recorded as goodwill, which will not be tax deductible under Norwegian tax law. The cost of the acquisition was allocated to the assets acquired and liabilities assumed based on estimates of their respective fair values at the date of acquisition. We have not yet completed the purchase price allocation, as the appraisals associated with the valuation of certain tangible assets are not yet complete. We do not believe that the appraisals will materially modify the preliminary purchase price allocation. We expect to complete our purchase price allocation in the quarter ending June 30, 2006. The following table summarizes the purchase price allocation of the assets acquired and liabilities assumed from PolarMed at the date of acquisition based on a preliminary independent appraisal and internal studies (in thousands):

	At December 1, 2005
Cash	$ 262
Accounts receivable	2,473
Inventory	2,170
Other assets	27
Property, plant & equipment	321
Customer relationships (useful life of 7 years)	1,780
Goodwill (non-amortizing, non-tax deductible)	4,903
Total assets acquired	$ 11,936
Current liabilities, primarily consisting of accounts payable, accrued expenses, taxes payable and deferred revenue	(4,891)
Non current liabilities, primarily consisting of deferred tax liabilities	(427)
Net assets acquired	$ 6,618

Pulmomed medizinisch-technische Geräte GmbH ("Pulmomed"). On July 1, 2005 we acquired 100% of the outstanding stock of Pulmomed for net cash consideration of $2.5 million, including acquisition costs. Additionally, as part of the acquisition we assumed debt of $1.0 million. 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 June 30, 2007.

Pulmomed is an Austrian based company that distributes medical equipment and associated services for the treatment of sleep and respiratory patients. The acquisition of Pulmomed is consistent with our strategy for ongoing expansion of our international operations.

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Business Acquisitions, Continued

The acquisition has been accounted for using purchase accounting and has been included within our consolidated financial statements from July 1, 2005. An amount of $1.8 million, representing the excess of the purchase price over the fair value of identifiable net assets acquired of $0.7 million, has been recorded as goodwill, which will not be tax deductible under Austrian tax law. The cost of the acquisition was allocated to the assets acquired and liabilities assumed based on estimates of their respective fair values at the date of acquisition. The fair values were determined by an independent appraisal and internal studies.

The following table summarizes the final purchase price allocation of the assets acquired and liabilities assumed from Pulmomed at the date of acquisition (in thousands):

	At July 1, 2005
Cash	$ 1
Accounts receivable	377
Inventory	592
Other assets	217
Property, plant & equipment	458
Customer relationships (useful life of 7 years)	907
Goodwill (non-amortizing, non-tax deductible)	1,785
Total assets acquired	$ 4,337
Current liabilities, primarily consisting of accounts payable, accrued expenses, loans and deferred tax liabilities	(1,668)
Non-current liabilities, primarily consisting of deferred tax liabilities	(203)
Net assets acquired	$ 2,466

Saime SA ("Saime"). As disclosed in our financial statements and Form 10-K for the year ended June 30, 2005, we acquired 100% of the outstanding stock of Financiere ACE SAS, the holding company for Saime SA and its affiliates, on May 19, 2005, for net cash consideration of $40.6 million. This was comprised of $51.1 million in consideration, including acquisition costs, less $10.5 million of cash acquired. At June 30, 2005, we had not yet completed the purchase price allocation as the appraisals associated with the valuation of certain tangible assets were not yet complete. The fair values have now been finalized based on independent appraisals and internal studies. The impact of the completion of the purchase price allocation was to increase the fair value of the acquired fixed assets by approximately $0.7 million to $2.9 million, increase the fair value of acquired liabilities, including deferred tax liabilities, by approximately $0.4 million to $91.7 million and to decrease the amount recorded as goodwill by $0.3 million to $66.0 million.

Hoefner Medizintechnick GmbH ("Hoefner"). As disclosed in our financial statements and Form 10-K for the year ended June 30, 2005, we acquired 100% of the outstanding stock of Hoefner Medizintechnick GmbH ("Hoefner") on February 14, 2005, for net cash consideration of $8.2 million. This was comprised of the $10.7 million in total consideration, including acquisition costs, less $2.5 million of cash acquired. Under the purchase agreement, additional future payments of up to $0.9 million are possible based on the achievement of certain performance milestones following the acquisition through December 31, 2006. Of these potential additional payments, $0.6 million, which was accrued at December 31, 2005, was paid during the three months ended March 31, 2006 as a result of the successful achievement of a performance milestone. The impact of this accrual was to increase the total acquisition consideration to $11.3 million from $10.7 million and to increase the amount recorded as goodwill by $0.6 million to $8.8 million.

In-process Research and Development Charge (IPR&D)

In fiscal year 2005, as part of the acquisition of Saime, we recognized as an expense a charge of $5.3 million with respect to IPR&D programs under active development by Saime that, at the date of the acquisition, had not reached technological feasibility and had no alternative future use. The two projects were:

(i) Upgrade of the Elisee Series of ventilators

(ii) Next generation of portable ventilators

Consistent with our original expectations, both of these projects were in development at December 31, 2005 but are still expected to reach completion at various dates ranging from 1 to 3 years. Although no assurance can be given that the underlying assumptions used to value the acquired IPR&D programs will transpire as estimated, we remain confident in the assumptions used to determine the in-process research and development charge and, as a result, the net return of the Saime acquisition.

Liquidity and Capital Resources

As of March 31, 2006 and June 30, 2005, we had cash and cash equivalents and marketable securities available-for-sale of $168.2 million and $142.2 million, respectively. Working capital was $322.1 million and $141.7 million at March 31, 2006 and June 30, 2005, respectively.

Inventories at March 31, 2006 increased by $33.2 million or 44% to $108.7 million compared to March 31, 2005 inventories of $75.5 million. The percentage increase in inventories was lower than the 50% increase in revenues in the three-month period ended March 31, 2006 compared to the three-month period ended March 31, 2005. The lower inventory growth reflects strong sales growth and improved working capital management.

Accounts receivable at March 31, 2006 were $127.2 million, an increase of $38.1 million or 43% over the March 31, 2005 accounts receivable balance of $89.1 million. This increase was lower than the 50% increase in revenues for the three months ended March 31, 2006 compared to the three months ended March 31, 2005. Account receivable days outstanding were 68 days for the quarter ended March 31, 2006, compared to 70 days for the quarter ended March 31, 2005. Our allowance for doubtful accounts as a percentage of total accounts receivable at March 31, 2006 and June 30, 2005 was 3.2% and 3.0%, respectively. The credit quality of our customers remains consistent with our past experience.

During the nine months ended March 31, 2006, we generated cash of $63.7 million from operations compared to $49.8 million for the nine months ended March 31, 2005. This increase of $14.1 million was primarily the result of the increase in net income. This was partly offset by higher working capital balances, particularly in respect of inventories and accounts receivable, to support revenue growth and an increase of $14.9 million in income taxes paid compared to the nine months ended March 31, 2005. In addition, cash generated from operations for the nine months March 31, 2006 was decreased by $2.2 million due to the initial adoption of SFAS 123(R) as tax benefits associated with employee stock options exercised during the quarter are required to be included within cash flows from financing activities. Prior to the adoption of SFAS 123(R), cash retained as a result of tax deductions relating to stock-based compensation was presented in operating cash flows, along with other tax cash flows.

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Liquidity and Capital Resources, Continued

Capital expenditures for the nine months ended March 31, 2006 and 2005 aggregated $79.1 million and $26.2 million, respectively. Capital expenditures in the nine months ended March 31, 2006 mainly reflected the construction of our new administration and research and development building, the purchase of land in San Diego, computer hardware and software, rental and loan equipment and purchase of production tooling equipment and machinery. As a result of these capital expenditures, our balance sheet reflects net property, plant and equipment of approximately $222.9 million at March 31, 2006 compared to $174.2 million at June 30, 2005.

We are currently building our new research and development and administration facility at our existing site in Sydney, Australia and expect this to be completed by the second half of calendar year 2006. We estimate that the additional building costs for the new research and development and administration facility will be approximately $23 million. We expect to fund the project through a combination of cash on hand and cash generated from operations.

On July 7, 2005, we purchased a 9.78-acre parcel of land in San Diego for $21.0 million. The new location at Kearney Mesa, San Diego will allow us to develop a new corporate headquarters. We expect to commence building construction during calendar year 2006 and begin moving into the facility in calendar year 2008.

Details of contractual obligations at March 31, 2006 are as follows:

		Payments Due by Period					
In $000's	**Total**	**Mar 2006**	**Mar 2007**	**Mar 2008**	**Mar 2009**	**Mar 2010**	**Thereafter**
Long-Term Debt	$ 95,848	$ 2,121	$ 4,802	$ 43,180	$ 12,421	$ 33,324	$ —
Operating Leases	23,340	7,012	5,156	3,695	2,860	2,607	2,010
Capital Leases	626	70	70	70	70	70	276
Unconditional Purchase Obligations	29,516	29,516	—	—	—	—	—
Total Contractual Cash Obligations	$ 149,330	$ 38,719	$ 10,028	$ 46,945	$ 15,351	$ 36,001	$ 2,286

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Liquidity and Capital Resources, Continued

Details of other commercial commitments as at March 31, 2006 are as follows:

		Amount of Commitment Expiration Per Period					
In $000's	**Total**	**Mar 2007**	**Mar 2008**	**Mar 2009**	**Mar 2010**	**Mar 2011**	**Thereafter**
Standby Letters of Credit	$ 32	$ 32	$ —	$ —	$ —	$ —	$ —
Guarantees*	2,095	254	—	—	—	—	1,841
Total Commercial Commitments	$2,127	$ 286	$ —	$ —	$ —	$ —	$ 1,841

* 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.

During the three months ended March 31, 2006, and pursuant to the Indenture dated June 20, 2001 between us and American Stock Transfer & Trust Company, as trustee, holders of all of the 4% Convertible Subordinated Notes ("the Notes") due 2006 converted the Notes into an aggregate of approximately 3,737,593 shares of the Company's common stock, par value $0.004. The Notes were converted into 33 shares of our common stock for each $1,000 principal amount of the Notes, at a conversion price of $30.30 per share. During the quarter no payment was made for accrued interest on Notes surrendered for conversion and the dilutive impact of these conversions has been reflected in the reported earnings per share. With the conversion of the Notes we expect to realize interest expense savings in the future of approximately $1.1 million per quarter.

On March 13, 2006, our wholly-owned subsidiaries ResMed Corp., Servo Magnetics Inc. and ResMed EAP Holdings Inc. entered into a Second Amended and Restated Revolving Loan Agreement with Union Bank of California, N.A. as administrative agent for the Lenders (the "Loan Agreement"), that provides for a revolving loan of up to $75 million. The Loan Agreement also contains customary covenants, including certain financial covenants and an obligation that we maintain certain financial ratios, including a maximum ratio of total debt to EBITDA (as defined in the Loan Agreement), a fixed charge coverage ratio, a minimum tangible net worth, and that certain of our subsidiaries maintain a minimum EBITDA and liquidity. We are currently in compliance with all of these covenants. Draws under the revolving loans must be made before March 1, 2011, at which time all unpaid principal and interest under both loans must be repaid. The outstanding principal amount due under the loans will bear interest at a rate equal to LIBOR plus 0.75% to 1.00% (depending on the applicable leverage ratio). The current principal amount outstanding under the Loan Agreement is $35 million.

We expect to satisfy all of our short-term liquidity requirements through a combination of cash on hand, cash generated from operations and the $40 million undrawn revolving line of credit with Union Bank of California. Beyond this, we are currently negotiating additional international credit facilities to provide flexibility for future business needs.

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.

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Stock Split

On August 10, 2005, our Board of Directors declared a two-for-one split of our common stock which was effected in the form of a 100% stock dividend. Stockholders received one additional share of common stock for every share held of record on September 15, 2005. All share numbers and per share amounts contained in the condensed consolidated financial statements and accompanying notes have been retroactively adjusted to reflect this stock split.

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, stock-based compensation and contingencies.

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

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

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

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

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

Critical Accounting Principles and Estimates, Continued

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.

(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, the intrinsic value of stock options, 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

Critical Accounting Principles and Estimates, Continued

(7) Stock-Based Compensation. In accordance with the modified prospective method of SFAS 123(R), we measure the compensation of all stock-based awards at fair value on date of grant. Such value is recognized as compensation expense over the service period, net of estimated forfeitures. The estimation of stock awards that will ultimately vest requires judgment, and to the extent actual results differ from our estimates, such amounts will be recorded as a cumulative adjustment in the period estimates are revised. We consider many factors when estimating expected forfeitures, including the type of awards, employee class, and historical experience. Actual results may differ substantially from these estimates.

Recently Issued Accounting Pronouncements

In November 2005, the FASB issued FSP FAS123(R)-3, "Transition Election to Accounting for the Tax Effects of Share-Based Payment Awards". This FSP requires an entity to follow either the transition guidance for the additional-paid-in-capital pool as prescribed in SFAS 123(R), or the alternative transition method as described in the FSP. Given that we have adopted SFAS 123(R) using the modified prospective application we may make a one-time election to adopt the transition method described in this FSP. In accordance with this FSP, we may take up to one year from the later of the initial adoption of SFAS 123(R) or the effective date of this FSP to evaluate our available transition alternatives and make our one-time election. This FSP became effective in November 2005. We are currently evaluating the impact that the adoption of this FSP could have on our financial statements.

In November 2005, the FASB issued FSP FAS115-1/124-1, "The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments", which addresses the determination as to when an investment is considered impaired, whether that impairment is other than temporary, and the measurement of an impairment loss. This FSP also includes accounting considerations subsequent to the recognition of an other-than-temporary impairment and requires certain disclosures about unrealized losses that have not been recognized as other-than-temporary impairments. The guidance in this FSP amends FASB Statements No. 115, "Accounting for Certain Investments in Debt and Equity Securities", and No. 124, and APB Opinion No. 18, "The Equity Method of Accounting for Investments in Common Stock". We adopted this FSP during the three months ended March 31, 2006 and it did not have a material impact on our financial statements.

In February 2006, the FASB issued FSP FAS123(R)-4, "Classification of Options and Similar Instruments Issued as Employee Compensation That Allow for Cash Settlement upon the Occurrence of a Contingent Event". The guidance in this FSP amends paragraphs 32 and A229 of FASB Statement No. 123(R) "Share-Based Payment" so that a cash settlement feature that can be exercised only upon the occurrence of a contingent event that is outside the employee's control does not meet the condition in paragraphs 32 and A229 until it becomes probable that the event will occur. This FSP will be effective for our quarter ending June 30, 2006 but we do not expect this to have a material impact on our financial statements.

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 and research 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, 2006 (in thousands):

Foreign Currency Financial Assets

	Aust Dollar	US Dollar	Euro	Great Britain Pound	Singapore Dollar	New Zealand Dollar	Swedish Krona	Swiss Franc	Norwegian Krone
AUD Functional Currency Entities:									
Assets	$ —	$ 75,895	$ 83,611	$12,227	$ 949	$ 893	$ 927	$1,564	$ 942
Liability	—	(12,908)	(62,494)	(7,853)	(168)	(6)	—	—	—
Net Total	—	62,987	21,117	4,374	781	887	927	1,564	942
USD Functional Currency Entities:									
Assets	$39,002	—	4,820	—	—	—	—	—	—
Liability	—	—	—	—	—	—	—	—	—
Net Total	39,002	—	4,820	—	—	—	—	—	—
Euro Functional Currency Entities:									
Assets	4,536	4,033	—	—	—	—	—	—	—
Liability	—	(130)	—	(351)	—	—	—	—	—
Net Total	4,536	3,903	—	(351)	—	—	—	—	—
GBP Functional Currency Entities:									
Assets	—	1,894	5,082	—	—	—	—	—	—
Liability	(9)	(8)	(894)	—	—	—	(67)	—	—
Net Total	(9)	1,886	4,188	—	—	—	(67)	—	—
CHF Functional Currency Entities:									
Assets	—	6	52	5	—	—	—	—	—
Liability	—	(31)	(331)	(150)	—	—	(1)	—	—
Net Total	—	(25)	(279)	(145)	—	—	(1)	—	—
SEK Functional Currency Entities:									
Assets	—	1,203			—	—	—	—	—
Liability	—	(1,446)	(141)	(41)	—	—	—	—	(8)
Net Total	—	(243)	(141)	(41)	—	—	—	—	(8)

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

Foreign Currency Market Risk, Continued

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, 2006. 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) Foreign Exchange Call Options	FY 2006	FY 2007	FY 2008	Total	Fair Value Assets /(Liabilities) Mar 31, 2006	Fair Value Assets /(Liabilities) June 30, 2005
Receive AUD/Pay USD						
Option amount	$ 16,500	$ 129,000	$ 21,000	$ 166,500	$ 1,244	$ 2,240
Ave. contractual exchange rate	AUD 1 = USD 0.747	AUD1 = USD 0.756	AUD1 = USD 0.658	AUD 1 = USD 0.741		
Receive AUD/Pay Euro						
Option amount	$ 7,271	$ 43,625	$ 7,271	$ 58,167	$ 201	$ 758
Ave. contractual exchange rate	AUD 1 = Euro 0.629	AUD 1 = Euro 0.647	AUD 1 = Euro 0.619	AUD 1 = Euro 0.641		

Interest Rate Risk

We are exposed to risk associated with changes in interest rates affecting the return on our cash and cash equivalents, marketable securities and debt.

At March 31, 2006, we maintained a short-term investment portfolio containing financial instruments that had 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.

At March 31, 2006, we had total long-term debt, including the current portion of those obligations, of $96.5 million. Of this debt, $0.9 million is at fixed interest rates and $95.6 million is subject to variable interest rates.

A hypothetical 10% change in interest rates during the three months ended March 31, 2006, would not have had a material impact on pretax income. We have no interest rate hedging agreements.

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

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.

Risk Factors

The following is a summary description of some of the many risks we face in our business, including any risk factors as to which there may have been a material change from those set forth in our Annual Report on Form 10-K for the year ended June 30, 2005. You should carefully review these risks and those described in our Annual Report on Form 10-K and in other reports we file with the Securities and Exchange Commission in evaluating our business:

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, manufacture and market innovative new 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.

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

Risk Factors, Continued

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 approximately 3,000 U.S. sleep clinics and the more than 6,000 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 has 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. We cannot assure you that sleep clinic physicians will continue to prescribe our products, or that home health care dealers or patients will not substitute competing products when a prescription specifying our products has been written.

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

Any inability to market effectively our products outside the U.S. could impact our profitability. Approximately half our revenues are generated outside the U.S., in approximately 60 different countries. Many of these countries have unique regulatory, medical, and business environments, which may adversely impact our ability to market our products. If we are unable to market effectively 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 effectively and efficiently our growth, our costs could increase faster than our revenues and our business could suffer.

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

Risk Factors, Continued

If we fail to integrate our recent acquisitions with our operations, our business could suffer. During the nine months ended March 31, 2006, we acquired PolarMed and Pulmomed and during the fiscal year ended June 30, 2005, we acquired Saime, Hoefner and Resprecare. We are currently in the process of integrating our operations with these recent acquisitions. The integration will require significant efforts from each company. We may find it difficult to integrate the operations as personnel may leave, licensees, distributors or suppliers may terminate their arrangements, or demand amended terms to these arrangements. Additionally, our management may have their attention diverted while trying to integrate these companies. If we are not able to successfully integrate the operations, we may not realize the anticipated benefits of these acquisitions.

If we fail to implement our restructure plans successfully, our business could suffer. In fiscal year 2005, we merged the operations of ResMed Germany and MAP into a single operating unit as part of our German restructure plan. We will continue to monitor the progress of this restructure and adjust our business strategies and personnel accordingly to achieve maximum efficiencies, cost savings and success. If we are not able to integrate the operations successfully, we may not fully realize the anticipated benefits of the restructure.

Changes in assumptions used in the purchase accounting of our recent acquisitions may impact our future operating results. The acquisitions noted above have been accounted for using purchase accounting and accordingly have been included our operations since the date of acquisition. We allocate the purchase price according to the fair value of assets and liabilities assumed, intangible assets and in process research and development as at the date of acquisition. The excess of the purchase price over the fair values of acquired net assets is recorded as goodwill. We utilize independent appraisals with our own internal studies and management assumptions to estimate the fair values. If our estimates change due to inaccurate assumptions or other circumstances our future financial results maybe impacted. This may result in goodwill becoming impaired and changes to the amount of amortization charges of certain identifiable intangible assets.

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 47% and 47% of our net revenues in the three months ended March 31, 2006 and 2005, 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 adequately 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. We do not file claims and bill governmental programs and other third party payers directly for reimbursement for our products. However, we are still subject to laws and regulations relating to governmental reimbursement programs, particularly Medicaid and Medicare.

Failure to comply with anti-kickback and fraud regulations could result in substantial penalties and changes in our business operations. 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 U.S. 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), increased legal expenses and exlusions from governmental reimbursement programs, all of which could have a material adverse effect upon our business, financial conditions and results of operations.

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. Any 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 ("FDA") 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 FDA regulations 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 before submitting a 510(k) notice. Additionally, we may be required to obtain premarket approvals for our products. The requirements of these more rigorous processes could delay product introductions and increase the costs associated with FDA compliance. Marketing and sale of our products outside the United States are also subject to regulatory clearances and approvals, and if we fail to obtain these regulatory approvals, our sales could suffer.

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

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

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/or 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.

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

Risk Factors, Continued

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.

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 and are still subject to an ongoing German tax audit. Any final assessment 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.

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

Risk Factors, Continued

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.

Fluctuations in our quarterly operating results may cause the market price of our common stock to fluctuate.

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.

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

Risk Factors, Continued

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 three of our seven 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

Controls and Procedures

We maintain disclosure controls and procedures that are designed to provide reasonable assurance 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, 2006. 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 affect materially, our internal controls over financial reporting.

RESMED INC. AND SUBSIDIARIES

Item 1 Legal Proceedings

Refer to Note 12 to the Condensed Consolidated Financial Statements.

Item 2 Unregistered Sales of Equity Securities and Use of Proceeds

None.

Item 3 Defaults Upon Senior Securities

None

Item 4 Submission of Matters to a Vote of Security Holders

None.

Item 5 Other Information

None

Item 6 Exhibits

3.1	Certificate of Amendment of the Restated Certificate of Incorporation of ResMed Inc.
10.1	First Amended and Restated Loan Agreement [1]
10.2	Security Agreement [1]
10.3	Continuing Guaranty [1]
10.4	Commercial Promissory Note - $15M [1]
10.5	Commercial Promissory Note - $25M [1]
10.6	Second Amended and Restated Loan Agreement [2]
10.7	Appointment of Brett Sandercock as the Chief Financial Officer effective January 1, 2006 [3]
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

(1) Incorporated by reference to the Form 8-K (No. 33-91094) filed on November 15, 2005.
(2) Incorporated by reference to the Form 8-K (No. 06-057823) filed on March 17, 2006.
(3) Incorporated by reference to the Form 8-K (No. 06-001646) filed on January 5, 2006.

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 8, 2006

ResMed Inc.

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

/s/ BRETT A. SANDERCOCK
Brett A. Sandercock
Chief Financial Officer

Exhibit 3.1

CERTIFICATE OF AMENDMENT
OF THE RESTATED
CERTIFICATE OF INCORPORATION
OF
RESMED INC.,
a Delaware corporation

ResMed Inc., a corporation organized and existing under and by virtue of the General Corporation Law of the State of Delaware (this "Corporation"), DOES HEREBY CERTIFY:

1. The name of the Corporation is ResMed Inc. The Corporation was originally incorporated under the name ResCare Medical Systems Ltd., and the original Certificate of Incorporation of the Corporation was filed with the Secretary of State of the State of Delaware on March 31, 1994.

2. That the Board of Directors of this Corporation, acting pursuant to the authority of Section 141(f) of the General Corporation Law of the State of Delaware, adopted a resolution setting forth a proposed amendment of the Certificate of Incorporation of this Corporation. The resolution setting forth the proposed amendment is as follows:

"NOW, THEREFORE, BE IT RESOLVED, that the Restated Certificate of Incorporation of this Corporation be amended by changing the first paragraph of Article Fourth thereof so that, as amended, the first paragraph of Article Fourth shall read in its entirety as follows:

"FOURTH: a) The Corporation shall be authorized to issue the following shares of Capital Stock:

Class	Number of Shares	Par Value
Common Stock	200,000,000	$ 0.004
Preferred Stock	2,000,000	$ 0.01

3. This Amendment of the Restated Certificate of Incorporation was duly adopted by the holders of a majority of the issued and outstanding shares of the Common Stock of the Corporation, par value $0.004 per share, in accordance with the provisions of Sections 222 and 242 of the General Corporation Law of the State of Delaware.

IN WITNESS WHEREOF the undersigned has caused this Certificate of Amendment to be duly executed as of the 9th day of May, 2006.

RESMED INC.
a Delaware Corporation

By: /s/ Peter C. Farrell
Peter C. Farrell, Chief Executive Officer

 EXHIBIT 31.1

RESMED INC. AND SUBSIDIARIES
CERTIFICATION OF CHIEF EXECUTIVE OFFICER
Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

I, Peter C. Farrell, certify that:

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

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this 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)) and internal controls over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) 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) Designed such internal controls over financial reporting, or caused such internal controls over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   (c) 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

   (d) 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 8, 2006

/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, Brett A. Sandercock, 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)) and internal controls over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) 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) Designed such internal controls over financial reporting, or caused such internal controls over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   (c) 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

   (d) 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 8, 2006

/s/ BRETT A. SANDERCOCK
Brett A. Sandercock
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, 2006 (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 8, 2006

/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, 2006 (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 8, 2006

/s/ BRETT A. SANDERCOCK
Brett A. Sandercock
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.